DESIGNING FISCAL INSTRUMENTS for Sustainable Forestry and Economic Growth
Acknowledgements

This eleventh edition of the Republic of Congo Economic Update was prepared by a World Bank team consisting of Vincent Tsoungui Belinga (Senior Economist, EAWM2); Marilyne Youbi (Economist, EAWM1); Chris Belmert Katindi Milindi (Extended Term Consultant, EAWM2); Ryan Milan (Governance Specialist, EGVP); and Dukken Gaphi Ossouna (Consultant, EAWM2); under the supervision and guidance of Cheick Fantamady Kante (Country Director, AWCC1); Sandeep Mahajan (Practice Manager, EAWM2); Robert Utz (Lead Economist, EAWM2); Clelia Rontoyanni (Program Leader, EAWDR); Guillemette Sidonie Jaffrin (Manager Operations, AWCC1); and Louise Pierrette Mvono (Resident Representative, AWMCG).

The team received editorial support from Erika A. Jorgensen (Consultant, EAWM2) and administrative support from Pinar Baydar (Operations Analyst, EAWM2); Ifeoma Clementina (Program Assistant, EAWM2); Josiane Maloueki Louzolo (Program Assistant, AWMCG); and Irene Sitienei (Program Assistant, EAWM2).

The team is thankful to the peer reviewers Raju Singh (Lead Economist, DFCII), Kanta Rigaud (Lead Climate Change Specialist, SAWDR), and Stephen Stretton (Environmental Tax Economist, EMFTX) for their constructive contributions.

The team is especially grateful for the collaboration with Congolese authorities in the preparation of this report and for sharing the data. A preliminary draft of the report was shared with the authorities for comments.

Report design, layout & graphics:
Kane Chong

Cover image source:
© urbazon/istockphoto.com
CHAPTER 1 Recent Economic Developments and Outlook

1.1 Recent Economic Developments

1.1.1 Global and regional economic growth slowed

1.1.2 Congo’s economy is gradually recovering, but growth remains modest

1.1.3 Fiscal and external balances remained in surplus

1.1.4 The level of public debt remains high, and Republic of Congo’s debt is still classified as in distress

1.1.5 Inflation accelerated, potentially exacerbating socio-economic challenges

1.1.6 Vulnerability to non-performing loans remains high

1.2 Medium-Term Outlook and Policy Options Going Forward

1.2.1 Global growth is set to slow further in 2024, but growth is set to bounce back in Sub-Saharan Africa

1.2.2 Republic of Congo’s economy is expected to continue its gradual recovery

1.2.3 Reforms are being implemented, but significant challenges remain
List of Figures

Figure 1  Global growth has been subdued and inflation remains above target in most countries 11
Figure 2  ROC’s growth performance remains modest compared to peers 12
Figure 3  ROC oil production continued to decline in 2023, but the non-oil sector supported economic growth 14
Figure 4  Rising non-oil revenues helped maintain a fiscal surplus in 2023 15
Figure 5  Public debt remains elevated, with rising domestic debt 16
Figure 6  Rising prices could exacerbate socio-economic challenges 17
Figure 7  Pro-poor social spending declined significantly, and its execution rate was very low 18
Figure 8  Bank deposits and credit increased but vulnerability to NPLs remains high 18
Figure 9  Overall growth in many economies as well as per capita growth in SSA are projected to remain below long-term averages in 2024-25 20
Figure 10  Labor market outcomes continue to be worrisome, especially for youth and women 24
Figure 11  Congo is unlikely to meet its developments aspiration if structural reforms are delayed 25
Figure 12  Forest area in Congo and CEMAC countries (% of land area), 2021 31
Figure 13  Deforestation rate in Congo and CEMAC countries, % of forested area, 2000-10 and 2010-20 31
Figure 14  CEMAC wood exports, primary processed products, by county, 2022, million USD 32
Figure 15  Congo wood exports, by top six destinations, 2021, shares in % 32
Figure 16  CEMAC wood exports, secondary processed products, by country, 2022, million USD 33
Figure 17  Congo GHG emissions by sector, million tonnes, 2020 34
Figure 18  Forestry sector CO₂ emissions projections, 2016-2030, kilotonnes of CO₂ 35
Figure 19  CAIF budget transferred to countries, million USD (December 31, 2022) 38
Figure 20  Forestry sector marginal contribution to government revenue 42
Figure 21  Selected Approaches and Policy Instruments for Sustainable Forest Management 46

List of Tables

Table 1  The economy underperformed in 2023 against initial projections 13
Table 2  Key fiscal indicators 15
Table 3  Key economic indicators of the Congolese economy 22
Table 4  A selection of fiscal mechanism and their relative impact on incentives for sustainable forest management (SFM) 48

List of Boxes

Box 1  Key policy reforms to transition from to higher value-added processing in the wood industry 40
Box 2  Cross-cutting issues in sustainable forest management in CEMAC 41
Box 3  Country examples of the impact of forest-related fiscal instruments on fiscal space 47
Box 4  Insights from Fiscal Reforms: Transforming Forestry in Central Africa 52
## Abbreviations and Acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFW</td>
<td>West and Central Africa</td>
</tr>
<tr>
<td>BAU</td>
<td>Business As Usual scenario</td>
</tr>
<tr>
<td>BEAC</td>
<td>Banque des États de l’Afrique Centrale (Bank of Central African States)</td>
</tr>
<tr>
<td>CAFI</td>
<td>Central African Forest Initiative</td>
</tr>
<tr>
<td>CCDB</td>
<td>Cour des Comptes et Discipline Budgétaire (Supreme Audit Institution)</td>
</tr>
<tr>
<td>CEC</td>
<td>Centrale Électrique du Congo (Congo Power Plant)</td>
</tr>
<tr>
<td>CEMAC</td>
<td>Communauté économique et monétaire de l’Afrique centrale (Economic and Monetary Community of Central Africa)</td>
</tr>
<tr>
<td>CFAF</td>
<td>Communauté Financière Africaine Franc (African Financial Community Franc)</td>
</tr>
<tr>
<td>COBAC</td>
<td>Commission Bancaire de l’Afrique Centrale (Banking Commission of Central Africa)</td>
</tr>
<tr>
<td>COP26</td>
<td>Conference of the Parties to the United Nations climate convention (UNFCCC)</td>
</tr>
<tr>
<td>CORAF</td>
<td>Congolaise de Raffinage (Congo Refinery Company)</td>
</tr>
<tr>
<td>COVID-19</td>
<td>Coronavirus disease 2019</td>
</tr>
<tr>
<td>DRC</td>
<td>Democratic Republic of the Congo</td>
</tr>
<tr>
<td>ECF</td>
<td>Extended Credit Facility</td>
</tr>
<tr>
<td>ECOM</td>
<td>Enquête congolaise auprès des ménages (Congolese Household Survey)</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FAO</td>
<td>Food Agriculture Organization</td>
</tr>
<tr>
<td>FLEGT</td>
<td>Forest Law Enforcement, Governance and Trade</td>
</tr>
<tr>
<td>FOB</td>
<td>Free On Board</td>
</tr>
<tr>
<td>FSC</td>
<td>Forest Stewardship Council</td>
</tr>
<tr>
<td>GCP-F</td>
<td>Global Challenge Program-Forest</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GEP</td>
<td>Global Economic Prospects report (World Bank)</td>
</tr>
<tr>
<td>GHG</td>
<td>Greenhouse Gas Emissions</td>
</tr>
<tr>
<td>HCI</td>
<td>Human Capital Index</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>LPG</td>
<td>Liquefied Petroleum Gas</td>
</tr>
<tr>
<td>LVIS</td>
<td>Legality Verification Information System</td>
</tr>
<tr>
<td>MASSAH</td>
<td>Ministry of Social Affairs, Solidarity, and Humanitarian Action</td>
</tr>
<tr>
<td>MRV</td>
<td>Monitoring, Reporting, and Verification</td>
</tr>
<tr>
<td>NDC</td>
<td>National Determined Contributions</td>
</tr>
<tr>
<td>NPL</td>
<td>Non-performing loan</td>
</tr>
<tr>
<td>NSNP</td>
<td>National Safety Net Program</td>
</tr>
<tr>
<td>PAFC</td>
<td>Pan-African Forest Certification</td>
</tr>
<tr>
<td>PNAS</td>
<td>Politique nationale d’action sociale (National Policy for Social Action)</td>
</tr>
<tr>
<td>REDD</td>
<td>Reducing Emissions from Deforestation and forest Degradation</td>
</tr>
<tr>
<td>ROC</td>
<td>Republic of Congo</td>
</tr>
<tr>
<td>SEZ</td>
<td>Special Economic Zones</td>
</tr>
<tr>
<td>SSA</td>
<td>Sub-Saharan Africa</td>
</tr>
<tr>
<td>TIAO</td>
<td>Taux d’intérêt des appels d’offres (BEAC policy bid interest rate)</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
</tr>
<tr>
<td>VPA</td>
<td>Voluntary Partnership Agreement</td>
</tr>
<tr>
<td>WAEMU</td>
<td>West African Economic and Monetary Union</td>
</tr>
<tr>
<td>y-o-y</td>
<td>year-on-year</td>
</tr>
<tr>
<td>ZAP</td>
<td>Zone Agricole Protégée (agricultural protected areas)</td>
</tr>
</tbody>
</table>
Executive Summary

This is the eleventh edition of the Republic of Congo Economic Update. Each edition of this annual report presents an overview of the Republic of Congo’s (ROC) evolving macroeconomic position, followed by a detailed exploration of a specific topic. The first chapter of this year’s update presents recent economic developments and macroeconomic outlook and risks. It also includes policy actions that could help strengthen fiscal and debt sustainability, build resilience to climate shocks, strengthen food security, and lay the foundation for broad-based economic growth. The second chapter, the special topic, explores how Congo might design fiscal instruments for sustainable forestry and economic growth.

Recent Economic Developments and Outlook

Congo’s economy is gradually recovering, supported by the non-oil sector, but growth remains disappointing. Modest expansion began in 2021, following a protracted recession triggered by global oil prices and sustained by the COVID-19 crisis. Estimated GDP growth of 1.9 percent in 2023, although an uptick from 2022, came in well below projections due to continued underperformance of the oil sector. Despite relatively high global oil prices and robust global demand, oil production declined for a fourth consecutive year, undermined by technical challenges and maturing oil fields. By comparison, broad-based non-oil sector growth of 2.8 percent reached across agriculture, manufacturing, and services. On the demand side, strong private investment was buoyed by development of the new gas sector and spending on old and new oil fields as well as improved liquidity of domestic banks and firms. Consumption also supported growth, offsetting a 5.5 percent contraction in net exports in 2023. GDP growth is expected to reach 3.5 percent in 2024, supported by both oil and non-oil activities.

Fiscal and external balances remained in surplus. Total revenues fell in 2023, driven by sharply lower oil revenues, but rising non-oil revenues, supported by higher direct taxes and oil dividends, helped maintain a fiscal surplus. Reform of fuel subsidies, in particular an increase in retail oil prices of 30 percent in 2023, helped moderate government expenditure. Together, these outcomes supported a budget surplus estimated at 3.6 percent of GDP. A current account surplus was also maintained in 2023, although narrowed. Lower export receipts, especially from oil, and a higher import bill reduced Congo’s current account surplus sharply to an estimated 2.1 percent of GDP. Combined with high external debt service payments, the result has been an erosion of Congo’s share of BEAC (Banque des États de l’Afrique Centrale, Bank of Central African States) foreign exchange reserves to only 2.1 months of imports at end-2023.

Congo’s overall and external debt is still classified as in distress despite recent improvements. The debt stock increased to 96 percent of GDP at end-2023, after declining in 2021 and 2022, due to a sharp increase in domestic debt. This increase was due to recognition of domestic arrears (which total about 20 percent of GDP), additional domestic debt securities given the government’s strategy to rely more on the regional financial market, and the inclusion of unpaid pensions in the debt stock. Despite the clearance of government arrears, the banking sector’s vulnerability to non-performing loans remains high although improved from past years. External public debt, on the other hand, declined to 37.2 percent of GDP in 2023, mainly due to higher

Estimated GDP growth of 1.9 percent in 2023, although an uptick from 2022, came in well below projections due to continued underperformance of the oil sector.
payments on the debt linked to oil prices. Congo’s overall and external debt are classified as “in distress” due to the ongoing restructuring and audit of domestic arrears as well as recurrent short-term external arrears while its debt is assessed as sustainable in the medium term.

Already widespread poverty has continued to worsen as growth has lagged and inflation has accelerated. Negative GDP per capita growth since 2015 has pushed extreme poverty rates (less than US$2.15 per day at purchasing power parity) to an estimated 46.8 percent in 2023 while human capital development has continued to stagnate. The fuel price adjustment, combined with increased domestic demand, led to a temporary acceleration of inflation in 2023 to an average 4.3 percent. In particular, the ongoing increases in food prices are worsening food insecurity in a country where 59 percent of the population is already severely food insecure. At the same time, pro-poor social spending decreased sharply in 2023 to just 2.5 percent of GDP and its execution rate collapsed to just 41 percent by year end, undermining the hope that higher social spending in 2023 might mitigate the impact of higher fuel prices on the most vulnerable.

Congo’s economy is expected to continue its gradual recovery. GDP growth is expected to average 3.4 percent during 2025-26, assisted by improved oil sector performance driven by investments in new oil fields but driven primarily by robust non-oil sector expansion of 4.1 percent during 2025-26. Higher public investment and improved policies should benefit construction, electricity, and telecommunications as well as agriculture and the new gas sector. Steered by regional monetary policy, overall inflation is expected to return to the BEAC target in the medium term. Investment-driven imports in the oil and gas sector will create short-term pressures on the current account surplus, which is projected to narrow and turn into a temporary deficit by 2026. Over the same time period, the budget balance is projected to remain positive, with lower oil revenues partly offset by higher non-oil revenues, in particular rising tax revenues from various policy and administrative reforms. Raising rates, broadening the base, and cutting tax breaks as well as digitization are expected to pad government coffers. Although debt is expected to decline, improved debt management is needed for the country to emerge from debt distress. The economic recovery remains fragile as risks are tilted to the downside.

Guided by the Government’s National Development Plan 2022-2026, reforms are being implemented, but significant challenges remain. Measures related to revenue mobilization, public financial management, human capital development, governance, debt management, and transparency are among reforms that are gradually being implemented. However, the country faces significant challenges to lay the foundation for broad-based economic growth, including falling labor productivity, poor access to basic infrastructure, and low investment in education and health. More and higher quality employment opportunities for women and for youth, in particular, are needed to achieve better labor market outcomes. Going forward, improvements are needed in domestic revenue mobilization and debt management and transparency to bolster fiscal sustainability. Just as important, building resilience to future shocks, especially climate shocks, will require strengthening the national safety net program, allocating budget resources to the social sectors, and expanding food security and sustainable land use. Facing the projected permanent decline of oil production from 2026, Congo must take bold actions to diversify the economy and sustain long-term economic growth. Avoiding or delaying these reforms will likely jeopardize the country’s development aspirations.
Designing Fiscal Instruments for Sustainable Forestry and Economic Growth

The Congo Basin contains the world’s second largest tropical forest, a carbon sink critical to global climate progress but also an economic asset for Basin countries. 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. However, Congo Basin countries face difficult tradeoffs between forest preservation and economic opportunities that involve deforestation. A global commitment was made in 2021 to halt deforestation, and Congo Basin governments have signed on. In response, international financing to support sustainable forestry in the Congo Basin nations has been promised, but only modest amounts have yet been realized. With limited external financing in the near term, domestic fiscal policy can serve as a complementary policy instrument to foster the sustainable use of forest resources, even in situations of little fiscal space.

Congo’s extensive forest cover has remained steady although under threat from economic development, especially illegal logging. Forests cover two-thirds of Congolese territory, and the country has succeeded in keeping its rate of deforestation stable and low, although current agriculture-driven deforestation, potential mining and oil-driven deforestation, and illegal logging are ongoing threats. Congo’s forestry sector is important for employment and livelihoods, even though its contribution to GDP has been small, but it holds much economic potential for raising incomes into the future. Until the 2023 log export ban, forest product exports were mostly unprocessed raw logs, with limited value added, and Asia, particularly China, has been the main export market, receiving more than two-thirds of Congo’s forest products.

The country remains a carbon sink but needs external support to meet its climate goals. Congo’s extensive forests allow the country to continue to absorb more carbon dioxide than it releases, underlining the critical importance of its forests in the global fight against climate change. The country has committed to reducing its CO₂ emissions by 32 percent by 2030. The government estimates that achieving this goal will require US$ 8.2 billion.

Over the last decade, Congo has undertaken some important reforms in forest policy to strengthen sustainability, including a new forest code, while international funding remains insufficient. The Republic of Congo has taken steps to combat illegal logging, signing an agreement with the European Union in 2010. Since 2014, the Republic of Congo has been actively working to establish a national forest certification system known as the Congo Forest Certification Program (PAFC-Congo). The government enacted a new forestry code in 2020, which introduces several new concepts into forestry law, including forest certification to reduce illegal logging, avoidance of forest degradation in the context of climate change, and community forestry. These domestic actions have been particularly important as international funding for sustainable forest management in the CEMAC region, while higher, still fall well short of needs, including much-hyped voluntary carbon markets.

Recent regional and international regulations promote sustainable forests: CEMAC’s agreement to ban log exports starting in 2023 aims to increase value added in the wood industry while the new EU Law on Deforestation-Free Products bans imported commodities linked to deforestation. 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 align themselves with a global movement towards sustainable forest management. The Republic of Congo has moved in advance of other CEMAC countries to implement the log export ban as of July 2023, supporting economic diversification and access to markets, with the transition eased by previous investment in infrastructure and capabilities and the new forest code. The initial effects of the log export ban on the Congolese economy have been mixed, but transition is underway. A further spur to
sustainability is the 2023 EU restrictions on imports linked to deforestation which raise requirements for due diligence and traceability, especially for countries such as Congo which are already exporting to the European market.

To support forest sustainability despite budget constraints and limited international funding, Congo can consider climate-smart fiscal revenue instruments that align tax rates with the sustainability of timber production methods, such as the ‘bonus-malus’ system introduced in Gabon. At present, revenue from Congo’s forestry sector comes from a variety of taxes including area fees, auctioning of logging permits, stumpage yield taxes and export taxes as well as corporate income tax, but revenue collection has been quite modest. Climate-smart fiscal revenue instruments applied to the forestry sector are, in principle, a budget-neutral strategy that requires no international finance. For example, a ‘bonus-malus’ forestry taxation system, a version of which has been introduced in Gabon, applies higher taxes on non-sustainable production to fund tax reductions for sustainable practices. A key challenge is that varying tax rates based on production methods relies on fiscal authorities’ insight into the specifics of these methods, which is often limited, but the integration of sustainability certification, performed by certification agencies, into tax policy offers a promising solution.

To provide effective support for sustainable forests, climate-smart forestry fiscal revenue instrument design must align with local capacity and stakeholder preferences and must be supported by complementary policies. 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. Moreover, such fiscal strategies cannot be standalone solutions but only components of a comprehensive policy mix that supports forest conservation. The Republic of Congo has taken significant steps in support of sustainable forestry, and fiscal revenue instrument reform could contribute modestly to further progress. Going forward, addressing the multifaceted challenges facing Congo’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.

Regional cooperation and scaled-up international support and compensation are critical for sustainable management of the Congo Basin. 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. Finally, the Congo Basin countries’ efforts to preserve their forests provide an essential global public good in the form of climate regulation and biodiversity services. The international community must therefore provide urgently substantial financial support and fair compensation for the Congo Basin forests’ carbon sequestration and ecosystem services.
CHAPTER 1

Recent Economic Developments and Outlook
1.1 Recent Economic Developments

1.1.1 Global and regional economic growth slowed

Global growth is estimated to have weakened. The global economy grew by about 2.6 percent in 2023, a deceleration compared to the 3.0 percent growth in 2022. Disruptions caused by Russia’s invasion of Ukraine, tightening monetary policies aimed at containing high inflationary pressures, and less favorable financial conditions have contributed to this slower growth. Estimated data for global growth over 2020-24 are showing a weakest start to a decade for global growth since the 1990s (Figure 1).

Against this backdrop, economic growth has also slowed in Sub-Saharan Africa. The April 2024 edition of Africa’s Pulse shows that growth in the Sub-Saharan Africa (SSA) region slowed to an estimated 2.6 percent in 2023 (from 3.6 percent in 2022). More than half of the countries in the region experienced a decline in their gross domestic product (GDP) growth rate in 2023. The slowdown is attributed in part to the weaker growth of consumption, driven by weaker currencies and elevated inflation rates. Weaker investment due to tighter global and domestic financial conditions also contributed to the deceleration.

Global growth has been subdued and inflation remains above target in most countries

FIGURE 1
Global growth has been subdued and inflation remains above target in most countries

Note: EMDEs are emerging market and developing economies.
Source: Africa’s Pulse (April 2024) and Global Economic Prospects (January 2024)

Similar to global and SSA performance, growth in CEMAC countries slowed in 2023. Growth in the CEMAC (Communauté économique et monétaire de l’Afrique centrale, Economic and Monetary Community of Central Africa) region decelerated to 2.0 percent in 2023, down from 3.1 percent in 2022. CEMAC’s 2023 growth rate was only half of that observed in the neighboring WAEMU (West African Economic and Monetary Union) region in 2023 and falls below the estimated average growth rate of 2.6 percent in Sub-Saharan Africa. The negative growth in Equatorial Guinea and the slowdown in Gabon contributed to lower regional growth. After experiencing two years of recovery, the Equatoguinean economy contracted, mainly due to slower hydrocarbon production and a decline in domestic demand. Gabon experienced a decline in GDP growth due to decreased production of wood and manganese, combined with high fuel costs and railway disruptions caused by landslides. ROC’s growth improved slightly but remained below that of the average for CEMAC or...
the SSA region (Figure 2). Cameroon, which has a relatively higher level of economic diversification and lower dependence on hydrocarbons, emerged as the fastest-growing economy in the CEMAC region over the past three years, with an average GDP growth of 3.4 percent in 2021-2023 (3.4 percent growth in 2023).

**Inflation in the CEMAC region, which has been on the rise since late 2021, began to decline in the second half of 2023, amid a continuously tightening monetary policy adopted by the regional central bank (BEAC) and lower prices of most commodities.** To support the exchange rate arrangement and contain inflationary pressures, the BEAC (Banque des États de l’Afrique Centrale, Bank of Central African States) policy rate was maintained at five percent following a cumulative increase by 175 basis points between November 2021 and March 2023. Moreover, the BEAC ended its weekly liquidity injections in March 2023 after steadily scaling them back since June 2021. In this context, in the fourth quarter of 2023, average (y-o-y) inflation in the CEMAC region had decreased to 4.8 percent, down from the 6.7 percent recorded in December 2022. While this trend is encouraging, it remains above the regional target of 3.0 percent. This reduction in inflation can be attributed to the favorable trends observed in global supply chain recovery, national measures adopted by the governments, and the continuous tightening of BEAC’s monetary policy, which exerted significant downward pressure on headline inflation. Meanwhile, the real effective exchange rate of most CEMAC countries has depreciated in recent months, linked to lower inflation in the region, indicating an improvement in price competitiveness.1

The regional central bank has also stepped up enforcement of the 2018 foreign exchange regulations, in particular, engaging with banks and businesses to encourage compliance with foreign exchange repatriation and surrender requirements. BEAC is reporting progress in cooperation with the extractive sector on the repatriation of funds set aside for the rehabilitation of oil sites (RES funds). Ongoing discussions with the extractive sector will help address unresolved issues, including the terms and conditions for remunerating escrow accounts linked to RES funds and the treatment of RES funds established as accounting provisions.2

---

**FIGURE 2**

ROC’s growth performance remains modest compared to peers

<table>
<thead>
<tr>
<th>Country</th>
<th>2021</th>
<th>2022e</th>
<th>2023e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Congo</td>
<td>1.5</td>
<td>2.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Cameroon</td>
<td>1.9</td>
<td>2.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Chad</td>
<td>2.8</td>
<td>2.9</td>
<td>3.7</td>
</tr>
<tr>
<td>CAR</td>
<td>4.1</td>
<td>3.7</td>
<td>4.0</td>
</tr>
<tr>
<td>Equatorial Guinea</td>
<td>0.9</td>
<td>1.0</td>
<td>0.6</td>
</tr>
<tr>
<td>Gabon</td>
<td>3.0</td>
<td>3.3</td>
<td>2.3</td>
</tr>
</tbody>
</table>

a. GDP growth in Congo and CEMAC countries, 2021-2023 (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>2021</th>
<th>2022e</th>
<th>2023e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Congo</td>
<td>1.5</td>
<td>1.9</td>
<td>0.8</td>
</tr>
<tr>
<td>Angola</td>
<td>0.8</td>
<td>1.3</td>
<td>2.9</td>
</tr>
<tr>
<td>Nigeria</td>
<td>2.9</td>
<td>3.2</td>
<td>2.6</td>
</tr>
<tr>
<td>SSA oil exporters</td>
<td>2.6</td>
<td>3.6</td>
<td>2.6</td>
</tr>
<tr>
<td>SSA</td>
<td>2.0</td>
<td>2.6</td>
<td>2.0</td>
</tr>
<tr>
<td>World</td>
<td>0.0</td>
<td>3.0</td>
<td>3.3</td>
</tr>
</tbody>
</table>

b. GDP growth in Congo and selected peer countries, 2021-2023

---

Note: SSA oil exporters include Angola, Cameroon, Chad, the Republic of Congo, Equatorial Guinea, Gabon, Ghana, Nigeria, and South Sudan.

---

1 A decrease in a country’s real effective exchange rate means a depreciation of the country’s local currency against the basket of its trading partners’ currencies while an increase reflects an appreciation.

11.2 **Congo’s economy is gradually recovering, but growth remains modest**

**The non-oil sector supported growth in 2023, but Congo’s recent growth record remains disappointing.**

Between 2015 and 2023, Congo’s annual real GDP contracted by 1.9 percent on average, leading to a cumulative decline of GDP per capita of 32 percent. The protracted recession was triggered by the 2014-16 collapse in oil prices (which led to a massive cut in public investment and the accumulation of domestic arrears to private sector firms and banks, which in turn weakened private investment). It was exacerbated by the COVID-19 crisis. The economy returned to positive growth in 2021 with a modest 1.0 percent expansion, followed by estimated growth of 1.5 percent in 2022, driven by the non-oil sector. In 2023, economic activity in Congo is estimated to have increased by 1.9 percent (Figure 3, right panel), lower than the 3.5 percent projected a year ago (Table 1) due to the continued underperformance of the oil sector. Non-oil sector growth, estimated at 2.8 percent, was broad-based. The agricultural sector was supported by the government’s continued establishment of agricultural protected areas and the pursuit of a local content strategy, driven by the brewing, sugar and milling industries, which are gradually replacing certain imported inputs with local production. Manufacturing output increased (including beverages, sugar, and cement), supported in part by new beverage production lines, a good sugar cane harvest, and increased demand for Congolese cement in the subregion. The services sector was supported by increased activity in restaurants, hotels (including several major events in Brazzaville in 2023), telecommunications, and financial services.

On the demand side, private investment and consumption supported growth. Investments in the gas sector leading to the first cargo of liquefied natural gas shipped in February 2024, as well as in new oil fields and in the rehabilitation of existing assets together contributed to private investment growth. Non-oil investment continued to benefit from the repayment of domestic arrears, which helped provide liquidity to domestic banks and firms. As a result, gross investment increased by 8.6 percent in 2023. Private consumption also remained strong, growing by 4.9 percent. The increase in the demand for consumption and investment goods led to an increase in real imports, while export growth was weak, resulting in a 5.5 percent contraction in net exports in 2023.

**TABLE 1**

The economy underperformed in 2023 against initial projections

<table>
<thead>
<tr>
<th></th>
<th>2023 Economic Update</th>
<th>2024 Economic Update</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2023f</td>
<td>2024f</td>
</tr>
<tr>
<td>GDP growth (%)</td>
<td>3.5</td>
<td>4.3</td>
</tr>
<tr>
<td>Inflation (%)</td>
<td>3.2</td>
<td>3.1</td>
</tr>
<tr>
<td>Fiscal balance (% of GDP)</td>
<td>4.2</td>
<td>3.5</td>
</tr>
<tr>
<td>Current account balance (% of GDP)</td>
<td>9.7</td>
<td>4.2</td>
</tr>
</tbody>
</table>

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.

**On the demand side, private investment and consumption supported growth.** Investments in the gas sector leading to the first cargo of liquefied natural gas shipped in February 2024, as well as in new oil fields and in the rehabilitation of existing assets together contributed to private investment growth. Non-oil investment continued to benefit from the repayment of domestic arrears, which helped provide liquidity to domestic banks and firms. As a result, gross investment increased by 8.6 percent in 2023. Private consumption also remained strong, growing by 4.9 percent. The increase in the demand for consumption and investment goods led to an increase in real imports, while export growth was weak, resulting in a 5.5 percent contraction in net exports in 2023.

---

3 Thirteen new Zone Agricole Protégée (agricultural protected areas) became operational in 2023, for a total of 31 in place in 2023 out of about 100 planned.
1.1.3 Fiscal and external balances remained in surplus

Reform of fuel subsidies and rising non-oil revenues helped maintain a fiscal surplus in 2023. Total revenues decreased from 28.6 percent of GDP in 2022 to 24.3 percent in 2023 due to lower oil prices and oil production which led to a 6.0 percentage points of GDP reduction in oil revenues from 20.0 percent of GDP in 2022 to 14.1 percent in 2023. On the other hand, non-oil revenue collection improved to 10.2 percent of GDP in 2023 from 8.6 percent in 2022, supported by higher direct taxes (an increase of 1.2 percentage points of GDP) and dividends paid to the State by the national oil company. A reduction in fuel subsidies, driven by the increase in retail oil prices of 30 percent in 2023, helped moderate government expenditure at 20.7 percent of GDP in 2023. Altogether, spending on energy subsidies (for fuel and gas) decreased from 3.2 percent of GDP in 2022 to an estimated 1.3 percent of GDP in 2023. Thus, despite lower oil revenues, the budget registered a surplus in 2023, estimated at 3.6 percent of GDP (Figure 4) compared to the 4.2 percent anticipated a year ago (Table 1), and the non-oil primary deficit fell from 9.8 percent in 2022 to 7.7 percent of GDP in 2023 (Table 2). Non-oil revenue collection improved to 10.2 percent of GDP in 2023 from 8.6 percent in 2022, supported by higher direct taxes and dividends paid to the State by the national oil company.

The current account surplus narrowed in 2023. Lower export receipts, due to lower oil prices and oil production, as well as a higher import bill reduced Congo’s current account surplus to an estimated 2.1 percent of GDP (down from a surplus of 18.7 percent of GDP in 2022) compared to the 9.7 percent projected a year ago (Table 1). At the same time, high external debt service payments and the higher import bill have eroded Congo’s share of BEAC foreign exchange reserves. Despite recent robust oil windfalls, external reserves imputed to Congo are estimated to represent only 2.1 months of imports at end-2023. At the CEMAC level, relatively high oil prices and stricter enforcement of forex regulations helped increase gross reserves to 4.3 months of imports at end-2023 from 4.0 at end-2022.
**FIGURE 4**
Rising non-oil revenues helped maintain a fiscal surplus in 2023

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes on Goods and Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes on International Trade</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**TABLE 2**
Key fiscal indicators

| Year     | Total Revenues and Grants | Oil Revenues | Tax Revenues | Direct Taxes | Taxes on Goods and Services | Taxes on International Trade | Non-Tax Revenues | Grants | Other Revenues | Total Expenditures | Current Expenditures | Wages and Compensation | Goods and Services | Subsidies and transfers | Interest on debt | Capital Expenditures | Other Expenditures | Annex Budgets and Special Accounts | Common Charges | Primary Balance (percent of GDP) | Non-oil primary balance (percent of GDP) | Non-oil primary fiscal balance (percent of GDP) | Non-oil primary fiscal balance (percent of GDP) | Overall Balance |
|----------|---------------------------|--------------|--------------|--------------|----------------------------|----------------------------|-------------------|--------|---------------|---------------------|----------------------|---------------------|----------------------|-------------------|---------------------|----------------------|----------------------|----------------------|---------------------|------------------|
| 2020     | 21.6                      | 10.8         | 9.2          | 5.1          | 2.4                        | 1.7                       | 0.2               | 0.5    | 0.9           | 23.9                | 18.0                 | 5.8                 | 2.6                  | 1.8                | 7.8                 | 3.8                  | 3.8                | -11.4             | -14.5               | -0.6                | -12.0               | -15.5               | -13.6               | -17.6               | -2.4               | -12.1             |
| 2021e    | 21.1                      | 12.8         | 6.8          | 3.7          | 1.8                        | 1.4                       | 0.4               | 0.5    | 0.6           | 19.8                | 14.6                 | 4.4                 | 3.2                  | 5.1                | 1.9                 | 3.1                  | 3.1                | -9.7              | -14.6               | -16.8               | -11.5               | -17.4               | -13.4               | -20.2               | 1.2               | -9.8              |
| 2022e    | 28.6                      | 20.0         | 6.9          | 3.0          | 2.5                        | 1.4                       | 0.6               | 0.5    | 0.5           | 20.7                | 15.7                 | 3.8                 | 2.2                  | 7.3                | 2.3                 | 3.2                  | 3.2                | 0.8              | -9.8               | -16.8               | -12.1               | -20.8               | -14.4               | -24.8              | 7.9               | -7.7              |
| 2023e    | 24.3                      | 14.1         | 8.5          | 4.2          | 2.8                        | 1.5                       | 0.6               | 0.6    | 0.5           | 20.7                | 15.7                 | 4.0                 | 2.7                  | 6.2                | 2.8                 | 3.1                  | 3.1                | 0.9              | -12.1              | -16.5               | -10.5               | -16.5               | -13.3               | -20.9              | 3.6               | 0.0               |

Sources: Congolese authorities, BEAC, and World Bank staff estimates and projections. March 2024.
1.1.4 The level of public debt remains high, and Republic of Congo’s debt is still classified as in distress

The debt stock as a percentage of GDP increased in 2023. After declining in 2021 and 2022 owing to improved debt management, fiscal discipline, and higher oil revenues, public debt as a share of GDP increased to 96 percent of GDP at end-2023 (from 86.6 percent at end-2022) due to a sharp increase in domestic debt, from 45 percent of GDP at end-2022 to 58.9 percent at end-2023 (Figure 5). This increase is due to the recognition of domestic arrears (commercial arrears) from 2019-2020 that have been recently audited, increased issuance of domestic debt securities given the government’s strategy to rely more on the regional financial market, and the inclusion, in 2023, of unpaid pensions in the debt stock (i.e., newly recognized domestic debt of unpaid social insurance contributions owed by public employers including state-owned enterprises and local entities). The total stock of audited and validated domestic arrears represented about 20 percent of GDP at end-August 2023 (from 15 percent at end-2022). The government paid about 4.4 percent and 2.2 percent of GDP for domestic arrears in 2022 and 2023 respectively and adopted a strategy for the payment of remaining domestic arrears in September 2023. External public debt, on the other hand, declined to 37.2 percent of GDP in 2023 from 41.6 percent of GDP end-2022. The sharp decline in external public debt is mainly due to higher payments on the debt linked to oil prices. However, Congo’s overall and external debt are classified as “in distress” due to the ongoing restructuring and audit of domestic arrears as well as recurrent short-term external arrears while its debt is assessed as sustainable in the medium term.

FIGURE 5
Public debt remains elevated, with rising domestic debt

Public debt (% of GDP)

Source: World Bank, Congolese Authorities, IMF.

1.1.5 Inflation accelerated, potentially exacerbating socio-economic challenges

The fuel price adjustment, combined with increased domestic demand, led to a temporary acceleration of inflation. Inflation averaged 4.3 percent in 2023 compared to 3.0 percent in 2022 (Figure 6, left panel). Food and transport prices were the main drivers of inflation, increasing by 4.3 percent and 6.3 percent respectively in 2023. While food inflation decelerated (from 6.2 percent in 2022 to 4.3 percent in 2023) due to lower global food prices and reduced customs duties and value-added tax (VAT) on food products in Congo, the ongoing...
increases in food prices are worsening food insecurity in a country where 59 percent of the population is already severely food insecure. Inflation in 2023 was also higher than the 3.2 percent anticipated in April 2023 due to a 25 percent increase in fuel prices in the second half of the year.

**The economic growth rate in 2023 was not sufficient to reduce the poverty rate.** With negative GDP per capita growth rates during 2015-2023, extreme poverty rates (less than US$ 2.15 per day at purchasing power parity) have increased from 32.9 percent in 2014 to 46.6 percent in 2022. With real GDP per capita falling by an estimated 0.5 percent in 2023, poverty rates are estimated to have risen further to 46.8 percent in 2023 (Figure 6, right panel). Moreover, human capital development has stagnated over the last decade, with Congo’s score for the World Bank Human Capital Index at 0.42 in 2020 (from 0.41 in 2010), remaining well below the average for lower-middle income countries of 0.48 and only slightly above the 0.40 average for Sub-Saharan Africa.

**FIGURE 6**
Rising prices could exacerbate socio-economic challenges

![Graph showing contributions to headline inflation and changes in poverty rate and real GDP per capita over time.](image)

**a. Contributions to headline inflation (%)**

<table>
<thead>
<tr>
<th>Month</th>
<th>Food inflation</th>
<th>Energy inflation</th>
<th>Core inflation</th>
<th>Headline inflation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/2022</td>
<td>3.5%</td>
<td>1.5%</td>
<td>0.5%</td>
<td>5.5%</td>
</tr>
<tr>
<td>01/2023</td>
<td>4.0%</td>
<td>2.0%</td>
<td>1.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>02/2023</td>
<td>4.5%</td>
<td>2.5%</td>
<td>1.5%</td>
<td>8.5%</td>
</tr>
<tr>
<td>03/2023</td>
<td>5.0%</td>
<td>3.0%</td>
<td>2.0%</td>
<td>10.0%</td>
</tr>
<tr>
<td>04/2023</td>
<td>5.5%</td>
<td>3.5%</td>
<td>2.5%</td>
<td>11.5%</td>
</tr>
<tr>
<td>05/2023</td>
<td>6.0%</td>
<td>4.0%</td>
<td>3.0%</td>
<td>13.0%</td>
</tr>
<tr>
<td>06/2023</td>
<td>6.5%</td>
<td>4.5%</td>
<td>3.5%</td>
<td>14.5%</td>
</tr>
<tr>
<td>07/2023</td>
<td>7.0%</td>
<td>5.0%</td>
<td>4.0%</td>
<td>16.0%</td>
</tr>
<tr>
<td>08/2023</td>
<td>7.5%</td>
<td>5.5%</td>
<td>4.5%</td>
<td>17.5%</td>
</tr>
<tr>
<td>09/2023</td>
<td>8.0%</td>
<td>6.0%</td>
<td>5.0%</td>
<td>19.0%</td>
</tr>
<tr>
<td>10/2023</td>
<td>8.5%</td>
<td>6.5%</td>
<td>5.5%</td>
<td>19.5%</td>
</tr>
<tr>
<td>11/2023</td>
<td>9.0%</td>
<td>7.0%</td>
<td>6.0%</td>
<td>20.0%</td>
</tr>
<tr>
<td>12/2023</td>
<td>9.5%</td>
<td>7.5%</td>
<td>6.5%</td>
<td>20.5%</td>
</tr>
</tbody>
</table>

**Poverty rate (%)**

- Lower middle-income pov. rate
- Upper middle-income pov. rate
- International poverty rate

**Real GDP per capita (constant LCU)**

- Food inflation
- Energy inflation
- Core inflation
- Headline inflation (%)

Sources: World Bank, National Institute of Statistics.

**Pro-poor social spending decreased sharply in 2023, and its execution rate remains significantly lower than that of the overall budget.** Pro-poor social spending reached only 2.5 percent of GDP in 2023 compared to 3.6 percent in 2022 (Figure 7, left panel), with spending declining across all components except for basic education. During 2023, execution of “pro-poor” social spending collapsed, to stand at just 41 percent at year end (Figure 7, right panel), a deterioration from the already low 74 percent recorded in 2022. Pro-poor spending execution falls well below the 89 percent execution rate for the overall budget in 2023. Only one component “basic education” was executed at above 50 percent, with an execution rate of 61 percent in 2023. This decline and continued under-execution of pro-poor social expenditures is of great concern given the socio-economic challenges facing the country and especially because increased social spending in 2023 was intended to mitigate the impact of the increase in retail fuel prices on the most vulnerable. Revenues collected in 2023 represented 99 percent of budgeted revenues, so the under execution of pro-poor social spending likely reflects prioritization of other expenditures, weaknesses in public financial management such as weak treasury management, and fragmentation of information systems throughout the budget chain.

---

4 [https://www.fao.org/3/cc3017en/cc3017en.pdf](https://www.fao.org/3/cc3017en/cc3017en.pdf). The prevalence of severe food insecurity in the population is defined as the percentage of people in the population who live in households classified as severely food insecure. A household is classified as severely food insecure when at least one adult in the household has reported to have been exposed, at times during the year, to several of the most severe experiences described in the Food Insecurity Experience Scale questions, such as to have been forced to reduce the quantity of the food, to have skipped meals, having gone hungry, or having to go for a whole day without eating because of a lack of money or other resources.
FIGURE 7
Pro-poor social spending declined significantly, and its execution rate was very low

<table>
<thead>
<tr>
<th>Year</th>
<th>Pro-poor social spending (% of GDP)</th>
<th>Budget execution rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>2.5</td>
<td>4.4</td>
</tr>
<tr>
<td>2020</td>
<td>4.4</td>
<td>2.9</td>
</tr>
<tr>
<td>2021e</td>
<td>2.9</td>
<td>3.6</td>
</tr>
<tr>
<td>2022e</td>
<td>3.6</td>
<td>2.5</td>
</tr>
<tr>
<td>2023e</td>
<td>2.5</td>
<td>4.4</td>
</tr>
</tbody>
</table>

Note: The sectors in the figure are those classified as “pro poor” spending in the Government’s budget. Sources: World Bank, Congolese Authorities.

1.1.6 Vulnerability to non-performing loans remains high

The banking sector remains solvent, but vulnerability to non-performing loans (NPLs) remains high. The country’s financial sector continues to be largely dominated by banks. NPLs remain high despite the partial clearance of government arrears to suppliers and banks, which contributed to increased bank deposits and credit to the private sector, which rose by 24 percent and 5 percent (y-o-y) respectively as of end 2023 (Figure 8, left panel). The NPL to gross loan ratio declined to 15.7 percent in December 2023 but remains high by international standards (Figure 8, right panel).

FIGURE 8
Bank deposits and credit increased but vulnerability to NPLs remains high

a. Bank deposits and credit to the private sector (in CFAF billion)

b. NPL to gross loans ratio (%)

Source: BEAC.
1.2 Medium-Term Outlook and Policy Options Going Forward

1.2.1 Global growth is set to slow further in 2024, but growth is set to bounce back in Sub-Saharan Africa

Amid the lagged and ongoing effects of tight monetary policy, restrictive financial conditions, and weak global trade and investment, global growth is set to slow further this year. Global growth is expected to decelerate to 2.4 percent in 2024 (from an estimated 2.6 percent in 2023) —the third consecutive year of deceleration, before ticking up to 2.7 percent in 2025. Near-term prospects are diverging (Figure 9, left panel). Growth rates in advanced economies as a whole and in China are projected to slow in 2024 to well below their 2010-19 average pace. Although growth is forecast to firm slightly in many emerging market and developing economies, it will remain below pre-pandemic average rates in countries with weak credit ratings.

Global inflation is projected to continue receding only gradually, as demand softens. The combination of slow growth, tight financial conditions, and heavy indebtedness could weaken investment and increase government debt defaults. Risks to the global outlook remain tilted to the downside and include an escalation of the recent conflict in the Middle East and associated commodity market disruptions, financial stress amid elevated debt and high borrowing costs, persistent inflation, weaker-than-expected activity in China, trade fragmentation, and climate-related disasters.

In SSA, growth in 2024-25 is set to bounce back, but the recovery is still fragile. Economic growth in the region is projected to accelerate to 3.4 percent in 2024 and 3.8 percent in 2025 (from about 2.6 percent in 2023). The recovery will be driven mainly by stronger private consumption growth as declining inflation boosts the purchasing power of household incomes. Investment growth will be subdued as interest rates are likely to remain high while fiscal consolidation constrains government consumption growth. However, the pace of economic expansion in the region remains slow and insufficient to have a significant effect on poverty reduction. Per capita growth in SSA is projected to accelerate from a modest 0.1 percent in 2023 to 0.9 percent in 2024 and 1.3 percent in 2025 (Figure 9, right panel). Median inflation in the region is projected to drop from 7.1 percent in 2023 to 5.1 percent in 2024 and 5 percent in 2025-26. Although inflation is decelerating in most countries in 2024, it remains high relative to pre-pandemic levels.

Risks to SSA’s growth outlook remain tilted to the downside. Slower-than-expected global economic growth, subdued activity in Europe and China in recent months, conflicts in the Middle East and Ukraine, trade fragmentation, and climate-related disasters could lead to weaker growth and exacerbate food security problems. Increased conflict and political instability across the continent, particularly in West Africa, the Sahel, and East Africa, could worsen investor sentiment and lead to higher inflation, delaying the easing of the monetary policy cycle. However, recent strong economic activity in the United States and declining inflation indicate the possibility of more robust growth due to improved supply conditions.

In the CEMAC region, growth is forecast at moderate levels over the medium term. The regional average growth rate is projected to be 2.3 percent in 2024, compared to 2.0 in 2023, before picking up slightly in 2025-2026. However, a more optimistic medium-term scenario is possible. CEMAC’s authorities and governments are focused on leveraging regional integration to accelerate growth. The recent commitment of international donors to finance thirteen projects under the Second Priority Regional Integrative Infrastructure Initiative, totaling US$ 8.8 billion, is a promising step in this direction.
FIGURE 9
Overall growth in many economies as well as per capita growth in SSA are projected to remain below long-term averages in 2024-25

1.2.2 Republic of Congo’s economy is expected to continue its gradual recovery

The gradual recovery of Congo’s economy is expected to continue. Although economic prospects are less optimistic than anticipated in 2023 due to a lower projected increase in oil production, GDP growth is expected to reach 3.5 percent in 2024 and an average of 3.4 percent during 2025-26 (yielding 1.0 percent per annum in per capita terms during 2024-2026). Oil sector growth (expected at 4.2 percent in 2024 and 4.0 in 2025) will be driven mainly by oil companies’ increased investments in new oil fields and rehabilitation of assets. New oil fields (e.g., M’Bondi and Nene, and Emeraude) are expected to come into production in 2024 which should contribute to a temporary increase in production. However, by 2026, oil production is projected to start declining steadily due to maturing of major oil fields, with the sector expected to contract by 0.1 percent in 2026 (Table 2).

The non-oil sector is expected to play a significant role in the economic recovery. Non-oil economic growth is projected at 3.5 percent in 2024 and 4.1 percent on average during 2025-2026. The continued clearance of government arrears will support private investment across economic sectors as well as household consumption (through expected repayment of social arrears). The gradual increase in public investment, underpinned by spending reprioritization, higher domestic revenue mobilization, and improved public investment management (such as a stronger public procurement system) will support the recovery of the construction sector and other sub-sectors. Implementation of the recent Public-Private Partnership law should contribute to enhancing infrastructure, including affordable broadband, and to encourage concession agreements for distribution and generation in the electricity sector. Agricultural growth should benefit from formation of agricultural protected areas and contribute to an increase in food processing production in line with the industry pillar of the National Development Plan. Activity in the telecommunication sector is also expected to pick up, supported by the recent interconnection of the fiber optic network between Cameroon and Congo and by the World Bank Digital Acceleration Project approved in 2022. Growth will be further supported by the development of the gas sector, with commercial production of natural gas that started in February 2024.
**Overall inflation is expected to return to the BEAC target in the medium term.** Appropriate regional monetary policy and the expected decline in global food and oil prices are expected to bring the inflation rates down. The expansion of the non-oil economy is also expected to increase domestic production, partially mitigating inflationary pressures. Overall inflation is expected to decelerate to 3.8 percent in 2024 and to return to the BEAC’s target of 3.0 percent by 2025.

**The current account surplus is projected to narrow and turn into a deficit by 2026.** Increased imports to support investments in the oil and gas sector as well as the non-oil sector, combined with reduced oil export revenues, will further narrow the current account surplus to 1.5 percent of GDP in 2024 and to ~0.2 percent of GDP on average during 2025-2026. The external sector could then experience some pressures especially in terms of foreign exchange reserves. However, these pressures would be mitigated by a gradual increase in non-oil exports (e.g., natural gas, processed wood, cement), foreign direct investment, a decrease in external debt service, the increased repatriation of export revenues due to the effective application of the BEAC foreign exchange regulation, and disbursements of externally financed projects and budget support from development partners.

**The financial sector should benefit from various positive developments.** Net foreign assets are expected to increase, driven by the strengthening of financial sector policies, the gradual economic recovery, and payment of government arrears to the private sector. Domestic credit is expected to continue expanding with the ongoing clearance of government arrears to domestic suppliers and banks as it implements its domestic arrears repayment strategy adopted in September 2023.

**The budget balance is projected to remain positive, with lower oil revenues partly offset by higher non-oil revenues.** Total budget revenues are projected to increase slightly to 25.1 percent of GDP on average during 2024-2026 (from an estimated 24.3 percent in 2023). Tax revenues are projected to continue to increase gradually, from 8.5 percent of GDP in 2023 to 9.6 percent by 2026, driven by a combination of tax policy and tax administration reforms. Major policy reforms include increased excise taxes on alcohol and tobacco, the implementation of regulations clarifying the applicability of ordinary taxation for oil upstream activities, and the gradual reduction in tax expenditures (including reduction of VAT exemptions for oil upstream activities, elimination of VAT and customs duty exemptions on imported refined petroleum products, and the invoicing of VAT on sales of Congo Refinery, Congolaise de Raffinage). The ongoing digitalization of the tax administration (such as e-filing and e-payment) will facilitate tax payments. Non-tax revenues are set to increase in part thanks to increased state-owned enterprise dividend payments to the State. The commercialization of natural gas is expected to generate revenues from 2024 (with CFAF 29 billion or 0.3 percent of GDP projected in the 2024 budget law). Expenditures are set to average 21.7 percent of GDP during 2024-2026 (from 20.7 percent in 2023) as the government expands social spending (including cash transfers), the wage bill rises due to the increase in retirement age for civil servants (from 60 to 65 years) in 2022 and the ongoing recruitment of new civil servants in the social sectors, and public investment increases. The reduction of direct transfers to state-owned energy enterprises, combined with the deregulation of fuel prices, is expected to further reduce fuel subsidies. As a result, the budget balance is projected to remain in surplus, at 3.9 percent of GDP in 2024 and 3.1 percent of GDP on average during 2025-2026.

**Debt is expected to decline, but improved debt management is needed for the country to emerge from debt distress.** Fiscal discipline, still-high oil revenues, and continued improvements in debt management are expected to help reduce the debt stock. Public debt is, thus, anticipated to decline to 91.3 percent of GDP in 2024 and to 81.0 percent of GDP by 2026. The latest IMF-World Bank Debt Sustainability Analysis (December 2023) assessed Congo’s external debt as sustainable. The stock of external arrears declined significantly (from 17 percent of GDP at end-2021 to less than one percent in August 2023), driven by debt restructuring agreements and repayment. Although external arrears are low, the country remains in debt distress given the high likelihood of further accumulation of arrears due to weaknesses in debt management processes. Thus, to exit debt distress, Congo will need to address weaknesses in debt management that have resulted in several instances of temporary accumulation of external arrears, coupled with the uncertainty in the exact volume of the domestic arrears that still needs to be audited and that may be recognized. The debt sustainability assessment is highly vulnerable to negative oil price shocks. However, risks to debt sustainability, including from negative oil price shocks, are largely mitigated by debt amortization to some creditors being tied to oil prices and, as a last resort, the likely availability of financing from the regional financial market.
The economic recovery remains fragile as risks are tilted to the downside. External risks to the outlook include volatile global oil prices, persistent high food inflation, and refined oil shortages in Congo due to the spillovers of conflicts elsewhere on global markets, further tightening of global or regional financial conditions, and weaker-than-expected global demand. Internal risks include unsteady oil production, delayed implementation of structural reforms, and adverse weather conditions. ROC’s economy remains dependent on
the oil sector. A shortfall in oil production or a substantial decline in oil prices would have a significant impact
on export receipts and government revenue, undermining growth (from lower public spending, both investment
and consumption, and lower repayment of domestic arrears which would affect private investment and private
consumption). Production or price declines could also threaten debt sustainability. Growth in the non-oil sector
depends partly on steady progress in structural reforms and in domestic arrears clearance (which affects
the financial situation of the private sector and of the banking system). In addition, since the government is
expected to secure financing mostly by issuing T-bills, tighter conditions in the regional market could weaken
debt sustainability. Climate change remains an important downside risk, with Congo facing more erratic rainfall
(such as that causing flooding in December 2023) which could affect agricultural productivity growth or the
prevalence of heat-related and vector-borne diseases. On the other hand, gas production, especially liquefied
natural gas (LNG), which is currently at a nascent stage could be higher than currently projected.

1.2.3 Reforms are being implemented, but significant challenges remain

The Government has recently taken several measures to build a stronger, more resilient and diversified
economy in line with the National Development Plan 2022-2026. Measures related to revenue mobilization,
public financial management, human capital development, governance, debt management, and transparency are
among reforms that are gradually being implemented, some supported by the World Bank through Development
Policy Financing operations (2022-2024) and a Program for Results adopted in 2023. Since October 2022,
the Government has adopted several regulations that aim to improve service delivery in social sectors by
establishing a permanent national safety net program and prioritizing budget releases to health facilities and
education centers. Debt management and transparency are being enhanced even though significant challenges
remain. Congo has been publishing annual debt reports since May 2021, restricted external borrowing almost
to concessional loans since 2021, repaid a significant amount of domestic arrears in 2022 and 2023,
and in September 2023 adopted a strategy for the payment of remaining domestic arrears. To reduce fuel
subsidies and increase Congo’s fiscal space, the authorities increased retail fuel prices by 30 percent in 2023.
The Law on Public-Private Partnerships, enacted in January 2023, is also a significant development which could
facilitate investments in non-oil-related sectors, but implementing decrees still need to be prepared. In a bid to
improve the performance of electricity distribution, critical for the development of non-oil-related sectors, the
government adopted a decree in October 2023 opening the management of the public electricity distribution
and marketing service to an operations concessionaire through a competitive bidding process.

As shown in the heatmap in the annex and discussed in depth in the recently published Republic of
Congo Country Economic Memorandum, the country faces significant challenges to lay the foundation
for broad-based economic growth. Congo’s steady decline in labor productivity in the oil and service sectors
is the main driver of the decline in income per capita. Insufficient access to basic infrastructure, including reliable
electricity, and logistics bottlenecks despite some recent improvements constitute key barriers to raising firms’
productivity. Low investment in education and health contribute to lagging human capital development. The
oil sector remains the predominant driver of the industry sector—but employs only a small share of the work
force. Meanwhile, credit to the private sector remain very shallow, undercutting potential expansion of the non-
oil economy. Despite some recent improvements in Congo’s governance indicators, the quality of institutions,
a precondition to successfully shift resources away from oil exploitation, lags peers and constitutes a major
constraint on the country’s long-term growth. Furthermore, the country is not prepared to address recurrent
climate change shocks.

Efforts to broaden the economic base and employment opportunities for all are needed to improve
labor market outcomes, especially for youth and women. Although flat over the last ten years, labor
force participation of about 68 percent is relatively high in Congo compared to Sub-Saharan Africa (SSA) and
lower-middle income countries (LMIC) overall. Also, the gap between men and women is closing. However, as
of 2023, the employment to population ratio shows that men are more likely (by 3.3 percent) to get employed
than women. As a result, the unemployment rate is much higher for women—21.2 percent against 18.5 percent
for men. Overall unemployment rates, although declining in recent years, remain substantially higher than LMIC
and SSA averages. Job quality remains well below that in an average LMIC, with jobs being very precarious in Congo as in the rest of SSA. About 75 percent of the employed are vulnerable (defined as family workers and own-account workers as a share of total employment). The situation is more alarming for women where 84.5 percent of those currently employed are vulnerable against 62.5 percent for men as of 2022. Overall labor market conditions are even more concerning for youth (aged 15-24) than for women. Not only is their level of participation in the labor market much lower (at only about 40 percent), chances to get employed stand at 25 percent against 52.7 percent for women, and more youth are unemployed, with a youth unemployment rate of 41 percent in 2023 (Figure 10).

**FIGURE 10**
Labor market outcomes continue to be worrisome, especially for youth and women

<table>
<thead>
<tr>
<th>Labor market indicators (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Labor force participation rate</strong></td>
</tr>
<tr>
<td><strong>Employment to population ratio</strong></td>
</tr>
<tr>
<td><strong>Unemployment rate</strong></td>
</tr>
<tr>
<td><strong>Vulnerable employment rate</strong></td>
</tr>
<tr>
<td>2022</td>
</tr>
<tr>
<td>10</td>
</tr>
<tr>
<td><strong>Youth (15-24)</strong></td>
</tr>
</tbody>
</table>

Source: World Development Indicators (modeled ILO estimate)

**Going forward, strengthening fiscal and debt sustainability remain key priorities for the short term.** While the government has recently implemented several reforms, ROC still faces significant challenges in mobilizing domestic resources, which may impede long term debt sustainability and progress towards its development objectives. Furthermore, although Congo’s debt is classified as sustainable, the debt is still assessed as in distress due to weaknesses in debt management. Domestic revenue mobilization could be enhanced by: (a) improving tax administration, including through better taxpayer information and cooperation (and data-sharing) among government agencies and at the international level (e.g., by joining the Organization for Economic Co-operation and Development Convention on Mutual Administrative Assistance in Tax Matters), modernizing administrative procedures, and strengthening audits; and (b) making sure that recently adopted regulations are being implemented, such as the mandatory use of the Unique Identification Number, risk-based approach to carrying out tax and customs audits, the decree clarifying the applicability of VAT taxation for oil upstream operations, and the decree that regulates the monitoring, control, and audit of oil and gas upstream operations. Debt management and transparency could be enhanced by: (a) continuing to avoid contractual obligations for new external public and publicly guaranteed non-concessional debt; (b) implementing the September 2023 domestic arrears repayment strategy; and (c) making the Debt Management and Financial Analysis System (Sygade) the single database for recording all debt and domestic arrears data and integrating the domestic arrears repayment plan into the system.

**In light of recent shocks, including climate shocks, building resilience to future shocks is essential.** Congo, like many countries, has been impacted by recent external (e.g., war in Ukraine) and internal (e.g., December 2023 floods) shocks, which inflict the most harm on already vulnerable populations, in a country where almost half of the population lives in extreme poverty. The government should: (a) ensure the effective operationalization of the permanent national safety net program and the Unified Social Registry (Registre
Social Unique) by establishing the rules for collecting, processing, exchanging, and updating registry data and by ensuring that appropriate budget is allocated and executed for the safety net program; (b) ensure that the budget allocated to social sectors in the 2024 Budget Law is fully executed and free of delays by prioritizing social expenditures (to improve on the 41 percent execution rate for pro-poor spending in 2023); and (c) enhance food security and sustainable land use by adopting climate-smart agricultural practices, promoting agroforestry, and mobilizing financing for forest management.5

Urgent and bold actions to diversify the economy and sustain long-term economic growth should be taken. In the absence of these reforms, the country is unlikely to meet its development aspirations. By 2026, ROC’s oil production is set to begin a permanent decline, barring new discoveries, highlighting the urgency of implementing reforms in support of diversification. Key policies that could help sustain and increase non-oil sector growth would aim to develop human capital and continue to strengthen governance and institutions. In support of stronger human capital, the government ought to implement the October 2022 and 2023 decrees that aims to improve resource allocation and prioritize budget releases in education and health starting with the 2024 and 2025 Budget Law. To achieve more diversified development, ROC needs to strengthen the quality of its policies and institutions or “intangible capital.” The mechanisms to manage volatile resource earnings, provide high quality social services, and administer public spending as well as regulate the domestic market can only emerge from effective and enabling institutions. Among urgent reforms, Congo should: (a) strengthen the ability of the Supreme Audit Institution (Cour des Comptes et Discipline Budgétaire) to oversee public resources by adopting the implementing decrees of the Supreme Audit Organic Law; (b) adopt the implementing decrees of the recently adopted public-private partnerships law; and (c) adopt the horizontal law on inspections and the law on competition to improve the business environment. Delaying structural reforms will jeopardize the country’s growth aspirations (Figure 11) as expressed in the 2022-26 National Development Plan (Plan National de Development, PND).

**FIGURE 11**

Congo is unlikely to meet its developments aspiration if structural reforms are delayed

---

5 The 2023 Republic of Congo Country Climate and Development Report provides extensive analysis on climate and development challenges and opportunities and identifies priorities to promote sustainable growth in Congo, including investments in climate smart agriculture and greater forest management.

6 The 2023 Republic of Congo Country Economic Memorandum provides detailed analysis and recommendations on key policies and reforms to build the foundations for diversified development in ROC that will support long-term economic growth.
**ANNEX TABLE 1**  
Republic of Congo Structural Indicators Heatmap

**LEGEND**

1) Indicator trend from 2020-2022:
   - **Up**
   - **Stable**
   - **Down**

2) Position in the income group:
   - **Upper tercile**
   - **Middle tercile**
   - **Lower 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.

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>Trend</th>
<th>Position relative to the lower middle-income group (upper tercile - middle - lower tercile)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PRIVATE SECTOR</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign direct investment, net inflows (% of GDP)</td>
<td>-17.3</td>
<td>3.58</td>
<td>3.36</td>
<td>Down</td>
<td>Lower tercile</td>
</tr>
<tr>
<td>Domestic credit to the private sector (% of GDP)</td>
<td>12.63</td>
<td>15.55</td>
<td>13.90</td>
<td>Lower tercile</td>
<td></td>
</tr>
<tr>
<td>Industry (including construction), value added (% of GDP)</td>
<td>33.95</td>
<td>42.89</td>
<td>49.24</td>
<td>Up</td>
<td>Upper tercile</td>
</tr>
<tr>
<td>Services, value added (% of GDP)</td>
<td>49.96</td>
<td>42.60</td>
<td>37.31</td>
<td>Down</td>
<td>Lower tercile</td>
</tr>
<tr>
<td>Agriculture, forestry, and fishing, value added (% of GDP)</td>
<td>10.69</td>
<td>9.09</td>
<td>8.04</td>
<td>Down</td>
<td>Lower tercile</td>
</tr>
<tr>
<td><strong>INFRASTRUCTURE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to electricity (% of population)</td>
<td>48.7</td>
<td>49.65</td>
<td></td>
<td>Up</td>
<td>Lower tercile</td>
</tr>
<tr>
<td>WB logistics Performance index (LPI)</td>
<td>Score: 2.4 Rank: 125 in 2016</td>
<td>Score: 2.5 Rank: 115 in 2018</td>
<td>Score: 2.6 Rank: 88 in 2023</td>
<td>Up</td>
<td>Middle tercile</td>
</tr>
<tr>
<td>Gross fixed capital formation (% of GDP)</td>
<td>23.2</td>
<td>22.1</td>
<td>20.6</td>
<td>Down</td>
<td>Middle tercile</td>
</tr>
<tr>
<td><strong>HUMAN CAPITAL (EDUCATION)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government expenditure on education, total (% of GDP)</td>
<td>4.61</td>
<td>3.67</td>
<td>2.95</td>
<td>Down</td>
<td>Middle tercile</td>
</tr>
<tr>
<td>Output per hour worked (GDP constant 2017 international $ at PPP)</td>
<td>4.57</td>
<td>4.29</td>
<td>4.19</td>
<td>Down</td>
<td>Lower tercile</td>
</tr>
<tr>
<td><strong>DIGITALIZATION</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individuals using the Internet (% of population)</td>
<td>23</td>
<td>23</td>
<td></td>
<td>Stable</td>
<td>Lower tercile</td>
</tr>
</tbody>
</table>
## Indicators | Value | Trend | Position relative to the lower middle-income group (upper tercile - middle - lower tercile)
--- | --- | --- | ---
### CLIMATE CHANGE
ND-gain index on climate vulnerability and readiness (higher is better)
| 2020 | 2021 | 2022 | Stable | Lower tercile |

### EMPLOYMENT
Employment in agriculture (% of total employment)
| 33 | 32.8 | 32.25 | Down | Middle tercile |
Employment in industry (% of total employment)
| 22.1 | 22.12 | 22.17 | Up | Middle tercile |
Employment in services (% of total employment)
| 44.9 | 45.06 | 45.57 | Up | Middle tercile |
Labor force participation rate, total (% of total population ages 15-64) (modeled ILO estimate)
| 67.7 | 68.21 | 68.54 | Up | Upper tercile |
Labor force participation rate, male (% of male population ages 15-64) (modeled ILO estimate)
| 68.729 | 68.836 | 69.459 | Up | Middle tercile |
Labor force participation rate, female (% of female population ages 15-64) (modeled ILO estimate)
| 66.868 | 67.594 | 67.627 | Stable | Upper tercile |
Vulnerable employment, total (% of total employment) (modeled ILO estimate)
| 74.97 | 74.81 | 74.54 | Stable | Upper tercile |
Vulnerable employment, male (% of male employment) (modeled ILO estimate)
| 62.24 | 61.94 | 62.18 | Stable | Upper tercile |
Vulnerable employment, female (% of female employment) (modeled ILO estimate)
| 88.28 | 88.17 | 87.49 | Down | Upper tercile |

### GOVERNANCE
Percentile rank among all countries (ranges from 0 (lowest) to 100 (highest) rank)
Voice and Accountability, Percentile rank among all countries (ranges from 0 (lowest) to 100 (highest) rank)
| 14.5 | 14.9 | 15.9 | Up | Lower tercile |
Political Stability and Absence of Violence/Terrorism
| 40.09 | 38.67 | 46.22 | Up | Upper tercile |
Government Effectiveness
| 10 | 9.04 | 8.96 | Down | Lower tercile |
Regulatory Quality
| 7.14 | 9.52 | 9.43 | Stable | Lower tercile |
Rule of Law
| 12.38 | 14.28 | 15.09 | Up | Lower tercile |
Control of Corruption
| 5.23 | 6.19 | 7.08 | Up | Lower tercile |

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.
CHAPTER 2
Designing Fiscal Instruments for Sustainable Forestry and Economic Growth
2.1 Introduction

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. The 200-million-hectare Congo Basin forest serves as a vital carbon sink, crucial for both regional and global ecological balance and climate stabilization, absorbing an estimated 1.1 gigatonnes of carbon each year. If valued at US$ 50 per tonne, the carbon sequestration services provided by the Congo Basin forest are estimated to be worth at least US$ 55 billion annually, corresponding to more than one-third of the GDP of the region covered by the forest. Moreover, the Basin 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. However, 2021 saw a break with historically low deforestation rates compared to other tropical forest regions, registering an alarming increase in forest loss to 636,000 hectares, nearly 30,000 hectares (or 4.9 percent) above the baseline period of 2018-20.

The Congo Basin countries face difficult tradeoffs between forest preservation and economic opportunities that involve deforestation. Governments 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. 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.

A global commitment was made in 2021 to halt deforestation, and Congo Basin governments have signed on. 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. 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. However, 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 tonnes of greenhouse gases and moving the world farther from its goal. All six countries of the Congo Basin have endorsed the UN declaration, acknowledging the critical need to safeguard forests both globally and within their region, but 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.

International financing to support sustainable forestry in the Congo Basin nations has been promised, but only modest amounts have yet been realized. International benefactors have recognized the paramount importance of the Congo Basin forests, committing US$ 1.5 billion between 2021 and 2025 to aid in their protection and sustainable stewardship. Carbon-finance, official development assistance, and private sector mobilization have been proposed to invest in the sustainable utilization and management of these vital forests while helping to compensate for foregone economic opportunities. For example, 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.
However, despite these efforts, financial compensation for the provision of the global public good of carbon sequestration 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 tonne of CO₂ averted. 7

**Domestic fiscal policy can be a complementary policy instrument to foster the sustainable use of forest resources, even in situations of little fiscal space and where revenue mobilization has fallen short.** With scaled up climate finance not yet available, environmental fiscal policies can both help preserve forests and create important pre-conditions for leveraging greater international and private financing of domestic climate action. Adequate use of fiscal instruments for forests is even more relevant for a country heavily dependent on oil revenue such as the Republic of Congo but now facing a steady decline in oil production and related government revenue in years to come. With continuing fiscal constraints, a harsh reality, effective use of fiscal revenue instruments can help: (a) capture a fair share of resource rents for the public sector, raising government revenue; (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. Progress towards sustainability then can form a basis for leveraging international carbon finance.

**The special topic explores how Congo might design fiscal revenue instruments for sustainable forestry.** Starting from the analysis laid out in the 2023 Public Finance Review and its chapter on the forestry sector, the note pulls together knowledge on the status of Congo’s forests and their economic impact. It reviews the key elements of regional and international support and the potential for the use of forest-related fiscal policy instruments in Congo. It surveys the main tax instruments currently in use for Congo’s forest sector and then proposes climate-smart forest fiscal instruments for Congo. With only incomplete knowledge on how fiscal policy instruments are currently employed in Congo’s forestry sector, this analysis should be seen as an initial step towards providing policymakers a spectrum of strategies to craft a fiscal system that can support sustainable forest management. Moreover, while this note focuses narrowly on fiscal revenue instruments directly targeting forest production and preservation, it is important to note the influence of other government forest policies, including expenditures, regulation, and voluntary and informational approaches, as well as the impact of non-forest policies, especially in agriculture and water, and land use planning.

**The present analysis draws on and contributes to the World Bank’s broader engagement with the Republic of Congo and on the Congo Basin forests.** This engagement includes the 2023 Country Climate and Development Report, the 2023 Public Finance Review, and the 2023 Country Economic Memorandum. Specific project activities also support the sustainable utilization and management of forests, including a project that would support value chains in the forest sector in the CEMAC region. Natural capital accounts are being prepared, which will provide in-depth valuations of the services provided by the Congo Basin Forest, and the Bank is looking at options such as nature linked bonds, debt for nature swaps, or helping countries meet the prerequisites required for accessing carbon finance. The World Bank has also recently established the Global Challenge Program: Forests for Development, Climate, and Biodiversity (GCP-F), which aims to support sustainable forest management and economic opportunities by mobilizing significant private sector resources to develop cross-sectoral forest-based economies.

---

Forests cover about two-thirds of the Republic of Congo territory, and the rate of deforestation has remained stable and relatively low, although current agriculture-driven deforestation, potential mining and oil driven deforestation, and illegal logging are threats. Congo is not as heavily forested as Equatorial Guinea and Gabon, but its forests cover two-thirds of the country or 23.5 million hectares, (Figure 12). The deforestation rate in Congo, of 0.06 percent per year, is low compared to many other tropical countries with high forest cover, and it has not increased significantly since 2000-2010 (Figure 13). Drivers of deforestation include subsistence agriculture through slash-and-burn, artisanal and illegal logging, and wood-energy production, especially around big cities. Deforestation is more pronounced in the southern region due to higher population density, while the northern region, being more isolated, experience less impact. Small-scale agriculture, practiced by artisanal farmers, is among the leading causes of deforestation. Although currently under control, illegal logging could accelerate deforestation if agricultural expansion pressures are not properly managed and if the government proceeds with planned mining or oil projects in forested areas. Furthermore, deforestation and forest degradation lead to soil erosion and exacerbate the impacts of seasonal flooding on rural communities and their livelihoods. Preserving the existing forests, with their vast peatlands, remains a significant challenge for Congo.9

**2.2 Republic of Congo’s Forests and Their Economic Contribution**

The forestry sector is important for employment and livelihoods, even though its contribution to GDP is small, and it holds much economic potential. Although producing less than 5.0 percent of GDP, Congo’s forestry sector remains the second-largest employer after public administration, with over 35 companies operating in the formal sector, generating more than 7,000 direct jobs and 15,000 indirect jobs10 as well as 10,000 informal jobs. Moreover, it is estimated that 575,000 Congolese people live in forested areas and depend on the forest for their livelihoods, including indigenous peoples and other vulnerable groups. Official statistics

---

8 World Bank (CCDR, 2023a)
9 Ibid
do not capture the full scope of forest activities, particularly those of small logging companies operating in local markets. Nevertheless, Congo’s forestry sector holds much economic potential, which lies in improved forest management that balances productive uses (such as timber and non-timber products) and protective functions (such as conservation and ecosystem services), and, in development of a robust local timber processing industry. Realizing this potential, however, requires investment in infrastructure and skills, as well as creating a more favorable business environment for private sector involvement. Improving the business environment includes addressing regulatory hurdles, offering investment incentives, and promoting sustainable practices to put the forestry sector in a better position to play a more substantial role in economic development and job creation.

The biggest part of Congo’s exports of forest products were unprocessed raw logs, with limited value added, until the 2023 log export ban. In 2022, logs were the top wood export, making up 68 percent of total forest product exports, followed by sawn wood (28 percent) and veneer (3 percent). Advanced processing products like moldings and wooden furniture made up less than 2 percent of wood exports. Wood exports totaled US$ 374 million, including US $220 million from roundwood and US$ 142 million from sawn wood (Figure 14). The export value could be higher if more products were semi-finished, like sawn wood and veneer, or finished products (secondary processed wood products), like wooden furniture and moldings, but only Gabon in the CEMAC region has developed advanced wood processing industries over the past decade that export finished or semi-finished products, thereby creating more value-added and generating more revenue (Figure 16). The log export ban implemented in Congo in January 2023 is intended to spur more processing of wood products.

In 2021, Asia was the main export market, receiving more than two-thirds of Congo’s forest products (Figure 15). China is the largest single importer, accounting for 55 percent, followed by Belgium with 11 percent, Vietnam with 6 percent, and England and France with 5 and 4 percent, respectively. These figures may be inaccurate due to the scale of illegal logging. According to Chatham House estimates, half of Congo’s forest sector exports in 2018 were illegal, amounting to 0.5 million cubic meters of roundwood equivalent out of a total of 1.0 million. There is concern that the rising export of forest products to Asia, which tends to have less stringent regulations regarding the legal origins of imported wood, might encourage illegal and uncontrolled logging, undermining government revenue and increasing rates of deforestation.

**FIGURE 14**
CEMAC wood exports, primary processed products, by county, 2022, million USD

**FIGURE 15**
Congo wood exports, by top six destinations, 2021, shares in %

11 Congo-EU (2022)
12 Chatham House (2024)
13 Karsenty et al, (2020)
FIGURE 16
CEMAC wood exports, secondary processed products, by country, 2022, million USD

Source: International Tropical Timber Organization (ITTO)
2.3 Republic of Congo’s Forests and Carbon Emissions

Because of its large forest area, Congo continues to absorb more carbon dioxide than it releases and to store vast quantities of carbon in peatlands, underlining the critical importance of its forests in the fight against climate change. While remaining a net carbon sink, Congo’s land use change and forestry are the second largest contributors to its CO₂ emissions (Figure 17). The country’s total greenhouse gas (GHG) emissions have increased in recent years, from 26 million tons in 2010 to 30 million tons in 2019. In 2020, the top contributors to GHG emissions included activities linked to energy production (37 percent of total emissions), land use change and forestry (34 percent), agriculture (9 percent), and electricity and transport (12 percent). However, the country’s forests sequester 32.5 million tons of CO₂ each year. Even more dramatically, Congo’s 5.5 million hectares of intact peatlands (under rain forest) hold an estimated 44 gigatons of stored carbon, more than an entire year of global emissions.

**FIGURE 17**
Congo GHG emissions by sector, million tonnes, 2020

To achieve its goal of reducing overall CO₂ emissions by 32 percent by 2030, Congo estimates that the cost of climate change adaptation and mitigation will be US$ 8.2 billion. However, only a very small portion of this amount is allocated for forestry. According to the “business as usual” (BAU) scenario developed by the Congolese government, if nothing is done, CO₂ emissions from the forestry sector will increase by 16 percent during 2025 to 2030 (Figure 18). The energy sector will remain the largest contributor to overall BAU scenario emissions in 2030, accounting for 67 percent. It would be followed by the forestry sector with 28 percent, the waste sector with 3.0 percent, industry with 1.0 percent, and agriculture with 1.0 percent. Although forests are projected to still have a sequestration capacity that far exceeds emissions, they nevertheless suffer losses of around 17,000 hectares per year, gradually reducing their absorption capacity (FAO, 2024). However, as part of its revised NDC, Congo has committed to reduce its CO₂ emissions by 32 percent by 2030, taking 2017 as a reference year. The authorities estimate that without significant external support and relying only on their own funds, emissions will be reduced by only 21 percent by 2030. For its mitigation objectives, Congo estimates the investment cost to achieve its NDC by 2030 to be US$ 4.39 billion, with US$ 94 million mobilized locally and the remaining amount expected to come from external support. For the forestry sector, the financing requirement is a relatively small part of the overall financing, amounting to US$ 12 million. However, the actual

14 Congo National Determined Contribution (NDC), 2022
need is likely much higher when considering investments in other sectors that directly interact with forestry, such as agriculture and energy. The costs of climate change adaptation amounts to approximately US$ 3.8 billion, of which 1 billion will be mobilized locally and 2.8 billion will come from external support.

**FIGURE 18**
Forestry sector CO₂ emissions projections, 2016-2030, kilotonnes of CO₂

Business as usual scenario: CO₂ emissions from the forestry sector will increase from 3,721 ktCO₂ in 2025 to 4,319 ktCO₂ in 2030, or 28% of total emissions.

Source: Congo NDC (2022)
2.4 Key Elements of Congo’s Current Forest Policy

2.4.1 Reforms in Forest Policy

The Republic of Congo has taken steps to combat illegal logging, signing an agreement with the European Union in 2010. The country signed a Forest Law Enforcement, Governance and Trade (FLEGT) Voluntary Partnership Agreement (VPA) with the European Union to combat illegal logging in 2010 which came into force in 2013. The aim of this agreement is to promote sustainable forest management and ensure the traceability of wood exports to Europe. As part of this collaboration, the Legality Verification Information System (LVIS) was established and is currently in the deployment phase (Congo-UE, 2021). The LVIS is a comprehensive tool that allows stakeholders in the forestry sector to manage data related to legality verification and traceability more effectively. This system facilitates the acquisition, production, and marketing of legal and traceable wood by providing a centralized platform for monitoring and reporting. It ensures that all wood exported to Europe from Congo complies with legal and sustainability standards, helping to curb illegal logging practices and promote responsible forest management. By implementing the LVIS, the Congo aims to increase transparency and accountability in the forestry sector, making it easier to track the origin of wood products and verify their legality. This system not only helps to meet the requirements of the VPA with the EU but also supports broader efforts to protect the country’s forests and promote sustainable economic development.

Since 2014, the Republic of Congo has been actively working to establish a national forest certification system known as the Congo Forest Certification Program (PAFC-Congo). This initiative is designed to complement the international certifications provided by organizations such as the Forest Stewardship Council (FSC). The PAFC-Congo system is modeled after the Pan-African Forest Certification (PAFC) system, which is specifically tailored for African forests. Congo’s dual approach to forest certification means that the country is pursuing both international certifications like the FSC, which are widely recognized globally, and a national certification system, PAFC-Congo, which is aligned with African-specific standards and practices. This dual system allows Congo to ensure that its forest management practices meet both global and regional sustainability criteria. However, in practice, it is still unclear what effects these laws and initiatives will have on illegal logging. As of 2021, only 18 percent of the total forest area was certified (FAO, 2024).

The government enacted a new forestry code in 2020, which introduces several new concepts into forestry law, including FLEGT/VPA\(^\text{15}\), forest certification, combating forest degradation in the context of climate change, and community forestry. This new legislation replaces the 2000 forestry code, which at times posed interpretation issues and was less suited to the regional and international context.\(^\text{16}\) One of the key provisions of the new forestry law, Article 72, mandates legality or sustainable management certification. This requirement was necessary, particularly under the FLEGT/VPA agreement between the European Union and Congo, aimed at effectively fighting illegal logging. The new code also provides clarity on the framework for applying carbon credits, increasingly viewed as a potential financial resource for climate change mitigation and adaptation efforts. The forest law places emphasis on community forests and the rights of indigenous peoples, who are considered the primary guardians of the forest. The new forestry code introduces four new taxes: a tax on non-timber forest products, an occupation tax, a residue tax, and a timber plantation permit tax. Additionally, the penalty for late payment of forestry taxes has increased from 3 percent to 30 percent per month of delay, along with an overall increase in fines. These changes have raised concerns about the potential for selective manipulation or circumvention of the law by companies and regulatory bodies, thereby fostering corruption.\(^\text{17}\)

---

\(^\text{15}\) FLEGT stands for Forest Law Enforcement, Governance, and Trade. It is an initiative of the European Union aimed at combating illegal logging and promoting sustainable forest management. A key component of the FLEGT initiative is the Voluntary Partnership Agreement (VPA). By signing a VPA, both the EU and the partner country commit to eliminating illegal logging and promoting the trade of legally harvested timber, benefiting both the environment and local economies.

\(^\text{16}\) ATIBT, 2020

\(^\text{17}\) ATIBT, 2020
Securing land tenure for forest communities and enforcing the benefit-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.\(^{18}\) 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.

The new forestry law adopted in 2020 seeks to promote community forests and provides a framework for forest revenue sharing with local and indigenous communities.\(^ {19}\) Under the new law, forest-dependent communities are granted forest management rights through the establishment of a community forestry scheme. The creation and sustainable management of community forests now lie within the local community, rather than being solely linked to community development efforts. Communities must be consulted before any action affecting them takes place in the forest. The forest code also provides a framework for forest revenue sharing, with special benefit-sharing specifications negotiated directly by the affected communities within forest concession contracts. Additionally, the code institutionalizes a local development fund to genuinely support local authorities, local communities, and indigenous peoples, with some forest tax revenues specifically dedicated to this fund. Before the enactment of the new forest code, community forest initiatives faced many challenges, including complex bureaucratic processes to obtain community forest permits, lack of technical and financial support for communities, conflicts with existing industrial logging concessions, and lack of enforcement of community rights over their forests. While the new forest law holds promise, the enactment of community forest management laws and policies does not guarantee their implementation. Continued monitoring, support, and empowerment of communities will be needed for the law to work optimally nationwide.

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. Congo’s ambitious 2022-2026 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.

---

\(^{18}\) Klooster and Masera, 2000; Smith and Scheer, 2003; Veit, 2019.

\(^{19}\) See World Bank, 2023c for a detailed analysis of the Forestry Code and the regulatory framework as well as forestry taxation.
2.4.2 International 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)\(^{20}\) and the rejuvenated pledges at COP26, but international pledges still fall well short of needs. This financial support has crystallized in the Joint Declaration for the Congo Basin, which earmarks an ambitious US$ 1.5 billion for distribution across the six countries from 2021 to 2025. Letters of intent signed between CAFI and national authorities have further solidified commitments, totaling US$ 465 million. However, when viewed against the vast need for forest protection in the Congo Basin, this amount appears insufficient, highlighting a mismatch of scale and ambition. At the end of 2022, the CAFI budget transferred to Congo Basin countries totaled US$ 372 million, with only US$ 17.8 million allocated to the Republic of Congo (Figure 19). International financial pledges for the Congo Basin’s climate action and environmental protection fall short of those for other tropical forest regions. Further, the 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.

![Figure 19](source: CAFI, 2022)

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.

---

\(^{20}\) Central Africa Forest Initiative (CAFI) was created in 2015 by eight developed countries (Norway, Germany, France, United Kingdom, Netherlands, South Korea, Sweden, and Belgium) with the aim to slow down the loss and degradation of forests in the six countries of the Congo Basin Forest (DR Congo, CAR, Congo, Gabon, Cameroon, Equatorial Guinea).
CEMAC countries have adopted a ban on the export of round logs as part of an effort to promote local timber processing within these countries and align themselves with a global movement towards sustainable forest management.

This significant policy shift, initially slated for commencement in January 2023, has gone ahead in the Republic of Congo but has been postponed in several other CEMAC member states, 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 Republic of Congo has moved ahead of other CEMAC countries in implementing the log export ban, supporting economic diversification and access to markets, with the transition eased by previous investment in infrastructure and capabilities and the new forest code. As of July 1, 2023, this measure restricts the export of timber to only semi-finished and finished products, marking a significant move towards enhancing the local timber processing industry and supporting sustainable forest management. Newly established forestry companies are required to set up processing units within three years. Inspired by neighboring Gabon, Congo plans to create two special economic zones dedicated to wood processing: one in Ouoesso in the north and another in Pointe-Noire on the South Atlantic coast. Forestry companies must now process all their production on-site to create more jobs and add value to Congolese wood. The development of a local timber processing industry presents an opportunity to reduce dependency on oil and develop a more stable and diversified economic base. Implementing the ban aligns with international environmental standards and agreements, helping the country maintain access to lucrative markets that demand compliance with environmental practices. Since Congo has invested in necessary infrastructure and capabilities for timber processing, including the development of special economic zones and other incentives for the timber industry, the transition is more feasible compared to other countries that might lack such facilities. Lastly, despite potential short-term losses in export revenues, the long-term benefits of higher value-added exports and job creation in the processing sector are considerable. In contrast, other CEMAC member states like Cameroon, the Central African Republic, and Equatorial Guinea have not yet implemented the log export ban.

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.
The initial effects of the log export ban on the Congolese economy have been mixed, but transition is underway. There are some initial challenges in transitioning workers and resources from raw log exports to processed timber production. Additionally, there are concerns that significant export logging activities continue under a forest code provision that allows the export of logs from “heavy and hardwood species” whose processing requires “specific technology.”21 Despite these initial challenges, the move is expected to result in more sustainable economic growth and job creation in the long term. The government and industry stakeholders are continuing to monitor these developments closely to adjust policies as necessary in support of the growing timber processing sector. Lessons on how to accomplish the transition to higher value-added in the wood industry are summarized in Box 1, and cross-cutting issues that pose challenges to sustainable forest management in CEMAC are set out in Box 2.

BOX 1

Key policy reforms to transition from to higher value-added processing in the wood industry

Transitioning from log exports in Congo and other CEMAC countries involves several key steps aimed at fostering sustainable forest management, economic diversification, and enhancing domestic capabilities. First, implementing reforms such as the log export ban 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 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.

21 Article 97 of the forestry law allows the export of logs from “heavy and hard wood species” that require “specific processing technology”. The Ministry of Forestry is responsible for regularly determining which species qualify as “heavy and hard wood”.


2.4.4 **EU Law on Deforestation-Free Products: A Regulation that Promotes Sustainable Forest Management in the Region?**

**EU restrictions on imports linked to deforestation will raise requirements for due diligence and traceability, especially for countries such as Congo who are already exporting to the European market.**

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 June 2023 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 due diligence requirements, risk-based controls, and penalties for non-compliance. Companies must provide a statement confirming that their products do not come from deforested land and respect relevant laws and human rights. Countries are classified by risk, affecting the rigor of product checks. Products from low-risk countries will undergo a simplified due diligence procedure, whereas higher-risk countries will be subject to more rigorous checks. 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 EU environmental standards to maintain access to its market. Since Congo exports a significant portion of finished and semi-finished forest products to the European market, it would be expected that the EU's deforestation-free law would influence local laws and regulations.

**Cross-cutting issues in sustainable forest management in CEMAC**

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.
2.5 Survey of Current Forest-Fiscal Revenue Instruments in Congo

2.5.1 Forestry Sector Revenue

Official data, which is limited, suggest that the forestry sector marginally contributes to overall government revenues (Figure 20). In comparison to the entire extractive sector, which includes hydrocarbons, forestry, and mines, the forestry sector generates on average 2.4 percent of the total extractive sector revenue. This level represents about 0.3 percent of overall GDP or 0.5 percent of non-oil GDP. The main sources of forestry revenue are the area tax, the stumpage tax, and export duties. However, the government does not publish detailed data on the revenue generated by each of these taxes.

FIGURE 20
Forestry sector marginal contribution to government revenue

![Graph showing forestry sector marginal contribution to government revenue]

Sources: ITIE reports (2018, 2019, 2021)

2.5.2 Recurrent Annual Charges

Congo levies area fees on forested lands, rather than property taxes. 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 and is sometimes achieved through competitive auction. In Congo, the area tax rate is adjusted by each year’s Budget Law. If the rates change, the new rates are specified in the current year’s Budget Law. If new rates are not mentioned, the previous year’s rates remain in effect. The rate varies to reduce the tax burden in remote areas or regions with fewer commercial species, but it does not vary to favor concessions that adhere to sustainable management methods or obtained legal or private certification. The government does not publish data on revenue generated by area tax rates.

22 If the rates change, the new rates are specified in the current year’s Finance Act. If new rates are not mentioned, the previous year’s rates remain in effect.
23 Three zones have been established, with rates ranging from 250 FCFA to 500 FCFA per hectare: North (350 FCFA/ha), Centre (250 FCFA/ha), and South (500 FCFA/ha).
2.5.3 Logging Licensing and the Auctioning of Forest Concessions

Logging licenses allocated through competitive auctions is a market-based approach that aims to promote sustainable forest management and responsible resource utilization. Under this approach, the government or relevant authority sets limits on the total area or volume of timber that can be harvested within a specific time frame and region. Interested parties, such as logging companies or businesses, participate in a competitive bidding process, where they submit offers to secure the rights to log in designated areas or obtain a specific volume of timber. The auction process allows the market to determine the true value of the logging rights through competitive bidding, ensuring that the highest bidder secures the license or contract. This approach generates revenue for the government, which can be reinvested in sustainable forest management, conservation efforts, or other environmental initiatives. Additionally, companies that win the logging licenses have an incentive to operate efficiently and sustainably, as they have invested substantial resources to secure the rights.

In Congo, the procedure for obtaining a logging permit requires companies to develop a sustainable development plan for the forest concession they seek to acquire. According to forest law, Congo’s forestlands are divided into two categories: state-owned and privately owned. State-owned forest land is further divided into zones and concessions. The forest code establishes the framework for long-term forest management, and a notable aspect of the forestry code is the requirement for the preparation of a management plan for each forest concession. Forest concessions are typically allocated through call of tenders, and the beneficiary commits to developing a management plan that includes industrial facilities, vocational training programs, and social or operational infrastructure. As of 2022, 60 forest concessions were granted to 35 private companies. Out of these 60 concessions, 21 had an approved development plan, six were FSC certified, and five had obtained legality certification.

2.5.4 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, sharing risk between the timber owner and the government, but enforcement and auditing is needed to prevent underreporting of values. 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. This tax has lower administrative complexity.

Levying an export tax on timber can present several challenges, but Congo’s export tax rates are moderate, rendering them less likely to create market distortions. High export taxes can reduce the competitiveness of timber products internationally and further encourage illegal activities such as smuggling. Robust enforcement mechanisms are required to prevent tax evasion, which can be administratively demanding and costly in countries with limited governance capacities. Since Congo’s decision to stop exporting logs on January 1, 2023, there are no longer any Export Duties and Taxes for logs. For processed wood, these rates range from 0 to 6 percent depending on the level of processing, as defined in the 2024 Finance Law: first processing (6 percent), second processing (3 percent), and third processing (0 percent).

In Congo, there is no forest royalties’ tax, but there is a stumpage yield tax. The stumpage tax is set at 5 percent of the FOB value and is based on the volume or quantity of timber harvested from the concession area. Neither the tax base nor its rate changes according to the sustainable management practices implemented by the private operator. Similar to the area tax, the government does not publish data on the total value of funds collected from the stumpage tax.
2.5.5 **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.

In Congo, companies are generally subject to corporate income tax regardless of their field of activity, and forestry companies have no special provisions. Most companies in Congo are required to pay a corporate tax rate of 33 percent. However, companies may qualify for special tax exemptions under the Investment Charter or receive a 50 percent discount on corporate tax. Additionally, due to the government’s limited capacity to develop local infrastructure, particularly in the northern part of the country, forestry companies often build necessary roads and facilities on public land, which can be counted in lieu of taxes.

In Congo, forestry companies located in Special Economic Zones (SEZ) can benefit from tax exemptions. Within these SEZs, companies in the forestry sector, including those involved in industrial processing and furniture manufacturing, can receive various tax benefits. The legal and regulatory texts concerning SEZs specify these provisions, including tax bases, rates, and the duration of exemptions. However, the government does not publish data on the levels of SEZ exemptions. Logging companies may also receive tax exemptions for road openings or maintenance work they undertake in addition to the contractual requirements outlined in their logging agreements. These exemptions depend on the nature of the work, as they aim to cover the costs incurred by the forestry companies. Estimates for customs exemptions in the forestry sector are discussed in the recently published Public Finance Review (chapter 6).
2.5.6 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.

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 Congo, where agriculture is a major economic driver and land is seen as a critical asset.

Tax 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. 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. For example, the state should not support producers with tools that could harm the forest, such as chainsaws, to prevent farmers from damaging the forest. Furthermore, the policy of Protected Agricultural Zones (ZAP) could be a pathway for forest protection, as it reduces agricultural expansion into forests by promoting the settlement of farmers. 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.
2.6 Opportunities for Climate-Smart Forest Fiscal Revenue Instrument Reform in Congo

2.6.1 The Potential Role of Forest Fiscal Revenue Policy

Climate-smart fiscal revenue instruments applied to the forestry sector are, in principle, a cost-efficient strategy that can be independently implemented by countries. Numerous strategies exist for the conservation of forests, but the instruments available to a government will be constrained by budget limitations and institutional capacity (Figure 21). Regulatory mechanisms, such as mandated standards and prohibitions, have shown promise in meeting conservation goals, but they demand substantial administrative and enforcement infrastructure. 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. Forest-related fiscal revenue instruments, by contrast, have the potential to be effective even in environments marked by limited governance or administrative capacity.

FIGURE 21
Selected Approaches and Policy Instruments for Sustainable Forest Management

<table>
<thead>
<tr>
<th>REGULATORY APPROACHES</th>
<th>INFORMATION &amp; VOLUNTARY INSTRUMENTS</th>
<th>ECONOMIC INSTRUMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Restrictions or prohibitions on use (e.g., restrictions on trade in illegal timber)</td>
<td>• Ecolabeling and certification (e.g., sustainability certification)</td>
<td>• Results-based expenditure policy (payments for ecosystem services, REDD+)</td>
</tr>
<tr>
<td>• Restrictions or prohibitions on access and use (e.g., designation of protected area)</td>
<td>• Green public procurement</td>
<td>• Subsidies</td>
</tr>
<tr>
<td>• Permits and quotas</td>
<td>• Voluntary approaches (e.g., negotiated agreements between firms and governments)</td>
<td>• Environmental taxation (taxes, charges and fees, e.g., royalties)</td>
</tr>
<tr>
<td>• Quality, quantity, and design standards (e.g., minimum harvesting diameters)</td>
<td>• Corporate environmental accounting</td>
<td>• Tradable permits</td>
</tr>
<tr>
<td>• Spatial planning (e.g., ecological corridors)</td>
<td>• Conditional credit</td>
<td>• Biodiversity offsets/biobanking</td>
</tr>
<tr>
<td>• Planning tools and requirements (e.g., environmental impact assessments, strategic environmental assessments)</td>
<td></td>
<td>• Liability instruments (noncompliance fines)</td>
</tr>
</tbody>
</table>

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

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 and asymmetrical information, which is more common for tropical timber and in fragile states. Theoretically, the aim of forest taxes is to capture the “stumpage value” of a production forest, which can be assimilated to an economic rent. 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

27 Gillis, 1992
“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 information on sales prices difficult to confirm. Relative prices are constantly evolving, not only among species but also between logs and processed products. In addition, companies can reduce their tax base through techniques such as transfer pricing, and understaffed tax authorities frequently lag behind. Box 3 provides some examples of how the design of forest taxes affects their impact on fiscal space.

**BOX 3**

**Country examples of 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.

**The strategic application of forestry taxation requires an astute understanding of its potential impacts.** 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 4). 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. With sustainable forest management as a goal, it needs to be understood that, 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.
TABLE 4
A selection of fiscal mechanism and their relative impact on incentives for sustainable forest management (SFM)

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


Note: This is a noncomprehensive list of forestry fiscal mechanisms. The country-level context will determine which instruments are most appropriate in each circumstance.
2.6.2 Aligning Tax Rates with the Sustainability of Timber Production Methods

The fiscal and ecological benefits of forestry taxes hinge 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.

2.6.3 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. This system is intended to be budget-neutral, where the revenue from higher taxes (maluses) directly funds the reductions (bonuses).

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.
2.7 **Looking Ahead: Lessons Learned**

Combining fiscal instruments with better forest governance through improved enforcement, monitoring, and transparency will help Congo 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 Congo 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 4).

**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.

The Republic of Congo has taken significant steps in support of sustainable forestry, and fiscal revenue instrument reform could contribute modestly to further progress. International rules, most recently the EU Law on Deforestation-Free Products, have been pushing Congo 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 Congo’s needed economic diversification away from oil and to government revenue mobilization. Finally, if the international community begins to deliver the levels of carbon finance warranted by the importance of Congo and the Congo Basin’s vital carbon sink, then Congo’s forests and peatlands will have every change to be preserved into the future.
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. 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 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 Congo’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.

- Expand and strengthen the implementation of REDD+ initiatives across Congo forests to maximize carbon sequestration and support community livelihoods.

- Foster international partnerships and secure increased funding for forest conservation and climate resilience projects. Congo 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, coupled with training and technical support for farmers, can facilitate the transition to more sustainable agricultural practices, 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. 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.
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 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; EAC 2018). 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...
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 Congo Basin Forests Advisory Services and Analytics initiative, is supporting these nations in building the necessary capacity for results-based climate financing.30 This approach considers the comprehensive value of forest ecosystems and environmental services, including carbon sequestration, biodiversity conservation, soil conservation, and water retention.

30 Congo Basin Forests Advisory Services and Analytics 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.
References


Tegegne, Y., Lindner, M., Fobissie, K., & Kanninen, M. (2016). Evolution of drivers of deforestation and forest degradation in the Congo Basin forests: Exploring possible policy options to address forest loss. 312-324: Land use Policy.


