CARPE

CONGO BASIN Information SERIES

March 2001

#16

# The World Bank, Conditionalities, and Forest Sector Reform

## The Cameroon Experience

### Key Concepts

- Any resource in short supply cannot be managed sustainably if its price is significantly below market value and does not reflect growing scarcity. The World Bank has argued for raising the price of access to Central Africa's forests as a necessary step to improve forest management.
- This efficiency objective runs counter to a political objective, where low cost access is granted to influential individuals in return for political support and other favors. This approach has resulted in widespread forest mismanagement and loss of government revenue.
- Because so many people have a stake in the status quo, such practices are hard to reform. The World Bank's approach in Cameroon has been to tie forest policy reforms to structural adjustment lending.
- This approach can empower latent constituencies for reform, deal setbacks to those with a vested interest in business-as-usual practices, and raise the profile of the forest sector on development agenda.
- Forest conditionalities are effective at "stroke of the pen" reforms, such as the introduction of a concession auction system; they are poorly suited to ensuring the long-term institutional reforms necessary for effective policy implementation.
- Meaningful reform requires an overhaul of the legal system to allow citizens to sue government and companies in the name of public interest. This implies linking adjustment lending to institutional reforms outside the forest sector.

## Introduction

In 1989, the World Bank initiated a major attempt to improve forest management in Cameroon by tying forest policy reforms to structural adjustment lending. The first round of negotiations between the World Bank and the government of Cameroon culminated in the 1994 Forest Law, which introduced far reaching changes in the way that forest concessions were allocated, taxed, and managed. The law also included provisions that, for the first time in Central Africa, granted local communities the right to benefit financially from wood cut in their customary forests. Yet, despite the World Bank's substantial efforts, the government repeatedly reneged on its commitments, throwing the implementation of the reforms into disarray. Given the poor quality of forest management in most countries in Central Africa and their dependence on World Bank assistance, the Cameroon experience is of regional significance. ■

## Economic Background

During the 1960s and 1970s, Cameroon enjoyed a reputation as one of the more successful economies in Africa. Growth over this period averaged 5% a year, driven largely by high prices for its principal exports, including cocoa, coffee, cotton, aluminum, and from the late 1970s, petroleum. But imprudent use of its oil revenues, a 65% decline in the terms of trade for its chief export crops, and a marked expansion in government employment led to a balance of payments crisis in the early 1980s, the inauguration of an IMF structural adjustment program in 1988, and a 50% currency devaluation in 1994.

The World Bank has been closely associated with Cameroon's development efforts since 1967. But there has been a significant shift away from project lending, which fell from $902 million in 1980-91 to $154 million in 1992-98, toward structural and sectoral adjustment lending, which increased from $150 million to $612 million over the same period. Project lending has thus declined in both relative and absolute terms. The World Bank would like to do more work in Cameroon, but it has not disbursed project funds because of the poor management and problems linked to a lack of transparency and good governance in that country. ■

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WRI Biodiversity Support Program

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Tying concession allocation and renewal to countrywide certification backed by independent verification can help promote better forest management.

# Adjustment Lending and Forest Policy Reform

The forest sector contributes significantly to Cameroon's economy. Timber production increased rapidly after 1992 as a result of the economic crisis, the currency devaluation, and a surge in demand for logs in Asia. In 1998, the sector contributed 10% of non-oil GDP, 9% of all tax revenues (if transport and related activities are included), and 28% of all exports by value. Sixty-six sawmills were active in 1999, producing a total of 2.7 million $m^3$ of wood and directly employing 10,400 people.

Starting in 1989, the government, with strong World Bank support, targeted policy reform as the cornerstone of improved forest management. Cameroon's forests were declining in both size and quality. Clearing for agriculture was identified as the major cause of deforestation, but logging, and the commercial poaching that goes with it, was considered to be the main cause of forest degradation. The World Bank believed that if it changed the way that logging concessions were allocated, taxed, and managed, the government could prevent the worst environmental damage and increase its share of revenue to help deal with its most pressing economic and social concerns.

The regime had used the allocation of logging concessions to maintain political support, as shown by the jump in the number of registered logging companies prior to the presidential elections in 1992 and 1997. Strong vested interests were opposed to changes that would have limited the use of Cameroon's forests for political purposes. The World Bank tried to overcome these interests by tying reforms to structural adjustment lending, a powerful incentive. ■

# The 1994 Forest Law

"Because so many people have a stake in the status quo, such practices are hard to reform. The World Bank's approach in Cameroon has been to tie forest policy reforms to structural adjustment lending."

The 1994 Forest Law introduced four basic reforms.

First, concessions were to be allocated by auctions on the grounds that they are less susceptible to political pressure and more economically efficient than the previous discretionary practices.

Second, the law introduced changes in pricing and taxation to allow for an increase in fiscal revenue and the use of market-based incentives to improve forest management. A key reform was a significantly higher area tax indexed to inflation. The World Bank argued that by increasing the cost of the raw material, a higher area tax encourages greater efficiency in its use, and that a company with large margins to improve efficiency is more likely to invest in reducing waste than in acquiring larger concessions.

Third, the draft law introduced forest management plans. Whereas auctions and higher area taxes were believed to constitute sound forest policy, there was little empirical evidence of their impact on harvesting practices, which some feared would intensify. Forest management plans were intended to mitigate the potential negative effects of more intensive logging.

Finally, the draft law included provisions for local communities to acquire the exclusive right to manage and exploit up to 5,000 ha of their customary forest. Local communities could earn revenue by logging their forests themselves or contracting with a logging company. They were also to receive 10% of the area tax, with 40% going to the *communes*, the lowest level of government administration. ■

# Lack of Borrower Ownership

The process by which the 1994 Forest Law was drafted reflects the central role played by the World Bank and the passivity of the government of Cameroon. Letters from the World Bank to the government between 1990 and 1992 show that the World Bank was instrumental in shaping the reform agenda and maintaining the momentum of the policy dialogue. The government failed to participate effectively in the reform process for several reasons.

First, authority over the negotiations was widely dispersed. By 1992, nine different governmental agencies had some input into, or degree of oversight over, forest policy. Although officially responsible for coordinating the policy dialogue, the President's advisors never met with the Ministry of Environment and Forests (MINEF) staff to discuss the proposed law, nor did they consult with the President's party to assess the political implications of the new law.

Second, in 1987, the government was forced to agree to IMF conditions that included severe reductions in administrative expenditures. Staff salaries were cut by 40% (and were often paid several months in arrears), virtually all perquisites (such as housing and vehicle allowance) were abolished, and the operating budgets of most ministries were slashed. In 1992, only 5% of MINEF's total budget was allocated to non-staff expenditures, and the last time the Ministry received new vehicles was in 1984.

Finally, declining salaries, poor working conditions, and the offer of very large sums of money provided a strong incentive for corruption. The average MINEF official earned 60,000 CFA francs per month and had no means of transport or communication, but could gain millions of CFA by not reporting logging in areas to which a company had no right. The fact that many senior ministry officials benefited from the discretionary practices that the World Bank sought to end, undermined its interest in seriously engaging in the forest policy dialogue. ■

## Implementation Experience

Implementation of the 1994 Forest Law has been problematic. On the face of it, the forest and finance laws have succeeded in boosting tax revenues. After accounting for the effect of the 1994 devaluation, revenues went from 10 billion CFA francs in 1990, to 14 billion in 1994, to 24 billion in 1997. Over the same period, wood production rose from about two to three million $m^3$. The government therefore increased its share of the value of the wood from 6,000 CFA/$m^3$ to 10,000 CFA/$m^3$. This increase was partly from higher area taxes and the use of market prices to determine export tax rates. But it mainly resulted from the Ministry of Economy and Finance deciding to invite the Swiss company SGS in 1995 to control log exports, which accounted for 80% of forest taxes. This was done because of MINEF's poor tax recovery record. Implementation of other aspects of the new law has proved equally difficult, notably in the case of the concession auctions. ■

## The 1997 Concession Auction

In August 1997, the government auctioned 26 concessions with a minimum area tax of 1,500 CFA/ha, for which 190 companies submitted bids. The results showed that applicants were prepared to pay three or four times more than the minimum area tax. But 16 of the 26 concessions were not awarded to the highest bidder. In most cases, the inter-ministerial committee recommended that concessions be allocated to the company ranked first according to the technical criteria, even if the financial bid was much lower. Then, after the recommendations were submitted to the Prime Minister for approval, six concessions were awarded to individuals who did not even appear on the list reviewed by the commission, but are known to have been key supporters of the regime. Strictly speaking, the law was respected because it reserves for the Prime Minister the right to overrule the committee's recommendations in cases where the national interest is threatened, but the government's decision emphatically broke the spirit of the law. ■

## Regaining the Initiative

The failure of the first concession auction dealt a major blow to the forest policy reform process. Almost a year passed before the World Bank reestablished dialogue, but this time it was better prepared. After lengthy internal discussions, the World Bank decided to include forest conditionalities in a structural adjustment loan. Thus armed, the mission insisted that the government take two steps: first, clarify the rules governing the bidding process to avoid any possible future misunderstanding, and second, appoint an independent observer who would report publicly on the bidding process. The government agreed to the first, but because the Prime Minister wanted to preserve his room for maneuver, was opposed to the second.

But in the face of World Bank threats to cancel the loan, the Prime Minister issued two decisions that met these conditionalities. The new auction rules included three changes intended to increase transparency and reduce the scope for fraud. First, bids would be assessed based on a list of yes and no questions. Second, criteria other than the actual bid price would represent less than 20% of the total score. Finally, bidders were required to make a down payment of 2% of the area tax for the whole concession, which could amount to hundreds of thousands of dollars.

The World Bank also succeeded in having an independent observer appointed to the inter-ministerial committee responsible for reviewing the concession auction bids. This set an important precedent. The observer's report on the *vente de coupe* auction in September 1999 showed that in many cases the committee ignored the new auction rules, demonstrating once again the government's resilience in the face of externally imposed reforms. Nevertheless, the independent observer was allowed to carry out his functions without interference, and his report was made public, suggesting that there is scope for similar process reforms that increase transparency and accountability in the forest sector. ■

## Private Sector

The major logging companies stood to gain from the new law. First, the World Bank promised that, while the minimum area tax would be increased, it would be largely offset by lower taxes on log exports. Cameroon already had the highest tax rates in Central Africa, and the World Bank did not want to increase the overall tax burden, beyond the additional area tax offered by the companies when the concessions were auctioned. Second, the reforms would grant them larger and longer concessions. Third, they supported the World Bank's opposition to a log export ban.

But the industry disagreed with the World Bank on two basic points. First, the industry was opposed to a significantly higher area tax because, while it represented less than 20% of the tax burden, it was a fixed tax and payable up-front and on the whole concession, not just the area logged annually. Second, the World Bank wanted to reduce the protection for domestic sawmills, which it believed encouraged inefficient processing, by raising taxes on processed wood exports, which had previously been untaxed. The industry, on the other hand, argued that inefficient processing was due to the lack of skilled labor and the poor quality of the logs, and called for continued protection for Cameroon's developing industry.

The larger companies also resented being asked to shoulder a growing share of the tax burden, since many small companies were able to avoid paying any taxes through illegal practices. Given the failure of many established companies to win concessions, a shortage of wood to feed the sawmills, constant changes in taxation, the government's reluctance to crack down on tax fraud, and a growing set of costly obligations to local communities, the industry felt under attack from all sides.

In response, 15 large European companies operating in Central Africa established the Interafrican Forest Industries Association (IFIA) to give the industry a single voice in forest policy negotiations in Cameroon and elsewhere in Africa. The IFIA was highly critical of the World Bank, which it accused of hiring experts without the necessary experience; constant shifts in policy; presenting *faits accomplis* with no opportunity for discussion; and failing to respond adequately to its written proposals. Contrary to these assertions, the World Bank claims that industry representatives were regularly invited to discuss the content of the new law. Although civil, the discussions apparently went nowhere because of the industry's refusal to agree to concession auctions and higher area taxes, which were key ingredients of the reform package.

Interviews with company officials suggest that they were not opposed to the reforms proposed by the World Bank *per se*, but the fact that the reforms failed to take into account the high level of policy instability in Cameroon. This instability substantially increased the cost of doing business and put a premium on security, which translated into a desire on the part of industry for very large concessions, minimal area taxes, and no auctions. The World Bank's reform agenda threatened these objectives. The real target of the industry's anger was not the World Bank, but the Government of Cameroon. For obvious reasons, industry preferred not to blame the government publicly for its problems. ■

## France

France played an ambivalent role during the reform process, an attitude that reflected its rapprochement with the IMF over the need for macroeconomic adjustment in Cameroon, and its desire to protect its economic and geopolitical interests. Cameroon is the second largest economy, and France's second largest trading partner, in francophone Africa. France had viewed Cameroon as a bulwark against the tide of anglophone influence from Nigeria, its giant neighbor. On several occasions, France had bailed out the Government of Cameroon when confronted with the need to make painful reforms that might have led to political instability.

In October 1993, however, the French government pronounced the "Abidjan doctrine," whereby it refused further budgetary support to countries without an IMF agreement in place. This marked a watershed in relations between France and the IMF, and in January 1994 the CFA was devalued by 50% against the French franc, an act long advocated by the IMF. France, therefore, did not overtly oppose the World Bank during the forest policy negotiations, since the government's failure to reach agreement on key reforms could have led to canceling of vital macroeconomic support. Neither did it provide the high-level political support that would have strengthened the government's commitment to policy implementation.

France's support to the reform process was therefore confined to providing technical input to drafts of the law. This included recommendations based on the results of the *Aménagement Pilote Intégré* (API) project in Dimako in the East Province about minimum concession size, sustainable yield calculations, forest inventory methods, and improved logging practices. France also offered financing to qualified logging companies (not just French ones) to prepare forest management plans. ■

## Community Forests

At the World Bank's insistence, the 1994 Forest Law included provisions granting villages the exclusive right to manage and exploit up to 5,000 ha of their customary forest. Local communities could earn revenue by logging their forests themselves or contracting with a logging company. They were also to receive 10% of the area tax, with 40% going to the communes, the lowest level of government administration, and 50% to MINEF. However, communes often keep the 10% of the area tax that villagers are entitled to.

In 1996, MINEF granted villagers the right to receive 1,000 CFA/$m^3$ of wood cut from concessions that lie within customary forest. The 1,000 CFA tax goes straight to the villagers, and represents the first direct financial benefit that they have received from logging. Though villagers had, in the past, often resorted to violence to defend their customary forests against loggers, they now encourage loggers to cut illegally in exchange for 1,000 CFA/$m^3$. These economic alliances between the villagers and loggers, and against the communes, threaten to undermine the government's decentralization program. Some observers believe that MINEF authorized the 1,000 CFA tax to weaken the villagers' interest in acquiring community forests.

The World Bank has been criticized for not taking into account Cameroon's land reform project in the mid-1970s, which was hijacked by well-positioned government officials who sought title to land over which they had no right. The World Bank's strategy was to delegate responsibility to the British-funded Community Forest Development Project (CFDP), which would establish the legal framework and administrative capacity within MINEF to implement the provisions. The project, which started in 1995, received a hostile reception from some officials because it threatened their ability to subvert the allocation process or personal gain. In November 1998, after a six-month delay, the Minister finally approved a manual outlining the procedures and standards governing the allocation and management of community forests.

While implementation has been problematic, the community forest provisions within the 1994 law have made local communities more aware of their rights with respect to the government and logging companies. This has resulted in villagers demarcating their customary forests in order to benefit financially from logging and to protect their land against the claims of adjacent communities. Increased awareness of the law has also led to the almost instantaneous diffusion of information about the tax benefits to which communities are entitled. ■

## Domestic NGOs

The controversy surrounding the passage and implementation of the 1994 Forest Law raised awareness among domestic NGOs of the inherently political nature of forest policy reform. Some expressed strong support for tying reforms to structural adjustment lending. Others argued that lasting improvements in forest management require that the concession allocation and tax systems be insulated from political pressure, and have called for an overhaul of the legal system to allow private citizens to sue the government and logging companies in the name of public interest. They recognized that tackling forest policy effectively might require linking adjustment lending to institutional reforms outside the forest sector.

## The Bottom Line

The forest policy reform experience in Cameroon yields a number of insights. First, conditionalities were essential for ensuring the passage of key laws and decrees, but proved ineffective at enforcing the institutional changes needed to implement them. MINEF failed to participate effectively in the reform process because of its internal weaknesses, conflict of interest, and the lack of high-level political support. During the negotiations, the World Bank put demands on the Ministry for policy papers and studies that it had neither the ability nor authority to carry out. The result was a growing gap between what the World Bank demanded and what the Ministry was able (or willing) to deliver.

Second, the World Bank was unable to overcome strong vested interests within the private sector and French government. Many logging companies had benefited from the previous discretionary practices and were opposed to change. Their opposition explains why the views of many industry officials differ markedly from those of the World Bank regarding its willingness to seriously engage them. Although the World Bank often consulted the industry, irrevocable differences of opinion over what constituted sound forest policy may have blocked any meaningful dialogue. While France contributed technical input to the reform process, it withheld political support for fear of destabilizing the regime and upsetting the major French logging companies.

Finally, the World Bank was caught in a dilemma following the failure of the August 1997 auction. On the one hand, the World Bank's credibility required that it hold the government accountable for the auction irregularities; on the other, it did not want to jeopardize its dialogue over key economic reforms. By wavering at a critical point in the negotiations, it avoided provoking a possible political crisis. But it also missed a golden opportunity to reinvigorate the forest policy reforms. This decision may have inflicted broader damage. According to outside observers, there are younger foresters in Cameroon who seem concerned about greater efficiency and transparency, but if they are not supported and encouraged by outside pressure, they could well be subverted by the corrupting influence of their seniors. Every time the government is allowed to get away with breaking the law, the prospects for real change diminish, and the hopes of this group of professionals fall. ■

## For More Information


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## CARPE ... What Is It?

**Central African Regional Program for the Environment (CARPE)**

Launched in 1995, the *Central African Regional Program for the Environment (CARPE)* engages African NGOs, research and educational organizations, private-sector consultants, and government agencies in evaluating threats to forest integrity in the Congo Basin and in identifying opportunities to sustainably manage the region's vast forests for the benefit of Africans and the world. CARPE's members are helping to provide African decision makers with the information they will need to make well-informed choices about forest use in the future. BSP has assumed the role of "air traffic controller" for CARPE's African partners. Participating countries include Burundi, Cameroon, Central African Republic, Democratic Republic of Congo, Equatorial Guinea, Gabon, Republic of Congo, Rwanda, and São Tomé e Principe.

**Web site:**
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The Biodiversity Support Program (BSP) is a consortium of World Wildlife Fund, The Nature Conservancy, and World Resources Institute, funded by the United States Agency for International Development (USAID). This publication was made possible through support provided to BSP by the Africa Bureau of USAID, under the terms of Cooperative Agreement Number AOT-A-00-99-0028-00. The opinions expressed herein are those of the authors and do not necessarily reflect the views of USAID.


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