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Acknowledgments

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This 2nd edition of the Cameroon Economic Updates is part of a program of annual reports analyzing Cameroon’s development trends and constraints. The objective of each issue is to present recent economic developments in the country as well as the medium-term economic outlook and risks (Chapter 1). Each issue also includes a special focus on a particular topic. This edition focuses on fuel subsidies (Chapter 2). The Cameroon Economic Update aims to share knowledge and stimulate debate among those interested in and working to improve Cameroon’s economic management. It seeks to be accessible to non-specialists in order to be useful to a wide range of stakeholders.

After a strong rebound in growth in 2021, Cameroon’s economic activity slowed amid the impacts of the war in Ukraine and the unfavorable international context. Global supply rigidities and soaring prices held back domestic demand and led to slower economic activity in 2022, with GDP growth estimated at 3.4 percent. Meanwhile, oil production continued declining while soaring prices of agricultural inputs hampered the primary sector. Consumer price inflation peaked in 2022, significantly impacting the most vulnerable, including displaced people in remote areas amid the security crisis in the North-West and South-West regions.

Cameroon’s fiscal deficit narrowed, but debt vulnerabilities remain high. Oil and non-oil revenues increased in 2022, although not enough to offset the sharp rise in spending on fuel subsidies. As a result, the government was forced to cut other spending and revise the 2022 Finance Law, which narrowed the fiscal deficit to 1.8 percent of GDP in 2022 (from 3.2 percent of GDP in 2021). While public debt as a share of GDP remained almost unchanged, indicators of overall debt sustainability deteriorated according to the latest Debt Sustainability Analysis (February 2023), reflecting a weaker exchange rate against the US dollar and a weaker growth outlook than in the previous assessment.

Domestic credit growth eased in 2022 due to monetary policy tightening. The Bank of Central African States (BEAC) continued to tighten its monetary policy stance in 2022 to respond to inflationary pressures and ensure the region’s external viability. As of end-December 2022, BEAC’s foreign exchange reserves represented about 4.7 months’ worth of regional imports of goods and services. High oil-export earnings and the progressive application of the new foreign exchange regulation helped sustain regional reserves. Tighter monetary conditions have, however, slowed domestic credit growth, implying lower private investment in 2022.

The economic outlook in Cameroon is expected to remain moderately favorable over the medium term, but risks are tilted to the downside. Cameroon’s real GDP growth is projected to reach 4.2 percent, on average, over 2023-25, supported by sustained activity in the secondary and tertiary sectors. The fiscal position is
expected to improve slightly amid the reduction of fuel subsidies and other spending reprioritization. Risks include (i) a further tightening of financial conditions, (ii) continued higher inflation triggered by the war in Ukraine, and (iii) a persistent security crisis in the North-West, South-West, and Far North regions. Should such risks materialize, real GDP would grow more modestly than under the baseline scenario, affecting fiscal and external accounts and slowing down progress on poverty reduction. A sharp rise in global risk premia following a monetary policy tightening in advanced economies would affect the outlook and debt sustainability.

The special focus of this Economic Update looks at fossil fuel subsidies, which represent a significant fiscal burden in Cameroon. In 2022, the sharp rise in international oil prices led to an increase in fuel subsidies, estimated to represent about 3 percent of GDP. This amount was three times the expenditure allocation for the health sector in the same year. Yet, while fuel subsidies aim at supporting consumers’ purchasing power, and more particularly the most vulnerable, these subsidies benefit the richest segments of the population, especially groups living in urban areas. This is mainly explained by their consumption of the two most heavily subsidized fuels - diesel and gasoline - in contrast with kerosene, a fuel mostly consumed by the poorest. Furthermore, fuel subsidies introduce environmental and market distortions, preventing an efficient use of energy and the development of renewable sources of energy or the adoption of low emitting development solutions, locking them on a higher emission development pathway in the future. The removal of fuel subsidies (except for kerosene), would have a limited one-time effect on the price level. However, such an increase would impact the purchasing power of the population, as higher fuel prices would indirectly also lead to higher prices for other products and services, especially in the transport, fishing, and forestry sectors. Therefore, a fuel subsidy reform requires a strong mitigation package aimed at providing targeted support to the most vulnerable.

Lessons can be drawn from the experience of countries that have carried out fuel price adjustments. Principles from international experience show four best practices when carrying a fuel subsidy reform: i) exclude (at least temporarily) from the subsidy reform socioeconomically strategic fuels (e.g., kerosene); ii) adopt a price smoothing mechanism that offers a balance between excessive price volatility and fiscal risks; iii) stagger the reform to allow households to adjust and the mitigation measures to be rolled out; iv) engage in stakeholders consultations and carry communication campaigns to address the concerns of various population groups. Moreover, targeted measures should be selected to mitigate the impact on affected vulnerable groups and sectors. This can be achieved by reinforcing social safety nets, increasing transparency of public financial management, increasing social spending, supporting strategically affected sectors such as transport, and increasing productive structural public investments. Country experiences illustrate the variety of possible accompanying measures to adjust in fuel prices socially acceptable. They show that there is not a standard single set of actions, but that these measures need to be discussed, identified, and designed to reflect the concerns and the characteristics of each country.
Chapter 1

Recent Economic Developments
1.1 Global and regional growth has slowed, while CEMAC economies were overall resilient

The global economy grew by an estimated 3.1 percent in 2022, a slowdown compared to the previous year resulting from tighter monetary conditions and global trade disruptions. Global growth has been slowing since its peak at about 6 percent in 2021 when it started to rebound from the pandemic. Trade disruptions caused by the war in Ukraine and tightening monetary policies aimed at containing high inflationary pressures in different regions have been contributing to this slower growth. Advanced economies including the U.S. and Europe and most emerging markets are experiencing weaker growth. At the same time, risks of debt distress have heightened.

Against this backdrop, economic growth has also slowed in Sub-Saharan Africa. Economic activities in Sub-Saharan Africa expanded in 2022 by about 3.7 percent, compared to 4.4 percent in 2021, with the slowdown being on account of weaker external demand for non-energy commodities, tightening global financing conditions, and rising inflation. The cost of living increased across the continent, as higher food and fuel prices resulted in increased vulnerability and distress.

Higher hydrocarbon prices have allowed, however, CEMAC economies to experience faster growth in 2022. Higher hydrocarbon prices, combined with the lifting of COVID-19 containment measures, have had an overall positive impact on the terms of trade and economic growth of the region. CEMAC’s economic growth is estimated to have reached 2.9 percent in 2022, up from 1.1 percent in the previous year but below the average for Sub-Saharan Africa. This increase accounts for the strong pick up in real GDP growth in Chad and Equatorial Guinea (both being on recession in 2021) and the sustained growth in Gabon and Congo, while Cameroon and Central African Republic registered only a slight slowdown. Yet, if oil and gas exports have been contributing to improved regional fiscal and external balances, the fiscal costs of fuel subsidies have been increasingly weighing on the budgets of CEMAC countries and limiting their ability to take advantage of rising oil prices to rebuild fiscal and external buffers (the special focus of this edition provides a more detailed discussion of the topic. Meanwhile, rising global inflation is weighing on domestic prices and real incomes while tighter global financial conditions are also constraining growth.
The Bank of Central African States (BEAC) continued to tighten its monetary policy to contain inflationary pressures and ensure the region’s external viability.

Following an extraordinary Monetary Policy Committee meeting on November 25, 2021, the BEAC increased the policy rate (taux d’intérêt des appels d’offre, TIAO) by 25 basis points to 3.5 percent. Further policy rate increases were adopted, to 4.0 percent in March 2022, 4.5 percent in September 2022, and 5 percent in March 2023. The BEAC also decreased its weekly liquidity injections from CFAF 160 billion in April 2022 to CFAF 50 billion in December 2022. Moreover, the regional central bank continues to work towards the effective application of the new foreign exchange regulation, strengthening the repatriation of foreign exchange earnings for the extractive sector as agreed in January 2022. Against this backdrop, the CFA franc depreciated in real effective terms for most of 2022 as the Euro depreciated against the US dollar. Improved terms of trade in the region, thanks to higher commodity prices, and tighter fiscal and monetary policies helped to support the buildup of regional gross reserves, which have been increasing steadily since early 2022 and reached CFAF 6,851 billion in December 2022 (up from CFAF 4,779 billion in January 2022). Foreign exchange reserves at the BEAC increased to reach the equivalent of 4.7 months of prospective imports of goods and services by end-December 2022 (compared to 4.1 months in end-December 2021).

1.2 Real Sector and Inflation in Cameroon:

Economic Recovery from the Pandemic Slowed

Amid High Inflation

Cameroon’s economic growth was slower in 2022 compared to 2021 and struggles to catch up with its pre-pandemic level Real GDP growth was recorded at 3.4 percent in 2022, from 3.6 percent in 2021, supported by the hydrocarbon, agri-food industries, and services sectors (Figure 1). The primary sector registered a slowdown compared to the previous year as food crop production dropped because of higher prices for farm inputs. The secondary sector was driven by increased crude oil production (Figure 2), while financial services and communications drove the activity of the tertiary sector. On the demand side (Figure 4), household consumption growth slowed to 3.4 percent in 2022, from 3.9 percent in 2021, due to higher inflationary pressures. Investment growth also slowed to 2.3 percent in 2022, from 8.2 percent in 2021, amid tightening monetary and financial conditions, which affected credit growth. Cameroon’s economy continues to perform below its potential and struggles to catch up with its pre-pandemic level (Figure 5). However, real GDP per capita appears to have fully recovered as real GDP is growing faster than the population since 2021 (Figure 6).
Figure 1: Non-oil GDP growth eased in 2022

Real GDP Growth Decomposition

Figure 2: Crude oil production slightly increased in 2022

Hydrocarbon Production

Sources: Cameroonian authorities and World Bank calculations

Figure 3: The secondary sector grew the most, driven by increased oil production and global oil prices

Figure 4: Exports and government consumption grew faster in 2022 compared to other growth drivers on the demand side

Supply-side Drivers of Growth

Demand-side Drivers of Growth

Sources: Cameroonian authorities and World Bank calculations
The war in Ukraine magnified inflationary pressures in 2022 through higher prices for food items and other imported goods (Figure 7). Price pressures arising from supply disruptions due to the container crisis in the second semester of 2021 were further exacerbated by the war in Ukraine in 2022. World prices of Cameroon imports have risen sharply, particularly wheat, fertilizer, iron, clinker (used for cement), rice, and refined petroleum products. The Government of Cameroon (GoC) has taken some mitigation measures (albeit at considerable fiscal cost), including keeping the domestic fuel prices unchanged (see Special Topic) and reducing by 80 percent the freight costs used to determine customs values of goods imported by sea. Even so, consumer prices rose by 6.3 percent in 2022, from 2.3 percent in 2021, with stronger price increases recorded on food items and other imported goods. Remote urban areas hosting internally displaced people, including Bertoua, Ebolowa, and Bamenda, also experienced a rise in consumer prices due to reduced supply and increased demand triggered by the security crisis in the North-West and South-West.
Cameroon’s fiscal position improved thanks to higher oil revenues and curbs on spending. Oil and non-oil revenue increased more than expected over the year, driven by high oil prices and additional revenue mobilized from the collection of corporate income tax and VAT. However, increased spending with fuel subsidies (around CFAF 800 billion or about 3 percent of 2022 GDP) partly offset the revenue gains from higher oil prices. To account for the additional spending on subsidies, the government revised the 2022 Finance Law in June to reach an overall fiscal deficit (payment order basis, including grants) of 1.8 percent of GDP in 2022. The government accumulated arrears, however, in 2022.

High oil prices, sustained hydrocarbon production, and indirect taxes boosted government revenues in 2022 (Figure 8). Oil revenues were up by 105 percent at the end-September 2022 (y-o-y), driven by LNG exports and sustained high oil prices and domestic oil production. The 2022 Finance Law introduced measures to support revenue collection through the digitization of tax procedures, eliminating remaining
COVID-19-related tax relief measures, improving the administration of the taxes on property income, and a new tax on mobile money transfers. As a result, simplified property tax administration is expected to have generated an additional CFAF 20 billion in 2022. Overall, non-oil revenues increased by an estimated 16 percent in 2022, mainly driven by improved VAT collection. Corporate income tax also overperformed, supported by higher revenue collection on non-oil companies.

**The government under-executed spending on goods and services and cut capital expenditures to compensate for higher fuel subsidies.** As oil prices continued to rise, fuel subsidies followed a similar path, moving from CFAF 100 billion (US$ 171 million) in the initial budget law to CFAF 800 billion (around US$ 1 billion), estimated for 2022 (a more detailed discussion is provided in the next chapter). To compensate for these higher subsidies, the government executed only 61 percent of budgeted current and capital spending as of the end-September 2022 and accumulated more arrears (6.5 percent of total expenditures, from 1.5 percent in 2021). Although the pace of capital spending accelerated at the end of the budget exercise, they have reduced as a share of GDP compared to 2021 (Figure 9). Overall, public expenditure is estimated to have reached 18 percent of GDP in 2022, from 16.9 percent of GDP in 2021.

![Figure 8: Government revenues continued improving](image)

![Figure 9: Public spending was kept under control](image)

Sources: Cameroonian authorities and World Bank calculations
On balance, the fiscal deficit narrowed in 2022. The overall deficit (payment order basis including grants) narrowed to 1.8 percent of GDP in 2022, from 3.2 percent in 2021 (Figure 10). Higher external financing from bilateral and multilateral donors, coupled with improved issuance of government securities, were the main source of financing in 2022.

Debt vulnerabilities remain significant as Cameroon is still at high risk of debt distress (Figure 10). The public debt stock remained almost unchanged, moving to 46.4 percent of GDP at the end- 2022, from 46.8 percent of GDP at the end-2021. The latest Debt Sustainability Analysis (DSA) in February 2023 indicates that Cameroon’s overall debt sustainability indicators have deteriorated somewhat compared to the previous DSA, mainly due to external shocks, including a weaker exchange rate against the US dollar, and domestic factors, such as lower real growth projections. Notwithstanding, the government is reinforcing efforts towards better debt management and sustainability (Box 1). The composition of public debt has remained stable, with external debt representing over two-thirds of total debt. China remains the main bilateral external creditor, with more than 27 percent of total external debt as of the end-September 2022. SOEs’ debt is estimated at 3.2 percent of GDP, according to the DSA.
BOX 1: Monitoring Fiscal Risks related to Public-Private Partnerships

Cameroon has recently improved its debt management by extending the coverage and frequency of debt reporting and addressing fiscal risks. The scope and coverage of public debt reporting have been extended to State-Owned Enterprises (SOEs) by providing details on SOE debt quarterly, by instrument, and by debt holder. In addition, an annual report on public debt, including some SOE debt, has been disclosed since March 2021. Building on this progress, the government published, at the end of April 2022, an assessment of contingent liabilities arising from the portfolio of existing public-private partnerships (PPPs) using a risk assessment model. These efforts improved Cameroon’s debt management and reporting classification in 2021 (Figure 1.1). The authorities will continue strengthening debt management in 2023, including expanding the scope for reporting on contingent liabilities of PPPs. The authorities will expand the scope of information to be reported, and a template will be prepared for reporting contingent liabilities of PPPs. They will also clarify the role and responsibilities of various government entities in assessing, monitoring, managing, and disclosing the contingent liabilities in PPPs. Nevertheless, more efforts must be made to improve debt transparency and manage fiscal risks related to contingent liabilities. (Figure 1.1).

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Domestic credit growth eased in 2022 amid monetary policy tightening while the banking system remained resilient to security, corporate, and external risks. Domestic credit slowed, increasing by 9.5 percent (y-o-y) by end-December 2022, from 16.6 percent y-o-y a year before, as the regional central bank (BEAC) raised its main policy rate twice, in April and October 2022, to fight inflation (Figure 11). A drop in claims on the State accounts for the main driver of domestic credit slowdown, having increased by only 1 percent y-o-y by end-December 2022 (y-o-y), compared to 25.5 percent y-o-y a year before. Higher proceeds from hydrocarbon exports helped official reserves to increase (Figure 12). As mentioned earlier, foreign exchange reserves at the BEAC reached the equivalent of 4.7 months of prospective imports of goods and services by end-December 2022, compared to 4.1 months in end-December 2021. Banking sector and corporate risks remained manageable as the rate of non-performing loans (NPLs) reached 14.8 percent in June 2022, compared to 16.8 percent in end-2021. The system-wide capital adequacy ratio for the banking sector rose from 12 percent at the end of 2020 to 13 percent in 2021, exceeding the banking commission (COBAC) regulatory requirement of 8 percent.
Higher export earnings and private transfers from abroad helped narrow the current account deficit in 2022. Export earnings grew by 10 percent in 2022, driven by oil and LNG exports, helping improve the trade balance (Figure 13). Imports increased 7.5 percent in 2022, lower than in 2021 (9.0 percent). Higher imports reflect mainly the increase in food prices, including for mass-consumption products such as refined oil, frozen fish, fertilizers, cereals, and textiles. Higher private transfers from abroad amid acute concerns over food insecurity also helped narrow the current account deficit in 2022. Overall, Cameroon’s current account deficit narrowed to 3.0 percent of GDP in 2022, down from a deficit of 3.8 percent of GDP in 2021 and financed through mostly concessional external borrowing and foreign direct investment (FDI) (Figure 14).

**Figure 13: Higher hydrocarbon prices boosted exports**

**Figure 14: The deficit of the current account balance slightly narrowed**

*Source: Cameroonian authorities and World Bank calculations*
Chapter 2

Medium Term Economic Outlook
2.1 Global growth is expected to slow

Global economic activity is set to decelerate as a result of synchronized monetary policy tightening to contain high inflation, less favorable financial conditions, and disruptions from the war in Ukraine. Global growth is expected to decelerate sharply to 2.1 percent in 2023 (from about 3.1 percent in 2022) (Figure 15). The sharp downturn in growth is expected to be widespread. The United States and the Euro area are undergoing a period of pronounced weakness, and the resulting spillovers are exacerbating other headwinds faced by emerging market and developing economies (EMDEs). The combination of slow growth, tightening financial conditions, and heavy indebtedness is likely to weaken investment and trigger corporate defaults. Further negative shocks—such as higher inflation, even tighter monetary policy, financial stress, deeper weakness in major economies, or rising geopolitical tensions—could push the global economy into recession.

In SSA, growth in 2023-24 is projected to remain below long-term averages in several economies. Economic growth in the region is projected to remain modest in 2023 at 3.2 percent (from 3.7 percent in 2022) before picking up to around four percent, on average in 2024-2025 (Figure 16). Per capita income in the region as a whole is expected to grow by only about 1.0 percent a year on average in 2023-25, half a percentage point below its trend rate before the pandemic. In the CEMAC region, economic growth is projected to slow down marginally, with an average real GDP growth of 2.7 percent in 2023 and about 2.9 percent in 2024-25. Even though an expected moderation of global commodity prices should temper increases in the cost of living, tighter policy stances to address elevated inflation and public debt will weigh on domestic demand. Subdued growth will make it difficult to reverse increases in food insecurity and poverty. Meanwhile, weakening growth in advanced economies is expected to pose headwinds for external demand, particularly among exporters of industrial commodities. Risks are tilted to the downside. A more pronounced weakness in major economies, further increases in global interest rates, higher and persistent inflation, fragility, and increased frequency and intensity of adverse weather events could further slow growth across the region, exacerbating poverty and leading to debt distress in some countries.
2.2. Cameroon’s economic outlook is favorable but subject to important risks

Economic growth is expected to improve slightly over the medium term, supported by sustained activity in the secondary and tertiary sectors. Real GDP growth is projected to reach 4.2 percent, on average, over 2023-2025. On the supply side, oil production should continue declining due to the depletion of oil fields, while gas production is expected to be sustained. In the non-oil sector, growth would be supported by higher agricultural production and sustained high revenues from commodities such as cocoa, coffee, banana, cotton, and rubber. Agri-food industries, constructions, and energy supply should support the secondary sector. Telecommunications, financial services, and hotels, and catering would sustain the tertiary sector. On the demand side, stronger private consumption and investment would be the main drivers of real GDP growth as imports of food items and construction equipment continue to increase.

Inflation would remain high in 2023 and 2024. Overall, the inflation rate is likely to remain above 5 percent in 2023 and above 4 percent in 2024. This outlook would mainly reflect the pace of monetary policy tightening by major central banks,
as the BEAC monetary policy is aligned with that of the European Central Bank (ECB) because of the CFA franc peg to the Euro. Hence, any monetary policy tightening by the ECB triggers a similar reaction by the BEAC. A tighter monetary policy stance by the ECB, would trigger an appreciation of the Euro against the US dollar, which means cheaper import for Cameroon. Contrarily, continued price pressures from a protracted war in Ukraine, a depreciation of the CFA franc against the US dollar, higher retail fuel prices, and higher cost of some public services are also potential drivers for sustained high inflation in the medium term.

The fiscal deficit is projected to narrow in the medium term, supported by the government’s commitments to spending prioritization and improved non-oil revenue collection (Figure 17). The gradual reduction of fuel subsidies, which started with an average 21 percent increase in retail fuel prices in end-January 2023 (except for kerosene), and other current spending cuts, would contain public spending. On the revenue side, tax revenue mobilization is expected to be driven by enhanced tax administration measures aiming at (i) broadening the tax base; (ii) rationalizing tax expenditures; (iii) improving personal income taxation and the taxation of the informal sector; (iv) generalizing electronic payments and electronic monitoring of economic transactions; and (v) fighting against tax fraud and evasion through the use of big data, automated risk analysis systems and information sharing with jurisdictions from abroad. The tax administration intends to raise the tax-to-GDP ratio from 8.1 percent in 2022 to 9.6 percent in 2025. The fiscal deficit is projected to narrow to 0.4 percent of GDP by 2025.
High commodity export revenues and private transfers from abroad should continue narrowing the current account deficit. The current account deficit is expected to drop to 2.4 percent of GDP by 2025. This assumption lies in the authorities’ decision to support local production through (i) incentives to intermediary goods used for production within the country (e.g., fishing vessels); (ii) increased excise tax rates on products that can be produced locally; and (iii) more diversified exports with the support of measures envisaged under the current National Development Plan (SND-30) and the African Continental Free Trade Area (AfCFTA). Against this backdrop, the adoption of a coherent and targeted policy package to promote exports and accelerate export diversification, including reforms to facilitate trade and further reduce trade costs, would be critical.

The outlook remains subject to significant risks associated with (i) a further tightening of financial conditions, (ii) higher inflation triggered by a protracted war in Ukraine, and (iii) a persistent security crisis in the North-West, South-West, and Far North regions. Should such risks materialize, real GDP would grow more modestly than under the baseline scenario, affecting fiscal and external accounts. Higher international oil and food prices would add to inflationary and fiscal pressures, although oil revenues would increase. The government would then have to more drastically reduce expenditures to narrow the fiscal deficit and match more limited financing that would be available from external and domestic sources.

The security risk in the North-West, South-West, and Far North regions persists and continues to weigh on State spending. The security situation remains volatile with the increased fragmentation of Non-State Armed Groups resulting in more sophisticated attacks on military convoys, UN personnel, NGO staff, healthcare facilities, and school. These security issues keep pressure on public spending.

Fiscal risks continue building up. The cost of fuel subsidies - projected at CFAF 300 billion or USD 486 million in 2023 - represents a major risk to fiscal sustainability, especially if crude oil prices rise more than expected. The financial situation of several SOEs also implies fiscal risks, as they continue to require significant financial support from the State budget, including through the accumulation of tax arrears (1.5 percent of GDP in 2022). Progress has been made in improving SOEs’ transparency. The government has finalized the inventory of debts at the end-2021 between the State and 14 public enterprises and is preparing a plan for their clearance. The authorities have completed diagnostic studies of three large SOEs—PAD, CAMTEL, and CAMAIRCO and intend to implement key recommendations from these studies. Nevertheless, reforms to improve the performance of SOEs and their financial situation and contain the buildup of cross-debts with the State should continue as they are crucial in limiting fiscal risks and enhancing public service delivery.
Over the past twenty years, the Government of Cameroon has carried out reforms aimed at improving the efficiency, performance, and fiscal sustainability of the electricity sector. The electricity sector in Cameroon has moved from a vertically integrated single public operator arrangement (SONEL; 1974-2001) to the introduction of private sector participation in power generation and distribution. Key milestones include (i) the opening of the production segment to competition in 1998, allowing two independent units of production to integrate the market a decade later; (ii) the privatization of SONEL in 2001, as the majority of shares were sold to the American Corporation AES, which then sold its shares to the British private equity firm Actis in 2014, hence creating the current energy distributor “Energy of Cameroon S.A”. (ENEO); and (iii) the adoption of a new legislation in 2011, separating energy production from transport and distribution.

Public financing is mainly focused on energy supply. Public financing in the energy sector falls under two budgetary programs: (i) Energy supply (line 421 of the budget) which focuses on the development and improvement of energy supply to address population needs and support economic activities; and (ii) Energy access (line 422 of the budget) which aims to improve energy access to energy for households and businesses. Most of the budgetary resources are concentrated on improving the energy supply, with 81.5 percent of the total budget for the sector (USD 257.2 million in 2020).

The electricity sector represents important fiscal risks. Public electricity tariffs have been set by the state since 2012 and have never been revised since then. In return, the State is supposed to pay a subsidy to ENEO to compensate for the difference between the effective cost of producing electricity and the tariff. This subsidy represented 1.7 percent of the total annual budget in 2022 compared to 0.3 percent in 2016. The timely and regular payment of this subsidy has, however, been a challenge, weighing ENEO’s financial situation. Payment arrears from public entities has also been a problem. The government administration and state-owned enterprises represent about 20 percent of ENEO’s sales, but only about 30 percent of this bill is paid on time.

Recent shocks have added urgency to the government’s objectives to diversify the economy and the need to change the country’s development model. To meet its development aspirations as expressed in its National Development Plan (NDS30), Cameroon needs to change its current development model to create opportunities to improve resilience and to put the country on a stronger development trajectory. To achieve more rapid, inclusive, and sustainable economic growth, moving away from the state-led development model, and putting the private sector at the forefront of
economic activity are indicated. On the current growth trajectory, the proportion of the population subsisting on an income at or below the international poverty rate would still be about 15 percent in 2050, well above the global target of three percent, whereas changing the development model so to achieve the aspirations expressed in the NDS30 could bring that proportion down to about three percent by that year (Figures 18 and 19).

**These challenges can be grouped into three broad areas.** The first is decreasing the cost of doing business and promoting domestic competition. Lower market concentration and less prevalence of state ownership would help. It should also imply increased household income for the self-employed and wage earners alike, which is essential in achieving poverty reduction and shared prosperity. Advancing this agenda will be facilitated by cross-cutting reforms, including sounder fiscal policy and debt management, better infrastructure for reliable power, water, and telecommunications, better connectivity, and more inclusive financial services. The second area is reducing fragility and improving governance. The quality of and access to basic services should improve, responding to the needs of local populations. The ongoing decentralization presents an opportunity to address widening regional disparities. The third area is realizing the potential of Cameroon’s labor force. Better health care, nutrition, water and sanitation, basic education, and productive safety nets will help, as will narrowing the skills mismatch, and increasing women’s empowerment.
### Table 1: Selected Economic Indicators

<table>
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<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>2022e</th>
<th>2023p</th>
<th>2024p</th>
<th>2025p</th>
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<td><strong>Real economy: annual percent change, unless indicated otherwise</strong></td>
<td></td>
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<td>Real GDP</td>
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<td>3.6</td>
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<td>3.9</td>
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<tr>
<td>CPI (year-average)</td>
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<td>6.3</td>
<td>5.9</td>
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<td><strong>Contributions to real GDP growth (percentage points)</strong></td>
<td></td>
<td></td>
<td></td>
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<td>Private consumption</td>
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<td>2.1</td>
<td>2.2</td>
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<td>Government consumption</td>
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<td>Gross fixed investment</td>
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<td>Net exports</td>
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<td>-0.6</td>
<td>-1.1</td>
<td>-1.2</td>
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<td>-1.5</td>
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<td><strong>Fiscal accounts (percent of GDP)</strong></td>
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<td>Overall balance</td>
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<td>-3.2</td>
<td>-1.8</td>
<td>-0.8</td>
<td>-0.7</td>
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<td>Primary balance</td>
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<td>Total revenues and grants</td>
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<td>14</td>
<td>16.1</td>
<td>15.4</td>
<td>15.3</td>
<td>15.2</td>
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<tr>
<td>Oil revenues</td>
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<td>Tax revenues</td>
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<td>Non-tax revenues</td>
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<td>Grants</td>
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<td>0.5</td>
<td>0.3</td>
<td>0.3</td>
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<td><strong>Expenditures</strong></td>
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<td>Current expenditures</td>
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<td>Goods and services</td>
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<td>2.6</td>
<td>2.7</td>
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<td>Subsidies and transfers</td>
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<td>Interest payments</td>
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<td>Capital expenditures</td>
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<td>5.1</td>
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<td>Domestically financed</td>
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<td>2.7</td>
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<td>2.6</td>
<td>3.5</td>
<td>2.7</td>
<td>4.2</td>
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<tr>
<td>Externally financed</td>
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<td>2.3</td>
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<td>2.5</td>
<td>2.2</td>
<td>3.3</td>
<td>2.1</td>
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<tr>
<td>General Government Debt</td>
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<td>46.8</td>
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<td>42.9</td>
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<td>31.7</td>
<td>32.7</td>
<td>30.5</td>
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<td>29.1</td>
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<td>Broad money (M2)</td>
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<td>17.2</td>
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<td>9.9</td>
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<td>Domestic credit to the private sector</td>
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<td>9.7</td>
<td>13.6</td>
<td>8.8</td>
<td>7.4</td>
<td>7.1</td>
<td>6.9</td>
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<td><strong>Balance of Payments (percent of GDP)</strong></td>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Current Account Balance</td>
<td>-3.6</td>
<td>-3.8</td>
<td>-3.0</td>
<td>-2.7</td>
<td>-2.6</td>
<td>-2.4</td>
<td>-2.1</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>18.2</td>
<td>17.6</td>
<td>18.7</td>
<td>19.8</td>
<td>19.8</td>
<td>20.2</td>
<td>20.0</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>12.1</td>
<td>11.9</td>
<td>13.3</td>
<td>14.0</td>
<td>15.0</td>
<td>16.4</td>
<td>16.5</td>
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<tr>
<td><strong>Nominal GDP (US$ million)</strong></td>
<td>40,311</td>
<td>44,444</td>
<td>47,174</td>
<td>49,072</td>
<td>52,830</td>
<td>56,523</td>
<td>59,180</td>
</tr>
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</table>

**Note:** e estimated; p projected

Sources: National authorities, World Bank, and IMF, February 2023
Thematic Chapter

Assessing the Impact of Fossil fuel subsidies in Cameroon and Options of Policy Reforms
This chapter provides policy options for gradually reforming fossil fuel subsidies in Cameroon. While fuel subsidies imply significant fiscal, and environmental costs, they benefit mainly the richest households. In addition, fuel subsidies divert fiscal resources from sectors, households, and firms that might need them more. International experience would suggest that the reform is most successful when fuel subsidies are phased out in a sequenced and gradual approach. This approach should be designed in consultation with key stakeholders and accompanied by compensation mechanisms that minimize potential short- and medium-term shocks on households and firms.

The focus is on subsidies for kerosene, diesel, and gasoline (see Technical Annex 1 for more information on their use). It uses the International Energy Agency’s price-gap methodology, which quantifies subsidies as the difference between a reference price (e.g., an international market commodity price) and a domestic retail price (see Technical Annex 2 for more information on the definition and quantification methodology of subsidies).
I. INTRODUCTION – RECENT DEVELOPMENTS IN FOSSIL FUEL SUBSIDIES

1.1 Evolution of oil prices and related subsidies – Regional overview

The recent price surge in international oil prices has led to an increase in fuel subsidies across the world. After a price decline induced by the COVID-19 pandemic, energy commodity prices have been rising since late 2020 and reached new heights in 2022 amid the war in Ukraine (Figure 20). As governments around the world introduced measures to ease the impact of these high energy costs on households and businesses, energy consumption subsidies rose sharply in 2022, reaching more than US$ 700 billion for oil, natural gas, and coal, the highest level ever recorded (Figure 21). These subsidies are mostly broad-based, instead of being targeted towards vulnerable groups, and come with significant fiscal costs.1

Countries in West and Central Africa, including in the CEMAC region, have seen a similar development. The fiscal cost of energy subsidies in AF $ more than doubled compared to their pre-COVID levels (Figure 22). In contrast to rising energy subsidies, public spending on social sectors has stagnated or even decreased (Figure 23). The fiscal cost of fossil fuel subsidies in CEMAC countries reached CFAF 1,243 billion in 2022, equivalent to about 1.8 percent of the region’s GDP, above the average of West African countries at 1.5 percent of GDP. While some CEMAC countries have increased retail fuel prices in early 2023, subsidies (except for CAR) are still substantial.2

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1 Recently published estimate from IEA based on data from 51 countries, covering the OECD, G20 and 33 other major energy consuming and producing economies.
2 In early 2023, Cameroon increased retail fuel prices (diesel +25 percent, gasoline +15 percent, kerosene to industries +60 percent), as well as CAR (diesel +70 percent, gasoline +50 percent) and Congo (diesel +5 percent, gasoline +5 percent).

Due to data availability, in this graph, “West and Central African countries” refers to the following countries: Benin, Burkina Faso, Cabo Verde, Central African Republic, Chad, Republic of Congo, Cote d’Ivoire, Gabon, Ghana, Guinea, Mali, Mauritania, Nigeria, Senegal, Sierra Leone, The Gambia, Togo.

Sources: IEA and World Bank

Source: National authorities and World Bank staff calculations.
CEMAC economies are exposed to oil price volatility and have not managed to translate their natural wealth into sustainable development. Oil accounted for more than 25 percent of GDP in 2022 in CEMAC and covered roughly 80 percent of the region's exports of goods. Tax and nontax revenues related to oil contributed to about 55 percent of total revenues. Many crude oil exporters rely to a great extent on imports of refined products because of constraints in refining capacity. Given the size of the oil sector and its importance in commanding public resources, these countries are highly exposed to volatility in international oil prices. Their fiscal space is less predictable, and they have been challenged in using oil revenues to invest in physical and human capital to lay the foundations of more sustainable and inclusive growth.

Both oil importers and exporters have increased their fuel subsidies, although oil exporters have larger buffers. Fuel subsidies have been rising in both net oil exporting and net oil importing countries (Figure 24). A share of the oil windfall in oil exporting countries has been used to finance subsidies and protect their population from the higher international prices for oil (Figure 25). These countries have nevertheless larger external and fiscal buffers than oil importing countries, with on average narrowing current account and fiscal deficits (Figures 26 and 27). However, subsidizing fuel, even for oil exporters, is a story of an expensive missed opportunity as these resources could have been used for other purposes and perhaps to a greater benefit.
1.2 The growing fiscal cost of fossil fuel subsidies in Cameroon

Fossil fuel subsidies represent a growing fiscal burden in Cameroon. The sharp increase in international oil prices led to an increase in fuel subsidies in Cameroon from 0.8 percent of GDP in 2021 to an estimated 2.9 percent of GDP in 2022 (Figure 28). Diesel and gasoline represent the highest estimated budgetary cost at 2.6 percent of GDP in 2022, from 0.7 percent of GDP in 2021 (Figure 29). The use of public funds to freeze retail fuel prices prevents these same resources from being allocated to other, possibly more productive, public spending such as social and infrastructure investments. The amount spent on fuel subsidies (CFAF 810 billion in 2022) is higher than the total budget allocation for education (at CFAF 715 billion) and over three times the expenditure allocation for the health sector (CFAF 229 billion) (see Figure 30). In percentage of GDP, Cameroon allocates only 2.5 percent to public expenditure in education, which is extremely low when compared to the SSA average of 4.3 percent of GDP. Health expenditures are mostly paid by patients with out-of-pocket expenditures representing 72 percent of total health expenditure in the country. Meanwhile, insufficient capital spending has translated into poor quality of infrastructure, which limits economic opportunities.
Figure 28. Fiscal cost of Fuel Subsidies in CEMAC and peer Sub-Saharan African countries (in % of GDP), 2022

Sources: National authorities and World Bank staff calculations.

Figure 29. Fiscal cost of subsidies by fuel (in percentage of GDP)

Sources: World Bank and IMF calculations based on data from the Cameroonian authorities.
Note: Numbers for 2022 include only January-November data.

Figure 30. Government expenditure allocation in Cameroon in 2022 (In FCFA Billion)

Source: Cameroonian authorities
Fuel subsidies also introduce environmental and market distortions. By preventing domestic retail prices from being aligned with international prices, fuel subsidies distort the actual cost of energy. This distorted pricing does not encourage efficient use of energy, with adverse effects on the environment. Such distortions might prevent countries from reducing reliance on subsidized fossil fuels and from developing renewable sources of energy or adopting low-emitting development solutions, locking them into a higher emission development pathway in the future. In addition, such market distortions may lead to unlawful market practices, such as the creation of an informal parallel market or cross-border smuggling. Such practices could generate domestic energy supply shortages, further deteriorating the domestic market dynamic and local economy.

I.3 Distributional analysis of fossil fuel subsidies in Cameroon

Fuel subsidies are mostly captured by male-headed rich households living in urban areas. Subsidies on petroleum products (excluding kerosene) benefit mainly the richest segments of the urban population (Figures 31 and 32). 75 percent and 42 percent of diesel and gasoline, respectively, are consumed by the richest decile; thus, most of the subsidies are captured by the wealthiest. By contrast, kerosene, used mainly for lighting, is used mostly in rural areas and is more equally distributed across income groups, although the richest still benefit more from subsidies on this fuel when compared to the poorest decile. Regarding fuel consumption by male versus female-headed households, while kerosene consumption is relatively gender-neutral, other fuels such as diesel and gasoline are mostly consumed by male-headed households (Figure 33). Even in terms of income (estimated by their consumption), fuel subsidies do not favor the poorest segments of Cameroon’s population, representing only about one percent of their income (compared to 3.7 percent for the richest decile) (Figure 34).
Figure 31. Distribution of fuel consumption by income group (in percentage, by decile)

Figure 32. Distribution of Kerosene by income group and region (in percentage, by decile)

Figure 33. Distribution of fuel consumption by Gender (in percentage)

Figure 34. The proportion of fuel on total consumption (in percentage, by decile)

Source: Cameroonian authorities and World Bank staff calculations.
Note: The distribution of fuel consumption by deciles is estimated from data from the 2021-2022 household survey.
An increase in fuel prices could have direct and indirect effects, implying a limited increase of the general price level. Directly, households are affected through their own consumption of gasoline or kerosene. Indirectly, they are also affected since petroleum products are used as intermediary products in many sectors and their higher price will feed into the price of the final good produced by these sectors. Based on the price structure in January 2023, a preliminary analysis showing a one-off price increase for all petroleum products except kerosene (complete removal of subsidies) would imply an increase of 46.5 percent and 73.9 percent for gasoline and diesel prices, respectively, and lead to a one-time 4.7 percent increase in the overall price level (Figure 35). The highest increases would be observed in transport, fishing, and forestry. Because subsidies for kerosene do not account for the bulk of the fiscal costs, excluding them from a price adjustment would not erode much the potential fiscal savings of this action.

The removal of fuel subsidies would nevertheless add to the inflationary pressures in the country and, if not accompanied by mitigation measures, could push some households into poverty. While representing a very small share of their income (as measured by consumption), the elimination of fuel subsidies erodes nevertheless the purchasing power of households. The removal of fuel subsidies could also exacerbate the severity of living conditions for those who are already poor. International experience shows that even small losses risk triggering negative coping mechanisms, such as pulling children out from school or selling productive assets, that erode human capital and contribute to the intergenerational transmission of poverty. Therefore, a fuel subsidy reform requires a strong mitigation package aimed at providing targeted support to the most vulnerable segments of the population.
The government’s appropriate use of the fiscal resources freed up by the removal of subsidies is critical for the ultimate outcome of poverty, employment, and growth. Governments can reduce the fiscal burden of energy price subsidies and use the new fiscal space for more sustainable and equitable uses. The various options include paying down debt, investing in public infrastructure and in people, protecting specific population groups, and targeting assistance to certain industries. Simulations using economy-wide models tend to show that building or protecting human and physical capital lead usually to higher employment and growth rates. In the case of China, for instance, these simulations would suggest that removing all energy subsidies (estimated to be 1.4 percent of GDP in 2007) without redistribution of the savings would have been detrimental to growth and employment. The more the savings from subsidy removals are reallocated to certain sectors (agriculture, services, and light industry), the greater the positive effects on these macroeconomic variables. Investing in a country’s people, in their health, their skills, and their resilience to shocks, is critical to foster more inclusive growth, especially for CEMAC countries where the average child born today will be only 37 percent as productive as he or she could be.
II. GENERAL PRINCIPLES FROM INTERNATIONAL EXPERIENCE

International experience shows that removing fuel subsidies has been difficult. In many countries with limited social safety nets, a generalized subsidy is seen as a part of the social contract. This could be particularly true for oil producing countries. In countries with limited transparency and trust between the authorities and the population, it is difficult to convince the population about a credible mitigation package. A couple of general principles could, nevertheless, be drawn from the experience of countries that have carried out fuel price adjustments. These principles could frame a discussion for Cameroon.

II.1 Calibrating price adjustments by petroleum products

Depending on the consumer profile of each fuel (e.g., income group, area, gender, usage, etc.), it can be envisaged to prioritize the reform that benefits the richest segments of the population and represent the highest fiscal cost. For instance, some countries have decided to exclude (at least temporarily) from the subsidy reform socioeconomically strategic fuel(s) that (i) are used by the most vulnerable households and/or (ii) have a universal use (both from a geographic and a socioeconomic perspective) and/or (iii) are used in a systemic segment of the economy (agriculture, industry).

Kerosene tends to be consumed more by poorer households and in rural areas. In many developing countries, petrol and diesel are consumed mainly by wealthier households with private cars and/or power generators, as well as by the industrial sector. Eliminating (or substantially reducing) subsidies for the most regressive fuels could limit the fiscal cost, while mitigating the impact on low-income households.
Since 1967, Indonesia had been subsidizing retail prices of fuel, a policy facilitated by its status of net oil exporter – lost in 2003 as the country needed to increase its oil imports to meet domestic demand.

The Indonesian government subsidized mainly two categories of fuel: cooking gas in the form of LPG, and two other petroleum products used for transportation – gasoline and diesel (the latter being used for public transportation, fisheries, and small and medium-sized enterprises).

This fuel subsidy policy was favoring mainly the richest households, as over 50 percent of subsidized fuel was bought by the richest 20 percent of the population in 2014.

In addition, the fiscal and social opportunity cost of energy subsidies (LPG, petroleum products and electricity) had become particularly heavy, accounting for 20 percent of Indonesia’s central government budget from 2008 to 2014, surpassing by far government expenditure on health and infrastructure over the same period.

In November 2014, President Joko Widodo launched a reform of gasoline and diesel subsidies (prices for gasoline were increased by 31 percent and 36 percent for diesel in 2014, prices of kerosene were kept unchanged). The price gap was further narrowed by a decrease in international oil prices. As a result of the reform, the Revised State Budget 2015 saved USD 15.6 billion (IDR 211 trillion) on fossil fuel subsidies, equivalent to 10.6 percent of government expenditure.

As of January 2015, the Government fully removed the subsidy on gasoline, but introduced a fixed subsidy on diesel, because it was used by public transporters (mostly used by the most modest segments of the population) and by SMEs. Domestic diesel prices were allowed to fluctuate, while benefitting from a fixed subsidy of 1,000 rupiah per liter.

This temporary measure in favor of diesel should have been part of a longer-term agenda aimed at phasing out subsidies more broadly, but is still in place.

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5 A citizen’s guide to energy subsidies in Indonesia – IISD, Global Subsidies Initiative and IESR.
7 Indonesia’s effort to phase out and rationalize its fossil fuel subsidies – A self-report on the G20 peer review of inefficient fossil fuel subsidies that encourage wasteful consumption in Indonesia, 2019.
II.2 Adopting a price smoothing mechanism

While eliminating subsidies and allowing national retail prices to reflect international prices, many countries have opted to keep some smoothening mechanism in place to protect their population and their economy from wide swings in fuel prices. While appealing, stabilization funds carry high fiscal risks and have faced very often financial difficulties requiring support from the budget, especially in times of steadily rising oil prices. In this context, adopting an explicit fuel pricing formula which ensures a full pass-through of international oil price variations may offer a balance between excessive price volatility and fiscal risks. The adoption of such automatic pricing mechanisms should be viewed as the first step towards a fully liberalized and competitive fuel market.

Adopting a mechanism to move gradually toward market-based pricing is an option to mitigate the impact of commodity price volatility while managing fiscal risks. Limiting a full pass-through of price changes to domestic consumers entails significant volatility in tax revenues and potentially high fiscal costs, especially during periods of sustained increases in international prices. In this context, adopting an explicit fuel pricing formula that smooths price variations but allows for the pass-through of international prices to domestic consumers, both increases and decreases, may offer a balance between excessive price volatility and fiscal risks. The adoption of such automatic pricing mechanisms should be viewed as the first step towards a fully liberalized and competitive fuel market.

The first pillar of such an option is to design a fuel price adjustment formula. Several price smoothing mechanisms are possible. One of the most common price smoothing mechanisms is the establishment of a price band mechanism. This mechanism sets a cap on the magnitude of possible retail price changes (either defined as a percentage of current retail prices or as an absolute amount). At a pre-defined interval (for example, monthly), the retail price will be determined based on the average import cost of the previous month and will be allowed to increase within the limits of this cap, either in a one-shot or in successive increases allowing prices to catch up gradually to international price levels. Another common price smoothing mechanism is the establishment of a moving average mechanism. This mechanism defines domestic retail price adjustments based on changes in the average of past import costs. The longer the average period of import costs used (for example, the past three or five months of imports), the smoother the price changes, but the higher the fiscal risk.

The second pillar of this measure is the adoption of a calendar to review the price adjustment formula. For instance, the margins defined in a formula can be updated based on the findings of studies to be commissioned regularly.

The third pillar of this measure is the creation of a technical autonomous body in charge of the implementation and supervision of the automatic pricing mechanism. The intention is to convey the message that price changes do not result from a political decision but rather reflect international market price fluctuations.

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Many countries have not eliminated fuel subsidies in one go but moved gradually to allow households to adjust and the mitigation measures to be rolled out and gain credibility. A review of cases of fuel subsidy reforms shows that subsidy reforms are less subject to abrupt rejection when prices are raised in an incremental manner, over periods ranging from a few months to a few years. This approach mitigates the impact of fuel price increases on the economy and the population, hence reducing risks to social stability, especially when combined with strengthening social safety nets and supported by consistent communications to raise awareness of the benefits of reform. A staggered reform also opens the possibility of announcing the timing of price increases to prepare citizens, allowing them time to change their behavior, and adopting more energy-efficient alternatives.

11 The time is right! Reforming Fuel Product Pricing Under Low Oil Prices – IMF, Fiscal Affairs Department, July 2020.
BOX 5 - International country case – THE PHILIPPINES

- The Philippines are an example of a successful sequenced reform, having phased out fossil fuel subsidies in the late 1990s following several policy milestones.

- Before fully liberalizing fuel prices, the Philippines went through several stages ranging from (i) 1984: implementing an oil stabilization fund (intended to smooth international price volatility); (ii) 1996-1997: transitional subsidies assisted by the stabilization fund, (iii) 1996-1997: implementing an automatic pricing mechanism adjusting monthly prices, with a special attention given to the three most socially sensitive products (LPG, kerosene and regular gasoline); (iv) 1998: market-based fuel pricing.

- The impacts of these fuel subsidy reforms were mitigated using targeted cash transfers, as well as transitional targeted regulated subsidies aimed at low-income households, specific sectors, and socially sensitive fuels.

- In parallel to the fuel subsidy reform, an electricity sector reform also took place as part of a comprehensive energy sector policy strategy. This reform was designed to deregulate the sector while protecting the most vulnerable customers (a lifeline rate for low-income users cross-subsidized by high-income groups, targeted subsidy providing discounted electricity prices to senior citizens, a one-off cash transfer for marginalized electricity consumers to cushion the impact of rising electricity and fuel prices).

II.4 Stakeholder consultations

Les pays qui ont réussi à réformer les subventions énergétiques ont entrepris de vastes consultations et campagnes de communication pour répondre aux préoccupations de divers groupes de population. Les consultations ont aidé le gouvernement à identifier des mesures différenciées selon la vulnérabilité de chaque groupe et leur probabilité de protester contre la réforme. La communication a souligné l’urgence de la réforme, ainsi que l’engagement du gouvernement à réaffecter les ressources rendues disponibles par la réforme aux programmes qui profitent à la majorité de la population. Ces sessions sont également l’occasion de démêler les idées fausses sur les prix du carburant, les subventions et les mécanismes de compensation. Ils peuvent être l’occasion de discuter de l’ampleur, du calendrier et des mesures d’atténuation pertinentes de la réforme des subventions. L’organisation de consultations avec les principales parties prenantes donne à ces dernières une plate-forme pour exprimer leurs points de vue, réduisant ainsi le risque d’un rejet brutal de la réforme lors de sa mise en œuvre.

• In 2015, Ukraine undertook a gas subsidy reform.

• The reform significantly relied on dialogue with key stakeholders (especially end-consumers) to (i) explain the objective of the reform (common good), as it was largely misunderstood; (ii) guide the sequencing of reform policy at a pace deemed acceptable; (iii) revitalize access to compensatory social safety net mechanisms, little known or understood.

• The communication strategy was successful in (i) mapping key stakeholders as 2,000 citizens were polled, in 20 strategic cities; (ii) informing these stakeholders through the organization of 40 dialogue groups as well as reaching-out campaigns (advertisements were broadcasted 400 times a week through 19 credible and popular TV channels); (iii) co-designing the reform with citizens.
III. LESSONS AND POSSIBLE PATHS FOR REFORM

Country experiences illustrate the variety of possible accompanying measures to make adjustments in fuel prices socially acceptable. They show that there is not a standard single set of actions, but that these measures need to be discussed, identified, and designed to reflect the concerns and the characteristics of each country. Like in the previous discussion, lessons and avenues from country experiences could serve as a basis for a specific discussion for Cameroon.

III.1 Reinforcing Social Safety Nets

International experience shows that social safety nets can play an important role in mitigating the adverse effects of the subsidy reform on the poor. Most countries spend 1–2 percent of GDP on safety net programs (excluding subsidies). Safety nets are effective and efficient at supporting the poor and vulnerable by: (i) redistributing income, with an immediate impact on both poverty and inequality, (ii) enabling households to make better investments in their future—both in the human capital of their children and in their livelihoods, and (iii) helping households manage risk and cope with shocks. To mitigate the immediate impact of fuel subsidy reform, measures can be designed to provide a temporary, targeted financial support to protect the purchasing power of affected groups, especially the poorest households. The success of these measures greatly depends on several factors, such as the modality of their design (scope, conditionality, roll-out) as well as their adequacy with the local capabilities (such as fiscal space, existence of a complete and up-to-date social registry, administrative management). Such support can be provided through a social safety net system (Box 7).

The 2005 cash transfer program in Indonesia shows that logistics matter. The Government of Indonesia launched a cash transfer program in October 2005 to support the poor and vulnerable adapt to the effects of higher gasoline, diesel and kerosene prices. First, the timing of the program was key in reducing protests against the reform, as the program was designed and deployed in less than five months, providing timely support to affected groups. Second, using an existing delivery system (the national postal system), the cash transfer program was able to reach those most in need with limited delay. Last, the amount provided (Rp 100,000, equivalent to 20 percent of the 2005 national minimum wage) was significant enough to improve outcomes. The transfers were mainly used for purchasing rice, kerosene, and health services as well as repaying debt and led to slight improvements in labor, education and health outcomes. While two-thirds of the benefits went to the poorest 40 percent of the population, the cash transfer program encountered, nevertheless, several challenges, including the lack of transparency in the selection of beneficiaries (some households receiving transfers should not have been eligible), increasing the fiscal cost of the program.

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14 Social safety nets are non-contributory transfer programs targeted to the poor, including cash transfers, income support through public works programs, or in-kind transfers such as school feeding.
The government of Cameroon has increasingly recognized the role of social protection in achieving its development objectives. The 2017 National Social Protection Policy (*Politique Nationale de Protection Sociale*, PNPS) identified four priorities for the sector: (i) human capital development through access to basic social services and the satisfaction of fundamental human needs; (ii) provision of universal health coverage; (iii) improved access to social services; and (iv) improved access to economic opportunities. Building on the PNPS, the National Development

Social safety nets can play a key role in mitigating the negative effects of a fuel price adjustment. While fuel subsidies represent only a limited share of the income of the poorest, their removal will nevertheless negatively impact them. The poor and near-poor risk significant long-term consequences as they might cut health and education spending or sell productive assets to cope and they need to be protected. Depending on the state of development of the social safety programs, various options are possible:

1. **Increase the benefit levels of existing social safety net programs.** This is the preferred, most direct and most effective option if - and only if - the programs already cover the majority of the poor and have the capacity to absorb a reasonable number of new eligible households. This option is particularly relevant in countries where there are existing programs with high coverage, but low benefit levels (e.g. Azerbaijan, Egypt, the Philippines, Russia).

2. **Introduce a new dedicated program directly linked to the subsidy reform.** This program should be able to expand very quickly to cover the poor and vulnerable. This is often the most difficult option, but sometimes it is the only viable strategy. Examples of the use of this option include subsidy reform in Indonesia in 2005-2008, subsidy reform in India in 2013, or, more recently, temporary compensation in Jordan as part of the 2012 and 2018 reforms. This option requires significant administrative, implementation and coordination capacity, which may not be readily available.

3. **Reform and extend the coverage of an existing program to cover a significant share of the poor and vulnerable.** International experience shows that this expansion and increase in benefit adequacy can happen relatively quickly: for example, programs in Tanzania, Senegal and Indonesia have moved from 5-10 percent coverage of the poor to more than 50 percent coverage of the poor within 2-4 years. The reform in the Dominican Republic is another example: a pre-existing cash transfer program was substantially expanded to mitigate the impact of the subsidy reform on the poor.
Strategy 2021-2030 (Stratégie Nationale de Développement, SND30) highlights social protection as central (along with health and education) to the development of the country’s human capital. It identifies consolidation and expansion of social protection services, including establishing a national social safety nets program, as the main priorities for the sector.

**Cameroon’s social safety net project is based on cash transfers and labor-intensive public works.** Launched in 2013, Cameroon’s project consists of three interventions: (i) regular cash transfers and accompanying measures; (ii) emergency cash transfers; and (iii) labor-intensive public works, chosen based on global evidence of their effectiveness in alleviating poverty. In addition to direct services to beneficiaries, the project helped establish systems critical to the development of the social protection sector, including a management information system and a grievance redress mechanism to minimize risks of fraud, errors, and corruption within the program. The program is being expanded to: (i) widen the coverage and increase the shock-responsive capacity of the safety nets system for poor households, and (ii) increase access to income-generation and entrepreneurship support opportunities for youth in urban areas.

The project has been shown to have positive impacts on consumption and income-generating activities. The positive impacts of cash transfers were confirmed in Cameroon and included an improved ability to meet basic consumption needs (especially in the poorest rural areas) and cover health and education costs (mostly in semi-urban areas). Cash transfer beneficiaries were also able to make productive investments in agriculture and/or micro-enterprises. Additional benefits of transfers included improved health behaviors, school enrollment, and financial inclusion, as well as lower poverty of non-beneficiaries.

The program remains, however, reliant on donor financing, and its coverage is limited. Budget allocations for targeted safety nets have increased but remain low and uncertain. Over the 10 year-implementation of the program, direct government financing represented a third of the total budget, with multilateral partners covering the rest.16 Besides, the coverage of the program has been limited to 25 percent of poor households in Cameroon (from 2013 to 2022 altogether). The coverage rate of beneficiaries is projected to increase to 52 percent by 2028.17

**Rapid scale up would require robust delivery systems.**18 There are five key interrelated components or “building blocks” that must be evaluated to determine safety nets readiness.19 Table 2 below summarizes the five components and provides a rapid assessment of the Cameroon’s current social safety net project along each component.

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16 The program is financed by the World Bank (US$50 million) the French Development Agency (US$20.5 million) and the Government (US$22 million)
17 These figures, however, represent the total number of households benefiting from social safety nets at any given time. Unlike many other countries, social safety net support in Cameroon is offered for a maximum of two years only to each beneficiary household. Reaching a substantial share of the poor population at the same time, in response to a subsidy reform, would require an unprecedented level of financing, mobilization, and coordination.
18 Establishing a new universal or quasi-universal compensation scheme (Option 2 in Box 7) would be suited for a quick subsidy reform, but in Cameroon’s case this would present a significant challenge in terms of administrative and coordination capacity to rapidly launch and implement such a scheme.
<table>
<thead>
<tr>
<th>Key building block</th>
<th>Readiness</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The delivery chain.</strong> Safety nets pass through common implementation phases, including registration and needs assessment, beneficiary selection and enrollment, and delivery of benefits.</td>
<td>A key strength of the current program is its objective and transparent targeting system. However, it relies on household data collection that can be time-consuming. Rapid expansion of safety nets to areas and households not yet covered by the program would require an inclusive social registry. The program has also piloted digital payments for the COVID-19 emergency response in urban areas. Key challenges for scaling up include: pending regulatory measures, lack of national IDs, and distance to pay points in rural areas.</td>
</tr>
<tr>
<td><strong>Institutions and governance.</strong> Institutional aspects include central agencies, horizontal and vertical coordination, and partnerships with service providers (such as payments agents and NGOs). Governance aspects include a legal foundation.</td>
<td>The current social safety net program is implemented by a donor-funded implementation unit under the MINEPAT. Most of its staff at both central and local levels are employed on term contracts with donor financing. In addition, the program is not currently accompanied by legal and regulatory measures.</td>
</tr>
<tr>
<td><strong>Information systems platform.</strong> Information systems link beneficiaries and institutions, while also enabling monitoring, reporting, and data analytics.</td>
<td>While the current program has made substantial investments in its information system, its functionalities can be improved and expanded.</td>
</tr>
<tr>
<td><strong>Citizen interface.</strong> This refers to the access point of potential/current beneficiaries to the program for queries, grievances, and user feedback.</td>
<td>The grievance and redress mechanism of the existing program remains embryonic.</td>
</tr>
<tr>
<td><strong>Performance monitoring, evaluation, learning, and adaptation.</strong> This includes program outcome indicators as well as overall inclusion, efficiency, effectiveness, and transparency.</td>
<td>The program has robust M&amp;E and reporting mechanisms in place</td>
</tr>
</tbody>
</table>

**An increase in targeted cash transfers would require a strong social registry to accelerate deployment and improve efficiency.** A social registry would enable the government to identify and channel support quickly and effectively to households which would be particularly important to respond to shocks. The Prime Minister has issued a Decree establishing the unified social registry, defining its institutional arrangements and operational structure as well as its use for social programs (Arrête N°041/PM dated May 19, 2022). The registry currently includes data on 13,500 households, with plans to expand to 250,000 households by the end of 2024. The Ministry of Social Affairs (MINAS) has the mandate to constitute and manage this registry and has started collecting data on vulnerable populations with assistance from donors.
Furthermore, the system by which benefits are transferred needs to be modernized to electronic payment systems. Safety nets benefits continue to be paid in cash through sub-contracted payment agencies, which tends to be time-consuming and costly. A digital payment system enabling the government to transfer funds directly to beneficiaries would reduce deployment time and costs, while also improving financial inclusion and economic resilience for the recipients. On September 19, 2022, the Prime Minister issued a decree setting the legal framework for government’s electronic payments and digitalizing its public accounting. The decree enables digital payments to and from the Treasury, including to mobile money accounts and pre-paid Treasury cards (government payments of salaries, pensions, social benefits, and payment of vendors’ invoices). This reform will reinforce the expansion of electronic payments and their use to facilitate financial transfers by the Government to public employees, pensioners, and social assistance beneficiaries.

Despite important progress, the sustainability of safety nets in Cameroon is not assured. Progress in terms of institutional arrangements and securing reliable and predictable funding for a permanent safety nets program has been slow. Program implementation relies on a donor-funded implementation unit, staffed with consultants and several seconded civil servants. Policy and regulatory reforms are necessary in order to build on the progress achieved so far and develop a more effective and efficient safety nets system. This could be achieved through: (i) validating the social protection strategy; (ii) transforming the existing program into a program with its appropriate legal and policy framework; (iii) establishing a permanent and stable government structure to host safety nets programs; and (iv) mobilizing adequate government financing to accelerate scale-up and ensure predictable payments of cash transfers to beneficiaries.

III.2 Increasing transparency of public financial management

Some countries have chosen to reinforce trust in public action and public financial management by promoting greater transparency as part of the mitigation measures offered in the compensation package. This should take the form of concrete, attributable and monitorable actions targeting one or several segments of public resources management. Azerbaijan provides an interesting example, where fuel subsidy reform (2006-2007) was accompanied by reforms to improve the transparency of oil revenues and investments to improve electricity services. More specifically, post-reform compensatory measures have gone hand in hand with increased transparency in the management of social safety net mechanisms, including social insurance and targeted social assistance administrations.
III.3 Increasing social public spending

An additional channel to rebuild trust between a government and its constituencies – especially during critical times of a subsidy reform – is to retarget fiscal policy towards social spending, especially in a context where out-of-pocket expenditure for social services is high. This could generate a double beneficial effect: (i) support the purchasing power of affected groups, especially low-income groups; and (ii) allow citizens to easily trace the use of savings realized thanks to the reform. Morocco for instance reinvested the savings it achieved through its fuel subsidy reform in the early 2010’s in social sectors. These savings were either (i) redirected to targeted support for poor households through several mechanisms (conditional cash transfers, free medical care for low-income groups, financial support for widows, orphans, and people with disabilities); (ii) investment projects in the education sector. The Government of Morocco took the opportunity of these mitigation measures to support the implementation of other sectoral reforms, by conditioning some its aid to specific items (e.g. school enrollment, establishment of a social security number).

III.4 Supporting the transport sector

Providing temporary compensation for the transport sector could help prevent higher fuel prices from translating into higher prices for other goods and services. Examples of short-term measures include the temporary implementation of subsidies to carriers to limit higher fuel prices from being passed on to travelers, especially the most vulnerable households. Such subsidies could be implemented through various mechanisms, such as direct financial support to transporters or travelers, or tax relief targeting the transport sector. Examples of medium-term measures include the support to the adoption of energy efficient modes of transportation, the improvement of transport infrastructure which would positively impact the maintenance cost of vehicles, and the implementation of public policies aimed at facilitating mobility (e.g. mass transportation, congestion control through transportation and urban planning). However, such measures can carry high risks of leakage. The Dominican Republic has prevented such abuses by limiting compensation to truck drivers whose vehicles were officially registered with the tax authority. Country experiences with transfers to the transport sector also highlight the risk of capture of transfers by private operators, without the benefits being passed through to end users. As a general principle, the closer the benefit is to end user the highest chance of success of the selected measure.
III.5 Increasing productive structural public investments

As with higher social spending, allocating additional resources to productive structural public investments can serve the double purpose of reinforcing trust in public action as well as contributing to a positive structural transformation. Subsidy reform in Indonesia (2015) was combined with increased spending on health, education, and transfers to local governments. This spending was provided through several mechanisms, such as increased budgetary allocations to particular ministries (Education, Agriculture, Transport, Public Works and Housing), capital increases of key state-owned enterprises in the transport and agriculture sectors, and investment projects in key sectors at the local level (health, mobility, local economy).
# TECHNICAL ANNEX 1

## Fossil fuel types and uses

<table>
<thead>
<tr>
<th>Fuel type</th>
<th>Sub-category</th>
<th>Common uses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>Gasoline</td>
<td>Automotive (light and medium duty, including motor bicycles), aviation, and marine transportation; limited use in very small-scale electricity generation.</td>
</tr>
<tr>
<td></td>
<td>Bioethanol</td>
<td>Automotive (usually blended with gasoline).</td>
</tr>
<tr>
<td></td>
<td>Kerosene</td>
<td>Heating, cooking, lighting, aviation.</td>
</tr>
<tr>
<td></td>
<td>Diesel</td>
<td>Automotive (medium and heavy duty), rail, marine transportation, aviation, heavy equipment, electricity generation, irrigation.</td>
</tr>
<tr>
<td></td>
<td>Biodiesel</td>
<td>Automotive and aviation (usually blended with petroleum diesel fuel), electricity generation, heavy equipment.</td>
</tr>
<tr>
<td></td>
<td>Fuel oil</td>
<td>Electricity generation, industrial application, marine transportation.</td>
</tr>
<tr>
<td>Gas</td>
<td>Natural gas (Methane)</td>
<td>Electricity generation, industrial application, space and water heating, cooking, refrigeration, automotive, marine transportation.</td>
</tr>
<tr>
<td></td>
<td>Liquified Petroleum Gas (LPG, Butane)</td>
<td>Cooking, heating (water, space, process), lighting, refrigeration, automotive.</td>
</tr>
<tr>
<td>Coal</td>
<td>Lignite (brow coal), anthracite, bituminous and sub-bituminous</td>
<td>Electricity generation, industrial heat, space heating, cooking.</td>
</tr>
</tbody>
</table>

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20 Identifying and quantifying energy subsidies, Masami Kojima, Energy Subsidies – Good Practice Note 1, ESMAP and World Bank Group.
Defining fossil fuel subsidies in CEMAC

A fossil fuel subsidy can be broadly defined as a deliberate policy action by the government that specifically targets fossil fuels and that results in at least one of the following effects: 21 (i) it reduces the net cost of fuel purchased; (ii) it reduces the net cost of fuel produced or delivered; (iii) it increased the revenues retained by those engaged in fuel production and delivery.

This definition excludes (i) government inaction (such as weak capacity to implement regulations or tax administrations); and (ii) policy actions which would affect the whole economy, such as lowering the corporate income tax rate or the general income tax rate.

The cost of subsidies can be either covered by direct budgetary transfers (such as direct support to oil producers), foregone fiscal revenues (such as tax exemption at any point of the fuel supply chain), or other implicit channels (such as the underpricing of government or government-regulated inputs to the fuel production and supply chain, transfer of the cost of subsidies from one category of customer to another, as is the case in cross-subsidization, etc.).

In CEMAC, fossil fuel subsidies are distributed through various mechanisms such as:

<table>
<thead>
<tr>
<th>CEMAC Country</th>
<th>Fossil fuel subsidy provision mechanism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cameroon</td>
<td>Budgetary transfers, tax exemption</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>Government-induced transfers between importers and distributors, underpricing of services</td>
</tr>
<tr>
<td>Congo, Republic of</td>
<td>Budgetary transfers, tax exemption</td>
</tr>
<tr>
<td>Equatorial Guinea</td>
<td>Budgetary transfers, tax exemption</td>
</tr>
<tr>
<td>Gabon</td>
<td>Government-induced transfers between consumers, budgetary transfers, tax exemption</td>
</tr>
</tbody>
</table>

The thematic chapter focuses on the result of fossil fuel subsidies, taking the form of price distortions whereby the price set by the government or charged by the fuel seller (retail price) is purposedly maintained below the price that would prevail in a competitive market (reference price). This notion leaves aside indirect forms of subsidies to producers (such as credit guarantees or financial assistance, which eventually lower the production cost and/or sale price). However, it allows for an easier cross-country comparison and is commonly used throughout specialized literature.

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21 This definition is based on the Energy Sector Management Assistance Program (ESMAP) Good Practice Note 1 – Identifying and quantifying energy subsidies, by Masami Kojima.