

2024

Components: Revenue

RM II – Revenue Administration

GUINEA-BISSAU**PROJECT SUMMARY**

COUNTRY (S): Guinea-Bissau

LEAD DEPARTMENT: FAD

REGION (S): AFR

PROGRAM ID: (To be filled out by Secretariat)

PLANNED DATES: FY24-FY28

FUNDING PROGRAM TITLE: GPFP Guinea-Bissau

PROJECT MANAGERS:

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ESTIMATED BUDGET \$2,712,732

BUDGET FOR ENDORSEMENT \$758,463 (through FY25)

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*GUINEA-BISSAU***I. PROJECT PURPOSE**

The Guinea-Bissau authorities have expressed interest in a new CD project to continue FAD's support for revenue mobilization with a combination of tax policy reforms and the modernization of the tax and customs administrations. Increased tax revenue collection is key to addressing development needs and an ambitious fiscal consolidation program. The tax-to-GDP ratio in the country has been below 10 percent, which is insufficient to meet the country's needs.

The revenue project will focus improving DRM through income tax reform and strengthening the revenue administration. The income tax reform will complement the new VAT and Excise statutes developed under the previous RMTF project and will encompass both a repeal and replace income tax reform and the fiscal frameworks for mining and petroleum. Continued digitalization reforms will be the centerpiece of the tax administration reforms, supporting the modernization of core tax administration and support functions while improving governance with transparent and accountable work processes and improved tax administration management. In addition, tax administration modernization will support the implementation of Value-Added Tax (VAT) legislation promulgated but not yet implemented, with income tax reform following two years after VAT implementation. In customs administration, the focus will be on the core functions including: (i) post-clearance control, with emphasis on the control of exempt goods; (ii) quality and governance of customs data and strengthen customs capacity to collect and analyze data; and (iii) continuous training for customs officials.

The four-year project has been discussed with the authorities, and the medium-term objectives and outcomes were agreed upon. The estimated budget for this four-year project is \$2,712,732, but endorsement is requested for \$758,463 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

II. BACKGROUND

Macro-fiscal situation

Guinea-Bissau is a fragile state (FCS) with long-standing challenges. Growth has been low, food insecurity is significant, and poverty is high. The country ranks low in human development, with 62 percent of the population below the poverty line of US\$1.90 per day and one-third living in extreme poverty (US\$1.25 or less/day). The economy relies heavily on the exports of unprocessed cashew nuts, making most households highly vulnerable to cashew nut price shocks and climate change. The country has experienced political instability for several years, adversely impacting its growth prospects and the social and economic environment. The political instability has also affected fiscal institutions. There have been eight Prime Ministers and twelve Directors General of the tax administration in the last eight years.

Benefiting from successive IMF surveillance and programs, the country remains in a delicate fiscal position. A Rapid Credit Facility (RCF) of SDR 14.2 million was disbursed in 2021 to support critical spending in health amid the COVID-19 pandemic. A Staff Monitored Program was agreed in 2021, aimed at stabilizing the economy, strengthening governance, and building a soundtrack record of policy implementation. Since 2023, an Extended Credit Facility (ECF) arrangement of SDR 28.4 million has helped address the adverse impact of the pandemic and the recent increase in fuel and food prices while improving the transparency of government spending and mitigating debt vulnerabilities. Revenue mobilization has been a core theme in all these programs to support the fiscal consolidation, and it is also part of the IMF Country Engagement Strategy (CES) with Guinea-Bissau.

IMF priority areas / cross-cutting themes

Supporting the tax department's (DGCI) digital transformation is a priority under the GPFP. The predecessor RMTF CD project supported the development of a Minimum Viable Product for electronic filing and payment of taxes. The platform issues electronic notifications with legal power to large and medium-sized taxpayers, gathers and shares data with other government institutions, and matches the information collected. The solution became the backbone of the main GovTech initiative in the government, integrating tax, customs, and treasury departments, taxpayers, and the main port in the country. Country authorities asked for continued support on this modernization venue.

Country engagement and alignment to reform priorities

The CD support is aligned with the government priorities for revenue administration and tax policy reforms as indicated in the 2023 ECF arrangement and in the government action plans approved by the Minister of Finance. Drawing on efforts to simplify and modernize the tax system and professionalize tax and customs, the action plans aim to address the following challenges faced by the DGCI and the Directorate-General for Customs (DGA): (i) extensive administrative discretion; (ii) outdated core processes; (ii) political interference in hiring decisions, especially for senior staff positions; (iii) inadequate cooperation and information sharing among public entities; and (iv) outdated information technology systems.

Despite the challenging environment, authorities are committed to the reforms and using FAD support. In 2022, Guinea-Bissau promulgated a tax package that was jointly developed with FAD, the package included a revised tax code and tax penalty regime, the customs code and a new VAT law. Guinea-Bissau advanced in the tax administration reforms in the last years, with increased tax revenue collection. The authorities are avid for continued FAD support, especially in the digitalization of the tax administration.

III. PROJECT LEVEL DESCRIPTION

A. Project Scope

Against this background, this project is aligned with the government's priorities and the IMF program, aiming to improve the policy framework, tax and customs administrations' performance, increase tax compliance, and strengthen revenue collection. As part of the Country Engagement Strategy (CES) for the IMF program, the country has agreed to enhance Domestic Revenue Mobilization (DRM). CD will be delivered to (i) improve organizational and management arrangements, (ii) streamline and modernize administrative and technical processes and procedures, (iii) deepen the digital transformation of the revenue administration, (iv) enhance cooperation and data sharing among authorities and other stakeholders, and (v) implement a compliance risk management strategy based on third-party information.

In the revenue module, this CD project will focus on improving tax legislation, strengthening revenue administration management and governance arrangements and core business tax and customs administration functions. Each of these objectives will be unfolded by the outcomes summarized below, which will guide the CD strategy.

Module RM I / Tax Policy

Objective: Improved tax policy design

- Repeal antiquated income tax legislative structure and replace with a modern legislative framework that applies consistent rates and comparable rules to all types of employment and business income.
- Standard CIT for large or multinational businesses, simplified but integrated approaches for unincorporated businesses, and taxation of employment income aligned with treatment of business income.

Module RM II / Revenue Administration

Objective: Strengthened revenue administration management and governance arrangements

- Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized;
- Corporate priorities are better managed through effective risk management;
- Digital technologies are better aligned with strategic objectives;
- Effective implementation of a new tax or modernized legislation; and
- Support functions enable more effective delivery of strategy and reforms.

Objective: Strengthened core tax administration functions:

- A larger proportion of taxpayers meet their filing obligations as required by law;
- A larger proportion of taxpayers meet their payment obligations as required by law;
- Audit and other verification programs more effectively ensure accuracy of reporting; and
- Taxpayer services initiatives to support voluntary compliance are strengthened.

Objective: Improved customs administration functions

- Audit and anti-smuggling programs more effectively ensure enforcement of customs laws.
- Customs control during the clearance process more effectively ensures accuracy of declarations.

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Revenue	RM I / Tax Policy	• Improve tax policy design
	RM II / Revenue Administration	• Strengthened revenue administration management and governance arrangements: • Strengthened core tax administration functions • Improved customs administration functions

B. Country Engagement

The country has achieved successful progress benefiting from two consecutive FAD's Capacity Development (CD) projects. The Tax Policy and Administration Topical Trust Fund (TPA-TTF) CD project, from FY15 to FY17, and the Revenue Mobilization Thematic Fund (RMTF) CD project, from FY18 to FY24, supported a series of reforms in tax policy, core tax administration functions and revenue administration management and governance arrangements. The share of the domestic revenue collection in Guinea-Bissau total tax revenue increased around 1.8 percent of GDP over this period, from 3.9 to 5.7 percent. Since 2021, the domestic tax revenue collection has surpassed customs-collected revenue, which is a relevant fact in a country with small domestic production of goods. Interestingly, the digitalization of the tax administration – through the Kontaktu platform developed by FAD - has demonstrated to be more resistant to political changes and challenges. In Guinea-Bissau, it was usual that each new Director General of the revenue administration stopped all initiative from predecessors and launched new ones, which delayed some reforms.

Engagement since 2017 on the policy and legislative framework has contributed to the adoption of new statutes for: tax administration, penalties, Value Added Tax, and Excise. In addition, a new general exemptions regime was recently approved by the Council of Ministers for tabling in Parliament and the MNRW has funded a scoping mission to review the current legislative and regulatory framework for mining and petroleum activities. Building on this modernization agenda, the next step is big leap: a reform to repeal and replace the existing income tax and integrate the fiscal approach to the extractives sector.

Based on progress made, authorities requested a new CD program to be considered in the revenue administration area. The total revenue collection to GDP ratio is below 10 percent in 2022, insufficient to support fiscal consolidation and ensure debt sustainability. The Kontaktu platform is at the center of the digital transformation in the tax administration. Authorities are engaged in, and carrying out, a public tender to hire IT specialists and ensure the handover of the platform. There is progress with the use of third-party information, but support will be necessary to adopt enforcing measures. Some new procedures based on the new tax laws will also require additional CD. The VAT was approved by the Parliament but is not in force yet, and FAD has been supporting the preparations. Overall, with Kontaktu being at the core of the GovTech initiative, there is room and governmental intention to improve cooperation among government entities using the Kontaktu platform.

With regard to customs administration, customs authorities are aware of the need (1) to improve the training and management of officials and (2) to strengthen the use of data in decision-making. Improving post-clearance control, especially of exempt goods, has also been one of their priorities.

C. Delivery Modalities

CD will be composed of a mix of remote and in-person activities, with a relatively significant part in person due to the low capacity of the country, poor internet connectivity and lack of other resources in the tax administration and other government institutions. Virtual deliveries will be used to provide efficiencies to on-the-ground support, including pre-engagement meetings and post follow-up meetings. The following CD activities will be delivered as a package:

Headquarters-led (HQ) missions and staff visits to provide strategic recommendations, conduct regular follow-ups, assess progress, inspect STX work, coordinate with other CD providers, adjust reform implementation plans, and undertake a line-by-line review and refinement of draft income tax legislation.

Short-term expert (STX) visits and work-from-home contracts to help implement the recommendations delivered by the HQ missions; a limited number of STXs will be assigned to provide specialized assistance in specific areas of revenue administration. The project will seek to use Portuguese-speaking experts. Remote assistance is planned to support the implementation of an electronic training platform for customs and creation of content for training modules. Drafting of legislation will also be completed remotely based on the policy direction generated by HQ missions.

Workshops, during the HQ missions, staff visits, or STX missions, to share experiences, provide stakeholders with a view of progress achieved and challenges faced, and discuss with the tax administration managers and staff their views on the reforms and particular technical subjects.

D. Coordination / Cooperation

The Ministry of Finance, tax and customs administrations (DGCI and DGA) have been receiving FAD CD on tax and customs through FAD (RMTF for tax and a Japan-funded project for customs) and AFRITAC West. Appropriate linkages with the existing CD programs are defined using the IMF's result-based management (RBM) framework. The activities in this proposal reflect FAD's assessment of specific needs to mature revenue administration reforms in Guinea Bissau. FAD and AFRITAC West coordinate closely to ensure consistency and complementarity. The new program will keep close coordination and ensure integrated IMF CD.

This proposal is also integrated and complemented by CD provided by other institutions. The IMF's track record of close coordination with other CD providers and the country's authorities will continue to build on synergies in CD delivery. To avoid overlaps, the future FAD project does not have components on areas covered by partners. From 2019 to 2022, the IMF was the sole CD provider in the tax administration. Starting In 2022, the West African Economic and Monetary Union (WAEMU) and FAD are cooperating in the VAT implementation, especially with WAEMU supporting training to the taxpayer community, while FAD is supporting the DGCI's preparation for "VAT Day One." World Bank has resumed CD support in 2023 with two projects: (i) the World Bank PSSP, focused on improved human resource management and training of civil servants on core government functions, and (ii) GTP program, which intends to deliver diagnostic assessments to inform evidence-based and targeted tax and customs

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administration reforms, rapid response facility to address emerging tax and customs policy and administration reform priorities, and targeted capacity building for tax officers, and taxpayers' education and outreach in support of ongoing reforms. Close coordination through regular meetings, report sharing, and mutual support are agreed to keep synergies and avoid overlap of CD.

IV. RISK ASSESSMENT AND MITIGATION

General or Module	Description	Risk Probability	Risk Impact	Mitigation Measures
External climate/conditions				
General	External shocks (social, political, economic, etc.) impact government revenue and expenditures.	Medium	High	Work with the IMF country teams and other IMF departments to analyze emerging fiscal risks and propose potential fiscal policies to minimize fiscal risks.
Revenue Administration (RM II)	Government revenue measures adversely impact the tax ratio.	High	High	Work with country team and authorities to monitor revenue measures and their impact on the tax ratio and propose reforms to boost the tax ratio.
Political Support				
General	Political instability and/or lack of political support may slow down and even stop reforms.	High	High	Close consultation with the Guinea-Bissau country team to assist authorities in recognizing the relevance of reforms.
Revenue Administration (RM II)	DGA and DGCI's control being negotiated by political parties.	High	High	Strategic advice and hands-on capacity building to have a more permanent impact.
Management and Technical Staff Support and Commitment				
General	Patronage and cronyism in senior staff appointments.	High	High	Establish a merit-based selection process to hire senior staff.
Revenue Administration (RM II)	High turnover of senior staff (11 DGs in six years) induces a lack of ownership and slows down the reforms.	High	Medium	Encourage authorities to implement reforms and closely monitor and discuss with them the status of reforms implementation. Investing in digitalization can minimize the risks of setbacks in ongoing reforms due to the political instability o

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General or Module	Description	Risk Probability	Risk Impact	Mitigation Measures
Resource Adequacy				
Revenue Administration (RM II)	Deficient transparency and accountability in the tax and customs administration.	High	Medium	Development of reform projects approved by higher-level authorities, with clear objectives, outcomes, and milestones monitored by these authorities.
Revenue Administration (RM II)	Cronyism and nepotism in hiring low-capacity and unskilled staff.	High	High	Establish a merit-based selection process to hire staff and ban the appointment of interns. Training of unskilled staff and displacement of low-capacity staff.
Other risks				
General	Slow implementation of reforms	Medium	Medium	Aligning reforms timeline with conditions in the field - low capacity and lack of resources. Close monitoring and readiness to adopt necessary changes.
General	Overlap of reforms with other development partners	Low	Low	Coordinate reforms with major development partners

V. CD DELIVERY PLAN COUNTRY LEVEL

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote and Field-based CD)	Total FY24	Total FY25	Total FY26	Total FY27	Total FY28	Grand Total
RM I / Tax Policy						
HQ mission	-	1	1	1	-	3
STX work-from-home contract	1	-	-	-	-	-
RM II / Revenue Administration						
Field-based CD activities						
HQ-led CD mission (Tax and Customs)	-	1	1	1	1	4
STX visits (Tax and Customs)	1	3	4	3	3	14
Staff visits (Tax and Customs)	-	2	1	1	1	6
Workshops (during the HQ missions)	-	1	1	1	1	4
Remote CD activities						
STX visits (Tax and Customs)	1	3	3	3	3	13

Table 3. First Year Workplan

Timing	CD Delivery / Modality		Proposed Topics of CD
RM I / Tax Policy			
FY24 – Q4	Follow-up	STX work-from-home (TP)	Income Tax legislative drafting
FY25 – Q1		HQ mission	Line-by-line review and refinement of draft income tax legislation.
RM II / Revenue Administration			
FY24 – Q4	Training	FB STX (RA)	Training of new IT specialists of the DGCI
FY24 – Q4	Follow-up	remote STX (RA)	VAT implementation and digitalization
FY25 – Q1	Follow-up	FB STX and remote STX (RA)	HR rules, VAT implementation, and modernization of audit function
FY25 – Q1	STX mission	1 FB STX (RA)	Planning, organization, and implementation of continuous training for customs officials
FY25 – Q2	STX mission	1 FB STX (RA)	Improving customs data quality and governance,
FY25 – Q2	Follow-up	remote STX (RA)	VAT implementation and digitalization
FY25 – Q3	Follow-up	1 HQ mission (FB) and remote STX	Digitalization and on-time filing and payment enforcement

VI. PROGRAM FINANCIALS

	FY24 Q4	FY25	FY26	FY27	FY28	TOTAL (USD)
Direct Delivery	102,441	606,404	687,686	660,393	478,340	2,535,263
Module RM I - Tax Policy	34,461	138,551	190,277	195,986	0	559,276
Module RM II - Revenue Administration	67,979	467,852	497,408	464,408	478,340	1,975,987
Module SM I - Spending Policy	0	0	0	0	0	0
Module SM II - Managing Public Finances	0	0	0	0	0	0
Subtotal	102,441	606,404	687,686	660,393	478,340	2,535,263
Trust fund management fee (7%)	7,171	42,448	48,138	46,228	33,484	177,468
TOTAL	109,611	648,852	735,824	706,621	511,824	2,712,732

The estimated budget for this four-year project is \$2,712,732, but endorsement is requested for \$758,463 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

ANNEX I. REVENUE MODULE I – TAX POLICY

E. Program Objectives

In November 2022, IMF staff reached agreement with the Guinea-Bissau authorities on a 36-month program under the ECF. Income tax has also been identified as a necessary area for reform and the ECF program includes a June 2025 structural benchmark for a revised income tax to be approved by the Council of Ministers and submitted to parliament.

- The current income tax laws in Guinea-Bissau are outdated and not fit for purpose.
- A 2018 tax policy diagnostic recommended that the existing rules be repealed and replaced with a modern income tax system.

F. Expected Results

The development of a modern legislative framework that applies consistent rates and comparable rules to all types of employment and business income in a manner that reflects Guinea-Bissau's economic structure and level of development.

- Standard corporate income tax for large or multinational businesses.
- Simplified approaches for unincorporated businesses that are integrated with the standard corporate income tax.
- Taxation of employment income aligned with treatment of business income.
- Treatment of mining and petroleum exploration, development and production is integrated and consistent with the income tax.

G. Targeted Logical Framework – TAX POLICY

Objective	
Improve Tax Policy Design	
Outcome(s)	Indicator(s)
Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures	Adopt legislation that reduces economic distortions
	More efficient extractive industry fiscal regime legislation or model PSA approved

ANNEX II. REVENUE MODULE II - REVENUE ADMINISTRATION

A. Program Objectives

The objective of this module is to help Guinea-Bissau improve the tax and customs administrations' performance and revenue collection. Strengthening core administration functions will streamline tax and customs administration processes and proceedings and increase tax compliance. Enhancing revenue administration management and governance arrangements will modernize tax and customs administrations with increased transparency and accountability through digitalization.

In particular, CD activities will focus on:

- Deepening the digital transformation of DGCI;
- Implementing administrative procedures in HR to increase professionalism of DGCI;
- Supporting a merit-based policy for managerial positions;
- Adopting key performance indicators;
- Implementing modernized tax laws;
- Enhancing transparency and accountability through automated reporting of DGCI results;
- Modernizing core functions;
- Improving the efficiency and performance of customs officials;
- Improving the quality and governance of customs data; and
- Strengthening customs capacity to collect and analyze data.

B. Expected Results

This CD project aims to obtain the following results: (i) increased revenue collection, (ii) improved tax and customs administrations' performance, (iii) increased tax compliance (filing and payment rates), (iv) simplification of the tax system, (v) reduced floor for unexpected behaviors through a more transparent institution, (vi) strengthened control of special regimes and exemptions, (vii) more effective enforcement of customs legislation and (viii) decision-making based on better quality customs data.

C. Targeted Logical Framework – REVENUE ADMINISTRATION

Objective	
Strengthened revenue administration management and governance arrangements	
Outcome(s)	Indicator(s)
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized.	Key performance indicators established, regularly reported and monitored.
Corporate priorities are better managed through effective risk management.	Improved identification, assessment, ranking and quantification of compliance risks (TADAT POA2-3).
Effective implementation of a new tax or modernized legislation.	New/modernized taxes implemented on scheduled dates.
Support functions enable more effective delivery of strategy and reforms.	Improved human resources strategies and practices to support the tax administration (TADAT 2019 POA2-7)
Digital technologies are better aligned with strategic objectives	Improved ICT strategies and systems to support the tax administration.
The participants value this training	Post-course feedback measured by the end-of-course survey [favorable range 4.4+] reflecting the participants' reaction to (a) the knowledge/skills usefulness for their job; (b) the content relevance to their job; and overall satisfaction with the course
Objective	
Strengthened core tax administration functions	
Outcome(s)	Indicator(s)
A larger proportion of taxpayers meet their filing obligations as required by law.	On-time filing ratio improved (TADAT 2019 POA4-12).
A larger proportion of taxpayers meet their payment obligations as required by law.	On-time payment ratio improved (TADAT 2019 POA5-17)
Audit and other verification programs more effectively ensure accuracy of reporting.	Appropriate range of tax audits and other initiatives used to detect and deter inaccurate reporting and fraud (TADAT 2019 POA6-19)
Taxpayer services initiatives to support voluntary compliance are strengthened.	Scope, currency and accessibility of information for taxpayers improved (TADAT 2019 POA3-8)

Objective	
Improved customs administration functions (SDG 17.1)	
Outcome(s)	Indicator(s)
Audit and anti-smuggling programs more effectively ensure enforcement of customs laws.	A larger share of trade controlled progressively through a properly designed post clearance audit program
Audit and anti-smuggling programs more effectively ensure enforcement of customs laws.	Effectiveness of the fight against fraud and smuggling increased
Customs control during the clearance process more effectively ensures accuracy of declarations	Risk-based control selectivity applied more consistently