

I. COUNTRY REFORM PROGRESS

The project's focus on income tax reform complements the new value added tax (VAT) and excise statutes developed under the previous revenue mobilization thematic funds (RMTF) project and will encompass both a repeal and replace income tax reform and the fiscal frameworks for mining and petroleum. Progress on the income tax legislative reform agenda has been blocked by the President's December 2023 dismissal of the National Assembly, but work has continued on capacity development (CD). An October 2024 mission conducted a diagnosis of the current mining fiscal regime, recommended reform options, and built capacity of staff from the Ministries of Finance and Natural Resources to analyze and design mining tax policy.

Digitalization reforms are the centerpiece of the revenue administration reforms, supporting the modernization of core functions while improving governance with transparent and accountable work processes and improved management. The Guinea-Bissau tax administration was totally paper-based at the onset of the pandemic. The government agreed to a proposal by the IMF's Fiscal Affairs Department (FAD) to pilot a Minimum Viable Product (MVP) of a website for electronic filing and payments. Named Kontaktu, the MVP was developed and deployed remotely and became the backbone of a digital transformation in tax administration. The digital transformation has been instrumental in revenue mobilization and enhancing performance, transparency, accountability, and resilience to pushbacks. The resulting growth in domestic tax collections surpassed Customs revenue for the first time in the country's history and has been maintained for three consecutive years.

Despite some challenges in the Customs administration's capacity to absorb CD, significant progress has been made since 2021. Key achievements include revised procedures for granting duty exemptions and monitoring the end-use of exempted goods, which enabled successful ex-post controls starting in 2023, enhancing compliance and efficiency. Recent efforts have focused on training Customs officials in national and regional legislation, as well as Customs clearance procedures. A key milestone was the development of an electronic training platform, approved in October 2024, with full deployment planned for May 2025.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy

Key Progress in FY25: The October 2024 mission recommendations included the repeal of all fiscal provisions from the Mining Code and the development of Mining Code regulations for royalty rates, mineral valuation procedures, and state participation. There is a high risk that lack of capacity will hamper implementation of the mission's recommendations, and that ongoing renegotiations for the phosphate project will not be favorable to government.

No legislative progress on a repeal and replace income tax reform has been possible, as President Umaro Sissoco Embalo issued a decree in December 2023 closing down parliament. The Minister of Finance, however, did finally issue a Ministerial Order on October 31, 2024 that VAT legislation approved by the National Assembly in 2022 -- and developed with RMTF support -- would be implemented as of January 1, 2025.

Next Steps: The step forward on implementing a modernized VAT allows the focus to turn in mid-2025 to the income tax reform initiative being supported by the GPFP, as the Directorate General of Contributions and Taxes (DGCI) lacks the capacity to consider income tax reforms concurrently with VAT implementation.

RM II: Revenue Module II – Revenue Administration

Key Progress in FY25: Tax revenue collection, other than cashew revenue, is on track to meet the government targets. Heavy reliance has been placed on the tool developed by FAD for tax administration in fragile states (Kontaktu), which is the backbone of tax administration reforms and has supported the digitalization of the tax administration. Ongoing actions are the design of modules for installment payments and tax arrears collections. The GPFP has also supported preparations for the VAT implementation, which was announced for implementation in January 2025. No activity in the customs area in the first half of FY25. Regarding the customs component of the project, the Customs Directorate has been provided with CD under a bilateral project financed by Japan through to October 2024. Only from calendar year 2025 will CD be provided under this GPFP project.

Next Steps: Tax administration – the decision to commence VAT in January 2025 was announced on October 31, 2024, without adequate timing for a communication campaign, training, and final testing. This will require a total focus on VAT implementation given the lack of capacity. Continued support for the development and implementation of a digital platform for the induction and ongoing training of customs officers, and the development of content for this platform and customs procedures manuals is planned for the last quarter of FY25.

III. LOGICAL FRAMEWORK

Country – Guinea-Bissau		
RM I: Objective – Improve tax policy design - TPD		Rating - 2
Outcome	Rating	Narrative
Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures.	2 Partially Achieved	Income tax policy direction and natural resource scoping activities in January 2024 resulted in: an improved understanding of tax competitiveness in relation to supernormal profits in the mining sector, and productive discussions on the framework for a modernized income tax statute. A requirement to not renew tax incentives provided to CIMAF (Guinea-Bissau plant of Moroccan cement producer) was included in conditionality related to the IMF's Extended Credit Facility. These negotiated incentives were inconsistent with the Investment Code and their expiry in July 2025 is a welcome contribution to the denormalization of negotiated incentive packages; revenue losses from tax exemptions provided to CIMAF are estimated at 1.4 percent of GDP since 2017. An October 2024 mission conducted a diagnosis of the current mining fiscal regime, recommended reform options, and built capacity of staff from the Ministries of Finance and Natural Resources to analyze and design mining tax policy. There is a high risk that lack of capacity will hamper implementation of the mission's recommendations, and that ongoing renegotiations of the phosphate project will not be favorable to government.

RM II: Objective - Strengthened revenue administration management and governance arrangements (SDG 17.1) - RAM		Rating - 2
Outcome	Rating	Narrative
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized	1 Not Achieved	Support not started as elections will probably see changes in senior management (November 2024).
Corporate priorities are better managed through effective risk management	2 Partially Achieved	Digitalization has supported increased CRM in the small taxpayers' segment and in arrears collection and installment payments (November 2024).
Effective implementation of a new tax or modernized legislation	1 Not Achieved	The authorities still need to decide the commencement date for the VAT implementation (November 2024).
Support functions enable more effective delivery of strategy and reforms	1 Not Achieved	The Parliament has been closed since the beginning of 2024, and legislation is key to achieve this outcome (November 2024).
The participants value this training	3 Largely Achieved	A prototype of the platform has been developed and made available to customs for testing. Three training modules have already been developed, including one on customs clearance.
Digital technologies are better aligned with strategic objectives	3 Largely Achieved	The DGCI has benefited from intense modernization using Kontaktu, which allowed domestic collections to surpass customs collections for three years in a row, the first time in history.
RM II: Objective - Strengthened core tax administration functions (SDG 17.1) - TAD		Rating - 1
Outcome	Rating	Narrative
A larger proportion of taxpayers meet their filing obligations as required by law	1 Not Achieved	Despite an automated tool to enforce timely filing is in place, the DGCI still needs to monitor compliance (November 2024).
A larger proportion of taxpayers meet their payment obligations as required by law	1 Not Achieved	The design of a new module to enforce tax arrears collections commenced in October 2024, intending to automate as far as possible the current manual process of tax arrears collection (November 2024).
Audit and other verification programs more effectively ensure accuracy of reporting	1 Not Achieved	Not started yet.
Taxpayer services initiatives to support voluntary compliance are strengthened	1 Not Achieved	The high turnover of senior staff, with poorly qualified senior managers has hindered the achievement of this outcome (November 2024).
RM II: Objective - Improved customs administration functions (SDG 17.1) - CAD		Rating - 1
Outcome	Rating	Narrative
Audit and anti-smuggling programs more effectively ensure enforcement of customs laws	2 Partially Achieved	First controls on the end use of exempt goods were initiated. Post clearance audit has yet to be implemented.
Customs control during the clearance process more effectively ensures accuracy of declarations	1 Not Achieved	To be implemented.

Foreign trade operators better comply with their reporting and payment obligations	1 Not Achieved	An FAD mission in October 2024 provided advice on this issue and worked together with customs staff to draft SOPs and new regulations on customs clearance and cargo control procedures for imports and exports.
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IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External climate/conditions		
RM I, RM II: External shocks (social, political, economic, etc.) impact government revenue and expenditures.	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.
RM II: Government revenue measures adversely impact the tax ratio.	Very 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		
RM I, RM II: Political instability and/or lack of political support may slow down and even stop reforms.	Very High	Close consultation with the country team to assist authorities in recognizing the relevance of reforms.
RM II: DGA and DGCI's control being negotiated by political parties.	Very High	Strategic advice and hands-on capacity building to have a more permanent impact.
Management and Technical Staff Support and Commitment		
RM I, RM II: Patronage and cronyism in senior staff appointments.	Very High	Establish a merit-based selection process to hire senior staff.
RM II: High turnover of senior staff (11 DGs in six years) induces a lack of ownership and slows down the reforms.	Very High	Encourage authorities to implement reforms and closely monitor and discuss with them the status of reforms implementation. Investing in digitalization can minimize the risks once the upcoming authorities can review policies but are not able to change what is implemented in IT systems in the short term.
Resource Adequacy		
RM II: Deficient transparency and accountability in the tax administration.	High	Development of reform projects approved by higher-level authorities, with clear objectives, outcomes, and milestones monitored by these authorities.
RM II: Cronyism and nepotism in hiring low-capacity and unskilled staff.	Very 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		
RM I: Overlap of reforms with other development partners	Low	Coordinate reforms with major development partners
RM I, RM II: Slow implementation of reforms	Low	Aligning reforms timeline with conditions in the field - low capacity and lack of resources. Close monitoring and readiness to adopt necessary changes.

V. PROJECT MANAGERS CONTACT INFORMATION

Project Manager	Module PM	E-mail
David Baar (FADT2)	David Baar (FADT2) Paulo Paz (FADR2) Marco Antonio Borges de Siqueira (FADR2)	DBaar@imf.org PPaz@imf.org MSiqueira@imf.org