

Domestic Revenue Mobilization in Guinea- Bissau

Nour Bouzouita

SIP/2025/109

IMF Selected Issues Papers are prepared by IMF staff as background documentation for periodic consultations with member countries. It is based on the information available at the time it was completed on June 13, 2025. This paper is also published separately as IMF Country Report No 25/168.

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Prepared by Nour Bouzouita

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ABSTRACT: This paper quantifies Guinea-Bissau's tax potential using a stochastic frontier model and investigates the underlying sources of untapped revenue. Beyond benchmarking performance against structural peers, it tackles the complex drivers of low revenue mobilization, including high informality, administrative inefficiencies, a fragmented tax system, and weak enforcement. The analysis distinguishes between structural constraints and policy or institutional gaps, offering a nuanced diagnosis of where reforms can yield the greatest returns. It finds that Guinea-Bissau has significant scope to increase domestic revenue by broadening the tax base, enhancing compliance, and strengthening core tax functions. Targeted, sequenced reforms in administration and policy could help close the tax gap and support more sustainable, resilient public finances.

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SELECTED ISSUES PAPERS

Domestic Revenue Mobilization in Guinea-Bissau

Guinea-Bissau

Prepared by Nour Bouzouita¹

¹ The author gratefully acknowledges the cooperation and support of the national authorities of Guinea-Bissau, as well as Yugo Koshima, whose insights and assistance were invaluable to this work.



GUINEA-BISSAU

SELECTED ISSUES

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DOMESTIC REVENUE MOBILIZATION IN GUINEA-BISSAU¹

Domestic Revenue Mobilization (DRM) remains one of the most urgent and strategic policy priorities for Guinea-Bissau, to reduce a very high level of public debt and underpin the country's ability to fund development needs, strengthen state capacity, and reduce reliance on volatile external grants. Despite modest reforms in recent years, tax performance remains among the lowest in the WAEMU region, reflecting not only structural constraints on the economy, but also occasional policy slippages and significant enforcement gaps. This paper uses a stochastic frontier model to estimate Guinea-Bissau's tax potential and effort relative to structural comparators. The findings suggest that the country's widening tax gaps are primarily driven by policy and administration inefficiency rather than macroeconomic fundamentals. The analysis highlights two core sources of unrealized revenue: a large compliance gap, even among top-tier taxpayers, and a policy gap rooted in uncoordinated exemptions and outdated legal frameworks. While recent reforms—including VAT implementation, exemption removal, and fuel tax increases—may mark a turning point, their impact will depend on sustained institutional development and targeted but continued enforcement efforts.

A. Background

1. With limited fiscal space but weak institutional capacity, Guinea-Bissau faces significant and urgent challenges in mobilizing domestic revenue to meet basic development needs. Despite years of efforts to improve revenue administration and public financial management, revenue performance has remained chronically weak. The country continues to incur larger-than-expected deficits and rely heavily on external grants and concessional financing for development projects, leaving it exposed to high risks of debt distress and aid volatility, and limiting its ability to finance social and infrastructure spending. The limited capacity of public institutions, compounded by political instability, has contributed to slow reform implementation and persistent revenue underperformance. This in turn leads to lack of resources to develop the institutional capacity. Strengthening DRM is therefore essential—not only to reduce public debt and improve service delivery—but also to underpin state-building and macroeconomic resilience in a fragile setting.

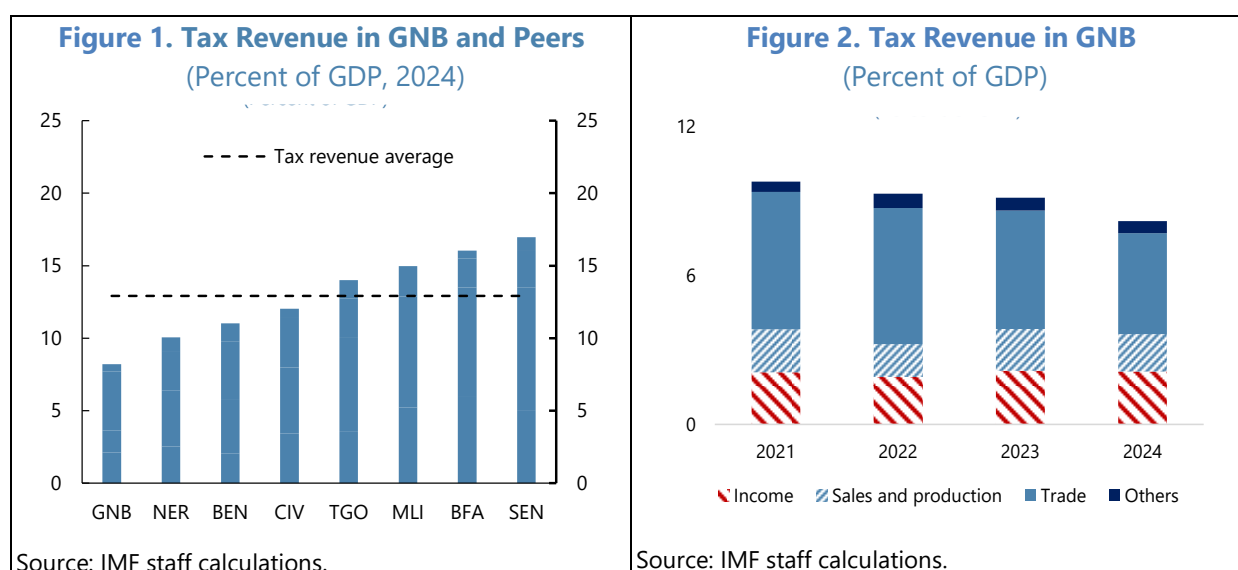
2. Guinea-Bissau's tax to GDP ratio remains the lowest in the WAEMU region (Figure 1). Tax revenue has stagnated at around 8 percent of GDP in recent years, well below the regional average and less than half the WAEMU convergence threshold of 20 percent. While the Convergence Pact was suspended in 2020, its fiscal anchors—especially the tax-to-GDP norm—remain important reference points for long-term fiscal sustainability in the region. The authorities have acknowledged the strategic importance of raising domestic revenue but have struggled to sustain reforms in a context of constrained administrative capacity, a narrow tax base, and a high

3. Revenue collection is hampered by a confluence of structural and institutional barriers.

¹ Prepared by Nour Bouzouita. The author is grateful for helpful comments and suggestions from Anamaria Maferi.

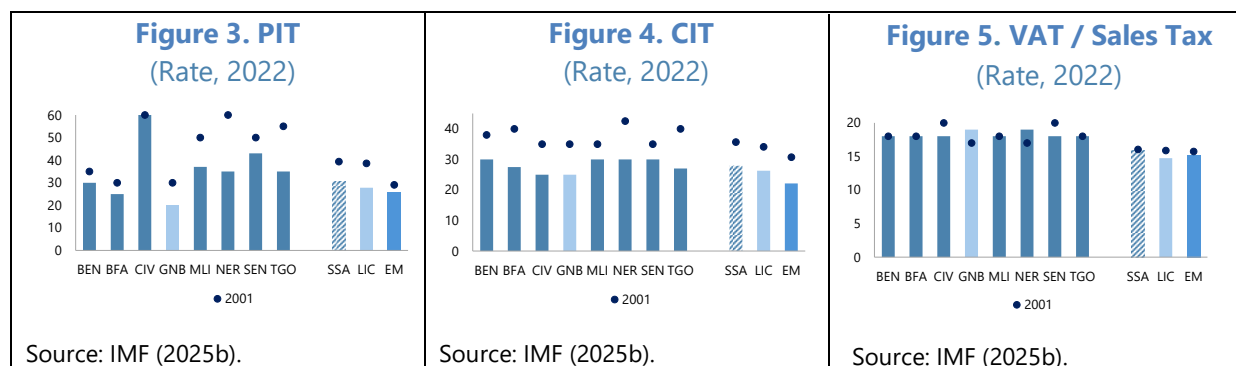
The informal sector dominates economic activity, with limited taxpayer registration and low voluntary compliance. Customs revenues—once a relatively buoyant source of income—have gradually declined in importance, reflecting not only trade liberalization within the region but also increasing smuggling due to weak border enforcement and pervasive exemptions. On the administrative side, outdated IT infrastructure (especially on the customs side), fragmented databases across different departments of the Ministry of Finance, and insufficient enforcement mechanisms continue to constrain the efficiency of both the inland and customs revenue administrations.

4. Over the last two decades, other WAEMU countries have made substantial progress in mobilizing revenue, while Guinea-Bissau has largely fallen behind. The region’s aggregate tax performance has improved gradually. In contrast, overall tax revenue in Guinea-Bissau has fallen in recent years (Figure 2). This widening divergence is partly due to difference in the macroeconomic structure. Guinea-Bissau is highly vulnerable to shocks to the single commodity (cashew nuts), which explain to a large extent the drop of tax revenue since 2021 (Figure 2). However, it reflects also differences in institutional capacity and reform implementation.



5. Guinea-Bissau’s statutory tax rates are broadly aligned with WAEMU norms. The value-added tax (VAT) is set at 19 percent, consistent with the regional floor and modal rate across member countries (Figure 3). The corporate income tax (CIT) rate stands at 25 percent, squarely within the WAEMU’s harmonized band of 25–30 percent (Figure 4). While the personal income tax (PIT) rate appears low at 20 percent compared to regional peers (Figure 5), this figure excludes substantial mandatory contributions to social security (14 percent from employers and 8 percent from employees) and in-work accident insurance (2–10 percent, depending on sector). These contributions fund a generous defined benefit system with high replacement rates and broad medical coverage. In light of this, the apparent PIT gap may be overstated, and Guinea-Bissau’s overall tax burden on formal labor income is comparable to other WAEMU countries. This suggests that the country’s revenue mobilization challenges are less about rate structures and more likely

rooted in enforcement gaps, informality, and base erosion.

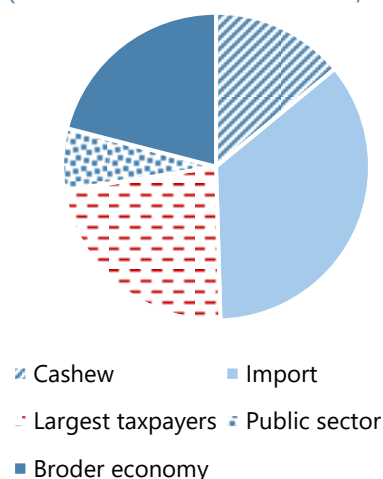


B. Tax Composition

6. Guinea-Bissau's tax structure is heavily reliant on a few concentrated sources—most notably cashew exports, imports, and a small pool of large taxpayers (Figure 6). This composition of tax revenue has been broadly unchanged for years, indicating limited progress in diversifying the tax base. Exports of cashew nuts alone constitute a large share of domestic revenue, reflecting their central role in the economy. However, this dependence on a single commodity is a double-edged sword for revenue mobilization: it exposes fiscal performance to fluctuations in international prices, weather variability, and trade logistical problems. As is the case in other fragile states, imports remain another dominant source of revenue, making the tax collection vulnerable to exchange rate, terms of trade, and regional demand shocks. Additionally, the outsized contribution from a narrow set of large taxpayers raises concentration risks—as any dispute, downturn, or exit of a taxpayer in this group could trigger abrupt revenue shortfalls.

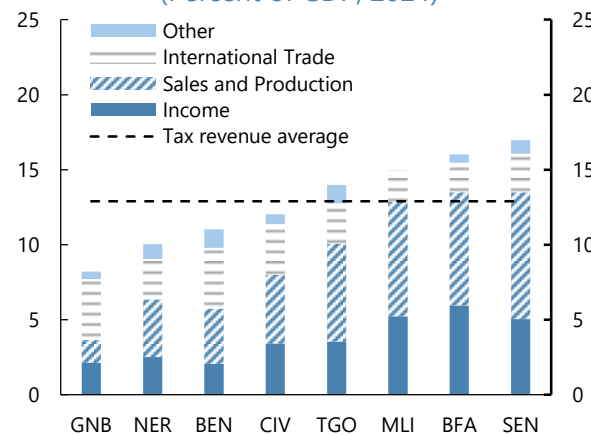
7. Guinea-Bissau's tax composition includes a share of income and sales taxes much lower than the WAEMU peers (Figure 7). In case of other WAEMU countries, a large majority of tax revenue arise from income and sales taxes (i.e., inland taxes), which generally suggest existence of broader tax and taxpayer bases, while the composition of Guinea-Bissau remains concentrated in trade-related taxation. As discussed below, the tax gap of Guinea-Bissau is especially pronounced in income and sales taxes, where its institutional limitations and shallow formal sector continue to constrain tax collection. The cross-country comparison seems to suggest that other countries in the region have advanced revenue mobilization through broader tax and taxpayer bases and sustained institutional reforms.

Figure 6. Tax Revenue Composition in GNB
(Percent of total tax revenue, 2024)



Source: IMF staff calculations.

Figure 7. Tax Revenue Composition in GNB and Peers
(Percent of GDP, 2024)



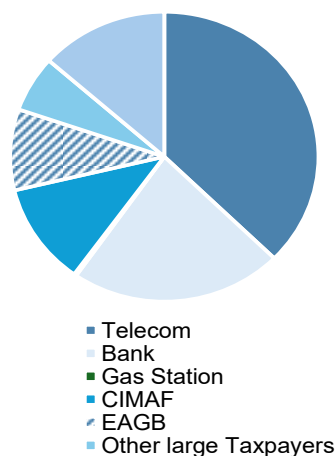
Source: IMF staff calculations.

8. Value-added tax (VAT) performance in Guinea-Bissau reveals major compliance and enforcement gaps, even among the country's largest firms.

The tax base is not only concentrated in large taxpayers, but disproportionately reliant on a few compliant taxpayers, with little contribution from the broader corporate landscape (Figure 8). There remains substantial untapped potential, particularly among many large and small enterprises that are not meaningfully contributing to the VAT system. Addressing these gaps will require a combination of risk-based audits, invoice matching, and credible enforcement mechanisms to ensure declared liabilities align with the actual economic activity.

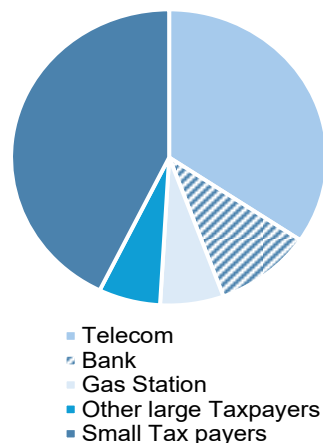
9. In contrast, corporate income tax (CIT, or locally called "industrial contribution") has shown encouraging signs of diversification, with rising contributions from smaller businesses and a more distributed taxpayer base (Figure 9). Nevertheless, overall performance remains well below potential. The CIT system continues to be held back by two administrative weaknesses: limited enforcement capacity and uneven compliance across taxpayer segments. Many businesses, especially in services and commerce, operate below the radar of the revenue administration and engage in underreporting. While the formal registration of firms has improved, the actual tax declarations and payments are yet to catch up with increases in the number of enterprises. Closing these gaps would require reduced taxpayer segmentation, strengthened filing enforcement, and targeted efforts to formalize currently non-compliant entities with high turnover but little declared profits. A broadened and better-administered CIT taxpayer base would enhance equity and revenue resilience in the medium term.

Figure 8. VAT Composition in GNB
(Percent of total VAT, 2024)



Source: IMF staff calculations.

Figure 9. CIT Composition in GNB
(Percent of total CIT, 2024)



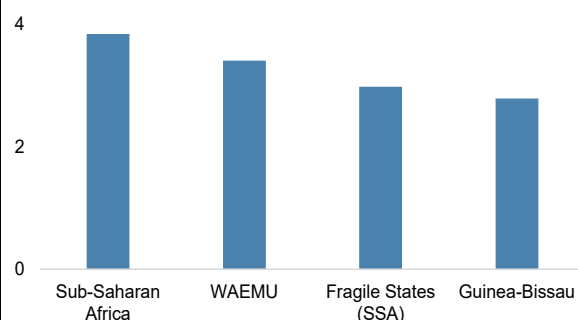
Source: IMF staff calculations.

C. Tax Potential

10. The stochastic frontier model is a method used to estimate how much tax revenue a country could realistically collect given its economic and structural characteristics. It helps distinguish between revenue shortfalls caused by external shocks—such as weather events or fluctuations in trade—and those resulting from weaknesses in tax policy or administration. The model compares each country to others with similar features (such as income level, openness to trade, and economic characteristics) and calculates a “frontier” that represents the maximum tax revenue achievable under those conditions. The difference between this frontier and the country’s actual revenue reflects inefficiency in the tax system—such as low compliance, under-enforcement, or ineffective tax policy design. This provides a useful benchmark to assess how much additional revenue could be raised by closing these gaps, without assuming any change in the country’s underlying economic conditions.

11. Findings suggest that Guinea-Bissau has substantial untapped tax potential, estimated to be 2.7 percent of GDP in 2023 (Figure 10). Annex 1 presents the estimation results. The difference between tax potential and actual revenue, was lower than the SSA or WAEMU average in 2023 (Figure 10). However, this lower untapped potential is not the result of Guinea-Bissau’s tax policy and administration being efficient, but rather a consequence from the model considering the presence of binding structural constraints—such as high informality, a narrow tax base, or limited taxable sectors—that

Figure 10. Potential to Increase Tax Revenue
(Percent of GDP, 2023)

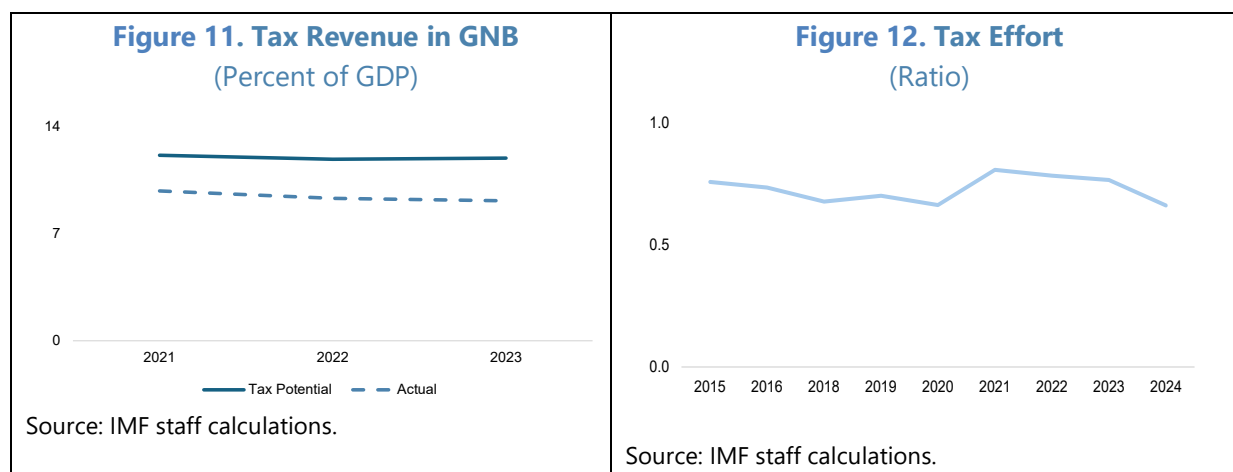


Source: IMF staff calculations.

automatically narrow the country's difference between actual and potential tax revenue relative to more developed economies. It is rather striking that Guinea-Bissau has 2.7 to 3 percent of GDP left to mobilize without major structural reforms, despite these structural constraints, possibly pointing to weak enforcement and compliance as well as revenue shocks (Box 1).

12. The absence of sustained improvement in Guinea-Bissau's tax effort (efficiency in closing the gap) over the past decade (Figure 11 and 12) reflects a pattern of offsetting policy actions—where gains from reform initiatives were undermined by revenue-eroding measures.

In 2022, while the legal framework for a modern VAT system was finalized, its implementation has been progressing slowly, due to concerns on its impact on inflation during a period of high global food and fuel prices. Similarly, development of the “Kontaktu” (the electronic tax filing and payment system) including electronic tax payments through mobile platforms marked progress in the revenue administration reforms, but its potential has been hindered by low capacity in the inland revenue department. In 2023, the previous government introduced large tax cuts on fuels and rice. This deprived the current government of an opportunity to speed up implementation of revenue-enhancing measures in 2024, as reversing these unsustainable but very popular policies consumed substantial political capital. The cumulative effect of these offsetting measures helps explain why tax effort has been declining since 2021, despite several reforms that were introduced under the Staff Monitored Program (SMP) and the ECF supported program.

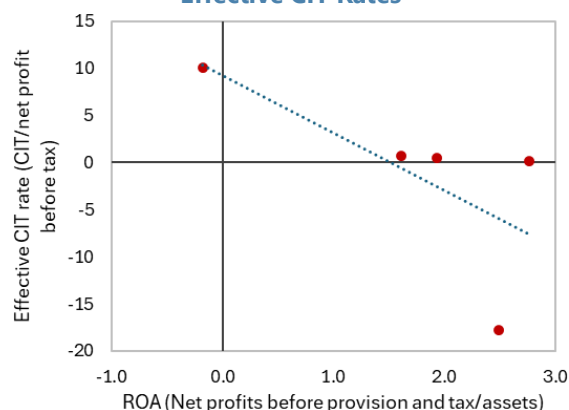


Box 1. Sources of Untapped Tax Potential in Guinea-Bissau

A significant share of Guinea-Bissau's unrealized tax potential stems from compliance gaps, particularly among the largest formal sector entities. In 2024, nearly half of the 150 largest taxpayers reported zero VAT payments, while an additional 20 declared less than CFAF 1 million. These entities include several firms with large market shares, suggesting wide-spread underreporting, non-compliance, and/or weak enforcement. Similar trends are observed in corporate income taxation: 76 out of the top 150 taxpayers made no payments for industrial contributions in 2024, and 12 paid less than CFAF 1 million. Notably, a number of firms that had paid significantly in 2023 registered no payments in 2024, raising concerns about the effectiveness of the existing follow-up mechanisms. These trends point to a persistent gap between relatively large number of firms in the formal sector and very few that pay taxes, underlining the need to strengthen audit coverage, risk-based compliance management, and real-time taxpayer monitoring—especially among high-turnover firms.

Beyond compliance, the remaining gap in Guinea-Bissau's tax potential reflects policy weaknesses, particularly the extensive and uneven application of tax exemptions. One prominent example is the banking sector, which benefits from multiple preferential treatments at the regional level that significantly lower its effective tax burden despite high profitability of the sector. Furthermore, effective tax rates vary widely across different banks. The banks of similar sizes per profitability are facing very different tax liabilities (Box 1 Figure 1). This inconsistent application not only erodes revenue but also undermines fairness and distorts competition. A comprehensive review of tax exemptions, their legal basis, and their fiscal cost would be a critical step toward rationalizing the tax system. Addressing both the compliance and policy gaps will be essential to mobilize the country's full revenue potential and reduce reliance on volatile trade taxes and narrow tax bases.

Box 1. Figure 1. Bank's Profitability and Effective CIT Rates



Source: IMF staff calculations.

D. Challenges in Tax Collection

13. Guinea-Bissau continues to face deep-rooted challenges in mobilizing tax revenue, despite recent efforts to strengthen policy and administration. A fundamental obstacle lies in the fragmentation and outdated nature of the legal framework. In several cases, tax laws lack consistency across instruments, leading to gaps and overlaps that complicate enforcement and reduce legal certainty. Exemptions are often embedded in ad hoc laws or administrative decisions without consistency, while legacy legislation—such as that governing telecom taxation—has not kept pace with technological shifts in how services are delivered and consumed. As a result, fast-evolving sectors remain partially outside the net of the tax system.

14. Administrative capacity constraints also weigh heavily on revenue performance. The

tax and customs administrations face acute shortages in specialized personnel, particularly in areas requiring technical or sector-specific knowledge. For example, effective auditing of the telecom sector demands contextual understanding of pricing structures, bundled services, and digital platforms—areas where inspectors often lack adequate training. More broadly, capacity building is urgently needed to equip staff with modern audit, valuation, and enforcement tools. Human resource limitations have become a binding constraint, not only in field operations but also in strategic functions such as taxpayer segmentation and risk analysis.

15. Operational challenges further complicate tax collection. Enforcement remains weak and slow, allowing non-compliance to persist with limited consequence. Taxpayers often exploit these procedural delays to avoid or defer payments, eroding both credibility and efficiency of the system. In customs, undervaluation is widespread due to the absence of access to reliable, frequently updated market price information. This vulnerability undermines border revenue and creates incentives for informal trade practices. Although some of undervaluation issues have been resolved in 2024, the border controls remain uneven and weak. Infrastructure gaps at land entry points and insufficient real-time data sharing continue to hinder efforts to combat fraud and leakage.

E. Policy Recommendations

16. Policy actions to strengthen domestic revenue mobilization in Guinea-Bissau should be anchored in recognition of the country’s structural challenges—namely, a narrow tax base, high informality, limited administrative capacity, and legal fragmentation. While these constraints are significant, recent reform momentum—particularly in the 2025 budget—offers a foundation for more sustained progress (Box 2). The challenge going forward will be to ensure coherence, consistency, and follow-through of reform initiatives to reduce inefficiencies and close the tax gap.

Box 2. Tax Policy and Administration Measures in 2024 and 2025

I. Tax Policy Measures

Removal of large-scale exemptions

- The 2025 budget eliminates exemptions previously granted to the cement factory—the single largest beneficiary—responsible for approximately 50 percent of all private investment exemptions.

Implementation of VAT

- The VAT implementation was officially launched in January 2025.
- The 2025 budget includes VAT collection on fuel sales at the point of sale, representing the largest revenue gain among planned measures.

Adjustment of customs reference prices

- Tax reference prices on alcoholic beverages, used vehicles, and cement have been aligned with current market prices to improve customs valuation accuracy.

Box 2. Tax Policy and Administration Measures in 2024 and 2025 (Concluded)	
II. Revenue Administration Measures	
Border infrastructure upgrades	
<ul style="list-style-type: none"> The Safim border post is being paved to strengthen customs control; completion is expected by in the second half of 2025. 	
Enhanced audit and enforcement	
<ul style="list-style-type: none"> Inland revenue administration has intensified audit efforts, resulting in the recovery of CFAF 1.3 billion in tax arrears (as of the seventh program review). 	

Tax Policy

17. Tax policy should be guided by a clearer strategy to align the legal framework and its implementation with economic realities, reduce revenue leakages, and broaden the effective tax base.

- **Accelerate VAT implementation.** The ongoing VAT implementation represents a major opportunity to modernize the tax system and reduce reliance on trade taxes. Effective implementation will require timely issuance of regulations, application of correct rates, and robust compliance monitoring—particularly at sectors where the largest revenue gains are expected.
- **Rationalize tax exemptions.** The non-renewal of exemptions for a cement company is a critical first step. The planned July 2025 exemption phase-out should proceed as scheduled. Especially for exemptions of inland taxes, for which no systemic database exists, there should a full legal review and stock-taking to identify inconsistencies across tax instruments and sector-specific laws and reveal ‘fake’ exemptions claimed by taxpayers. A transparent registry of all exemptions and regular assessments of their fiscal cost and policy relevance should be institutionalized.
- **Modernize tax laws in key sectors.** Legacy legislation should be updated, particularly with respect to Guinea-Bissau’s outdated and fragmented approach to the taxation of income. Two tax policy objectives should be prioritized: horizontal equity and simplification. Income redistribution should be built into the personal income tax system, but vertical equity objectives will in the medium-term primarily need to be met through the more effective deployment of fiscal resources to support education and healthcare. Simplicity is a particularly important tax design consideration, given the limited capacity of both the private sector (low levels of literacy) and the tax administrators.

Revenue Administration

18. Administrative reforms should focus on strengthening enforcement capacity, improving taxpayer monitoring, and enhancing border controls.

- **Target large taxpayer compliance.** Significant non-compliance persists even among the largest firms. Risk-based audits and taxpayer segmentation should be prioritized. Continued expansion of audit capacity and follow-up procedures is needed to prevent the erosion of previous gains.
- **Invest in human capital and specialization.** Tax and customs administrations face critical capacity gaps, particularly in technical areas such as telecom, banking, and valuation. Targeted training and sector-specific audit teams will be essential to close enforcement gaps and build institutional knowledge.
- **Strengthen customs valuation and border control.** The widespread undervaluation of imported goods remains a major source of leakage. The alignment of reference prices in the 2025 budget is welcome but must be supported by a system to update them regularly. Investments in infrastructure and risk-based inspection systems should follow.

Institutional and Legal Framework

19. A coherent, enforceable, and up-to-date legal framework is necessary to support long-term revenue gains. Especially, it is important to address legal fragmentation and harmonize tax instruments. Inconsistencies across laws reduce legal certainty and complicate enforcement. An integrated review and harmonization of the tax code, investment law, and sectoral regulations should be prioritized to eliminate overlaps and ensure consistency.

Annex I. Estimating Tax Potential

The stochastic frontier model for tax revenue takes the form:

$$TaxRev_{it} = \beta_0 + \beta_1 X_{it} + v_{it} - u_{it}$$

Where:

- $TaxRev_{it}$ is the tax revenue collected by country i in year t .
- X_{it} represents explanatory variables affecting tax revenue, such as GDP, trade openness, or other indicators. Some explanatory variables have been logged.
- v_{it} is a two-sided symmetric error term representing statistical noise (e.g., measurement errors, external shocks). It is assumed to be normally distributed.
- u_{it} is the one-sided non-negative tax inefficiency, capturing deviations from the frontier (maximum potential revenue) due to factors like tax evasion, exemptions, and administrative weaknesses. It follows a half-normal distribution.

True Random Effects are used, assuming time-invariant heterogeneity is uncorrelated with explanatory variables.

The inefficiency term u_{it} provides insights into the gap between actual and potential tax revenue performance. The tax effort is computed as:

$$Tax\ effort = \exp^{-u_i}$$

where values close to 1 indicate higher efficiency.

Annex I. Table 1. Guinea-Bissau: Stochastic Frontier Regression Estimates

VARIABLES	Model
GDP per capita, PPP (constant \$)	5.74*** (0.86)
GDP per capita, PPP (const \$, squared)	-0.22*** (0.05)
GDP growth (annual %)	-0.06*** (0.02)
Trade (% GDP)	0.02*** (0.002)
Government Spending	0.15*** (0.01)
Inflation, consumer prices (annual %)	-0.28 (0.1)
Constant	- 16.50*** (3.6)
Observations	3541
Number of groups	161
U-sigma	0.1602
V-sigma	6.8164

Note: Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1.

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