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GUINEA-BISSAU

SELECTED ISSUES

June 13, 2025

Approved By
African Department

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DOMESTIC REVENUE MOBILIZATION IN GUINEA-BISSAU[1]

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revenue: a large compliance gap, even among top-tier taxpayers, and a policy gap rooted in uncoordinated exemptions and outdated legal frameworks.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.

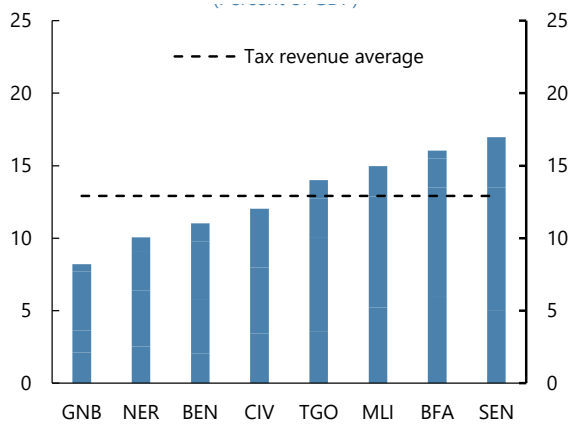
2. Guinea-Bissau's tax to GDP ratio remains the lowest in the WAEMU region (Figure 1). Tax revenue has stagnated at around 8 percent of GDP in recent years, well below the regional average and less than half the WAEMU convergence threshold of 20 percent. While the Convergence Pact was suspended in 2020, 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 degree of informality.

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

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

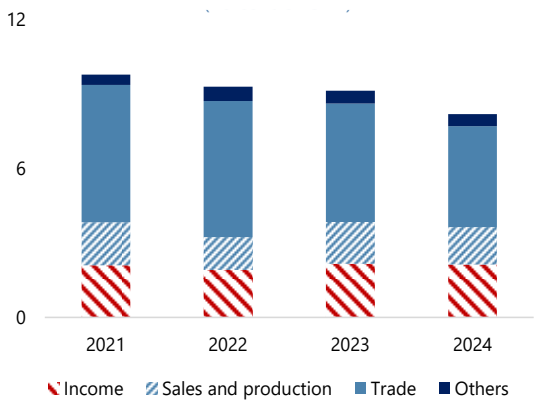
4. Over the last two decades, other WAEMU countries have made substantial progress in mobilizing revenue, while Guinea-Bissau has largely fallen behind. The region's aggregate tax performance has improved gradually. In contrast, overall tax revenue in Guinea-Bissau has fallen in recent years (Figure 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.

Figure 1. Tax Revenue in GNB and Peers
(Percent of GDP, 2024)



Source: IMF staff calculations.

Figure 2. Tax Revenue in GNB
(Percent of GDP)

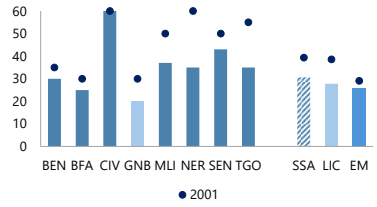


Source: IMF staff calculations.

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

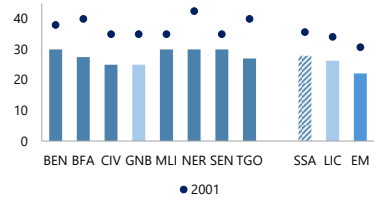
that the country's revenue mobilization challenges are less about rate structures and more likely rooted in enforcement gaps, informality, and base erosion.

Figure 3. PIT
(Rate, 2022)



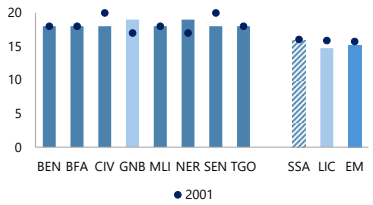
Source: IMF (2025b).

Figure 4. CIT
(Rate, 2022)



Source: IMF (2025b).

Figure 5. VAT / Sales Tax
(Rate, 2022)



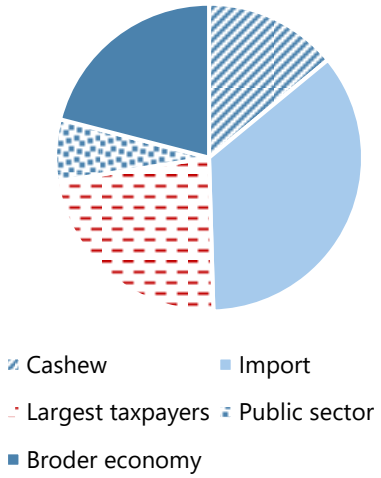
Source: IMF (2025b).

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.

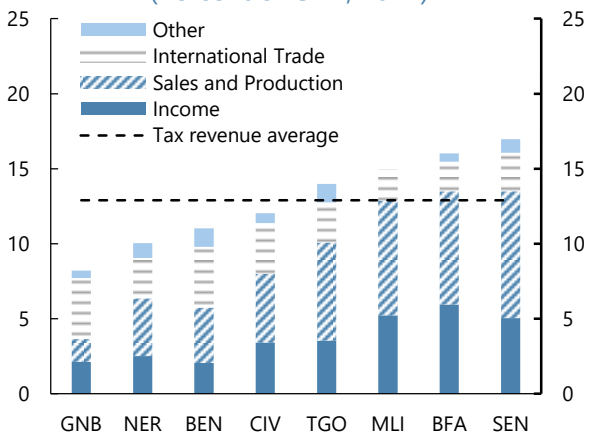
7. Guinea-Bissau's tax composition includes a share of income and sales taxes much lower than the WAEMU peers (Figure 7). In case of other WAEMU countries, a large majority of tax revenue arise from income and sales taxes (i.e., inland taxes), which generally suggest existence of broader tax and taxpayer 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)

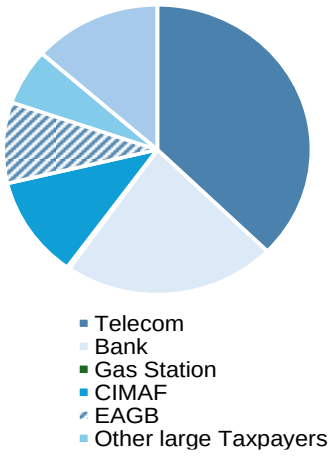


Source: IMF staff calculations.

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.

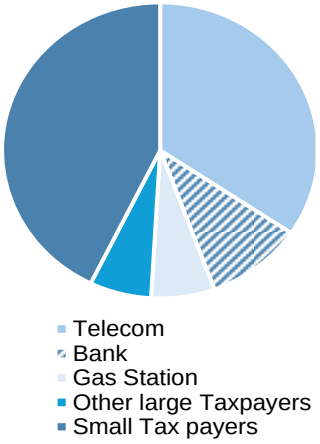
9. In contrast, corporate income tax (CIT, or locally called "industrial contribution") has shown encouraging signs of diversification, with rising contributions from smaller businesses and a more distributed taxpayer base (Figure 9). Nevertheless, overall performance remains well below potential. The 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)



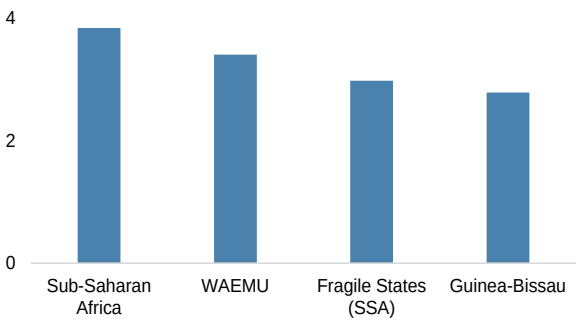
Source: IMF staff calculations.

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)

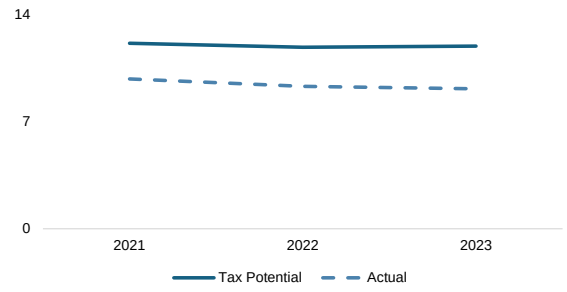


Source: IMF staff calculations.

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).

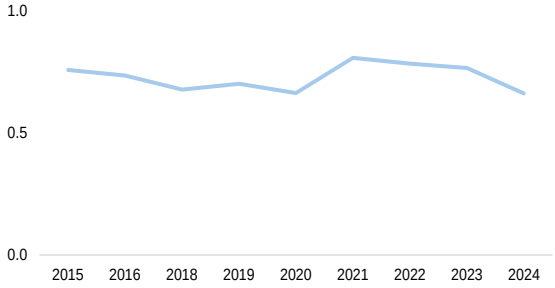
12. The absence of sustained improvement in Guinea-Bissau's tax effort (efficiency in closing the gap) over the past decade (Figure 11 and 12) reflects a pattern of offsetting policy actions—where gains from reform initiatives were undermined by revenue-eroding measures. In 2022, while the legal framework 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.

Figure 11. Tax Revenue in GNB
(Percent of GDP)



Source: IMF staff calculations.

Figure 12. Tax Effort
(Ratio)



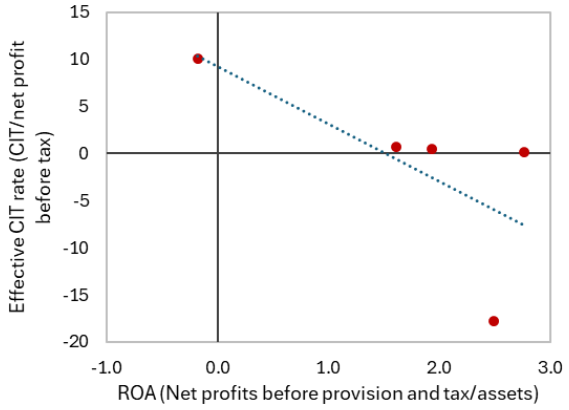
Source: IMF staff calculations.

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.e

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
• 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
• 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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ECONOMIC DIVERSIFICATION IN GUINEA-BISSAU[1]

The economic diversification in Guinea-Bissau has progressed more than the official data suggest, but harnessing the benefits calls for strong policy actions. The fishing sector has been exporting around 20 percent of GDP per year, but none is recorded in official exports because ships cannot offload fish at Bissau in the absence of infrastructure. Constructing the industrial fishing port is needed to offload all fish at Bissau and increase domestic value added in addition to formalizing the exports. In the mining sector, operationalizing just one phosphate mine, for which a feasibility study has been completed, will generate around 11 percent of GDP of additional exports. The government needs to step up the efforts to find an investor with adequate financing. In the manufacturing sector, many cashew manufacturing factories have been constructed, but most have been closed down in absence of competitiveness. Technical assistance programs are needed to help them find niche markets for reopening. The dilapidated port infrastructure has been a bottleneck to the economy, but can be turned into an opportunity for growth and revenue mobilization if substantial investments are secured through a concession similar to the one for the ongoing airport project. Concurrently with export diversification, the domestic economy should also be diversified. In particular, the traditional agricultural sector has been suffering from competition with cashew plantations, which have been causing "natural resource curse" like problems. In particular, rice production has declined. To address the rising food security risks, the government should implement two important projects – expansion of experimental farms "INPA" and school feeding program) – which can achieve high outcome within the limited fiscal space.

A. Introduction

1. The authorities have been undertaking significant steps to support economic diversification, especially through infrastructure development. The 2022 Article IV consultation highlighted the importance of export diversification for growth and external positions and discussed opportunities in the fishery, agriculture, mining, and manufacturing sectors. It emphasized the needs of infrastructure development, especially in the energy sector to unleash economic potentials of these sectors. Since then, the government has made significant progress in the development of energy and urban road infrastructure, which was expanded from near zero to the regional average.

2. According to official data, however, that economy remains heavily reliant on cashew exports. The 2022 Article IV consultation discusses that expansion of cashew plantations since the 1990s caused extremely high export concentrations to a single commodity. The export concentration indexes were estimated to be close to 1.0, which stood out in the region where the average was round 0.5. Since then, the dominant share of cashew nuts in total exports remains unchanged, standing above 95 percent every year. This creates the perception that there has been little progress in economic diversification of Guinea-Bissau.

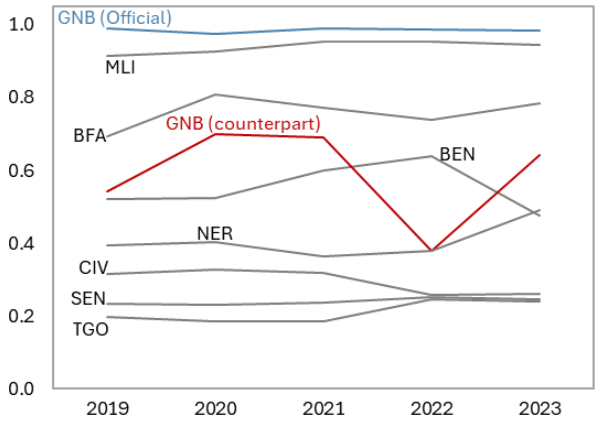
3. The commonly perceived heavy dominance of cashew exports does not adequately represent the true situation of economic diversification in Guinea-Bissau. When using the

[1] Prepared by Yugo Koshima.

Guinea-Bissau authorities' official export data, the updated export concentration indexes vary little since the 2022 Article IV consultation and remain very close to 1.0 (Figure 1).[2] Because the index is strongly influenced by the share of the largest export item in total exports, this result leads to the conclusion that Guinea-Bissau's exports remain dominated by cashew nuts (Figure 2). However, this conclusion changes significantly when using data of counterpart reporting, i.e., imports from Guinea-Bissau reported by the rest of the world. The indexes are brought down to around 0.6, much closer to average of other WAEMU countries (0.49). This is because counterpart reporting includes significant volume of imports of fish from Guinea-Bissau, which are not captured at all in the authorities' official export data. If fish exports were included, the share of cashew nuts would be limited to 65 percent of total exports. The question is where this discrepancy emerges. Answering this question will reveal crucial opportunities and challenges in the fishery sector.

Figure 1. Export Concentration Index

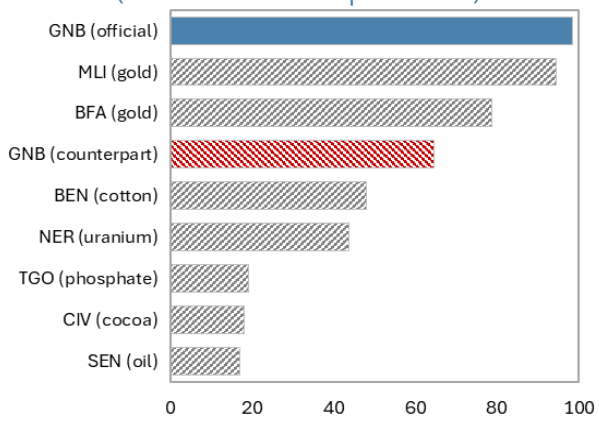
(Index)



Source: IMF staff calculations.

Figure 2. Share of Largest Export Item, 2023

(Percent of total export value)



Source: IMF staff calculations.

4. This paper aims to provide in-depth analysis of the current situation of economic diversification in the key sectors and draw policy recommendations. This paper focuses on the five key sectors that were recommended by the 2022 Article IV consultation. It first discusses the fishery sector, which, despite the macro-critical size of its operations, is unable to offload fish at Bissau in absence of infrastructure and falls into a 'gray zone' of international trade. The paper then

[2] As per UNCTADO (2019), the export concentration index is computed by using the following normalized Herfindahl-Hirschman index;

$$H_j = \frac{\sqrt{\sum_{i=1}^{N}\left(\frac{X_{i,j}}{X_j}\right)^2} - \sqrt{\frac{1}{N}}}{\sqrt{\frac{1}{N}}}$$

where Hj is the (product) concentration index of country j, Xi,j is the value of exports of product i by country j, Xj is the total value of exports of country j, and N is the number of products exported. Because the concentration index is sensitive to granularity of product classifications, this paper uses the 6-digit level HS data obtained from the COMTRADE database. For Guinea-Bissau (official data), this paper uses the authorities' 10-digit level data. For Mali, which has not submitted data to the COMTRADE since 2020, it uses data of imports from Mali by the rest of the world obtained from the COMTRADE database (i.e. counterpart reporting).

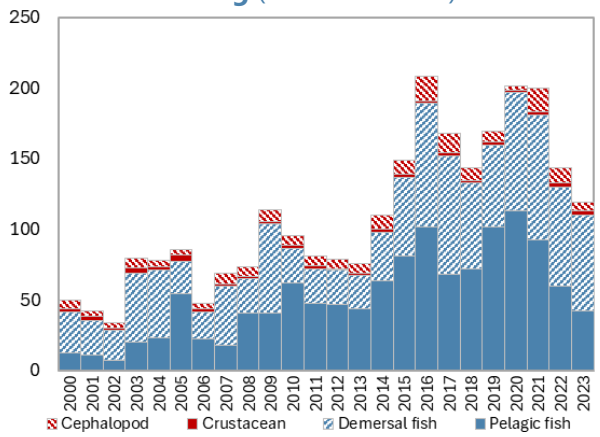
examines the agriculture sector, for which the satellite data suggests that the estimation of rice production by the official data is overly optimistic and food security risks are worse-than-thought. The paper then follows up on the current situations of (i) the mining sector, which has as large potentials as the fishery sector but is facing chronic challenges; (ii) the manufacturing sector, which is struggling with low competitiveness; and (iii) the port infrastructure, which remains in dilapidated conditions and is the single biggest bottleneck to economic development and revenue mobilization.

B. Fishery Sector

Economic Loss from Lack of Formal Exports

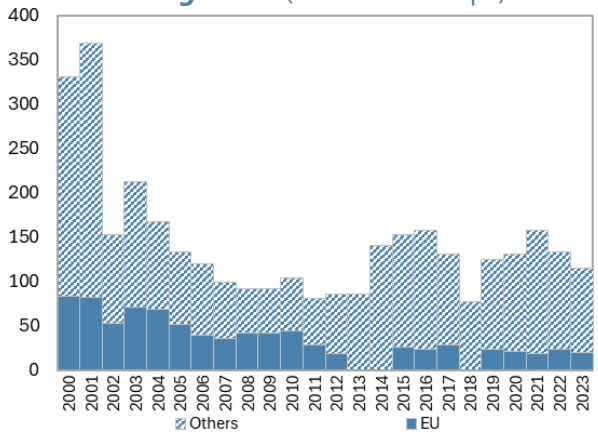
5. Industrial fishing production is significant in Guinea-Bissau. The volume of catch by industrial fishing in Exclusive Economic Zone (EEZ) of Guinea-Bissau reached around 167 thousand ton/year on average for the last five years. The volume of catch jumped after reactivation of the EU fishing agreement in 2014 (Figure 3). This brought back licensed ships that had left the country during a period of political uncertainty, supported by a strengthened regulatory framework that eliminated the excessive issuance of licenses as happened in the early 2000s (Figure 4). When using landing prices of fish at Portuguese ports obtained from EUROSTAT, the value of catch is estimated to be EUR 310 million per year on average for the last five years, much larger than the value of cashew exports that amounted to EUR 201 million per year during the same period. The catch is composed of pelagic fish (e.g., sardine), demersal fish (e.g., catfish), cephalopod (e.g., squid and octopus), and crustacean (e.g., lobsters and shrimps) (Figure 5).

Figure 3. Volume of Catch of Industrial Fishing (Thousands ton)



Source: IMF staff calculations.

Figure 4. Number of Licensed Industrial Fishing Boats (Number of ships)

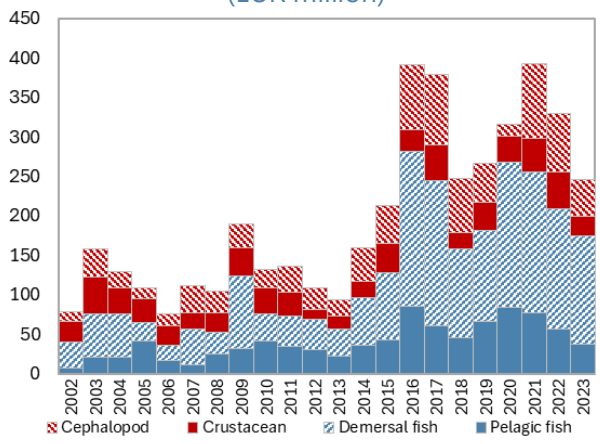


Source: IMF staff calculations.

6. The country's exports would thus be at least double that reported in official data if exports of catch by industrial fishing boats were formalized in Guinea-Bissau. The authorities' official data indicate that exports of fish from Guinea-Bissau have been close to zero (0.1 percent of GDP on average for the last five years), despite the significant volume of catch, which was all delivered to foreign countries. This difference between the official data and the reality was created by the fact that in absence of the port infrastructure, industrial fishing boats do not offload fish at

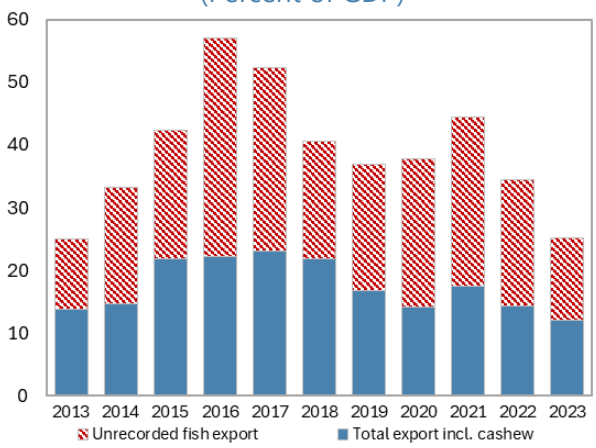
Bissau but bring them to other countries in the region, from which Guinean fish is shipped to the final destinations in Europe and Asia. If all catch of industrial fishing boats is recorded as official exports from Guinea-Bissau, it would have added 20.8 percent of GDP per year on average for the last five years, higher than exports of cashew nuts that amounted to 13.4 percent of GDP on average during the same period (Figure 6). This would drastically change the picture regarding key macroeconomic indicators. In particular, the current account balance would turn into a significant surplus for all these years. In 2022, nominal GDP would be rebased up by 20 percent. In turn, this would reduce public debt from 80.7 percent to 67.1 percent of GDP in 2022.

Figure 5. Value of Catch of Industrial Fishing
(EUR million)



Source: IMF staff calculations.

Figure 6. Value of Exports
(Percent of GDP)

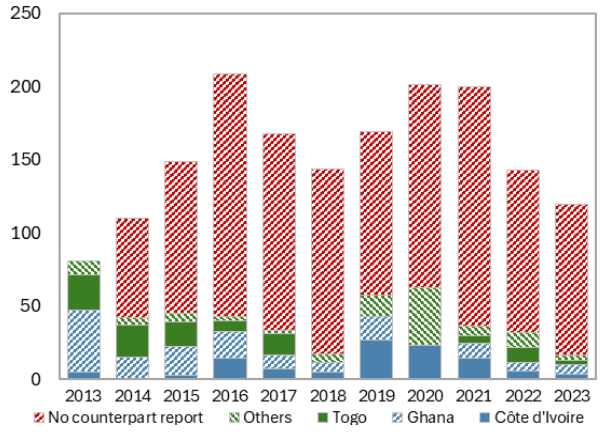


Source: IMF staff calculations.

7. Offloading in other countries appears to be causing predatory pricing for Guinean fish. While official exports of fish from Guinea-Bissau have been near zero, some countries where Guinean fish are offloaded report imports of fish from Guinea-Bissau (i.e., counterpart reporting). In 2013, the volume of imports of fish from Guinea-Bissau recorded in COMTRADE database by the counterparts corresponds to the total catch (Figure 7). This means that all exports of fish from Guinea-Bissau were captured at least in counterpart reporting. However, since 2014, the discrepancy between the catch and the import volume reported by counterparts has been widening. In 2023, 86 percent of catch is missing in counterpart reporting and became invisible in international trade data. This seems related to the EU "Illegal, Unreported and Unregulated" (IUU) fishing regulations, which came into force in 2010. The IUU regulations require that all fishery products exported to the EU should have the full traceability and certification of the legality. However, Guinea-Bissau fish is yet to obtain the quality certification needed to export to the EU. Therefore, it creates a serious concern about IUU if a third country imports fish from Guinea-Bissau and re-exports to the EU. This is likely to motivate buyers in the third countries to not declare imports of fish from Guinea-Bissau but hide its origin. In addition, these buyers seem to take advantage of this gray-zone situation to dump prices of Guinea-Bissau fish. In 2013, import prices of fish from Guinea-Bissau recorded in COMTRADE correspond to the EU landing prices (Figure 8). However, in 2023, these import prices reported by the counterparts (1,102 euro/ton) declined to around half of those based on the EU landing prices (2,063 euro/ton). The prices are reportedly even lower (around 500 euro/ton) in a

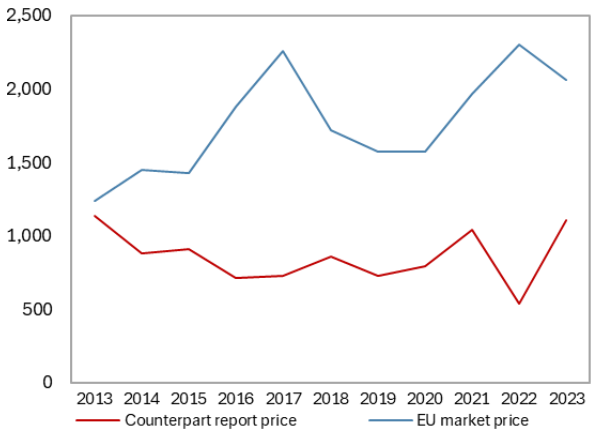
country that does not recognize imports of fish from Guinea-Bissau at all, namely Senegal, where the largest quantity of Guinean fish is offloaded.

Figure 7. Volume of Catch and Imports Reported by Counterparts (Thous. ton)



Source: IMF staff calculations.

Figure 8. Average Price of Imports of Fish from Guinea-Bissau (EUR per ton)



Source: IMF staff calculations.

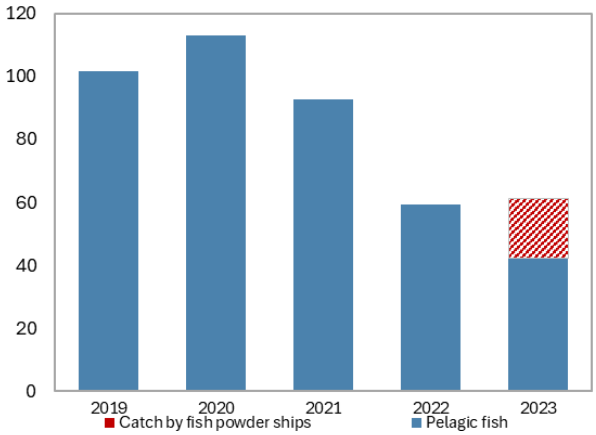
8. The government should prioritize investments needed to obtain the EU certification of its fish exports. In order to export fish to the EU, a non-EU country has to be added to the list of certified third countries. Currently, several regional countries, such as The Gambia, Guinea, Ghana, and Senegal, are included in the list and allowed to export at least wild catch to the EU, while Guinea-Bissau was removed from the list decades ago. The EU certification is critical to mitigate risks of Guinean fish becoming "IUU" and prevent predatory pricing by buyers of the listed countries. Obtaining the EU certification requires the country to satisfy the Hazard Analysis and Critical Control Points (HACCP) standards, which include a series of health and hygiene standards applicable to vessels, and the country authorities are also required to have the capacity to verify the compliance. Therefore, obtaining the EU certification is likely to require investments in: (i) updating vessels to have better fish processing and freezing facilities and pest controls; (ii) training vessel crew for better health and hygiene practices; and (iii) creating the government laboratory to verify the quality control of operators. While the government has been taking efforts to obtain the EU certification for years, the necessary investments should be facilitated in the 2026 budget.

9. Offloading fish in Bissau and formalizing their exports ultimately require construction of an industrial fishing port. For the last few years, there has been significant development of the artisanal fishing infrastructure. The Port of Alto Bandim in the City of Bissau has been dredged and rehabilitated. The freezing and processing facility has been constructed near the port. However, this port is too small for industrial fishing boats. In order to formalize exports of fish from Guinea-Bissau, it is critical for industrial fishing boats to offload all fish in the country. To this end, it is necessary to construct an industrial fishing port, which should have a dedicated logistical facility to offload, process, and dispatch fish in a fast and safe way. The government roughly estimates the costs of constructing the industrial fishing port to be around CFAF 90 billion, close to the recently signed Safim-Mpak road project. Given a critical impact of formalizing fish exports, construction of the industrial fishing port should be prioritized in the new National Development Plan 2025-34.

Economic Loss from *Fish-Powder Ships*

10. Emergence of fish-powder ships appears to be crowding out other fishing activities with higher value-added. Fish-powder ships are floating factories of fish-powder. They have been consuming significant quantity of the fish resources in Guinea-Bissau EEZ, which has been already saturated by other licensed ships. The first fish-powder ship came to EEZ of Guinea-Bissau in 2022. While this ship does not have an industrial license nor reports its catch or production to the authorities, in 2023, three countries (Chile, Ecuador, Turkey) reported imports of 3 thousand ton of fish-fractions from Guinea-Bissau in the COMTRADE. From 2022 to 2023, the total catch decreased by 24 thousand ton or 17 percent, mainly because of drop of catch of pelagic fish such as sardine, the main ingredient of fish-powder. To produce 1 kg of fish-powder, it usually requires 6 kg of fish. This means that this fish-powder ship at least caught 18 thousand ton of pelagic fish, which explains entirely the drop of catch (Figure 9). Because fish-powder is mainly for animal feeding with low value, this ship has been consuming sardine and other pelagic fish, which would otherwise be sold for much higher value. Indeed, the value of 3 thousand ton of fish-fractions reported by the three countries was limited to EUR12.5 million, while landing prices of 18 thousand ton of sardine for human consumption in Portugal would have been EUR 26.2 million. Economic loss from fish-powder ships seems to have increased in 2024 when a number of the ships increased to three and their catch and production reportedly tripled from 2023.

Figure 9. Volume of Catch of Pelagic Fish
(Thousands ton)



Source: IMF staff calculations.

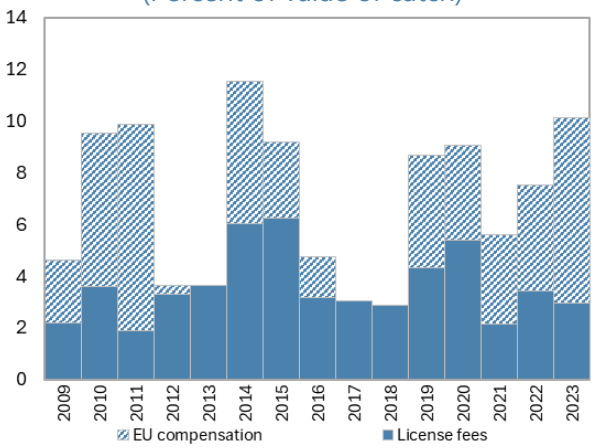
11. The authorities should enforce tax arrears from these fish-powder ships. As part of a Structural Benchmark of the ECF supported program, the authorities are committed to collecting from the fish-powder ships the significant amount of tax arrears, which are estimated to reach CFAF 7.3 billion (0.5 percent of GDP) for 2023 and 2024, in addition to any penalty and unpaid fees.

12. The authorities should strengthen the fishing inspectors by using fishing revenue earmarked for the sector. The National Institute of Inspection of Fishing Activities (INFICASP), which is a law enforcement agency for fishing activities, has been struggling due to a shortage of resources. It does not seem to be able to afford CFAF 70 million per month of fuel needed for the patrol boat. Meanwhile, the fishery sector received CFAF 5.4 billion (0.4 percent of GDP) of earmarked revenue from the fishing license fees and the EU sectoral support grant in 2024. By using these revenues, the Ministry of Fishery should strengthen the fishing inspectors. To improve spending efficiency, the Ministry of Fishery should ensure transparency in the use of earmarked fishing revenue, for which no report is publicly available at this moment.

Fishing License Fees for Sustained Revenue Mobilization

13. Revenue from fishing license fees has been very low relative to the value of the catch. Fishing license fees paid by industrial fishing boats have been limited to 2-5 percent of value of catch estimated by using the above noted landing prices in Portugal (Figure 10). Under the EU fishing agreement, "European fishing compensation" paid directly by the EU partially compensates the low licensing fees and brings total fishing revenue to around 5-10 percent of value of the catch. However, this level remains much lower than the 12 percent rate recommended by Standing (2024) or Guinea-Bissau's taxes on cashew nuts, which are, in total, 15.3 percent of export prices in 2025.

Figure 10. Fishing Revenue
(Percent of value of catch)



Source: IMF staff calculations.

14. A flat-rate license fee poses a significant constraint on fishing revenue mobilization. Currently, fishing license fees use the fixed rates depending on tonnage of a ship. Because a ship has to pay the same amount of fees regardless of actual catch, an expensive fixed rate fee will discourage an entry of ships that do not know upfront whether buying the license pays off. To reduce this uncertainty for ships, Guinea-Bissau's licenses are renewed quarterly, but many ships withdraw at the end of the first quarter and do not buy the licenses for the following quarters when uncertainty in catch tends to increase given its seasonality. Despite the low level of fishing revenue, Guinea-Bissau's license fees are also on the high side in the region (Standing (2024)). In this situation, increasing further the fixed-rate license fees will have risks of decreasing significantly the demand for licenses and thus does not seem to be a good option for Guinea-Bissau.

15. Revenue mobilization that targets increased issuance of licenses has risks of overfishing. Given the flat-rate license fees, the only driver to mobilize fishing revenue is to issue more licenses and increase number of ships. Lokina (2000) discusses that a relationship between catch and efforts (i.e., inputs) follows an inverted U-shaped function. Marginal catch diminishes as more efforts are used, and increasing efforts beyond a turning point will cause overfishing, i.e., catch declines as additional efforts are used.

16. A model is developed to examine whether there is an overfishing situation in Guinea-Bissau. The model uses an approach similar to Lokina (2000) and has the following specification:

$$CATCH_{i,t} = \beta_1 SHIP_{i,t} + \beta_2 DAY_{i,t} + \eta_i + \lambda_t + \varepsilon_{i,t}$$

where $CATCH_{i,t}$ is log of volume of catch per ship of a license group i in year t; $SHIP_{i,t}$ is log of number of licensed ships; $DAY_{i,t}$ is log of number of days at sea per ship; and η_i and λ_t are, respectively, license group and year fixed effects. Data between 2000-2023 are obtained from Sobrino et. al. (2024) and (2022). The panel includes five license groups ((i) cephalopod and

demersal for EU, (ii) cephalopod and demersal for others, (iii) crustacean for EU, (iv) crustacean for others, and (v) pelagic).

17. The estimation result suggests that excessive issuance of licenses led to overfishing in the past. The regression results show that coefficients of *SHIP* and *DAY* are both statistically significant, and a coefficient of *DAY* has a positive sign, but that of *SHIP* has a negative sign when using data of the entire period (Table 1). This suggests existence of overfishing, where adding more efforts (i.e., ships) causes a decline of catch. Overfishing was indeed prevalent in the early 2000s when the number of licensed ships were twice or three times as high as in recent years. To eliminate the impact of excessive license issuance in the early 2000s, the same estimation was run with data after 2014 when the EU fishing agreement was reactivated. The results show that a coefficient of SHIP still has a negative sign, though not statistically significant. This suggests that licensing under the strengthened regulatory framework in recent years seems to prevent overfishing.

Table 1. Regression Results: Catch of Fish

Dependent variable: log of catch per ship

Sample	All	2014-23
SHIP	-0.3497 ***	-0.1238
	[0.06033]	[0.29942]
DAY	0.3500 **	0.2689 *
	[0.11911]	[0.11621]
Observations	112	46
Number of group	5	5
R squared	0.7362	0.4641
License group FE	Y	Y
Year dummy	Y	Y

Robust standard errors are shown in parentheses below the coefficient estimates.

*** denotes significance at the 0.01 level, ** denotes at the 0.05 level, and * denotes at the 0.1 level.

Source: IMF staff calculations.

18. Mobilizing revenue without causing overfishing requires a shift to license fees based on catch. Given that number of licensed ships cannot be significantly increased without causing overfishing, there is limited room for fishing revenue mobilization under the existing flat-rate fees. Shifting to per-catch fees will also help reducing financial burden on ships as they do not require large upfront payments. The biggest challenge in implementing per-catch fees is, however, to obtain accurate data of catch. It is important to introduce per-catch fees in tandem with reforms for formalization of fish exports, which is key to ensure data integrity. In particular, when the EU export certificate is obtained, it may increase the chance of successful implementation of per-catch fees, because the EU certificate is likely to motive the third countries to make counterpart reporting of imports from Guinea-Bissau, through which declarations of catch by ships can be cross-examined. Ultimately, mobilization of fish revenue through full implementation of per-catch fees is depending on construction of the industrial fishing port, which is needed to ensure that all fish is offloaded and all exports are declared in the country.

C. Agriculture Sector

Background

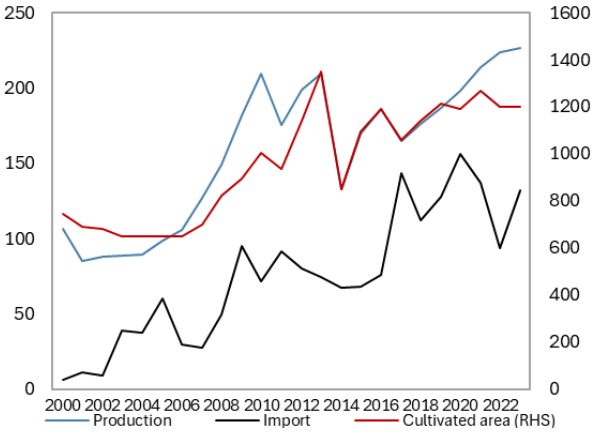
19. Increased attention is being paid to macro-criticality of staple crop production in Low Income Countries (LIC) in the context of high food prices. AFR-RES Departmental Paper (2022)

discusses macroeconomic consequences of weather shocks to agricultural production in Sub Saharan African (SSA) LICs, which cause migration of subsistence farmers to the urban area in search of foods and jobs, add pressures on food imports, and increase food prices in both rural and urban areas. This in turn has spillover into higher overall inflation given the large weight of foodstuff in the CPI basket. Inflationary pressures are amplified by shortages of agricultural inputs (for example, seeds), which are often obtained from agricultural production. Similarly, IMF Note (2022) discusses that shocks to domestic food production in LICs result in food insecurity and higher food prices, which increase poverty, lower long-term growth, and possibly fuel social unrest. It emphasizes, therefore, the importance of increasing food production as a measure to reduce price pressures and food insecurity.

Current State of Rice Farming Observed through Satellite Imagery

20. The official data do not seem to represent the real situation of rice farming in Guinea-Bissau. As discussed in Caeiro (2019), it is commonly understood that rice is widely grown in Guinea-Bissau, but its productivity is low. This argument is based on the authorities' official data, which indicate that cultivated area of rice farms has been expanded significantly for the last two decades and rice production has been growing at a similar speed, given a constant yield of around 1.5 kg/ha (Figure 11). However, these official data are somewhat difficult to be reconciled with the sharp rise of rice imports, which increased from near zero in the early 2000s to around 140 thousand ton in recent years. Despite such an increase, the amount of rice is still not considered adequate. Indeed, when rice imports stagnated in 2022 and 2023 due to high food prices, the situation was called "a hunger crisis", motivating the previous government to introduce tax cuts and subsidies for imported rice in September 2023. Furthermore, these official data do not seem consistent with fast expansion of cashew plantations, which have at least doubled for the last two decades and are likely to be supplanting rice farms. In a field, it is not uncommon to see a very large area of rice farms being replaced with cashew plantations or abandoned. The country does not systemically produce agricultural statistics and available official data seem to have severe quality issues.

Figure 11. Rice Production, Cultivated Area and Imports (Thous. ton, km^2 (RHS))

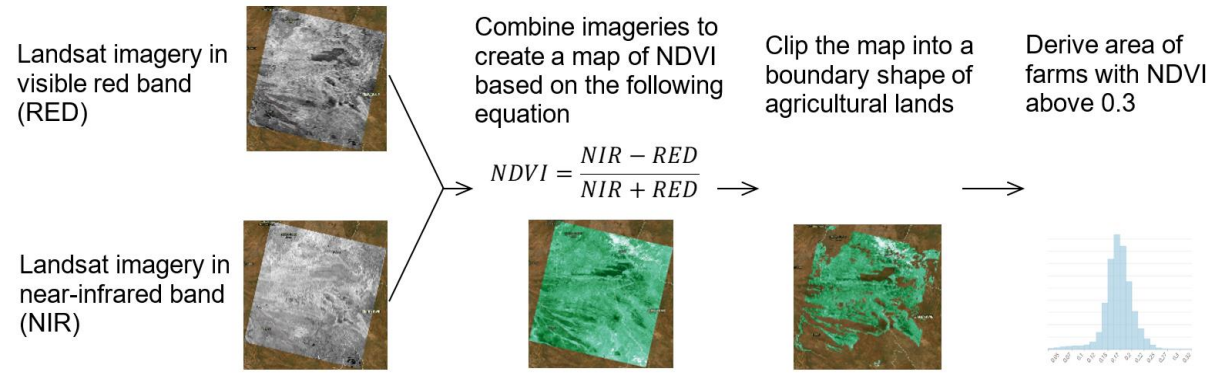


Source: IMF staff calculations.

21. Uncovering the true state of rice farming is the first step to develop the appropriate policy. Rice is the main staple food in Guinea-Bissau. There is no doubt that securing an adequate amount of rice production is a macro-critical issue to address inflationary pressures and reduce food insecurity and poverty. However, the policy response would vary, depending on the current state of rice farming and its relationship with cashew nut production. If the rosy picture shown in the official

data holds, limited policy actions to increase productivity would be sufficient, but otherwise, more comprehensive interventions to revamp the entire sector would be needed.

Figure 12. Geospatial Analysis Procedure for Area of Farmland Vegetation



Source: IMF Staff Climate Note (2023).

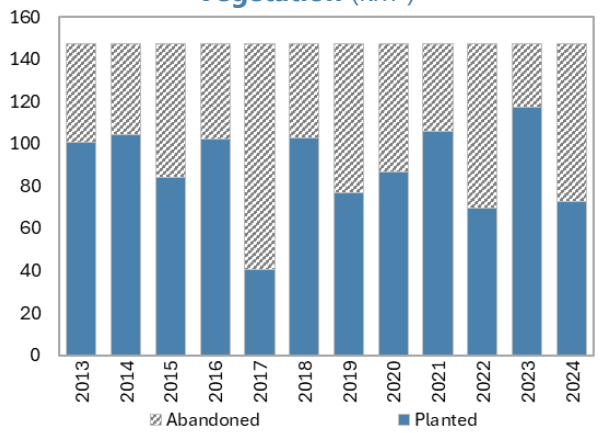
22. To overcome data constraint, a novel dataset of rice farms in Guinea-Bissau was created from satellite imagery. The dataset includes the area of rice farm vegetations (i.e., farmland that has vegetations), which approximate the cultivated area of rice farms. It was derived from a map of "greenness" created with the Landsat satellite imagery. It follows the geospatial analysis procedure of IMF Staff Climate Note (2003) (Figure 12). The Landsat acquires a high-resolution image of every part of the world once or twice a month, taken with different wavelengths of lights. Synthesizing images of visible red and infrared lights generates a map of Normalized Difference Vegetation Index (NDVI), a higher value of which suggests denser vegetations. To separate rice plants from natural vegetations, a map of NDVI is clipped into a shape of rice farms, which was created by digitizing the outline in a satellite imagery. An area with vegetation is then estimated by extracting area with NDVI higher than a cut-off value (0.3), below which shows existence of zero or little vegetations. This method has the benefit to generate high-quality, granular data of farmland vegetation especially in a country with severe data constraint. For Guinea-Bissau, the dataset includes the following 385 km^2 of rice farms, which represent roughly 40 percent of total rice farms that currently exist.

- The northern region (67 km^2) – It captures mainly mangrove rice farms along Mansoa River in Oio province. Mangrove rice is salt-tolerant and can grow in an area where saltwater and freshwater interact. In Guinea-Bissau, mangrove rice has an important share, as many rice farms are located near mangrove forests in a coastal region or around a river mouth.
- The southern region (171 km^2) – It captures mainly mangrove rice farms around a coastal area near Catio City or a month of Cumbija River in Tombali province.
- The eastern region (147 km^2) – It captures mainly mangrove and freshwater lowland rice farms along Geba River between Enxale and Contuboel in Bafata province.

23. Observation from the satellite shows that the vast majority of rice farms in Guinea-Bissau have been abandoned. The results of the geospatial analysis noted above found that only

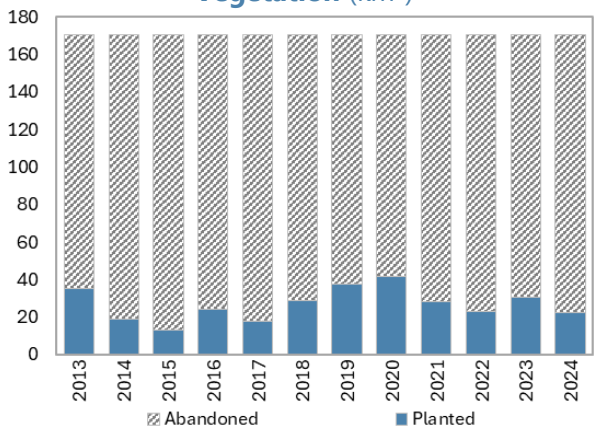
32 percent of 385 km^2 of rice farm area had vegetation on average between 2013-2024 and the rest was not planted. The situation is somewhat better in the eastern region where around 60 percent of rice farm area was planted (Figure 13). In contrast, rice farms are nearly extinct in the southern and northern regions, where only around 9 and 16 percent of rice farm area was planted (Figure 14 and 15). This is because mangrove rice requires high maintenance and thus is the first to disappear when the sector is on a decline. Garbanzo et. al. (2024) discusses that mangrove rice farms experience frequent saltwater intrusion, which has a benefit of controlling weeds but increases complexity of water management, because the level of salinity should be controlled low at sowing and other stages of a rice growing cycle. This calls for around-the-clock controls of water flows as well as frequent maintenance of dikes. Comparing with this observation from the satellite, the official data seem to fail to distinguish planted and unplanted areas, resulting in a substantial overestimation.

Figure 13. Eastern Region: Area of Rice Farm Vegetation (km^2)



Source: IMF staff calculations.

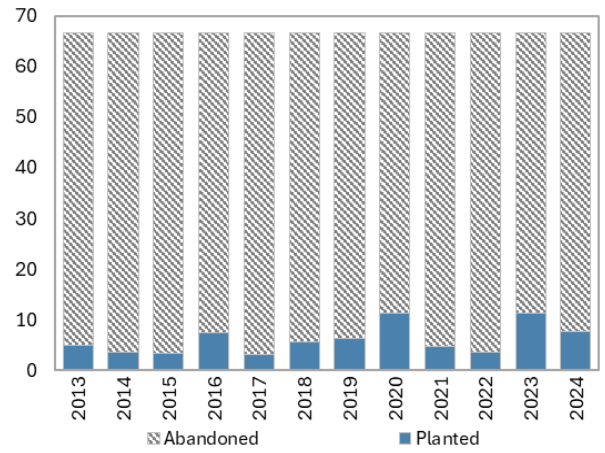
Figure 14. Southern Region: Area of Rice Farm Vegetation (km^2)



Source: IMF staff calculations.

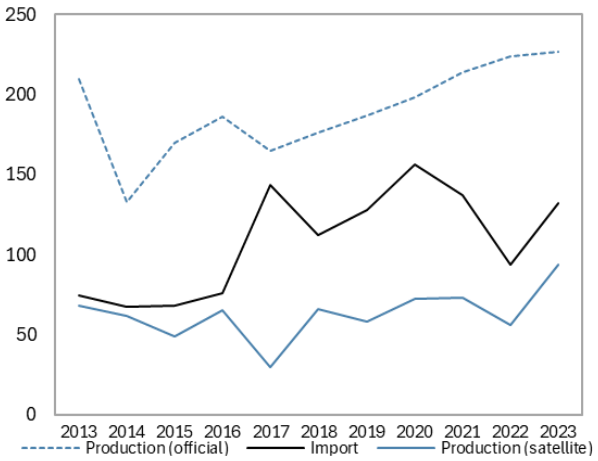
24. Deterioration of rice farming suggests that the food security situation in Guinea-Bissau could be worse than thought. Based on the area of rice farm vegetation derived above, rice production in Guinea-Bissau is estimated to be around 60 thousand ton per year on average, less than a third of the official figure and far smaller than the volume of rice imports in recent years (Figure 16). This means that per capita consumption of rice is also smaller than the official figure by 40 to 60 percent. This indicates the possibility of serious nutrition deficiency that is not captured in the official data. Revamping rice production is, therefore, of highest priority to ensure food security and maintain macroeconomic stability.

Figure 15. Northern Region: Area of Rice Farm Vegetation (km^2)



Source: IMF staff calculations.

Figure 16. Rice Production: Official Data v. Satellite Observation (Thous. ton)



Source: IMF staff calculations.

Cause of Rice Farming Deterioration

25. There is little understanding of why rice farming has deteriorated. According to official data, the typical argument by many is that rice production in Guinea-Bissau is growing rapidly, while challenges remain in low productivity because of poor quality of inputs and low level of mechanization (AfDB (2025)). Based on this view, a typical agricultural project aims to provide a package of 'seeds, fertilizers, tractors, and warehouses' to rice farmers. While lack of inputs and equipment is a valid point, this alone can hardly explain abandonment of the vast majority of rice farms observed from the satellite. Understanding fundamental causes of deterioration of rice farms is needed to design an effective policy response.

26. Some hypothesize a negative relationship between cashew and rice production. The typical argument is that there is little competition between cashew and rice production. Many consider that the agricultural diversification is a matter of growing something other than cashew and rice (AfDB (2025)). This is supported by the existing literatures that often find a positive relationship between cash and food crops. For example, Govereh et. al. (2002) found that in Zimbabwe cash cropping had positive effects on productivity of food cropping because cash cropping provided the farmers access to inputs and training and brought investments. However, some argue that the same does not apply to a relationship between cashew nuts and rice, because cashew plantations require literally no labor until harvesting (Barry et. al. (2007)). Cashew is also a drought tolerant plant which has a very wide root system and is able to thrive in a row rainfall area without irrigation (Mandal (2012)). In this case, there is unlikely to be a synergy between cashew and rice production. Rather, cashew nuts are likely to bring "natural resource curse" where flux of income from exports of natural resources causes a decline in traditional sectors. From this point of view, Kyle (2009) qualitatively discusses that in Guinea-Bissau many farmers switched from rice to cashew production, preferring to barter cashew nuts for rice rather than grow it themselves.

27. This paper presents a novel empirical analysis of the relationship between cashew and rice production in Guinea-Bissau. Such empirical analysis is scarce given severe data constraint, which the dataset constructed from the satellite imagery has helped overcome. By using an approach similar to IMF Staff Climate Note (2023), the model has the following specification:

$$FARM_{i,t} = \beta_1 RAIN_{i,t} + \beta_2 CASHEW_t + \beta_3 IMPORT_t + \eta_i + \lambda_t + \varepsilon_{i,t}$$

where $FARM_{i,t}$ is log of area of rice farm vegetations of region i in year t; $RAIN_{i,t}$ is log of annual precipitation; $CASHEW_t$ is log of producer prices of cashew nuts; $IMPORT_t$ is log of volume of rice imports; and η_i and λ_t are, respectively, region and year fixed effects. Data on precipitation and rice imports are obtained from the NASA Giovanni and COMTRADE databases. In absence of data on regional level prices, cashew producer prices use the national average for all regions. In addition, in absence of data on distributions of imported rice to regions, the import volume uses the country's total imports for all regions. The panel includes rice farms in the three regions (northern, southern, and eastern). The sample period covers 2013-2024, corresponding to that of Landsat 8-9 imagery.

28. The results suggest that increases in cashew income cause decreases in rice cultivation in Guinea-Bissau. The estimation results show that a coefficient of cashew producer prices is statistically significant and has a negative sign (Table 2). It means that 1 percent increase in cashew producer prices causes 0.8 percent drop of area of rice farm vegetation. Coefficients of other variables are not statistically significant. In all regions, area of rice farm vegetation shoot up in 2023 when a disastrous cashew campaign caused a drop of the producer prices (CFAF 215/kg), while the same area shrunk significantly in 2017 when the boom in international cashew markets raised the producer prices to the highest level (CFAF 642/kg) (Figure 17). In the southern and northern regions, area of rice farm vegetation also expanded in 2020 when the pandemic disturbed logistics and caused drop of cashew income. These suggest that many farmers who grow cashew nuts keep rice farms as backup and cultivate them only when cashew income is insufficient to buy imported rice. This is aligned with anecdotal information that in 2023 when cashew income plummeted but imported rice prices overshoot, many farmers increased sharply the rice cultivated area, some chopping down cashew trees to convert plantations back to rice farms. Such practice to switch on and off rice production could explain eventual abandonment of rice farms, because uncultivated farms can quickly become unusable with invasion of strong natural vegetations and destruction by violent rainfall.

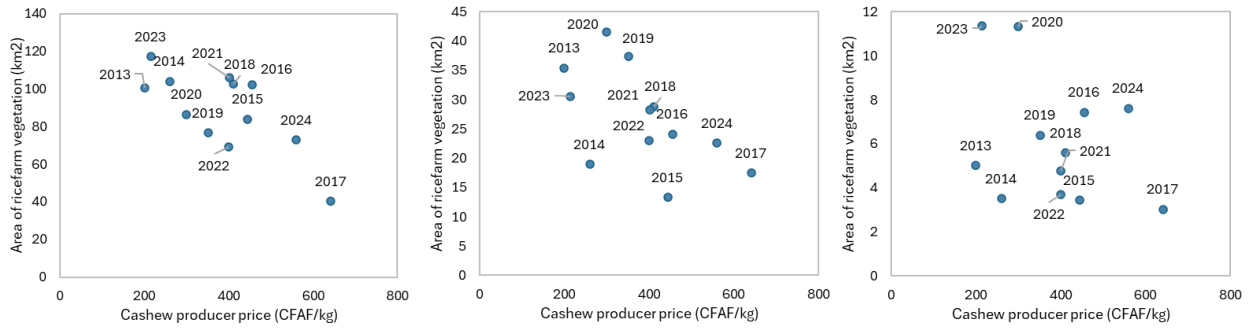
Table 2. Regression Results: Area of Rice Farms

Dependent variable: area of ricefarm vegetation	
RAIN	1.1961
	[0.63198]
CASHEW	-0.8493 **
	[0.18682]
IMPORT	0.8620
	[0.46488]
Observations	36
Number of groups	3
R squared	0.7016
Zone fixed effects	Yes
Year dummies	Yes

Robust standard errors are shown in parentheses below the coefficient estimates.
*** denotes significance at the 0.01 level, ** denotes at the 0.05 level, and * denotes at the 0.1 level.

Source: IMF staff calculations.

Figure 17. Area of Rice Farm Vegetation



Source: IMF staff calculations.

Policy Response to Cashew Nuts Curse

29. The government should implement the two priority projects included in the ECF-supported program to support rice production in the short run. Given the empirical estimation, the relationship between cashew and rice production seems similar to the Dutch disease phenomenon, for which no one-size-fits-all solution or 'cure' is available. Therefore, increasing rice production and breaking 'cashew nut curse' requires the "food system transformation", which is supported by the World Food Program (WFP) and other donors and includes policies and reforms for not only agricultural inputs and infrastructure but also market development, social protection, transportation, and access to credits and financial services. Implementing such broad reforms would require sequenced actions in the medium to long run and should be enshrined in the new National Development Policy 2025-34. In the short run, the government should push for the two priority projects committed under the ECF-supported program, namely the project to expand the National Institute of Agricultural Research (INPA) and the school feeding project.

30. The government should support operations of the INPA, which is the only institution for seeds preservation and farmers' education. AFR-RES Departmental Paper (2022) and IMF Note (2022) underscore the criticality of the seeds system, which will ensure the high quality of agricultural inputs customized to local environments, and improvements to agricultural practices, which provide an alternative to expensive imported inputs and avoid dependence on government subsidies. In case of Guinea-Bissau, seeds preservation and agricultural education are highly prevalent, due to a high share of mangrove rice, which requires complex water management practices and scarce varieties' seeds (Garbanzo et. al. (2024)). Currently, the INPA is the only institution that performs these critical functions (Box 1). Despite its criticality, the INPA has been left in dire financial conditions for years, without receiving any funding from the budget other than wages. As a result, the main rice center in Contuboel, Bafata has been cultivating only 2 ha out of 141 ha of experimental farms, endangering scarce rice varieties and weakening support for local seeds producers. To safeguard the minimum resource for the INPA, the government should meet the ECF Indicative Target of spending for the priority projects and activities, including the INPA's operational costs as well as its expansion project.

Box 1. Roles of the INPA in Seeds Preservation and Agricultural Education

Seeds preservation – Currently, the national seeds system of Guinea-Bissau has nearly vanished, and most of seeds are imported from neighboring countries. The INPA has been the last line of defense to preserve seeds of scarce rice varieties, including those of mangrove rice, and produce high quality seeds for seeds producers (i.e., seeds of seeds). It also supports livelihood of seeds producers by employing them for cultivating the INPA's experimental farms.

Agricultura education – Customizing agricultural practices is important because agricultural practices that are successful in one place may be facing challenges in another place. For example, as explained in Staff Report of the Third Review, the System of Rice Intensification (SRI) was successful in improving productivity of rice farms in Bissau City. However, implementing the SRI is more challenging in remote places such as Bafata where access to necessary inputs, such as organic fertilizers, is limited. In absence of agricultural schools, the INPA is taking active roles in experimenting and customizing new practices with local farmers, who in turn become trainers for other farmers.

31. The government should roll out the school feeding project that would help create a supply chain of domestically produced rice. In recent years, demands for domestic rice in urban areas have been on the rise because they are organic and fresh and taste better than imported rice, which tends to be aged before arriving in Guinea Bissau. However, the existing rice wholesalers deal only with imported rice, and there is no market or shops where local farmers can sell domestic rice. To create a supply chain of domestic rice, the WFP and other donors have been supporting the school feeding project where the project purchases rice from local farmers and donates to schools, which then offer school meals. This has multiple benefits to create an income opportunity for local farmers, develop a supply chain for domestic rice, and improve school attendance (see Staff Report of the Third ECF Review).[3] While at this moment this project is entirely financed by external grants, the government should consider co-financing it from the budget, so that the project can continue after the donors leave the space.

32. The government should strengthen the monitoring of outcomes of the large agricultural projects. Despite lack of funding to the INPA or the school feeding projects, the agricultural sector has been one of the main beneficiaries of external project loans. Between 2018 and 2024, these loan-financed agricultural projects created 1.9 percent of GDP of additional debt. However, effectiveness of these large projects appears to be doubtful. For example, in 2019, the government took 0.5 percent of GDP of external loans to rehabilitate 45 ha of the INPA's experimental farms. Although the final report of the project claims that the construction work was completed, the contractor abandoned the site after flattening the existing farmlands, without assembling hundreds of concrete gutters. This ruined the experimental farms and caused loss of jobs for 300 seed producers. The same project also replaced a roof of one of the INPA's warehouses, which collapsed during a minor storm, although there was no damage to a roof of another warehouse constructed 50 years ago. As another example, the Kebur project, which was to be financed by a loan of about 2 percent of GDP but cancelled at the combined fourth and fifth review,

[3] See IMF Country Report No. 2023/403.

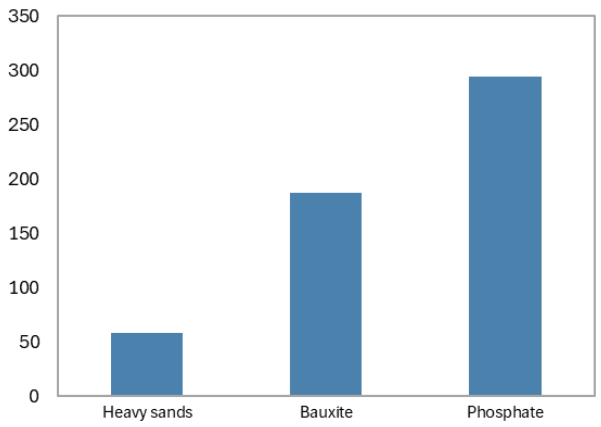
planned to provide excessive quantity of seeds, which would be unusable and could only be wasted or eaten as foods (see Staff Report of Third Review). As committed under the ECF-supported program, the government should verify outcomes of these large agricultural projects, beginning with an inspection by the Inspector-General of Finance and the National Secretary of State Property of the already terminated projects, including the one that ruined the INPA's farmlands.

D. Other Sectors

Mining Sector

33. Guinea-Bissau has the mineral reserves that could boost exports by at least 12 percent of GDP in the short run. Currently, there are three mineral reserves that are confirmed to exist in Guinea-Bissau: (i) heavy sands in Varela, Cacheu region; (ii) bauxite in Boé, Gabú region; and (iii) phosphate in Farim, Oio region. The feasibility study in 2023 estimates the proven reserves of phosphate in Farim to be 43.8 million ton, which is similar to the reserves in Senegal (50 million ton) and Togo (30 million ton).[4] Geological studies also estimate the reserves of heavy sands and bauxite to be 0.78 million ton and 113 million ton, respectively. By using market prices of these minerals, the value of these reserves is estimated to be 541 percent of 2024 GDP, out of which the proven reserve of phosphate amounts 295 percent of 2024 GDP (Figure 18). The feasibility study in 2023 estimates annual production of the Farim phosphate mine to be 1.75 million ton. This means that operationalizing one mine alone would generate 11.8 percent of 2024 GDP of additional export. If all three mines are operationalized and their reserves are excavated over 25 years, it would generate around 21.6 percent of 2024 GDP of additional export.

Figure 18. Mineral Reserves
(Percent of 2024 GDP)



Source: IMF staff calculations.

34. Securing a reliable licensee is the biggest challenge facing the mining sector in Guinea-Bissau. As with the case of other countries in the region, it has been very difficult for Guinea-Bissau to find a mining company that has firm commitments to operationalizing a mine with adequate financing and compliance, as shown below:

- **The Farim phosphate mine** – The license was granted to a US company in 2009, but the mine has not been operationalized to date. Because the WAEMU revised the regional Mining Code in 2023, the government requested to update the contract in line with the new code, but the company has not responded. It is somewhat unclear whether the licensee remains committed to operationalizing the mine.

[4] USGS Mineral Commodity Summaries 2025.

- **The Boé bauxite mine** – The exploration license was granted to an Angolese company in 2007, but due to lack of financing and other problems, the licensee failed to make progress. The license was cancelled in 2022. Since then, several companies have expressed interests in the license. The government is planning to undertake a study and launch a public tender of the license.
- **The Varela heavy sands mine** – The exploration license was granted to a Russian company in 2014. Although the project had a good start, it was interrupted by issues in compliance with environmental regulations, which the company could not resolve. The license was cancelled in 2022. Another license was granted to a Chinese company in 2023. The company has firm commitments to all required investments, including social investments, but run into communication problems with the local community, which has been escalating protests against the mine. The government has been attempting to mediate a solution to unblock the impasse.

35. In the short run, the government should prioritize preparation of a national mineral resource map. In addition to making progress in licensing of each mine, it is important to strengthen capacity of the Ministry of Natural Resource responsible for the mining sector. In particular, lack of a national mineral resource map, which shows locations of potential reserves of different minerals, poses significant constraint on the sector's development. Indeed, undertaking nation-wide geological studies for the map preparation is highly promising to discover new reserves other than the three confirmed ones. To carry out such studies, more resources are needed for the Ministry of Natural Resource. While a donor (Russia) has been offering scholarship for 70 staff of the ministry, which helps the capacity development, the ministry can hardly meet costs of field studies. It would be an option to raise the exploration license fees, which are set at an extremely low level (CFAF 1 million per year) and have not been updated for years.

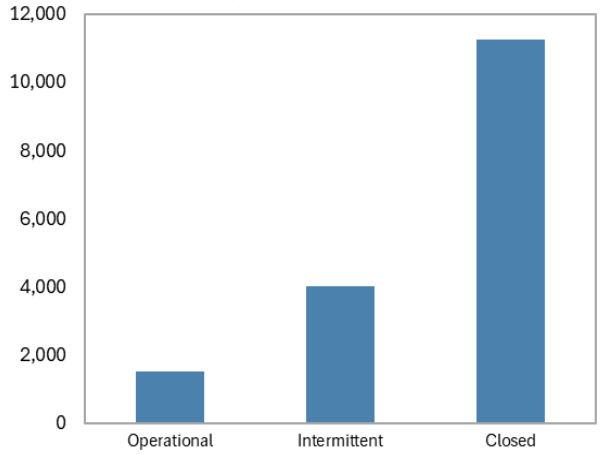
Manufacturing Sector

36. The manufacturing sector of Guinea-Bissau is concentrated in cashew processing, which is very small from a macro point of view. In the 1980s, the authorities established several state-owned factories to develop the manufacturing sector. They included, among others, a shipyard, a car assembling factory, a sawmill, a juice factory, and a factory for men's suits. They were all privatized and closed in the 1990s and 2000s in the midst of the civil war and political instability. Currently, most of large factories in Guinea-Bissau, including a cement factory of CIMAF, deal only with the very end of the process such as packaging. Cashew processing factories do transform raw materials to final products, but their installed capacity is limited to around 20,000 ton/year, or about 10 percent of total production.

37. Around 90 percent of cashew processing factories are closed or idle due to lack of competitiveness. The Directorate General of Industry, which is responsible for oversight of the manufacturing sector, undertook a survey of cashew processing factories in 2024. Out of the existing 18 factories, the survey analyzed 13 factories. The results show that only 4 factories with 1,500 ton/year of capacity are fully operational; 2 factories with 4,000 ton/year of capacity operate only intermittently; and 7 factories with 11,244 ton/year of capacity are closed or have never been operationalized since their establishment (Figure 19). The most common reason for the closure is

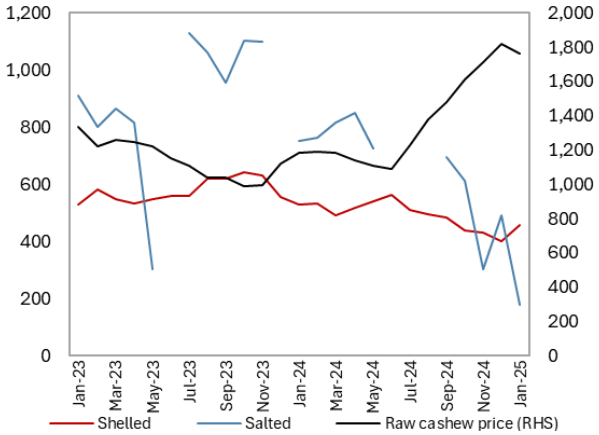
"lack of raw materials", suggesting insufficient profitability to afford raw cashew and keep factories open. This is partly because international prices of processed cashew do not always move in tandem with raw cashew prices, and the margin tends to shrink when raw cashew prices are on the rise. For example, when raw cashew prices increased in late 2024, relative prices of shelled cashew dropped from 642 percent to 403 percent of raw cashew prices, and those of salted cashew plummeted from 1,130 percent to 180 percent of raw cashew prices (Figure 20). For Guinea-Bissau, which is less competitive in terms of production costs than large countries such as China and India, volatile movement of international prices could easily wipe off the relatively thin profit margins. Because most factories are financed from own funds, they are unable to carry over losses in a particular year through bank credits and end up closing the door.

Figure 19. Installed Capacity of Cashew Processing Factories, (Ton/year)



Source: IMF staff calculations based on the survey of the Directorate General of Industry.

Figure 20. Relative Price of Processed Cashew
(Percent of raw cashew price, US$/ton (RHS))



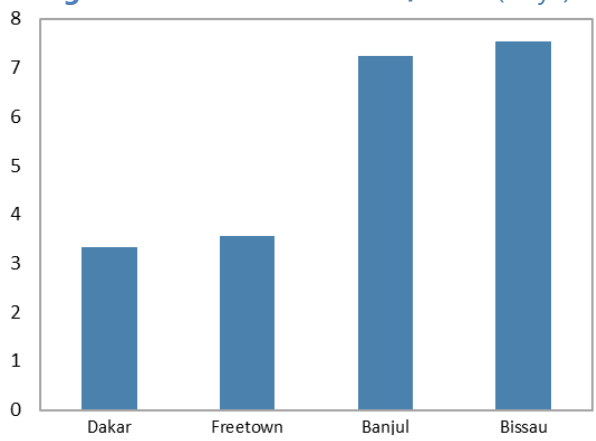
Source: IMF staff calculations based on India's export prices of shelled and salted cashew and its import prices of raw cashew.

38. In the short run, the government should reactivate the technical assistance program to help identifying niche markets. There is no short-term solution to boost competitiveness of Guinea-Bissau cashew processing factories to the level of large countries. Offering subsidies in a form of tax exemptions or lowered raw cashew prices is unaffordable and unsustainable and thus should be avoided. Given the small-scale operations, finding niche markets would be a good survival strategy for Guinea-Bissau cashew processing factories. For example, one of the factories that remain operational produces a variety of products such as juice and jams of cashew fruits and has obtained a certificate needed to sell them to Italian clients. The Directorate General of Industry used to have the technical assistance program to offer consultation services to factories, which was found effective. The government should consider reviving this program to advise factories on management and marketing strategies. Such program could be financed from a small share of the Directorate General of Industry in raw cashew sales, which also used to exist but was recently taken away after reshuffling of the ministries.

Port Infrastructure

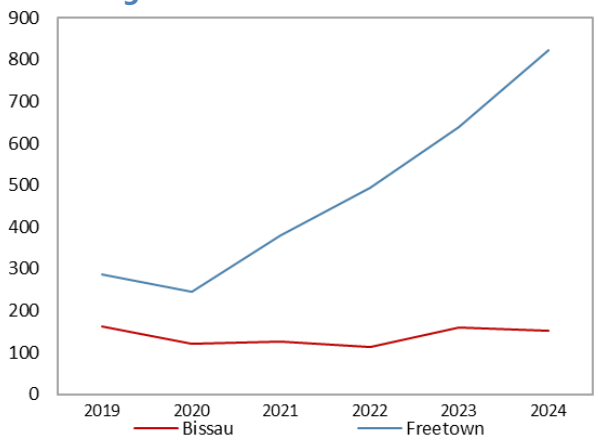
39. The Port of Bissau poses severe constraint on Guinea-Bissau's international trade. The Port of Bissau has only one commercial terminal that is only 260 m long. There has been no major investment since it was constructed in the 1970s. As a result, the terminal cannot catch up with recent enlargement of the ships sizes, which is common to be 300-400 meters long. Because only small-sized vessels can berth the terminal, Bissau has been detached from the global navigation route and become an onerous destination branched out from other port where cargos are moved from large vessels to small vessels. Furthermore, lack of port equipment makes offloading and uploading extremely time-consuming. The terminal, for example, does not have any cranes. Containers are handled only by a reach stacker (i.e. a car with a magnetic arm). The situation is worse for bulk cargos. Inside a ship, several workers manually pile up 50kg sacks on a cargo lifting net, which is hoisted by ship's crane and put on a truck where another group of workers manually remove and pile up sacks again. This labor-intensive process takes 4 entire days to offload just 15,000 ton of rice. Because only one ship can berth at a time, other ships have to wait off the coast until this process ends. This results in Bissau's turnaround time being the longest in the region (Figure 21). This increases already-elevated logistical costs for carriers and traders. Consequently, fewer ships are willing to come to Bissau. Number of port calls dropped from 163 in 2019 to 114 in 2022 when Maersk abandoned its shipping route to Bissau, and it has never recovered to the pre-pandemic level (Figure 22). This is in a sharp contrast to Port of Freetown, Sierra Leone, which has emerged as a reginal hub.

Figure 21. Turnaround Time, 2023 (Days)



Source: IMF staff calculations.

Figure 22. Number of Port Calls

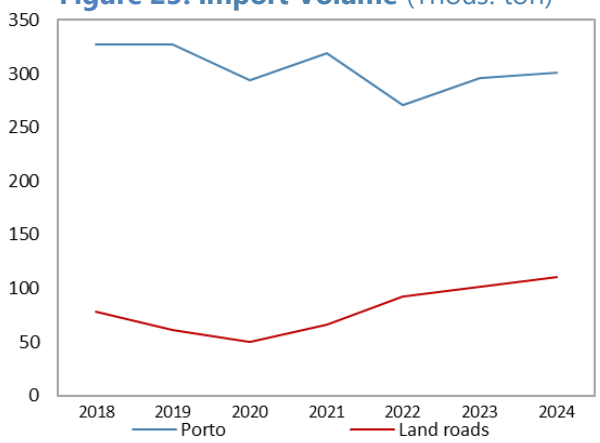


Source: IMF staff calculations.

40. Constraints on the Port of Bissau hinder revenue mobilization. For the last few years, volume of imports through the Port of Bissau has been on a declining trend, while volume of imports through land roads has been on the rise (Figure 23). These two are likely to be related. For example, when Maersk withdrew from Bissau in 2022, many imports were rerouted from the Port to land roads. As a results, volume of imports through the Port dropped by 15 percent, while those through land roads increased by 39 percent in 2022. Because land borders have weaker controls and offer more opportunities of tax evasions, when difference in logistical costs through the Port and

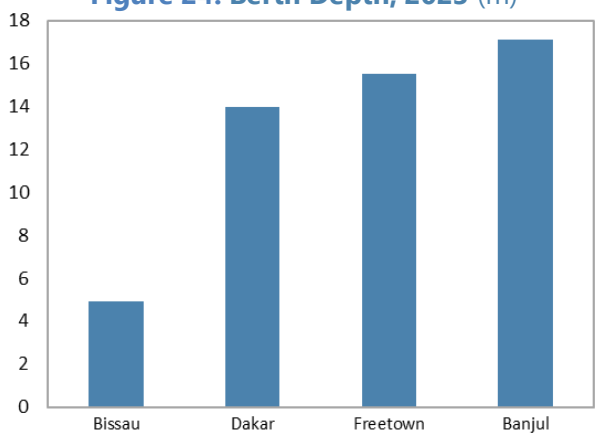
land roads becomes smaller, importers have strong incentives to shift trade flows from the Port to land roads, as observed in recent years. This hinders customs revenue mobilization, because detecting and controlling smuggling at land entries is very difficult in the absence of appropriate infrastructure at the land borders.

Figure 23. Import Volume (Thous. ton)



Source: IMF staff calculations.

Figure 24. Berth Depth, 2023 (m)

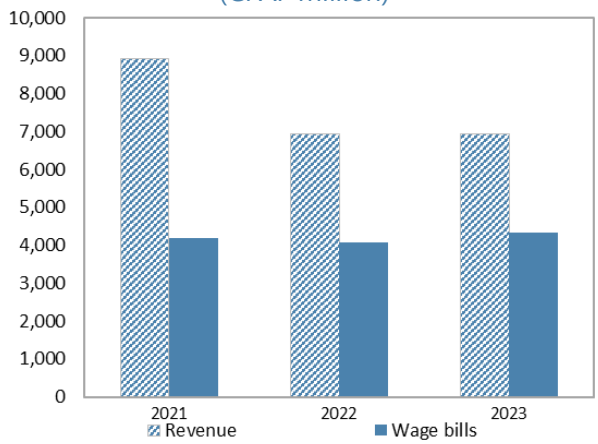


Source: IMF staff calculations.

41. The Port infrastructure and equipment has deteriorated over time. In the absence of regular dredging, the Port of Bissau's berth depth has become dangerously shallow (Figure 24). This imposes further limits to ships that can berth the terminal. Given the absence of maintenance, five reach stackers are out of order, and the only functioning one may break at any time. A bridge connecting the terminal was badly damaged when two ships crushed into it due to a storm two decades ago and have not been repaired since then. Pavement of some port areas has not been resurfaced for years and has many pitfalls, creating safety hazards. The only scaler, which is the lifeline of the customs controls, has been heavily used without maintenance and its surface with several cracks can fall apart at any time. These dilapidated conditions of the Port increase risks to carriers and are likely to affect further availability and costs of shipping to and from Bissau.

42. In the short run, the government should review the port fees to secure financing for the urgent maintenance needs. Currently, the port fees are calculated in the same manner as taxes. They use the same tax reference prices, and tax exemptions apply to the port fees. In 2022 and 2023, when tax reference prices of fuels and foods were decreased due to tax cuts, revenue of the Port Authority of Guinea-Bissau (APGB) dropped significantly (Figure 25). Because the wage bill was rather increasing during the same period, other operating costs of the Port were squeezed

Figure 25. APGB Revenue and Wage Bill
(CFAF million)



Source: IMF staff calculations.

out. This included maintenance costs. This dire financial situation should be turned around. Given labor-intensive port operations, rationalizing the APGB's wage bill is unlikely to generate significant saving. A more realistic option would be to charge the port fees on tax exempted imports. Currently, tax exempted businesses or public sector projects do not pay the port fees. This is not justifiable because their imports create the same handling costs for the APGB as tax-bearing imports.

43. In the medium term, substantial investments are needed to remove constraints on the Port of Bissau. Currently, there is no project supporting the expansion and modernization of the Port of Bissau. The APGB has signed a loan contract with the BOAD to finance rehabilitation, but this project is relatively small, focusing on maintenance issues (such as dredging and equipment), and its implementation has been slow given that the loan does not have a government guarantee and the APGB's financial conditions are very weak. To finance substantial investments needed to construct another terminal with sufficient length and equipment, the existing institutional arrangement based on a state-owned enterprise may have limitations. The government should explore other financing options, including a concession similar to one for the ongoing airport project.

E. Conclusion

44. Guinea-Bissau has significant potentials for economic diversification, which can be realized in the medium term by effective policy interventions. The fishing sector can have an immediate impact by processing in Bissau significant amount fish currently caught in EEZ of Guinea-Bissau (about 20 percent of GDP) but offloaded in other countries. The new National Development Plan should prioritize construction of the industrial fishing port. The mining sector can increase exports by 11 percent of GDP only with the operationalization of the Farim phosphate mine. To that end, the government should bolster its efforts to seek for licensees with adequate commitments and financing. Guinea-Bissau has less competitiveness in cashew processing for which niche markets should be discovered for survival. Severe constraints on the Port of Bissau create high risks of Bissau being isolated from international shipping routes. Financing models should be explored for the substantial investments to the port. For the domestic economy, rice production has declined due "cashew nut curse" and in some areas of the country is literally near extinction, putting food security at high risk. The government should sharply rationalize the large agricultural projects with little outcome to create space for more effective projects and policies.

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BOLSTERING SOCIAL PROTECTION AND HUMAN CAPITAL TO PROMOTE INCLUSIVE GROWTH[1]

Guinea-Bissau's social sectors face persistent challenges despite the progress made over the past few years. This paper reviews existing social protection programs in the country, assesses the efficiency and adequacy of public spending to build human capital, and formulates recommendations to enhance value for money in social spending. Government spending on education and social protection has been low compared to regional peers, which partly reflects weak domestic revenue mobilization and volatile donor support. However, total health spending has been relatively high due to large out-of-pocket payments. Despite significant progress on certain social indicators, overall social outcomes remain poor relative to peers. Significant salary payment delays, followed by periods of strikes, have jeopardized the quality of services delivered in the health and education sectors. The much-needed expansion of health and education services to cover a larger segment of the population is expected to generate significant structural fiscal pressures, underscoring the need to enhance value for money in social spending. Moreover, strengthening macroeconomic policies will be critical to mobilize additional donor support while advancing structural reforms and creating fiscal space to allocate more domestic resources to social sectors should be a key government priority. At the same time, improving transparency and accountability in the health and education sectors, along with a rebalancing of spending towards investment in equipment and facilities, would yield efficiency gains. Regarding social protection, the analysis shows that Guinea-Bissau would benefit from implementing ambitious and well-targeted social programs and moving away from untargeted subsidies. The government has already started adopting digitalization in public administration, which offers promising options for the management of social protection programs.

A. Introduction

1. Guinea-Bissau is a fragile state with significant, yet largely unfulfilled, development potential. The country has a history of political and institutional instability dating back to its independence in 1974, having experienced four successful coups d'état and several attempted coups. Guinea-Bissau is one of the poorest countries in the world despite positive economic growth trends in recent years. While GDP growth has been positive over the last decade, it has been quite volatile due to heavy dependence on cashew nuts and the country's exposure to a variety of domestic and external shocks (Figure 1). Smallholder agriculture accounts for about one-third of GDP and employs about 60 percent of the labor force. Public spending related to education, health, water, and roads is almost exclusively devoted to salaries, with little or no resources allocated for the construction of new infrastructure or the rehabilitation of existing facilities.

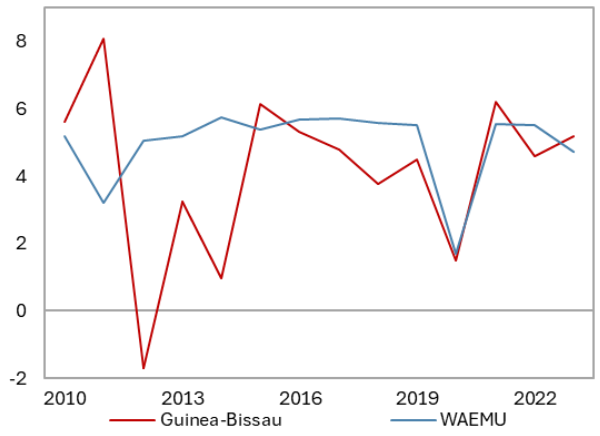
2. Guinea-Bissau falls in the category of countries with low human development. The country ranked 179 out of 193 countries in the 2023/2024 Human Development Report.[2] According

[1] Prepared by Babacar Sarr.

[2] https://hdr.undp.org/content/human-development-report-2023-24.

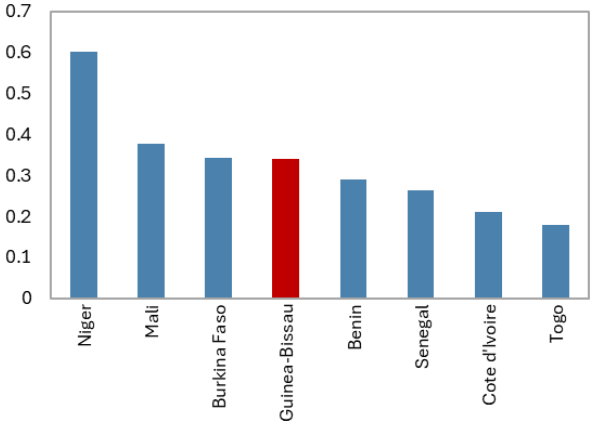
to the UNDP's 2024 Multidimensional Poverty Index (Figure 2), approximately 65 percent of the population experience multidimensional poverty, with 53 percent living in a situation of severe deprivation. While the share of the population in multidimensional poverty has declined significantly in the WAEMU (by more than 15 percentage points in the last decade), this ratio has barely changed in Guinea-Bissau, where it was 66 percent in 2014. Moreover, the absence of essential health services and educational opportunities in Guinea-Bissau hinders human capital development, perpetuating intergenerational cycles of poverty while affecting productivity and growth.

Figure 1. Real GDP Growth
(percent)



Source: October 2024 WEO Database.

Figure 2. Multidimensional Poverty Index
(0 to 1)



Source: UNDP 2024 Human Development report.

3. In this context, government interventions in social sectors (health, education, and social protection) are key to supporting the country's development objectives. The Sustainable Development Goals (SDGs) highlight the criticality of adequate and efficient social spending to eradicating poverty (SDG 1), reducing inequality (SDG 10), promoting gender equality (SDG 5), ensuring quality education (SDG 4), and achieving universal health coverage (SDG 3). Bolstering social protection and building human capital are essential for reducing poverty, exclusion, and inequality, while also enhancing political stability and social cohesion.

4. Social spending features prominently in Guinea-Bissau's current Extended Credit Facility (ECF) arrangement[3]. One of the ECF program objectives is to ensure, through a quantitative performance criterion, that adequate resources are allocated to the Ministry of health, the Ministry of education, and the Ministry in charge of social protection spending and poverty-related interventions. Additionally, with the strong emphasis put on domestic revenue mobilization and measures to strengthen public financial management systems, the ECF arrangement aims to

[3] The IMF strategy for engagement on social spending underscores the critical role of social spending—defined as social protection, health and education spending—as a key policy lever for promoting inclusive growth, addressing inequality, protecting vulnerable groups during structural change and adjustment, smoothing consumption over the lifecycle, and stabilizing demand during economic shocks. https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/06/10/A-Strategy-for-IMF-Engagement-on-Social-Spending-46975

create the fiscal space needed to scale-up priority spending including in education, health, and social protection.

5. The objective of this paper is to provide an overview of social protection policies in Guinea-Bissau and to assess the adequacy and efficiency of health and education spending.[4] Using data from household surveys, budget documents, and international development partners, the paper conducts an up-to-date mapping of highly fragmented social programs and their coverage, and provides policy recommendations to successfully implement the newly adopted National Social Protection Strategy. The paper also reviews Guinea-Bissau's health and education spending levels compared to regional peers and assesses whether budgetary resources allocated to these sectors translate into better human capital outcomes.

B. Overview of the Social Protection System in Guinea-Bissau

6. Social protection policies play a critical role in helping individuals cope with idiosyncratic shocks and in reducing poverty and vulnerability. In the case of Guinea-Bissau, the government's interventions in social protection can be grouped as follows:[5]

- *Social insurance and pensions.* These are mainly contributory schemes designed to provide social protection against old age, disability, death of the main household provider, maternity leave, and social health insurance. Examples of such insurances include the pension scheme administered by the National Institute of Social Security (INSS).
- *Social safety nets.* There are non-contributory programs often targeted at one specific population and aimed at enhancing households' income and improving the lives of poor and vulnerable populations. Examples of such interventions include low-scale cash transfers, school feeding programs, and transfers to freedom fighters.

7. Two ministries are in charge of social protection, one for contributory schemes (social insurance) and the other for non-contributory schemes (social assistance). On the one hand, the Ministry of Public Administration, Labor, Employment, and Social Security (MAPTESS) supervises contributory social protection, exercising oversight over the National Institute of Social Security (INSS). On the other hand, the Decree-Law 03/2020 on the structure of the government established that at the central level, the Ministry of Women, Family and Social Solidarity is the government body responsible for formulating, coordinating, and implementing government's policies related to the protection of women, family and society in general, especially the most vulnerable.

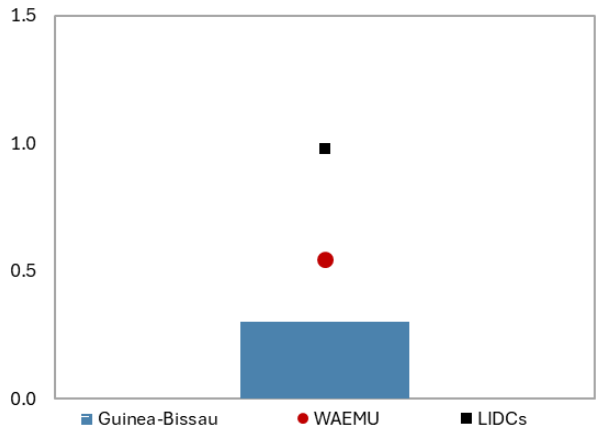
8. However, social protection expenditures are not explicitly presented in budget documents. The budget laws do not use the standard classification of government functions, which would readily permit the identification of social protection expenditures. Furthermore, ministries

[4] In addition to being efficient and adequate, social spending also needs to be financed in a sustainable manner, including by creating fiscal space (see Selected Issues on domestic revenue mobilization).

[5] Food and fuel subsidies are also an important stabilization policy used by the government of Guinea-Bissau. The subsidies consist of price controls, full exemptions, or reduced tax rates on basic food products like rice, sugar, flour, and oil.

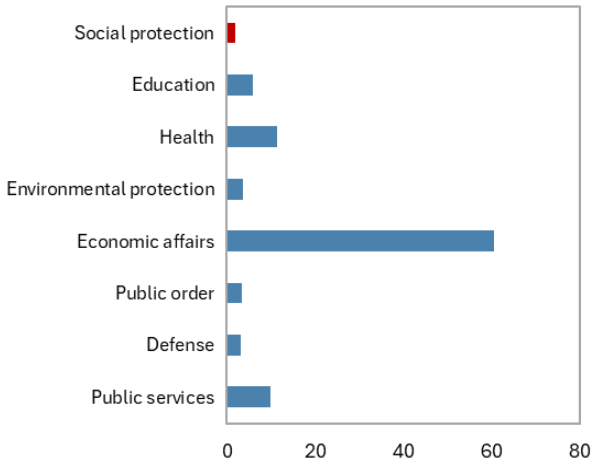
often spend outside the budget using off-budget resources or make expenditures without a designated budget line, for instance by classifying these as "other expenditures." The data compiled from ministries show that only limited resources are allocated to social protection (Figures 3 and 4). In this context, the bulk of available information with regard to social protection programs is provided by international development partners (e.g., Food and Agriculture Organization – FAO, United Nations Fund for Children – UNICEF, World Food Program – WFP, and the World Bank).

Figure 3. Social Assistance Spending, 2023
(Percent of GDP)



Source: IMF Expenditure Assessment Tool and author's calculations.

Figure 4. Public Investment Plan, 2023
(Percent of total PIP)



Source: Ministry of Finances, 2023 Budget.

Social Insurance

9. Expenditures on social protection are mainly devoted to contributory schemes, which are limited to workers in the formal sector. The overwhelming majority of the active population works in the informal sector and therefore lacks social insurance coverage. According to data from the Ministry of Finance, about twenty-four thousand people contributed to the public sector pension scheme in 2023, while the INSS pension scheme covers about eight thousand people. Hence, less than 4 percent of the working-age population (15 to 59) actively contribute to a pension scheme while insurance coverage for accidents at work and occupational diseases is even lower, as only 1 percent of the working-age population benefits from such insurance. At the same time, only a small minority of the population over retirement age (60) receives an old-age pension (Table 1). Total expenditures on public pensions excluding transfers to freedom fighters reached FCFA 9 billion in 2023 (0.8 percent of GDP).

Table 1. Guinea-Bissau: Contributory Social Protection Coverage	
Categories	**% of population group**
Population 60 and over receiving a pension	17.2
Population 15-59 years old contributing to a pension scheme	3.7
Health insurance (men)	1.8
Health insurance (women)	1
Source: National Social Protection Policy, 2024.	

10. The pension regime managed by the INSS is quite comprehensive (Table 2). This regime covers private sector workers and their families for illness, maternity, disability, old age, death, and occupational diseases, among other benefits. It covers all the benefits contemplated in the International Labor Organization's Convention No. 102 (social security minimum standards), except for unemployment benefits.[6] The contribution rate for the INSS regime is set at 22 percent of the gross salary, of which 8 percent come from the employee and 14 percent from the employer. In addition, employers pay a contribution rate for insurance against accidents at work and occupational diseases, ranging from 2 to 10 percent of salary depending on the sector of activity.

Table 2. Guinea-Bissau: Key Features of the Old-Age Pension Schemes		
Parameters	**INSS**	**Public Administration**
Retirement age	60 years	60 years
Minimum years of contribution	10 years	15 years
Contribution rate	22% (of which 8% by worker)	6% (by worker only)
Accrued rate	2% of average monthly salary	2.8% of average monthly salary
Monthly pension	Average monthly salary * 2% * number of years of contribution	Average annual base salary*number of years of contribution/36
Maximum amount	80% of average salary before retirement	110% of average base salary before retirement
Source: National Social Protection Policy, 2024.		

11. The public sector pension scheme does not offer the same level of protection as the INSS and is limited to old-age benefits and health expenses. Civil servants do not receive survivors' or invalidity pensions, although they may benefit, on a case-by-case basis, from disability allowances provided in connection with health costs. However, health cost reimbursements, including the provision of aid for medical evacuation abroad, no longer exist in practice for civil servants. This benefit is currently suspended, except for government officials. The contribution rate is set at 6 percent of salary, with no set rate for the employer (the government), as pensions are financed from the general state budget and paid by the Treasury in the absence of a pension fund.

[6] The ILO Social Security (Minimum Standards) Convention, 1952 (No. 102) | International Labor Organization

The current system, financed on a pay-as-you-go basis, is inherently unsustainable because of a misalignment between retirement benefits and the contribution rate (World Bank, 2024).[7]

Social Assistance

12. The main non-contributory social protection benefit is a social transfer to the freedom fighters who fought during the War of Independence, their ascendants, and their descendants.[8] These transfers (also called pensions) are managed by the Ministry of Defense and funded by the annual budget. In 2023, 1,696 freedom fighters received an average monthly transfer of about FCFA 63,000, which was equivalent to about 44 percent of the average public sector salary (World Bank, 2024). These expenditures amounted to FCFA 1.3 billion (0.1 percent of GDP). In addition, there is a social fund to support freedom fighters, for example, to assist in purchasing medicines.

13. Beyond these transfers, state funds allocated to social assistance are limited, and existing programs consist primarily of dispersed short-term projects that are supported by international agencies. Most social assistance programs are funded by international development partners and are concentrated on food for education, including food distribution and school feeding (Table 3). Cash transfer programs are implemented on a limited scale, and a few projects have been executed in recent years with the support of the World Bank, WFP, UNICEF, and FAO. These programs are characterized by dependence on external funding, short-term implementation in a few administrative sectors and regions, management mechanisms outside the civil service system, and weak coordination between projects.

Table 3. Guinea-Bissau: Social Cash Transfers, 2018 to 2023

Project	Year	Households	Amount	Duration	Donor
Rural Community Development Project	2018	387	FCFA 10K per quarter	2 years	WB
Safety Nets and Basic Services Project	2019	5000	FCFA 8-10K per quarter	2 years	WB
Support for families affected by floods	2021	1080	FCFA 40K per month	4 months	WFP
Food Safety Urgency Project	2022	3000	FCFA85K	1 transfer	FAO/WB
SDG Joint Project	2023	1500	FCFA 40K per month	3 months	WFP

Source: National Social Protection Policy, 2024. Amount per member of household.

14. The coverage of the poor by social transfers has been quite low and volatile over the last few years. Table 4 presents data on the total number of individuals who received a cash transfer between 2020 and 2022 (latest data available). Except in the case of the Safety Nets and Basic Services Project, cash transfer programs were active for only a few months (or only once in the

[7] The formula for calculating the pensions leads to elevated levels of old-age pension relative to pre-retirement earnings. The accrual rate of 2.8 percent is one of the highest in sub-Saharan Africa.

[8] While these transfers are called pensions, there has been and there's no contribution from beneficiaries. Years worked before April 25, 1974 (year of independence) are counted as double the actual years of service.

case of the Food Security Emergency Project). The cash transfers (excluding COVID response) reached about 27,000 individuals in 2020 and about 66,000 in 2021, before decreasing to less than 7,000 in 2022. As a percentage of the population living in poverty, coverage peaked at 7.6 percent in 2021 before declining to less than 1 percent in 2022. This pattern mainly reflects the implementation, expansion, and completion of the largest cash transfer project, the Safety Nets and Basic Services Project. This highlights the inherent lack of sustainability of such donor-funded projects in the absence of a nationGal cash transfer program.

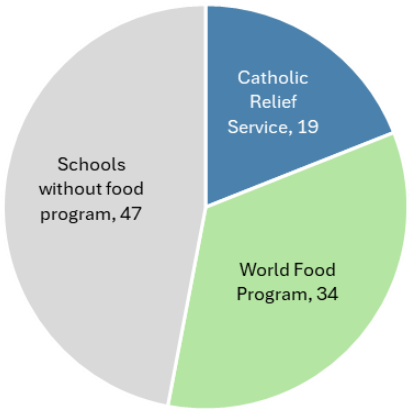
Table 4. Guinea-Bissau: Beneficiaries of Cash Transfers, 2020 to 2022

Beneficiaries	2020	2021	2022
Number of individuals	26474	65775	6670
% of total population	1.8	3.6	0.3
% of population in poverty	3.9	7.6	0.7

Source: National Social Protection Policy, 2024.

15. School feeding remains one of the largest social safety nets in Guinea-Bissau. In 2023, WFP provided school meals to 179,000 children in 852 schools, representing about half of the primary schools in Guinea-Bissau (Figure 5). Additionally, WFP provided take-home rations to nearly 25,000 girls in grades 5 and 6, and 635 children with disabilities. This encouraged families to enroll their children and keep them in school. WFP also signed agreements with farmers' cooperatives to provide smallholder agricultural market support and promote home-grown school feeding. However, some school canteens were closed for several weeks due to food shortages. Guinea-Bissau is also a recipient of the school canteens project implemented by the Catholic Relief Services and funded by the United States Department of Agriculture.[9] The first phase of the project (2019-2023), worth US$17 million (of which US$6 million was allocated to direct food support), aimed to improve school performance and encourage school attendance. It was implemented in five regions and covered 350 schools, providing meals to 86,000 students. The second phase of the project, worth $27.5 million and approved in 2024, aims to cover 130,000 students, including those in other regions. However, there are uncertainties with regard to the continuity of the school feeding programs in the context of shrinking international donor funding.

Figure 5. Primary Schools Covered by Food Programs, 2023 (Percent)



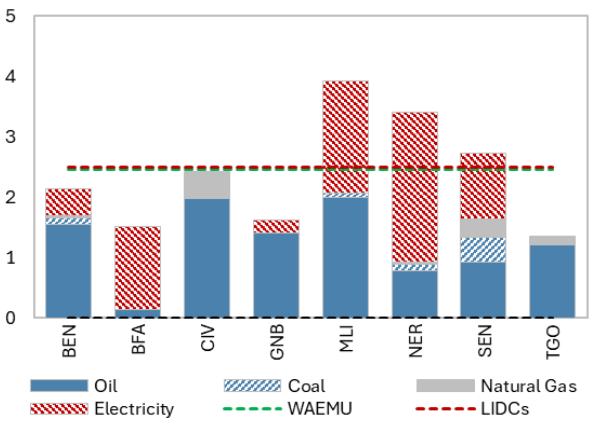
Source: WFP, CRS (2023).

[9] The McGovern-Dole International Food for Education and Child Nutrition Program helps support education, child development and food security in low-income, food-deficit countries around the globe. Besides, the United States Agency for International Development (USAID) has provided some financial support for elections and military training in recent years.

16. International partners are introducing new initiatives to provide direct support to the most vulnerable households. In January 2025, the World Bank approved a US$20 million grant to improve health, education, and social protection in Guinea-Bissau, targeting poor households. The project will run until 2030 and aims to improve access to quality social services. Key initiatives include regular cash transfers to poor households, the development of a national social registry, community health strategies, and the distribution of new teaching materials in schools. The project aims to directly benefit children under the age of five, pregnant women, and vulnerable households.

17. Given the lack of large-scale social programs, the government relies on subsidies to mitigate the negative effects of the high cost of living on households. Inflation has been high in recent years, exceeding 7 percent in both 2022 and 2023, before slowing to 3.7 percent in 2024. In response, the government increased food and fuel subsidies as a means of reducing the cost of living for households. In addition, the government has introduced price controls for a few staple goods. Food and fuel subsidies, often in the form of tax exemptions, are regressive and can be a drain on government resources. While data on total tax expenditures are not available, information from the Customs Directorate (DGA) shows that in 2023, tax exemptions at the border reached around 1 percent of GDP (FCFA 11 billion), of which 0.7 percent of GDP (FCFA 8 bn) were related to fuel products. These figures do not include tax exemptions granted by the General Directorate of Contributions and Taxes (DGCI) and are therefore underestimated. Implicit energy subsidies (that take into account the environmental costs and foregone consumption taxes) were estimated at 1.6 percent of GDP in 2023, well below the WAEMU average of 2.5 percent of GDP (Figure 6). Hence, subsidies and exemptions are much more costly than social protection programs, including those funded by donors. A rationalization of tax exemptions would create fiscal space for targeted financial support to the most vulnerable.

Figure 6. Energy Subsidies by Products
(Percent of GDP)



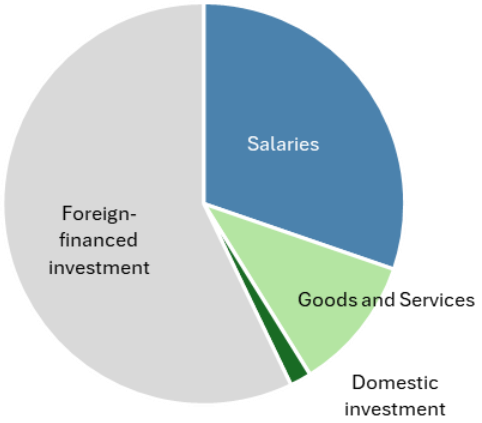
Source: IMF Expenditure Assessment Tool (latest value available) and author's calculations.

C. Benchmarking Health and Education Spending and Outcomes

18. There are different approaches for assessing the adequacy and efficiency of public spending. While recognizing that the adequate level of social spending likely varies by country, the level of spending relative to peer countries at a similar level of development can provide an initial assessment in terms of whether spending is particularly low or high. Social spending related inputs, outputs, and outcomes can also help inform spending adequacy. The assessment of spending efficiency varies by the types of social spending. In terms of inputs, the level and composition of spending can provide a preliminary sense of the government's policy priorities (Figures 7 and 8),

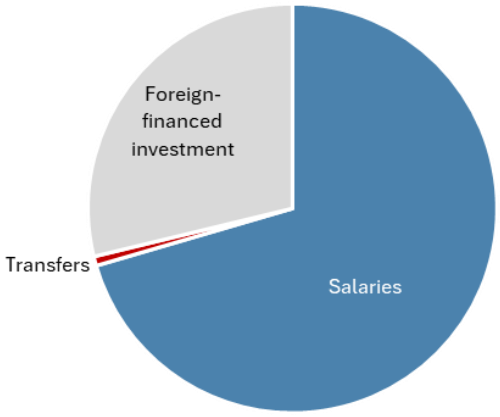
while in terms of outcomes, efficiency frontier analysis is frequently used to assess how a country is performing for a given level of spending.[10]

Figure 7. Composition of Spending, Ministry of Health, 2025 (Percent of total spending)



Source: Ministry of Finances, 2025 Budget.

Figure 8. Composition of Spending, Ministry of Education, 2025 (Percent of total spending)



Source: Ministry of Finances, 2025 Budget.

Education

19. The education system faces multiple challenges, such as poor infrastructure, low teachers' salaries, and governance issues. While access to primary education has improved markedly in recent years, the education sector faces ongoing challenges due to low capacity and delays in the payment of teachers' salaries. In this context, the education system is often paralyzed by repeated strikes, leading to low efficiency in resource utilization and poor educational outcomes. The sector heavily relies on volatile external aid to attain satisfactory educational outcomes. Compounding this issue is the inadequate qualification of teachers (UNICEF, 2024).

20. The civil servant census undertaken by the Ministry of Public Administration in 2022 revealed a substantial prevalence of ghost workers within the education sector. Compared to other ministries, education had one of the smallest reductions in both workers and salaries in relative terms following the census. However, due to its considerable employment size, it stood as the largest contributor to absolute financial savings through this census process. The elimination of ghost workers translated into annual savings of approximately FCFA 1 billion annually (about 4 percent of the education budget). Nonetheless, the census report indicated that 2,944 new hires have been made in 2022, thus significantly increasing the wage bill despite laying off the detected ghost workers.

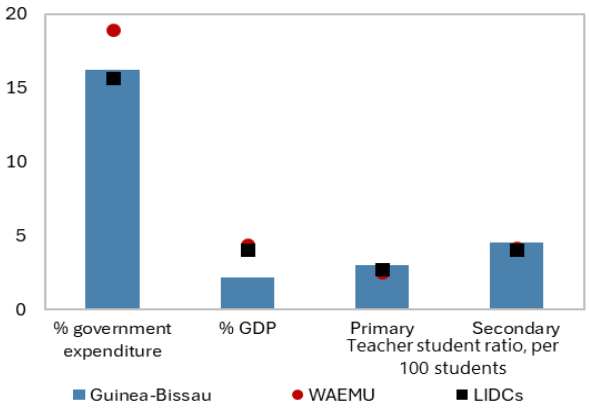
21. Expenditures on education stood at 2.1 percent of GDP in 2023, equivalent to less than half of the average ratio in the WAEMU (4.5 percent of GDP) (Figure 9)**.** Compared to its peers, Guinea-Bissau does not allocate sufficient resources to the education system. In terms of the composition of expenditures, the education budget was 16 percent of total expenditures, while this

[10] See the 2019 IMF strategy for engagement on social spending.

share averaged 19 percent in the WAEMU. In addition, most domestically financed expenditures are devoted to salaries, constituting about 90 percent of the total outlays in 2023. In contrast, spending on the purchase of goods and services, transfers, and domestically financed investment represented less than 2 percent of the total expenditures. However, Guinea-Bissau's teacher-student ratios are favorable compared to peers, for both primary and secondary schools, reflecting recent recruitment waves in the education sector and low school enrollment.

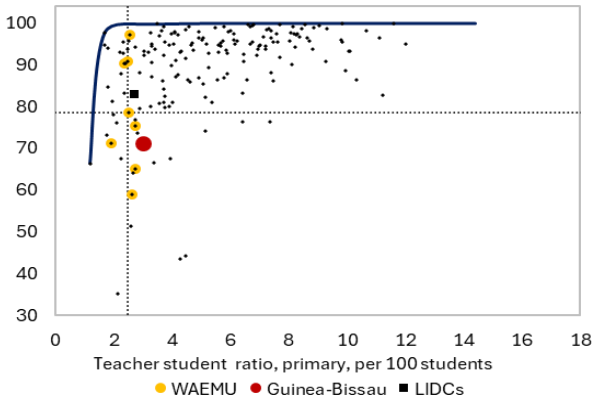
22. The low level of spending on education as well as its composition are reflected in Guinea-Bissau's educational outcomes. Guinea-Bissau has made some progress in access to education over the last decade, as evidenced by the marked improvement in the adult literacy rate from 45.6 to 54 percent of the population between 2014 and 2022. The net primary school enrollment has also increased over the last few years, from 62 percent in 2014 to 71.3 percent in 2022. Nonetheless, Figure 9 shows that Guinea-Bissau could benefit from efficiency gains in the use of teachers to achieve tangible outcomes (net primary enrollment being used as a proxy for outcomes). Guinea-Bissau also tends to have a lower net primary attendance rate than its WAEMU peers and other low-income developing countries (Figure 10). However, the adult literacy rate of 54 percent is slightly above the WAEMU average (Figure 11).

Figure 9. Education Spending and Teacher-Student Ratios



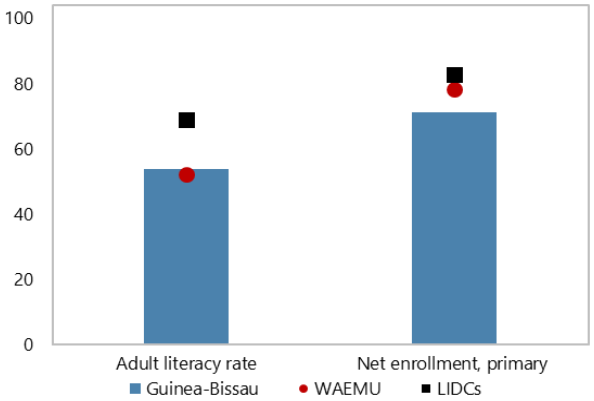
Source: IMF Expenditure Assessment Tool (latest value available) and author's calculations.

Figure 10. Teacher-to-Student Ratio and Primary Net Enrollment Rate (Percent)



Source: IMF Expenditure Assessment Tool (latest value available) and author's calculations.

Figure 11. Literacy and Primary Enrollment Rates (Percent)



Source: IMF Expenditure Assessment Tool (latest value available) and author's calculations.

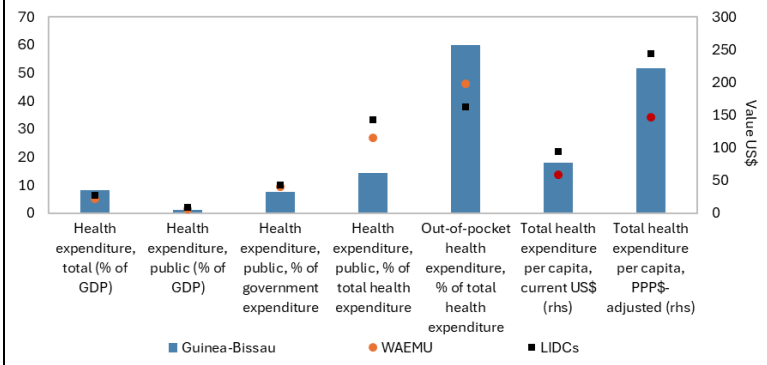
Health

23. The health system of Guinea-Bissau is fragile, reflecting persistent challenges due to poor infrastructure and weak governance. Given the country's history of persistent political instability and the slow pace of institutional reforms implemented in the last two decades, its health system is ill-equipped to deal with growing demand for quality health services. The healthcare delivery is organized across 11 districts at the local, regional, and centralized levels. Primary healthcare facilities are also classified into three types (A, B, C) depending on their capacity to deliver more or less complex health interventions. Despite efforts to dedicate adequate resources to the health sector, outcomes are lagging, and coverage is low. The education of health care professionals has largely relied on the support of the government of Cuba, primarily through medical teaching in Spanish.

24. As in the education sector, the 2022 civil servant census revealed a significant number of ghost workers. According to the Ministry of Public Administration, the number of workers was reduced by 11 percent, from 2,954 in March 2023 to 2,636 in December 2023, the month when the payroll was considered free of ghost workers. Similarly, the total amount of salaries paid declined by 10 percent in the same time span, which equates to yearly savings of around FCFA 0.5 billion.

25. Government spending level on health is broadly in line with the averages of low-income and WAEMU countries. Government health spending increased in recent years, reflecting a rapid increase in the number of healthcare workers. Guinea-Bissau's public health spending as a share of GDP is broadly in line with the WAEMU average but slightly below the LIDC average (Figure 12). However, total health spending per capita (both government and private) is about US$221 per person per year (on a PPP basis), much higher than the WAEMU average of US$146 per person per year. With government spending mostly dedicated to the payment of salaries, the health sector relies heavily on external donations and private out-of-pocket payments.

Figure 12. Health Spending



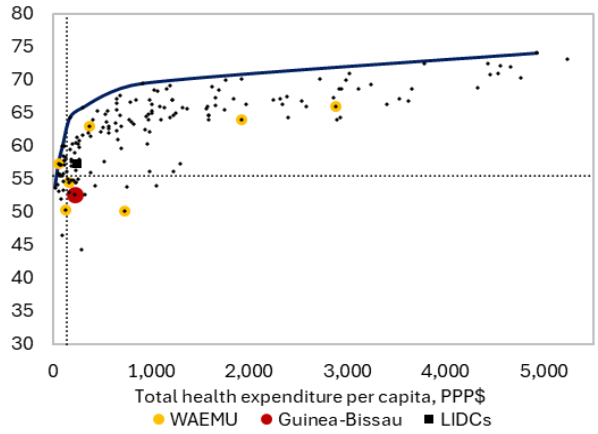
Source: IMF Expenditure Assessment Tool (latest value available) and author's calculations.

26. Total health expenditures (public and private) are much larger than those of its regional peers due to the very high share of out-of-pocket spending by households. Patients are the largest funder of Guinea-Bissau's health system, providing 60 percent of total health expenditures in 2023. In addition, due to the extremely low coverage of health insurance (only 1.4 percent of the population aged 15-49), almost all of this expenditure is actually made at the time of using health services. The share of out-of-pocket spending in health spending in Guinea-Bissau is much higher than the WAEMU and LIDC averages (46 percent and 37 percent, respectively). Due to

the limited state expenditure on health and the heavy reliance on donor support, households bear the brunt of health-related expenses. This reliance on private funding represents an ongoing risk of exacerbating poverty.

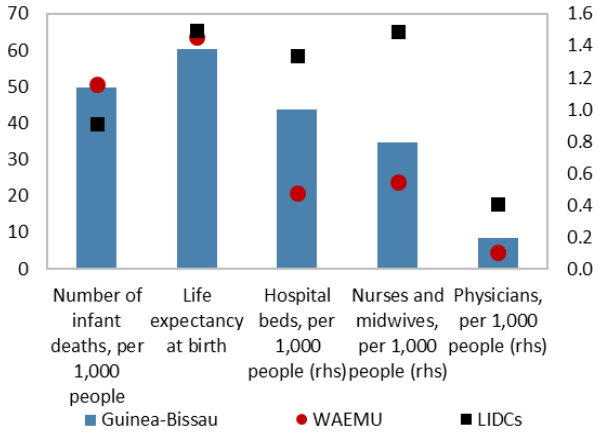
27. Moreover, user fees for services are only displayed in over half of the health centers nationally (World Bank, 2019). These fees are not standardized nationally, varying between and within regions. About 45 percent of facilities do not display any fees, leaving patients in the unknown about the charges they will face when seeking treatment, and making them vulnerable to arbitrary fees. Thus, user fees may vary from patient to patient within the same facility.

Figure 13. Health Efficiency Frontier
(Life expectancy at birth)



Source: IMF Expenditure Assessment Tool (latest value available) and author's calculations.

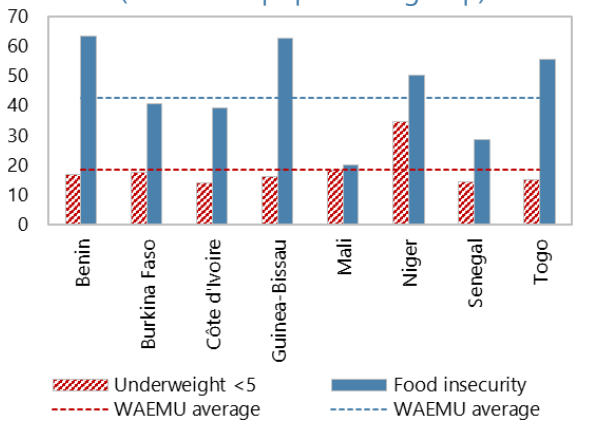
Figure 14. Health System Characteristics and Outcome



Source: IMF Expenditure Assessment Tool (latest value available) and author's calculations.

28. While the allocation of resources to the health sector seems appropriate, Guinea-Bissau lags significantly behind most of its regional peers in terms of access to basic health services. The health system faces major challenges, with limited access and low internal efficiencies (Figures 13 and 14). Despite having more hospital beds, nurses, and physicians than its WAEMU peers, Guinea-Bissau displays poor health outcomes, including a shorter life expectancy at birth. In addition, the neonatal mortality rate of 49.8 per 1,000 live births in Guinea-Bissau is higher than the LIDC average, although it is broadly in line with the WAEMU average.

Figure 15. Food Security Indicators
(Percent of population group)



Source: IMF Food Security Assessment Tool (latest value available) and author's calculations.

29. Regarding nutrition, a large share of the population is in moderate to severe food insecurity (Figure 15)**.** Food insecurity in Guinea-Bissau has risen in recent years, with moderate to severe food insecurity reaching about two-third of the population in 2022, much higher than the WAEMU average of about 43 percent.[11] Regarding the child underweight indicator, whose purpose is to measure nutritional imbalance and malnutrition resulting in undernutrition, Guinea-Bissau fares better than several WAEMU countries. The share of underweight children under 5 years old is 16.3 percent, which is below the WAEMU average of 18.7 percent.

D. Conclusion and Policy Recommendations

30. Guinea-Bissau's social sectors face persistent challenges despite the progress made over the past few years. Government spending on education and social protection has barely increased in recent years, in part reflecting weak domestic revenue mobilization and volatile donor support. While health spending (public and private) is relatively high, due to large out-of-pocket payments, spending on education and social protection is low compared to peers. Despite significant progress on certain social indicators, overall social outcomes remain poor relative to peers. Significant salary payment delays, followed by periods of strikes, have jeopardized the quality of services delivered in the health and education sectors.

31. The paper shows that Guinea-Bissau would benefit from implementing ambitious and well targeted social protection programs and moving away from untargeted subsidies. These subsidies benefit mostly the higher income groups and represent a significant fiscal cost to the government in the context of a very limited fiscal space. There is a pressing need to develop social programs aimed at providing support for the poorest and most vulnerable populations. With donors' support, such as the World Bank, conditional cash transfers for primary and secondary education could be introduced in order to increase school attendance and reduce school dropouts. Building adaptive social-protection systems capable of rapidly responding to shocks would ensure continued access to basic services for those most in need. Improving the quality and efficiency of spending to expand the coverage of social services will be key in this regard.

32. The government has already started adopting digitalization in public administration and this offers promising options for the management of social protection programs. Digital solutions can help to collect, cross-reference, and manage data to improve the effectiveness of targeting and identification of beneficiaries, as well as the definition of benefit levels. Digitalization could also play a key role in modalities for delivery of benefits, including the use of mobile phone payment systems, which is increasingly being adopted by the local population. Furthermore, establishing a social registry of beneficiaries and developing a targeting mechanism to reach those

[11] The Food and Agriculture Organization (FAO) provides estimates of the proportion of the population facing moderate or severe difficulties in accessing food using the Food Insecurity Experience Scale (FIES). It produces a measure of the severity of food insecurity experienced by individuals or households, based on direct interviews. Food Insecurity Experience Scale | Voices of the Hungry | Food and Agriculture Organization of the United Nations

most in need will be essential to effectively implement the new social protection strategy adopted by the government in 2024.

33. Enhancing the quality of health and education spending is not only important for fiscal sustainability, but also critical for growth and competitiveness. Health and education services need to be expanded to cover a larger segment of the population. These factors are expected to generate significant structural fiscal pressures, underscoring the need to enhance value for money in social spending. Additionally, strengthening macroeconomic policies will be key to mobilizing additional donor support. In the medium-term, advancing PFM reforms and creating fiscal space to allocate more domestic resources to social sectors should be a key government priority.

34. Improving transparency and accountability in the health and education sectors, along with a rebalancing of spending towards investment in equipment and facilities would result in efficiency gains. The remarkably high spending level on the wage bill is crowding out investment in equipment, health and school facilities, underscoring the need to review the composition of spending. The 2022 civil servants census revealed the existence of ghost workers, and the government should continue closely monitoring the wage bill management. Spending adjustments should concentrate on boosting spending efficiency given the additional spending needs required to meet the SDGs in social protection, education, and health.

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