

## I. COUNTRY REFORM PROGRESS

This project was approved during the June 2024 Steering Committee meeting. Several capacity development (CD) activities have been delivered since then, including two in FY26, evidencing strong collaboration with Djiboutian authorities on assessing options for tax policy reform. Covered topics include value added tax, wage tax, investment incentives, establishing a new tax policy unit, supporting preparations for new national public consultations on tax reform (*Assises Nationales sur la Fiscalité*), and property taxes. The Global Public Finance Partnership (GPFP)-financed program complements ongoing support provided by the IMF's Middle East Regional Technical Assistance Center (METAC), which focuses on tax expenditures.

CD under this project has helped raise awareness on the need to create a specialized unit for analyzing and advising on tax policy reforms. Moreover, authorities now have a better understanding of the key policy reforms which could form the basis for discussions during upcoming public consultations and have also received advice on how to strategically engage with stakeholders to foster constructive dialogue and achieve tangible reforms. Authorities have also become increasingly aware of the risks associated with adopting generous tax incentives under the new draft investment code and have therefore decided to delay its implementation.

## II. PROJECT DELIVERY HIGHLIGHTS

### RM I: Revenue Module I – Tax Policy

**Key Progress in FY26:** Key progress in FY26 includes continued reassessment of the new draft investment code and achieving progress on tax expenditures reporting (workstream supported in collaboration with METAC).

**Previous Progress:** The project—building on previous engagement—has achieved great traction with Djiboutian authorities. The country has introduced measures consistent with our advice, including the taxation of dividends and conducting a review of the new draft investment code, and remains engaged and committed to working alongside us in exploring further areas of reform including on the value-added tax (VAT), wage tax, and property taxation. At the institutional level, the Ministry of Budget is in the process of creating a new Tax Policy Unit (TPU), which was also one of FAD's key recommendations to support institution building.

**Next Steps:** Two engagements planned in FY27, complemented by one activity from METAC. Topics for these engagements will be determined at a later date as authorities requested more time to assess priorities.

### III. LOGICAL FRAMEWORK

| Country – Djibouti                                                                                              |                      |                                                                                                                                                                                                                                                                                                                                             |
|-----------------------------------------------------------------------------------------------------------------|----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| RM I: Objective – Improve Tax Policy Design - TPD                                                               |                      | Rating - 2                                                                                                                                                                                                                                                                                                                                  |
| Outcome                                                                                                         | Rating               | Narrative                                                                                                                                                                                                                                                                                                                                   |
| Increased/decreased revenue quantity                                                                            | 2 Partially Achieved | Some reforms have been implemented (for example taxation of dividends and review of draft investment code), and several others are being actively considered with final decision ostensibly postponed until public consultations have been conducted. Some positive effect on revenues, but ample scope remains for more ambitious reforms. |
| Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures | 2 Partially Achieved | Some improvements in the taxation of capital income (e.g., dividends vs capital gains), with room for further improvement. including in relation to VAT, income taxes, and investment incentives.                                                                                                                                           |
| Improved distributional fairness across taxpayers due to amended tax rates or base                              | 2 Partially Achieved | Some improvements in the taxation of capital income (e.g., dividends), yet significant room for further improvement remains (including in relation to taxing other forms of capital income such as rents and interest).                                                                                                                     |

### IV. RISK ASSESSMENT

| Description                                                                                                                                                         | Rating    | Mitigation Measures                                                                                                                                                                                                                           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>External Climate/Conditions</b>                                                                                                                                  |           |                                                                                                                                                                                                                                               |
| World economy, security in the region, etc.                                                                                                                         | Medium    | Factor authorities' priorities into our work e and remain flexible in delivering the workplan.                                                                                                                                                |
| <b>Political Support</b>                                                                                                                                            |           |                                                                                                                                                                                                                                               |
| Obtain needed leadership from Budget and/or Finance Ministers and sufficient buy-in from the whole government to enact meaningful reforms in the National Assembly. | Very High | Engage constructively with high-level officials (Minister and/or Secretary General) to ensure that they appropriate themselves of options and that their views are considered and factored into the analysis. Work closely with country team. |
| <b>Management and Technical Staff Support and Commitment</b>                                                                                                        |           |                                                                                                                                                                                                                                               |
| Buy-in and commitment by our direct counterparts at the Budget Ministry.                                                                                            | Medium    | Engage constructively with high-level officials to ensure that they appropriate themselves of reform options and that their views are considered in the analysis.                                                                             |

| Description                                                                   | Rating      | Mitigation Measures                                                                                                                                                                                                                                                                                          |
|-------------------------------------------------------------------------------|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Resource Adequacy</b>                                                      |             |                                                                                                                                                                                                                                                                                                              |
| Resource adequacy in Budget ministry, including number of staff and skillset. | <b>High</b> | Sequence CD and reform proposals to align with country capacity. Offer complementary CD in the form of follow-up engagements or support in legal drafting. Coordinate closely with the revenue administration division to avoid overburdening our counterparts in the <i>Direction Générale des Impôts</i> . |

## V. PROJECT MANAGER: CONTACT INFORMATION

| Project Manager | E-mail                                             |
|-----------------|----------------------------------------------------|
| Sebastien Leduc | <a href="mailto:SLeduc@imf.org">SLeduc@imf.org</a> |