

I. COUNTRY REFORM PROGRESS

This project was approved during the June 2024 Steering Committee meeting. To date, two capacity development (CD) activities have been delivered, focusing on establishing a new tax policy unit and supporting preparations for the upcoming national public consultations on tax reform (*Assises Nationales sur la Fiscalité*). The GPFP program complements ongoing support provided by the IMF's Middle East Regional Technical Assistance Center (METAC).

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.

II. PROJECT DELIVERY HIGHLIGHTS

Revenue Module I – Tax Policy
Key Progress in FY25: The project—building on previous engagement—has achieved great traction with Djiboutian authorities. Our counterparts have already introduced some measures consistent with our advice, including the taxation of dividends, and remain engaged and committed to working alongside us in exploring further areas of reform including on the VAT, wage tax, and property taxation. Moreover, our analysis and recommendations are being shared with, and considered by, officials at the highest level including the Ministers and Secretary Generals of Budget and Finance, suggesting that additional reforms may be forthcoming. Previous Progress: Authorities are reconsidering the new draft investment code, given the extent and nature of our concerns over the tax incentives proposed therein. Next Steps: Four activities planned in FY26: two strategic ones under GPFP and two by METAC that allow follow-ups through the regional resident advisor. GPFP-funded activities will: (1) continue the support to the creation of a tax policy unit and the holding of national public consultations on tax reform; and (2) focus on real property taxation. METAC activities will provide additional support on tax expenditures.

III. LOGICAL FRAMEWORK

Country – Djibouti		
Objective - Improve Tax Policy Design - TPD		Rating - 3
Outcome	Rating	Narrative
Increased/decreased revenue quantity	2 Partially Achieved	Some reforms have been implemented, and several others are being considered. Some positive effect on revenues, but external factors (e.g., conflict in Yemen) have had a negative effect on revenues.

Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures	3 Largely Achieved	Some improvements in the taxation of capital income (e.g., dividends vs capital gains), with room for further improvement.
Improved distributional fairness across taxpayers due to amended tax rates or base	3 Largely Achieved	Some improvements in the taxation of capital income (e.g., dividends), with room for further improvement.

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External Climate/Conditions		
World economy, security in the region, etc.	Medium	Factor authorities' priorities into our work program and remain flexible in delivering the workplan.
Political Support		
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 to ensure that they appropriate themselves of options and that their views are considered and factored into the analysis. Work closely with country team.
Management and Technical Staff Support and Commitment		
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.
Resource Adequacy		
Resource adequacy in Budget ministry, including number of staff and skillset.	High	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.

V. PROJECT MANAGERS CONTACT INFORMATION

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