

I. COUNTRY REFORM PROGRESS

The project has achieved meaningful progress insofar as it has helped the Ministry of Budget identify several potential reforms to core taxes such as the value-added tax (VAT), personal income tax (PIT), business income tax, excise taxes, and property tax. The authorities have already implemented some reforms—such as taxation of dividends in Finance Law 2024, which were previously exempt from tax—and have followed our advice to push back against generous tax incentives included in the new draft investment code.

While there remains ample room for authorities to introduce additional (and arguably more ambitious) reforms, an incremental approach appears necessary considering weak capacity and political-economy constraints. In this regard, the next few finance laws will be helpful in assessing authorities' commitment to implement more challenging reforms. Moreover, institutional reforms such as the creation of a new dedicated tax policy unit are actively being considered and, quite understandably, may take some time to come to fruition. Information made available to us suggests the unit could be created and made operational in the coming months.

The project is being delivered in collaboration with the IMF's Middle East Regional Technical Assistance Center (METAC), who has taken leadership in complementing this project with targeted support, notably the tax expenditures workstream. Coordination with other development partners is ongoing, including the World Bank, United Nations Development Programme, European Union and the *Agence Française de Développement*.

II. PROJECT DELIVERY HIGHLIGHTS

Revenue Module I – Tax Policy

Key Progress in FY26: Key progress in FY26 includes broadening the tax base for the new tax on dividends and achieving progress on tax expenditures reporting (workstream supported via METAC, in close collaboration with HQ). A 5 percent tax on dividends was introduced in Finance Law 2024, and an updated tax expenditures report was finalized in October 2025.

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 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 our key recommendations.

Next Steps: A mission on property taxation will be delivered by end-2025 (focusing primarily on the taxation of rental income and recurrent taxes on immovable property), and another to conduct a stock-taking exercise (reviewing past analyses and recommendations to support the authorities in identifying reform priorities and potential impediments to their implementation) will be delivered by end-FY26. METAC also plans to deliver additional support on tax expenditures, with a mission tentatively scheduled for Q4FY26. Beyond FY26, it is expected that capacity development (CD) may focus on providing intellectual support to authorities as they prepare to hold new *Assises Nationales sur la Fiscalité*, which are tentatively planned for Summer 2026.

III. LOGICAL FRAMEWORK

Country – Djibouti		
Objective – Improve Tax Policy Design - TPD		Rating - 2
Outcome	Rating	Narrative
Increased/decreased revenue quantity	2 Partially Achieved	Some reforms have been implemented (e.g., taxation of dividends and review of draft investment code), and several others are being considered. Some positive effect on revenues, but external factors (e.g., regional instability) have had a negative effect.
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), yet significant room for further improvement remains (e.g., to limit distortionary exemptions).
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
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 (Minister and/or Secretary General) 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

Description	Rating	Mitigation Measures
		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> .
Other Risks		
N/A	N/A	N/A

V. PROJECT MANAGERS CONTACT INFORMATION

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