

I. COUNTRY REFORM PROGRESS

The project with Ethiopia, funded by the Global Public Finance Partnership (GPFP), fills a critical need for the country, which has seen significant declines in the tax-to-GDP ratio in recent years. It will be instrumental in implementing Ethiopia's National Medium-Term Revenue Strategy (NMTRS), which was finalized in 2024. Significant steps in reversing this trend began in 2024 with the promulgation of a revised value-added tax (VAT) proclamation, developed with IMF assistance. In FY26, the authorities implemented many of the income tax recommendations from the NMTRS; this has been facilitated through activities funded by the GPFP to finalize the technical design and legislative provisions for the needed amendments.

A Tax Administration Diagnostics Assessment Tool (TADAT) evaluation has also been completed using GPFP funding. The United Kingdom's Foreign, Commonwealth & Development Office (FCDO) supported the authorities to develop a consolidated reform strategy that identifies specific gaps and the appropriate development partner to provide targeted technical assistance to close them. The authorities have established a task team, led by the Prime Minister's office, to oversee the process of addressing the identified gaps. The overall impact of these initiatives is to have a more efficient and effective tax system, increase government revenues (the tax-to-GDP ratio was 7.8 percent in FY2024/25 and is projected to reach 10.5 percent in FY2027/28) and strengthen the capacity of the authorities to generate domestic resources.

In parallel, a regional tax advisor (funded by a separate GPFP project) supports improvements to the tax policy capacity within the Ministry of Finance of Ethiopia (MOF), such as the ability to estimate tax expenditures. Increased tax policy capacity will improve the fiscal planning and monitoring within the ministry, supporting domestic resource mobilization (DRM).

The GPFP-funded work fits into the broader picture of donor-supported technical assistance and capacity building. Staff of the IMF's Fiscal Affairs Department (FAD) maintain contact with counterparts in other technical assistance partners such as the World Bank, FCDO, and France's Agence Française de Développement (AFD) who are also working with the Ethiopian authorities on tax policy and revenue administration.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy

Key Progress in FY26: In summer 2025, FAD responded to requests from the authorities for assistance in finalizing the income tax amendments that were subsequently passed by Parliament and which will improve the efficiency of the income tax system and increase revenues. A structural benchmark was added to Ethiopia's Extended Credit Facility in January 2026 related to tax expenditures. FAD is responding to a request from the authorities for capacity development (CD) related to the tax expenditures structural benchmark, including consulting with the World Bank. The first focus will be on corporate tax incentives, to increase transparency and policy-making capacity for this critical part for the tax system. The regional advisor contributed to training on revenue forecasting as part of a broader mission including expenditure forecasting in January 2026. This initiative will benefit the authorities by increasing their understanding of impacts of existing measures and ability to assess revenue impacts of possible future changes.

Previous Progress: Previous TA identified areas for improvement to Ethiopia's tax policy and suggested a roadmap, which was reflected in the NMTRS developed with FAD help and published in 2024. The NMTRS demonstrated political commitment to move forward with legislative changes that fit within FAD's recommendations for a more efficient, effective, and fair tax system. A key step forward was the implementation of a new VAT law in 2024 that was originally drafted by the IMF, is reflected in the NMTRS, and has already been followed by increased VAT revenue collections. In March 2025, a joint mission by FAD and the IMF's Legal Department provided advice and drafting assistance to the authorities on revisions to the income tax proclamation, to implement recommendations in the NMTRS; this led to the changes in the income tax law in FY26. On CD, the regional tax policy advisor visited Addis Ababa in January 2025 to take stock of existing tax policy capacity, identify gaps, and develop a work program. Initial work will focus on VAT tax expenditure modeling, which is dependent on the authorities making available the necessary data, which they have not yet done.

Next Steps: FAD will be ready to assist the authorities in meeting the structural benchmark on tax expenditures reporting by end-June 2026. FAD is also expecting to assist the authorities with developing tax rules for capital markets, which will support the liberalization of financial markets in Ethiopia.

RM II: Revenue Module II – Revenue Administration

Key Progress in FY26: Building upon insights from a TADAT assessment that highlighted key strengths and weaknesses, the Ministry of Revenue (MOR) successfully developed and launched a targeted Domestic Revenue Reform Strategy. This strategy, co-created with leadership from FCDO and active participation from the IMF and development partners such as the World Bank, aligns closely with the NMTRS. The MOR also received support to enhance its revenue mobilization capacity through improved taxpayer segmentation and more effective Large Taxpayer Office (LTO) arrangements. Complementary technical support from the IMF's Regional Technical Assistance Center for East Africa enabled the updating of operational manuals and comprehensive staff training, particularly in excise auditing and sector-based auditing techniques, resulting in increased audit effectiveness.

Previous Progress: A TADAT assessment was carried out in August 2024 to further diagnose gaps in the revenue administration system. Ethiopia approved their MTRS in September 2024 and this informed the reform strategy that was later developed with assistance from FCDO. The Domestic Revenue Reform Strategy was concluded in August 2025. This strategy identified the areas that needed to be addressed, and the authorities attempted to allocate those areas to the many development partners involved.

Next Steps: Building up on the TADAT and weaknesses identified in the assessment; support is planned to assist the MOR to develop and commence implementation of the compliance improvement plan (CIP). This is a structural benchmark due in December 2026. Other support will focus on strengthening cross-cutting areas such as data analytics, use of AI for compliance in customs, and development of an international tax function to deal with transfer pricing issues.

III. LOGICAL FRAMEWORK

Country – Ethiopia		
RM I: Objective – Strengthen Policy Monitoring, Evaluation, and Institutions - TPM		Rating - 1
Outcome	Rating	Narrative
Improved structures (e.g., tax policy units) or capacity (e.g., models and tools) related to tax policy advice and analysis.	2 Partially Achieved	Structural benchmark on tax expenditures was added to IMF's Extended Credit Facility in January 2026. FAD is providing CD support through the GPFP to assist with meeting the structural benchmark, with a completion date of end-June 2026. The IMF-GPFP support will lead to improved capacity for estimating revenue impacts of specific tax measures.
RM I: Objective – Improve Tax Policy Design - TPD		Rating - 3
Outcome	Rating	Narrative
Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures	4 Fully Achieved	IMF support, including through the GPFP, has contributed to a modernized and more efficient VAT, and a revised income tax proclamation that makes the tax system more efficient and equitable.
RM II: Objective – Strengthened revenue administration management and governance arrangements (SDG 17.1) - RAM		Rating - 1
Outcome	Rating	Narrative
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized	1 Not Achieved	MTRS draft was approved in September 2024. The authorities opted to work the FCDO, and FAD participated in the process of formulating the revenue administration reform plan, which was based on the TADAT.
Corporate priorities are better managed through effective risk management	1 Not Achieved	Mission dates are pending confirmation with authorities
RM II: Objective – Strengthened core tax administration functions (SDG 17.1) - TAD		Rating - 1
Outcome	Rating	Narrative
Audit and other verification programs more effectively ensure accuracy of reporting	1 Not Achieved	Authorities prioritized a TADAT assessment to inform reforms.

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External Climate/Conditions		
The security situation and effects of the world economic and security conditions pose a risk to DRM efforts.	Medium	Ensure sufficient flexibility in program execution and allow for ability to adjust activities in the case of adverse events, including US tariff changes and the risks of renewed conflicts with neighboring countries. Consider additional measures to generate domestic resources if currently proposed measures do not meet revenue targets.
Political Support		
Coordination between MOF and MOR on MTRS has improved.	High	Seek support from the country team to coordinate meetings between these ministries and engage staff in both ministries to ensure government ownership of reforms with the big picture in mind.
Management and Technical Staff Support and Commitment		
RM I: Low commitment of management and staff in finance ministry to adopt and implement tax reform measures.	Very High	Engage with senior management and technical staff proactively to strengthen their capacity to manage reforms for achievement of desired strategic outcomes. Provide capacity building training (e.g., in revenue forecasting).
RM II: Minister of Revenues may not be aligned with the stated CD priorities.	Medium	Continue well-coordinated CD and engagement with authorities and development partners
Resource Adequacy		
RM I: Insufficient technical capacity; human resources necessary to make use of new tools.	Very High	Ensure CD plans include sufficient capacity building and training elements (including train-the-trainers approach) and prioritize CD to priority or highest risk areas where resources are limited.
RM II: MOF needs to allocate resources for implementation of ITAS.	Medium	With the minister, continue to raise the issue of its impact on compliance in fora such as the IMF-World Bank Spring and Annual Meetings.
Other Risks		
Delays in putting in place active and effective governance structures for NMTRS between MOF and MOR are a threat to the country's DRM efforts.	Medium	Engage the IMF Resident Representative and other development partners to assist in coordinating between the MOF and MOR to ensure timely implementation of the NMTRS (e.g., the World Bank and AFD are active in the tax area).
Overlaps may arise as multiple donors are providing technical assistance on fiscal risk topics and gaps.	Medium	Take an active role in engaging with other donors, especially the World Bank, to ensure support is well coordinated. Promote country-led donor coordination.

V. PROJECT MANAGERS: CONTACT INFORMATION

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