

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. The authorities are now planning on implementing the income tax recommendations from the NMTRS; this is being 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; this assessment will be followed by identification of priority areas for improving the effectiveness of the tax administration. The authorities have established a task team to develop a plan to address the identified gaps. The overall impact of these initiatives will be to have a more efficient and effective tax system, increasing government revenues and strengthening 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 (MoF) of Ethiopia, such as the ability to estimate tax expenditures. Increased tax policy capacity will improve the fiscal planning and monitoring within the MoF, supporting domestic resource mobilization (DRM).

The GPFP-funded work fits into the broader picture of donor-supported technical assistance and capacity building. FAD staff maintain contact with counterparts in other technical assistance partners such as the World Bank and the UK's Foreign, Commonwealth & Development Office (FCDO) 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 FY25: 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. The first activity is expected to take place in July/August 2025. This will benefit the authorities by increasing their understanding of impacts of existing measures and ability to assess revenue impacts of possible future changes. In March 2025, a joint mission by the IMF's Fiscal Affairs (FAD) and Legal (LEG) departments provided advice and drafting assistance to the authorities on revisions to the income tax proclamation, to implement recommendations in the MTRS. Amendments are expected to be passed in summer 2025, improving the efficiency of the income tax system and increasing revenues.

Previous Progress: Previous CD identified areas for improvement to Ethiopia's tax policy and suggested a roadmap, which was reflected in the MTRS developed with FAD help and published in 2024. Thus, there is political commitment to move forward with legislative changes that fit within FAD's recommendations for a more efficient, effective, and fair tax system. Also notable is the implementation of a new VAT law in 2024 that was originally drafted by the IMF, is reflected in the MTRS, and has already been followed by increased VAT revenue collections.

Next Steps: The GPFP project is continuing. In the short term, the IMF is working with the authorities on the drafting of the legislative amendments for income tax. FAD is awaiting further communication from the authorities on their next priorities for tax policy CD. Possible areas that have been floated by the authorities are agricultural taxation, capital markets taxation, tax treaty negotiation skills training, and the regulations for the VAT and income tax proclamations. The regional advisor's focus in the coming months will be on VAT modeling, which is dependent on the authorities making available the necessary data.

RM II: Revenue Module II – Revenue Administration

Key Progress in FY25: The authorities requested a TADAT re-assessment to gauge the state of revenue administration in the country and its contribution to the deteriorating tax to GDP ratio. The assessment was carried out in August 2024. The authorities have established a task team led by a senior officer in the Prime Minister's office to review the report and develop an implementation plan.

Previous Progress: Support was given to develop the NMTRS. This was finalized and published in October 2024.

Next Steps: A post-TADAT mission is planned to do a deeper diagnostic and formulate recommendations to address the areas identified as weak in the TADAT re-assessment. Following this activity, we will firm up a CD plan, which will also be supported by IMF's Regional Technical Assistance Center for East Africa (AFE). Compliance risk management has already been identified as one area that needs urgent attention, and discussions are underway to field a mission to do a deep dive into it.

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	October 2024 - CD delivery has not yet started. Initial visit by regional tax policy advisor to assess tax policy capacity and develop a work program in January 2025. March 2025 - CD mission to assist with implementation of income tax reforms contained in MTRS.
RM I: Objective - Improve Tax Policy Design – TPD		Rating - 1
Outcome	Rating	Narrative
Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures	2 Partially Achieved	October 2024 - CD delivery has not yet started. March 2025 - CD mission to assist with implementation of income tax reforms contained in MTRS.

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.
RM II: Objective - Strengthened revenue administration management and governance arrangements (SDG 17.1) - RAM		Rating - 1
Outcome	Rating	Narrative
Corporate priorities are better managed through effective risk management	1 Not Achieved	Yet to agree mission dates with authorities.
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized	1 Not Achieved	MTRS draft approved in September 2024. Still engaging authorities on next move, which should include developing an implementation plan

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External Climate/Conditions		
RM I, RM II: 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.
Political Support		
RM I, RM II: Coordination between MoF and Ministry of Revenues (MoR) on MTRS has improved.	High	Seek support from the country team to coordinate meetings between MoR and MoF 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.
RM II: Minister of Finance showed commitment to supporting implementation of ITAS.	Medium	Continue providing CD support and engaging authorities in a coordinated way.

Description	Rating	Mitigation Measures
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: Minister of Finance showed commitment to supporting implementation of ITAS.	Medium	Continue providing CD support and engaging authorities in a coordinated way.
Other Risks		
RM I, RM II: Delays in putting in place active and effective governance structures for NMTRS between the MoF and MoRS are a threat to the country's DRM efforts.	Very High	Engage the IMF Resident Representative and other development partners to assist in coordinating between the MoF and MoRs to ensure timely implementation of the NMTRS.
RM I, RM II: 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.

V. PROJECT MANAGERS CONTACT INFORMATION

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