

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. With assistance from the United Kingdom Foreign, Commonwealth & Development Office (FCDO), the authorities have developed a consolidated reform strategy, which identifies the gaps and the development partner to approach for 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 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, 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. FAD staff maintain contact with counterparts in other technical assistance partners such as the World Bank, the 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, the IMF's Fiscal Affairs Department (FAD) responded to requests from the authorities for assistance in finalizing amendments to the income tax legislation. The amendments were subsequently passed by parliament. They will improve the efficiency of the income tax system and increase revenues. On capacity development (CD), a workplan has been prepared and agreed with the authorities. However, implementation has stalled as the authorities have not shared the required data.

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. A key step forward was the implementation of a new VAT law in 2024 that was originally drafted by the IMF, reflected in the MTRS, and was followed by increased VAT revenue collections. In March 2025, a mission by the IMF's Legal Department and FAD provided advice and drafting assistance to the authorities on revisions to the income tax proclamation, to implement

recommendations in the MTRS. 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.

Next Steps: The authorities have requested CD regarding the tax system and capital markets, in the context of the recent reforms liberalizing these markets. FAD is currently working with the authorities to determine the timing for this work. Training on macro-fiscal forecasting in collaboration with the IMF's Institute for Capacity Development and FAD's macro-fiscal advisor is planned for FY26. Other CD work will proceed depending on the priorities of the authorities.

RM II: Revenue Module II – Revenue Administration

Key Progress in FY26: The authorities engaged FCDO to assist with the development of a consolidated reform plan to address the identified gaps. This work was coordinated with other development partners like the World Bank. It identifies areas where the authorities require CD from development partners.

Previous Progress: On the back of FAD CD, the authorities approved their NMTRS. A TADAT assessment was carried out in FY25, which culminated in the consolidated reform plan compiled by FCDO. The authorities had indicated interest in developing capacity in compliance risk management. This was postponed as the authorities wanted to complete the reform strategy to better inform their priorities.

Next Steps: With the consolidated reform plan in place, engagements are underway to agree on priority areas to be addressed by FAD.

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	Responded to requests from authorities for assistance in finalizing income tax amendments that were subsequently passed by parliament.
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	Responded to requests from authorities for assistance in finalizing income tax amendments that were subsequently passed by parliament.
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 approved in September 2024. Following a TADAT assessment conducted by FAD, the authorities engaged FCDO to assist then develop a reform strategy. This has been discussed and approved and it identifies capacity gaps and the potential development partner to provide assistance.
Corporate priorities are better managed through effective risk management	1 Not Achieved	Yet to agree mission dates 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		
RM I: 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		
RM I, RM II: Coordination between Ministry of Finance and Ministry of Revenues 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 in, e.g., revenue forecasting.
RM II: Minister of Revenues may not be aligned with the stated CD priorities.	Medium	Continue providing CD support and engaging authorities in a coordinated way.
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

Description	Rating	Mitigation Measures
		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 an integrated tax administration system.	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 Ministry of Finance and Ministry of Revenues 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 ministries 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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