

I. COUNTRY REFORM PROGRESS

Ethiopia's Extended Credit Facility (ECF) arrangement with the IMF was approved on July 29, 2024. It is aimed at supporting the authorities' Homegrown Economic Reform Agenda (HGER). The authorities continue to demonstrate progress and political commitment to reforms under the HGER, aimed at addressing macroeconomic imbalances, restoring external debt sustainability, and laying the foundations for inclusive, private-sector-led growth. Approval of the National Medium Term Revenue Strategy (NMTRS), developed with input from the IMF's Fiscal Affairs Department (FAD) in September 2024, augers well for the reversal of the declining trend in revenue to GDP, which has been experienced in the last couple of years. Steps to modernize monetary policy, mobilize domestic revenue, enhance social safety nets, strengthen state-owned enterprises, and anchor financial stability continue. Foreign exchange market functioning is improving, albeit still with inefficiencies, while uncertainties about the path of the exchange rate, market functioning, and inflation expectations continue to affect behavior.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy
Key Progress in FY25: Ethiopia has approved its NMTRS. The authorities have been contacted about initiating work on the project but have not yet responded. Next Steps: For the remainder of FY25, work is expected to focus on supporting implementation of the NMTRS (joint with Revenue Administration), providing advice on the taxation of capital markets, and working with the authorities on a revision to the income tax proclamation. FAD will continue to reach out to the authorities in order to initiate this work. The regional tax policy advisor plans to visit Addis Ababa in January 2025 to take stock of existing capacity on tax policy formulation, identify gaps, and develop a work program.
RM II: Revenue Module II – Revenue Administration
Key Progress in FY25: Ethiopia has approved its NMTRS. A Tax Administration Diagnostic Assessment Tool (TADAT) evaluation was carried out to further refine revenue administration measures in the NMTRS. A decision has been taken to develop the revenue administration IT system in-house. Next Steps: Engagement will continue to determine what assistance is required in the development of an implementation plan for the NMTRS. Capacity development (CD) will continue to address the gaps identified in the TADAT.

III. LOGICAL FRAMEWORK

Country – Ethiopia, The Federal Democratic Republic of		
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.	1 Not Achieved	Oct 2024 - CD delivery has not yet started.

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	1 Not Achieved	Oct 2024 - CD delivery has not yet started.
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. Still engaging authorities on next move, which should include developing an implementation plan.
Corporate priorities are better managed through effective risk management	1 Not Achieved	Yet to agree mission dates with authorities.
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, RM II: The security situation and effects of the world economic and security conditions pose a risk to domestic revenue mobilization (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 Ministry of Finance (MoF) and Ministry of Revenues (MoRS) on MTRS has improved.	High	Seek support from the country team to coordinate meetings between MoRs 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.
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

Description	Rating	Mitigation Measures
		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

Project Manager	Module PM	E-mail
Kevin Shoom (FADT2)	Kevin Shoom (FADT2) Dumisani Masilela (FADR2)	KShoom@imf.org DMasilela@imf.org