

I. REFORM PROGRESS

The project has contributed to capacity development (CD) and knowledge sharing within a multilateral context, including engagement with the Addis Tax Initiative (ATI), United Nations University-World Institute for Development Economics Research (UNU-WIDER) and UN. The ATI engagement through multi-country activities is helping estimate the value-added tax (VAT) gap. Under an RA-GAP assisted exercise, Kenya, Uganda, Rwanda, Ecuador, Namibia and Madagascar have updated or initiated VAT gap estimations to be presented in the ATI General Assembly in July 2025. These estimates are nearing completion. In February 2025, this GPFP project was able to disseminate the various tax gap initiatives on a global scale in a United Nations event on how to better use databases to mobilize domestic resources. Development of the respective gap estimation methodologies such as revision of the VAT tax gap methodologies and development of bottom-up approaches also continued, including: (i) the Heckman two-step approach to measure tax gaps based on operational audits in Armenia; (ii) Machine Learning tax gap estimation techniques; and (iii) transitioning the current Excel-based VAT gap model to Python.

Country engagements were also carried out for GPFP and other country projects, with the majority being low-income developing countries: (i) A new VAT gap estimation process¹ was successfully carried in 2024-25 using the Assisted Self-Assessment program, with Kenya Revenue Authority (KRA) staff implementing the work with the guidance of the IMF team. This enhanced the country authorities' capacity; (ii) At the request of Armenia State Revenue Committee (SRC), IMF has estimated the Personal Income Tax (PIT) gap and Social Security Contributions (SSC) gap. SRC delivered the requested data and tax gap measurements were finalized in January 2025. The PIT/ SSC gaps will provide important insights for SRC in their work on implementing PIT declarations; (iii) At the request of Nigeria's Federal Inland Revenue Service (FIRS), the IMF's RA-GAP team visited Abuja in October to conduct its first VAT gap estimation. With guidance from the mission team, FIRS successfully mobilized most of the required tax data for the modeling, with remaining issues to be addressed in the upcoming remote engagement; and (iv) A standard tax gap assessment for VAT in the Dominican Republic (DR) was concluded in March 2025. This included an analysis of measures for improving VAT compliance risk analysis based on the results.

II. PROJECT DELIVERY HIGHLIGHTS

Revenue Module IV – Fiscal and Macroeconomic Tools, Research, and Analytical Work

Key Progress in FY25: The RA-GAP methodologies were brought to a broader audience which helped several tax administrations initiate or improve tax gap estimates to feed into Compliance Risk Management (CRM). It is expected that in countries participating in the ATI VAT gap models, sound methodologies to monitor inaccurate reporting and tax gaps would be adopted. The Heckman two-step model has been applied in Armenia. A short-term expert (STX) has been identified and contracted for Machine Learning analytical work.

Previous Progress: The IMF's Fiscal Affairs Department (FAD) had engaged with the ATI to coordinate work including presenting in knowledge sharing seminars and reviewing the UNU-WIDER bottom-up

¹ A VAT gap for Kenya was first carried out in 2019.

corporate income tax (CIT) gap model. For the DR, CD is relevant for realigning efforts towards tax gap analysis, a key input for developing evidence-based compliance improvement reforms. The DR tax gap analysis is being coordinated with FAD, the IMF's country teams, and the IMF's Regional Technical Assistance Center for Central America, Panama and the DR (CAPTAC-DR). The Inter-American Development Bank (IADB) will be also considered to discuss prior estimations delivered to the country.

Next Steps: The analytical work projects on Heckman model CIT Gap estimation will be published in a technical note. Armenia's State Revenue Committee (SRC) has agreed to publish all results, and these can therefore be used in a technical note.

The team, in collaboration with an STX, will create a technical note on Machine Learning Bottom-Up tax gap estimation, as well as a toolkit for future CD delivery.

The work on transitioning the VAT Gap model from a purely Excel-based application to a hybrid tool with Python as its back-end and Excel as its front-end is more than halfway through. The core estimations of the model have been moved to Python and the project has been piloted to a working group of 3-4 countries. The next steps include shifting the initial data input aspects of the model from Excel to Python and introducing other robust features such as sensitivity analysis.

Country engagement with Sierra Leone will be followed up. A training session on VAT Gap estimation for Indian indirect tax officials for the IMF's South Asia Regional Training and Technical Assistance Center (SARTTAC) will be delivered. A joint IMF-UNU-WIDER mission will be conducted in the FY26 to estimate the Zimbabwe VAT gap using two different methods simultaneously: top-down and bottom-up. This double approach aims to better understand the macro and micro causes of VAT non-compliance in a country and the pros and cons of both methods in terms of accuracy, granularity, and completeness. Other potential country engagements include Moldova, Philippines, etc.

III. LOGICAL FRAMEWORK

Project – MC Project		
Objective – Strengthened revenue administration management and governance arrangements (SDG 17.1) RAM		Rating - 3
Outcome	Rating	Narrative
Improved monitoring and evaluation of compliance risk mitigation activities (TADAT POA2-5)	3 Largely Achieved	The engagements with development partners including ATI and UN on tax gap estimation were well received. The RA-GAP methodologies were brought to a broader audience. The ATI initiative has helped several tax administrations initiate or improve tax gap estimates to feed into CRM.
Sound methodologies used to monitor the extent of inaccurate reporting and tax gaps (TADAT 2015 POA6-	3 Largely Achieved	Authorities have shown willingness to implement RA-GAP models and methodologies. It is expected that in countries participating in the ATI VAT gap

18/TADAT 2019 POA6-22, RA-GAP results)		models sound methodologies to monitor inaccurate reporting and tax gaps would be adopted.
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IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
Resource Adequacy		
External events create a more challenging environment to assess tax gaps or implement tax reform	Low	Maintain ongoing engagement with member countries on tax gap estimation and expand outreach to include new countries
Political Support		
Lack of political support for reforms inhibits required actions or resources being allocated that are needed to enhance tax gap analysis or fiscal reforms	Low	Liaise with the IMF's country teams to ensure fiscal advice and CD is supported by the analysis of tax gaps and engage regularly with the minister of finance and senior management and other key stakeholders to ensure government ownership
Management and Technical Staff Support and Commitment		
Low commitment of management and staff in the tax administration of other agencies such as statistics agencies to assess tax gaps and implement fiscal reforms	Low	Integrate tax gap analysis as a component of broader CD projects and leverage project managers' relationships with senior management. Emphasize the importance of tax gap analysis, including the "what" and "how" to issues in tax gap analysis and the linkages to reform strategies
Resource Adequacy		
Insufficient technical capacity and human resources necessary to assess tax gaps	Medium	Ensure CD plans are well targeted based on capacity and include sufficient capacity building and training elements, including via the online RA-GAP VAT Gap Estimation Model (VGAPx) course
Other Risks		
Multiple donors are providing CD on tax gap analysis or overlaps that may arise as a result	Low	Take a more active role in enhancing cooperation and coordination with other partners, leveraging the planned interactions with different stakeholders participating in tax gap estimation

V. PROJECT MANAGERS CONTACT INFORMATION

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