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January

***AFR – Long-term Expert to Support Strategic
Domestic Resource Mobilization Design and
Implementation in Ethiopia, Kenya and Rwanda***

Component: Revenue

***Modules: RM I – Tax Policy
RM II – Revenue Administration***

*LTX - STRATEGIC DRM DESIGN AND IMPLEMENTATION***PROJECT SUMMARY****LEAD DEPARTMENT:** FAD**DIVISION:** RA**REGION (S):** AFR**COUNTRY (S):** Ethiopia, Kenya, Rwanda**PROGRAM ID:** (To be filled out by Secretariat)**PLANNED DATES:** 02/01/2024 – 04/30/2027**FUNDING PROGRAM TITLE:** GPFP – Strategic DRM Design and Implementation**PROJECT MANAGER:** Dumisani Masilela**PRIMARY BACK STOPPER(S):** Thomas Baunsgaard (TP) and Dumisani Masilela (RA)**ESTIMATED BUDGET** \$2,357,006**BUDGET FOR ENDORSEMENT:** \$685,647 (through FY25)

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I. PROJECT PURPOSE

This capacity development (CD) project will support beneficiary countries strengthen their Domestic Resource Mobilization systems, including through the implementation of the Medium-Term Revenue Strategy (MTRS) framework. The countries to be covered by this project include Ethiopia, Kenya, and Rwanda. These countries have been contending with declining tax-to-GDP ratios for a while now, which is threatening their ability to deliver their development aspirations and are currently designing or implementing a MTRS. Other countries may be added in subsequent proposal extensions, in consultation with the donors, to include Uganda and potentially other countries (e.g., Malawi and Tanzania) with intensive IMF engagement.¹ Two long-term regional advisors (LTX), one on revenue administration and another on tax policy, will be contracted to support these countries advance their reform efforts in DRM, complementing the work done through other FAD-led projects.

This four-year project will ensure continuity of the support provided by a LTX on revenue administration to assist with MTRS design and implementation since 2022, that was originally funded through the COVID Crisis Capacity Development Initiative (CCCDI) and later through the Revenue Mobilization Trust Fund (RMTF). To complement these efforts, the new regional tax policy advisor will increase tax policy field-presence, especially in fragile countries where policy capacity needs, and absorption constraints are especially pronounced. The estimated budget for this three-year project is \$2,357,006, but endorsement is requested for \$685,647 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

The two LTXs contracted will complement the CD activities proposed in the individual country initiatives to provide hands on specialty support in designing and implementing the MTRS framework (both revenue administration and tax policy sides). Furthermore, the new modality of LTX on tax policy will build in-house countries' capacity on tax policy analysis and design (including strengthening tax policy units, developing capacity for deploying country-specific tax policy analytical tools and tax expenditure reporting) and facilitate countries' MTRS agenda to move forward in a better coordinated way.

The information in this proposal refers exclusively to the deliverables and responsibilities of the LTX that are independent of the beneficiary countries. The background and plans, and other strategic information (objectives, expected results, logical frameworks) can be found in the individual country proposals.

II. PROJECT DESCRIPTION

A. Delivery Modalities

The two LTXs will work very closely together to ensure timely and coordinated support in the beneficiary countries. Joint tax policy-revenue administration missions will be organized when appropriate.

The LTXs support will take forward the recommendations resulting from HQ-led strategic or diagnostic missions, through coordinating hands-on engagement. Virtual deliveries will be used to ensure

¹ LTXs will join HQ-led missions to undertake scoping missions to countries with intensive IMF engagements that have expressed interests in benefiting from this project.

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continuous engagement and timely support on challenges that arise in between visits. The following CD activities will be delivered as a package:

Headquarters-led (HQ) missions: the LTXs will join the relevant HQ-led missions to provide strategic recommendations, conduct regular follow-ups, assess progress, coordinate with other TA providers, and adjust MTRS implementation plans.

Long-term expert (LTX) missions: the LTXs will provide direct support to the beneficiaries in their areas of expertise and respond to the Authorities needs in real time. This will complement the full-fledged technical assistance missions or short-term expert visits, which are expected to broadly continue at current levels.

Short-term expert (STX) missions: the LTXs will coordinate with the two AFE LTXs to organize STX visits to help implement the recommendations delivered by the HQ missions.

Regional Workshops: The LTXs will facilitate the holding of regional workshops to promote peer learning in order to assist countries resolve common challenges as well as their respective country issues (including those related to MTRSs). These regional workshops will also encourage other AFE member countries to adopt the MTRS framework.

As this project is proposing a new delivery model for tax policy support, additional information on the focus of the regional tax policy advisor is included below:

- Strengthen Tax Policy Units through institutional reforms and training on tax policy analysis and tools. This will include advising on the institutional set-up, staffing needs, and identifying training needs.
- Provide training on tax policy analysis including to assess the efficiency, distributional and revenue impact of tax policy measures.
- Build capacity for tax expenditure reporting and tax modeling (e.g., personal, and corporate income taxes, natural resource taxes, VAT, excises, customs tariffs, property taxes etc.).
- Strengthen revenue forecasting methods and models through hands-on training and capacity development. This will be done in collaboration and coordination with macro-fiscal advisors.
- In natural resource rich countries in the region, provide training on FARI-based fiscal regime modeling and revenue forecasting.
- Improve the process for designing tax policy through the annual budget preparation, including institutional and procedural reforms.
- Respond to requests from country authorities in the region on ad hoc tax policy matters, including as part of the annual budget process. This will be done in close coordination and with involvement as needed of HQ-based staff coordinated through the FAD backstopper.
- Provide some technical expert support for the EAC Secretariat tax policy harmonization efforts.
- Identify further CD needs, including in specialized fields (e.g., property tax) and liaise with headquarters on how to provide needed support.

This proposed regional tax policy work program will evolve over time and be fully demand-driven. For example, we are receiving increasingly requests for follow-up support with consultations. This includes assistance with communicating reform proposals and then helping to develop responses to the concerns

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raised. This type of ongoing support is currently partially met by short-term experts providing follow up support to (predominantly HQ-led) technical advice missions. It is also increasingly common to integrate this support in workshops presenting and discussing mission analysis and recommendations into HQ-led mission. But the sustainability and impact of this approach is limited by its small scale and infrequency. The effectiveness of the capacity development will be enhanced by a more sustained in-country presence supported by frequent visits to member countries.

B. Coordination / Cooperation

The LTXs will ensure that the EU, FCDO, KOICA, NTA and other country delegations, and other development partners such as the World Bank, OECD, ATAF and the African Development Bank, who are active in the region, are informed of the IMF's work. Having a regional tax policy advisor will deepen the potential participation and representation by FAD in country-level coordination around DRM reform. This is especially important in cases where a country is implementing a MTRS with support from development partners.

To the extent possible, the LTXs will ensure that the beneficiaries are given consistent and complementary CD advice across development partners. Together with HQ staff, the LTXs will coordinate work with experts and representatives from other CD agencies active in the region, relevant IMF Africa Department mission chiefs and country teams, and IMF resident representatives, assigned to keep them informed of the status of key issues related to DRM reforms.

In the case of Ethiopia, these coordination sessions have already been initiated with the World Bank, who are looking into supporting the country's desire to upgrade their IT systems. There is a good working relationship between the World Bank and the Resident Representative's office in Kenya (where the Bank is also looking at supporting the authorities' investment in IT systems); and in Rwanda, IMF is coordinating with several partners with the IMF Resident Representative assisting in country.

III. RISK ASSESSMENT AND MITIGATION

Project risks are assessed at the country-level proposals that will be supported through this proposal. For information on risks that might affect the completion of this project and mitigation measures please refer to the country specific proposals.

IV. CD DELIVERY PLAN

Table 1. Summary of Indicative CD Delivery (average per country)

CD Modalities (Remote or Field-based CD)	FY24	FY25	FY26	FY27	Grand Total
RM I / Tax Policy					
HQ-led CD mission (incl. LTX)	-	4	4	4	12
STX CD (incl. LTX)	-	2	2	2	6
LTX country visits	-	4	3	4	11
LTX participation in workshops	-	1	3	3	7
RM II / Revenue Administration*					
HQ-led CD mission (incl. LTX)	-	4	5	5	14
LTX country visits	-	4	4	4	12
LTX participation in workshops	-	2	1	2	5

Note: RM II FY27 activities reflect the support of the two LTXs in Kenya to finalize the support to implement the first MTRS in Kenya (July 2024 to June 2027) and preparation for the second MTRS.

Table 2. First year workplan

Timing	CD Modality	Proposed Topics of CD
RM I / Tax Policy		
FY25	HQ (FB)	Scoping mission on tax policy CD diagnostic assessment and potential work plan Training on microsimulation models and benchmarking Training on revenue potential and tax gap analysis
FY25	LTX (FB)	MTRS implementation support Follow up on tax reform proposals Customization of microsimulation models Follow up on development of revenue potential and tax gap analysis model
	LTX (DS)	MTRS Desk Reviews
	STX (FB - including LTX)	MTRS implementation support and CD on tax expenditure reporting CD on tax treaty policy Support in preparation of the FY25 Financial Bill
RM II / Revenue Administration		
FY25	HQ	TADAT Training and assessment MTRS Governance review and Action Plan preparation MTRS Workplan and Implementation review
FY25	LTX	MTRS Governance and Action Plan MTRS Desk Reviews Regional MTRS Workshop

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The cost included in the proposal will cover the salary and benefit cost of the LTX plus travel expenses related to in-person CD delivery, independent of the type of activity (HQ-led, joint STX and LTX, or LTX only).

Regional LTX	FY25	FY26	FY27	Total
Salary & Benefits	607,370	714,962	736,411	2,058,743
Travel	33,421	54,505	56,140	144,066
Subtotal	640,792	769,467	792,551	2,202,809
Trust fund management fee (7%)	44,855	53,863	55,479	154,197
TOTAL	685,647	823,329	848,029	2,357,006

The estimated budget for this three-year project is \$2,357,006, but endorsement is requested for \$685,647 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.