



# **HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT**

## **DJIBOUTI**

Upgrading Tax Policy

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### High-Level Summary Technical Assistance Report

Fiscal Affairs Department (FAD)

**Djibouti: Upgrading Tax Policy**

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**The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.**

**ABSTRACT:** Djibouti's low and declining tax-to-GDP ratio underscores the need for well-designed tax policy reforms. Against this backdrop, the authorities requested capacity development support from the IMF's Fiscal Affairs Department to identify reform options and priorities. The program focuses on income taxes, value-added taxes, and property taxes, and includes technical training on the estimation and reporting of tax expenditures.

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## Background

**Djibouti has experienced robust economic growth averaging 5.6 percent annually between 2012 and 2024**, driven largely by substantial infrastructure investments aligned with its long-term development strategy—Djibouti Vision 2035—which seeks to position the country as a regional and continental logistics and commercial hub. However, these investments have significantly increased public debt from nearly 40 percent of GDP a decade ago to 70 percent today. The concurrent downward trend in tax revenues as a share of GDP underscores the urgent need to mobilize additional revenues.

**In this context, the Djiboutian authorities are determined to undertake tax policy reforms** and expressed interest in a medium-term technical assistance program to review the current tax system and identify suitable reform options. In March 2023, the IMF responded by setting out a capacity development program to support Djibouti in reforming its tax system.

**Several targeted capacity development activities have been delivered since 2023 as part of this program, covering a wide range of tax policy topics.** These included reviewing the value added tax (VAT), the wage tax, a new draft investment code, and the property tax. In addition, support has been provided for the creation of a tax policy unit, initiating preparations for the next *Assises Nationales sur la Fiscalité*, and improving and updating reporting on tax expenditures. Several of these activities have been delivered in collaboration with the Middle East Regional Technical Assistance Center (METAC) and made possible by financial support from the Global Public Finance Partnership (GFPF).

## Summary of Findings

**Djibouti's tax ratio is noticeably low relative to peer groups.** It stands at 11 percent of GDP, compared to averages of 15.9 percent for non-oil MENA countries, 15.1 percent for Sub-Saharan African countries, and 16 percent for lower-middle-income countries. This suggests that initiating tax reforms enabling Djibouti to align its tax revenue with comparator averages could unlock an additional 4 to 5 percentage points of GDP in revenue over the medium term. The revenue gap between Djibouti and its peers has widened since 2010—when Djibouti's tax revenues stood at 14.8 percent of GDP—largely due to reductions in revenues from the VAT, customs duties (*taxe intérieure sur la consommation*), and business profits tax (including the *contribution de la patente*).

**Several constraints hinder revenue mobilization in Djibouti.** The absence of a whole-of-government revenue strategy over the medium term complicates policy development and increases the risk of introducing incoherent or suboptimal policies. This challenge is compounded by limited technical expertise in tax policymaking, a gap that a new dedicated tax policy unit could help address. Budgetary pressures have led to the proliferation of small levies aimed at raising additional revenues, which have diverted attention away from comprehensive improvements to core taxes.

## Summary of Recommendations

**These challenges are not insurmountable.** Developing a medium-term agenda for tax policy reform can break the cycle of piecemeal decisions by establishing clear objectives and ensuring that reform measures are appropriately prioritized and sequenced to meet set revenue targets. A medium-term strategy recognizes the benefits of implementing reforms incrementally over several years, while concurrently strengthening institutional capacity and allowing time for stakeholder consultations. A medium-term plan should ideally be endorsed at the highest political level to ensure broad buy-in across all governmental institutions.

**The following summarize key recommendations formulated in respect of the various topics covered as part of the IMF's technical assistance program with Djibouti on tax policy:**

- **Djibouti has made progress in improving its VAT—for example by extending taxation to fee-based financial services—but there remains considerable scope for further reforms that could unlock significant revenue and reduce economic distortions.** Improving VAT efficiency (currently at 0.37) to the average for other lower-middle-income countries (0.52) could generate up to 0.9 percentage points of GDP in additional revenues. Priority actions should include: gradually scaling back exemptions (e.g., imports by real estate developers, private healthcare and education, electricity, and water utility); enhancing the efficiency of VAT refunds to reduce or eliminate the impact of the VAT on the cost of investments; setting the VAT threshold uniformly to DJF 50M for all businesses; and broadening the tax base to digital services imported by residents of Djibouti.
- **Reforms to Djibouti's wage tax should prioritize enhancing progressivity while broadening the tax base.** Regarding the latter, focus could be placed on ensuring appropriate taxation of fringe benefits and considering options for the taxation of pensions. A benchmarking exercise found that Djibouti's personal income tax rates across various income levels fall well within comparator ranges, alleviating concerns that taxes on labor income might be comparatively high.
- **Reform of capital income taxation is also warranted.** Investment income—such as interest and dividends—faces very low tax rates and could play a useful role in improving the equity of the tax system while raising additional revenue.
- **To safeguard revenues and policy effectiveness, the granting of tax incentives—in a new investment code or otherwise—should adhere to international best practice.** This includes defining clear and robust eligibility criteria, eliminating any discretionary powers to ministers or senior officials, and relying primarily on cost-based income tax incentives (e.g., accelerated depreciation; investment allowances and tax credits) rather than profit-based incentives (e.g., temporary or permanent low or zero tax rates), and ensuring adequate transparency regarding revenue foregone.
- **The cost of tax incentives and other tax expenditures should be published annually in a tax expenditures report.** Tax expenditure reporting not only supports fiscal transparency and accountability but also provides opportunities to identify measures that may be unjustified and could be repealed to enhance revenue mobilization. The latest report, produced in 2025 with technical support from the IMF, identified 64 tax expenditures, of which 38 were quantified. The total revenue foregone, without accounting for exemptions granted to military bases, amounted to DJF 71,7 billion in 2024 (approximately 9.26 percent of GDP) with more than half originating from incentives awarded under the Free Zone Code.
- **The equity and efficiency of the tax system could be improved by reforming immovable property taxation.** This could be achieved by consolidating current property taxes (*contribution foncière sur les propriétés bâties* and *contribution foncière sur les propriétés non-bâties*) into a single recurrent tax on immovable property, while introducing a new tax on rental income.
- **Creating a tax policy unit is a priority.** The development of sound tax policies is best supported by establishing a dedicated tax policy unit within the ministry responsible for fiscal policy. This unit advises the minister on the economic and budgetary implications of tax policy reform options, drawing from policy analyses, quantitative evaluations, legal assessments, and consultations with stakeholders both inside and outside government.
- **Holding new *Assises Nationales sur la Fiscalité* can be an effective way to engage various stakeholders on tax reform.** Learning from the 2015 *Assises Nationales* could be useful, to ensure that the new *Assises* are productive, focused and conducive to proper identification, prioritization and implementation of desirable tax reforms. The creation of a tax policy unit appears to be a prerequisite for successful *Assises Nationales*—it could anchor the *Assises* around clear reform proposals that the government wishes to put forward for debate with analytical input to inform the policy debates.