

## Djibouti

### Capacity Development Activities in Fiscal Year 2024

#### **Central Bank Operations** (May 28-June 6; December 17-21; March 4-5)

At the request of the Banque Centrale de Djibouti (BCD), METAC provided a technical assistance mission on domestic liquidity management. The mission focused on introducing and operationalizing reserve requirements. The mission found that reserve requirements would provide several beneficial roles in Djibouti's currency board arrangement, absent other safety nets. The mission provided guidance on all parameters of the reserve requirement. Given limited absorption capacity and the limited track record of implementing previous TA recommendations, METAC stands ready to provide hands-on follow-up support.

At the request of the Banque Centrale de Djibouti (BCD), METAC provided CD on the implementation of reserve requirements. This mission followed a first METAC mission on this topic in June 2023. The BCD has expressed its intention to introduce reserve requirements in early 2024. Throughout the mission there was an intensive collaboration with the staff of the newly created “Pôle Réserves Obligatoires”. The mission was hands-on in nature and provided regulatory texts and ready-to-use tools. An updated, granular roadmap should provide sufficient guidance to the BCD to achieve an immediate implementation. METAC stands ready to further support the implementation of the reserve requirements through remote or field-based delivery.

METAC facilitated a peer learning program on the implementation of reserve requirements for the Banque Centrale de Djibouti (BCD) at the Bank Al Maghrib (BAM). As the BCD is preparing the introduction of reserve requirements in CY24, the visit was timely and allowed to share and clarify all outstanding aspects of adopting and implementing reserve requirements in practice. BCD benefited from the discussions with their peers from the BAM's Monetary policy division as well as Banking Supervision department. METAC and BCD are appreciative for BAM's efforts in co-organizing the program.

#### **Public Financial Management** (May 7-11; January 8-18; January 18-25; February 11-22)

A METAC mission supported the Ministry of Budget in its objective to develop its budget preparation process, mainly on improving the budget projections and medium-term forecasting. The mission developed, in close collaboration with the budget preparation department, a new framework that is user-friendly and well-focused on the budget details. Medium-term forecasting, mainly on the revenue side, was prepared with the participation of tax agencies, with discussions focusing on the main factors influencing revenue performance. The MTFE complements the Ministry of Finance and Economy's efforts and output of the country's economic model.

A joint mission from the IMF's Fiscal Affairs Department (FAD) and METAC visited Djibouti to assist the authorities in strengthening the budget preparation process and advise on the prerequisites for effective implementation of the medium-term budget framework (MTBF) and performance-based budgeting (PBB). The mission worked with the authorities to support their reform plans in budget preparation including strengthening the strategic approach, reviewing the budget calendar, building capacity and in taking experimental steps when considering MTBF and PBB.

A METAC mission supported the Ministry of Budget to present and implement the analytical tool for preparing cash forecasting (CFAT), developed by the fiscal affairs department (FAD) at the IMF. It is a continuation of METAC's technical support to help improve cash management in Djibouti during the last few years. The mission worked with the team responsible for forecasting in the treasury department for the use of the CFAT to enhance the quality of forecasting and improve cash management. Discussions also included the process for collecting data and enhancing coordination between the forecaster and the various departments (debt, budget, etc.) to enrich the cash flow forecast, in addition to start preparing the pre-requisites for the implementation of the treasury single account (TSA).

A METAC mission supported the Ministry of Budget (MoB) in preparing a roadmap to enhance the role of the training institute in building capacity in the public finance topics. The MoB aims to improve staff skills and knowledge to support the public financial management reforms. The roadmap proposed by the mission includes steps to develop the strategy, resources, operations, trainers, and resources to upgrade the quality of training. Improving training will have a positive impact, mainly on the MoB and the Ministry of Economy and Finance's performance in fiscal and financial related issues.

**Revenue Administration** (June 11-23; January 7-11; January 28-February 1; April 21-25; April 14-28/April 21-24)

METAC assisted the General Directorate of Customs and Indirect Taxes (GDC) of Djibouti in the development of its first ever strategic plan. The mission supported the GDC to: (i) develop in-house capacities in the areas of strategic planning and results-based management, (ii) conduct a high-level environmental scan, (iii) develop the strategic plan's vision, mission, and values, (iv) validate strategic pillars, draft strategic goals, and associated performance indicators, (v) preliminarily identify the structure of the reform and modernization program. The GDC has requested further TA to finalize and launch the strategic plan as well as support with the conception and execution of the reform and modernization program.

A dedicated training on compliance risk management (CRM) was conducted with representatives of the Ministry of Budget and Tax Administration. The quality and usefulness of the workshop and the expertise of the IMF team were highly appreciated by the participants (4.7 average rating as measured by standardized questionnaire). In addition, the mission concluded that a simplified CRM framework for low-capacity

countries could be jointly developed and piloted in Djibouti. A series of meetings were held with the Secretary General of the Ministry of Budget and the Head of the Tax Administration to identify capacity development (CD) needs for the remainder of FY24 and FY25. A coordination meeting was held with the local World Bank team to ensure that CD initiatives do not overlap.

In a five-day training on Project Management skills with the Direction des Douanes et Droits Indirects (Customs), participants received training on what a project is; formulating a project; a project life cycle; roles of project stakeholders; etc. and were introduced to templates useful in documenting and managing projects. The participants have been requested to complete the WCO and/or the IMF VITARA online Project Management training courses to build on the in-person training and will be supported remotely as they put this into practice, developing several project documents using correct methodology. In addition to the training, the mission worked with senior customs managers to validate and give preliminary priorities to activities for Djibouti Custom's strategic plan.

*February* saw the conclusion of the remote element of a hybrid mission on Project Management skills for the Direction des Douanes et Droits Indirects (Customs). With seven days of remote support, the mission supported Djibouti Customs in (i) finalizing two Project Initiation Documents started during the in-person element of the mission; (ii) enabling six officers to complete the WCO online training in Project Management and (iii) completing a Project Management Organizational Maturity Level Assessment, which indicated the Djibouti Customs are at the 'initial stage' (first of five levels).

A follow-up in-country CD mission on Strategic Planning and Project Management took place at Djibouti Customs HQ. The team of officers who will be responsible for implementing the received expert support on developing performance indicators for the Strategic Plan agreed on a governance mechanism for the Strategic Plan, determined priority actions for reforms, and finalized several Project Initiation Documents. Additionally, the Director General received an update on the progress and METAC support. A further virtual follow up mission will take place in May to support the finalization of Project Initiation Documents and Project Governance documents.

METAC assisted Djibouti's tax administration in setting up an integrated large taxpayers office, working with officials to draft an implementation plan and the necessary legislation to support integration. A second METAC remote mission helped the authorities to design a stakeholder engagement and communication program as a structured approach to encourage voluntary compliance.

### **Tax Policy** (September 24-28; January 14-18; March 10-21)

An FAD tax policy mission visited Djibouti to review the value added tax (VAT) and offer advice on how to improve its revenue performance, neutrality, and fairness. Over the medium term, Djibouti could generate as much as 0.9 percent of GDP in additional tax revenues if it undertook policy and administrative reforms that would put the country's

VAT performance (as measured by c-efficiency) on par with the average for low-middle income countries. The mission presented authorities with several policy recommendations, many of which could be considered for implementation as early as Budget 2024. These recommendations focused predominantly on repealing exemptions for goods and services consumed proportionally more by higher-income individuals, refraining from granting VAT exemptions as tax incentives for investment, improving the efficient processing of VAT refunds, and increasing the VAT threshold.

A joint FAD-METAC mission supported revenue mobilization in Djibouti, focusing on tax policy. Key messages from the latest activity include: (1) priority should be given to promoting good governance, with the aim of consolidating tax provisions within the General Tax Code so as to enhance transparency, strengthen centralized control by the Budget Ministry over tax policy, and ensure strict adherence with the rule of law; (2) informed decision-making around the selection of sound tax policy reforms would be best served by the creation of a dedicated tax policy unit; (3) there is no quick fix or easy reform, and the authorities should think about tax policy measures in the context of a medium-term agenda which has government-wide support; and (4) the value added tax, personal income tax (wage tax in particular), and business profits tax (incl. tax incentives within special regimes) should take center stage in the reform agenda. Tax policy CD engagement is currently focusing on wage and income taxation.

A joint METAC–HQ in-person mission conducted a review of Djibouti’s wage tax to assist the authorities in identifying and prioritizing wage and income tax reform options. The mission conducted an international benchmarking of tax wedges and of effective tax rates across a wide range of income levels. Upon the conclusion of the mission, the authorities were presented with key recommendations that included identifying the guiding principles of a wage tax reform in addition to complementing measures intended to broaden the scope of capital income taxes.