



2024

January

EAST AFRICAN COMMUNITY

Components: Revenue

Modules: RM I – Tax Policy

RM II – Revenue Administration

*EAST AFRICAN COMMUNITY***PROJECT SUMMARY**

LEAD DEPARTMENT: Fiscal Affairs Department

REGION (S): AFR

COUNTRY (S): East African Community

PROGRAM ID: (To be filled out by Secretariat)

PLANNED DATES: 02/2024 – 04/2027

FUNDING PROGRAM TITLE: East African Community

PROJECT MANAGERS:

RM I / TAX POLICY: Kevin Shoom – FADT2

**RM II / REVENUE
ADMINISTRATION:** Miguel Pecho – FADR2

PROJECT LEAD MANAGER: Kevin Shoom – FADT2

ESTIMATED BUDGET: \$1,578,622

BUDGET FOR ENDORSEMENT: \$828,978 (through FY25)

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I. PROJECT PURPOSE

The project aims to help the East African Community (EAC) strengthen its member states' capacity for international taxation and facilitate regional coordination/harmonization of tax systems. It will assist the EAC and its member states in designing EAC rules to coordinate/harmonize excises, VAT, and other major taxes, in updating its tax treaty framework, in harmonizing tax procedures codes, and in strengthening international tax administration. These initiatives will improve the capacity to mobilize domestic resources, consolidate the functioning of the common market and reduce tax differences amongst member states of the EAC. Tax harmonization is called for in the treaty establishing the EAC.

The CD support under this project will consist of a series of workshops to advance the preparation of draft directives and other relevant products, as well as related technical assistance as appropriate. The different workstreams are already established, with some expected to be completed no later than FY25, while other directives are to be drafted through FY27. The estimated budget for this project is \$1,578,622, but endorsement is requested for \$828,978 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured.

The EAC is currently made up of seven Partner States: Democratic Republic of Congo (since July 2022), Burundi, Kenya, Rwanda, South Sudan, Uganda, and Tanzania.

II. BACKGROUND

Macro-fiscal situation

The COVID-19 pandemic triggered large, unexpected increases in public debt across countries. High levels of (foreign) public debt risk affecting debt sustainability. Domestic resource mobilization is critical, given that increased costs of financing restrains funding ability, and exacerbated credit risk is evident. An additional EAC-related risk is increased food insecurity resulting from further increase in food prices, from disruptions in global food supply (e.g., wheat, corn, sunflower oil etc.) and increased input and transportation costs (e.g., fertilizers and fuel).

In March 2023, it was announced that the start date for the East African Monetary Union would be postponed from 2024 to 2031. The 26th ordinary meeting of the EAC Monetary Affairs Committee noted progress made by partner states, but much work is still needed in cross-border payment systems. The creation of the key institutions (Monetary Institute, Statistics Bureau, Surveillance, Compliance and Enforcement Commission, and Financial Services Commission) is also delayed, against a backdrop of continued inflationary pressures, tightening financial conditions, vulnerabilities arising from the war in Ukraine and unfavorable weather conditions in the region.

IMF priority areas / cross-cutting themes

Of the seven EAC member states, three – Burundi, Democratic Republic of the Congo, and South Sudan – are currently classified as fragile states. Negotiations between the EAC and the Federal Republic of Somalia for entry into the EAC began in earnest in August 2023.

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Regional reform priorities

Under the Treaty for establishment of the East African Community, Article 83 2 (e) provides that Partner States shall harmonize their tax policies with a view of removing tax distortions for a more efficient allocation of resources within the Community. Similarly, Article 32 of the Common Market Protocol provides that Partner States shall progressively harmonize their tax policies and laws to remove tax distortions to facilitate free movement of goods, services and capital and to promote investment within the community. Finally, Article 8 of the East African Monetary Union Protocol provides for harmonization and coordination of fiscal policies and avoidance of harmful tax competition. The EAC Council of Ministers approved a Domestic Tax Harmonization Policy in May 2019, which calls for tax harmonization through Council directives on excise duties, value-added taxes, and income taxes. The policy notes that VAT and excise harmonization represent the logical next step in the trade liberalization process that was initiated with the customs union. The proposal will support the preparation of draft directives for the EAC Council's consideration.

Consistent with the provisions of the Treaty mentioned above for harmonized tax policies and laws, the EAC Secretariat has requested assistance regarding a model tax treaty that could be used by the member states (including training for tax treaty negotiators) and updating the EAC's multilateral tax treaty, and the harmonization of tax procedures codes.

In addition, given the delays mentioned above in advancing other high-level aspects of the EAC agenda, successful delivery of the outputs of this project should assist in sending positive signals about the utility of the EAC and its ability to generate tangible results.

III. PROJECT DESCRIPTION

A. Program Objectives

Module RM I / Tax Policy

Within the GPFP module on improving tax policy design, the specific objective of the program is to support the EAC member states in developing draft directives on excise duties, VAT, and income taxes, and in updating the EAC multilateral tax treaty, developing a model bilateral tax treaty for use with non-member states, and training member states' officials on tax treaty negotiating skills. CD activities will focus on:

- Workshops to advance drafting of tax directives (the draft directive on excise duties is well advanced); and
- Supporting any remaining work on tax treaties.

Module RM II / Revenue Administration

Within the GPFP module on strengthened revenue administration management and governance arrangements, the specific objective is to support completion and implementation of the EAC directive for the harmonization of tax procedures and increase technical capabilities for effective international tax administration. CD activities will focus on:

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- Staff visits and HQ-missions for the harmonization of tax procedures (if needed because the directive is already well advanced); and
- Workshops and trainings for international tax administrations.

B. Expected Results (outcomes)

Within the objective “Improve Tax Policy Design”, the project will focus primarily on the outcome “increased revenue quantity due to amended tax rates or base”. The workshops are intended to lead to draft harmonized tax directives, a model tax treaty, and updates to the multilateral EAC tax treaty, for consideration by the EAC Council, and can be evaluated against the indicator “regional measures agreed and implemented”. A draft excise directive, and the deliverables on tax treaties, are close to completion.

Within the objective “Strengthened revenue administration management and governance arrangements”, the project will focus on the outcome “tax procedures codes of partner states are updated, simplified, strengthen, and better aligned with modern standards and international protocols”. A draft directive for the harmonization of tax procedures is well advanced and the project will assist as needed in its completion and implementation, consistent with the indicator “administrative provisions are harmonized and consolidated, for example, under a tax procedures code”. In addition, under the same objective, the project will focus on the outcome “corporate priorities are better managed through effective risk management”. A series of workshops and trainings for international tax administrations will enhance technical competences for managing international tax compliance risks, following the new IMF Framework for International Tax Administrative Strengthening (FITAS), which reviews main challenges developing country tax administrations currently face in international tax administration and presents the management, organizational and administrative good practices that (along with a strong policy and legal framework) could enable tax administrations to address those challenges.

C. Delivery Modalities

The CD delivery will mainly be in-person workshops to facilitate discussion and negotiation regarding both modules. Virtual deliveries may be used to supplement directive drafting processes or facilitate country-engagement as part of the multi-country project, including pre-engagement meetings and post follow-up meetings, and to maintain communication between authorities at a lower cost. A virtual workshop may also be needed to conclude the tax treaty work. Depending on needs, training related to tax treaty negotiation may be provided, which would be in-person.

D. Coordination / Cooperation

EAC member states have made progress harmonizing their public financial management (PFM) systems. However, some members (South Sudan, DRC, and Burundi), lag behind peers in fiscal reforms. Fiscal years have been harmonized, budgets are presented to parliaments on the same date, and some members have made good progress in extending fiscal reporting to general government. The last Annual EAC-FAD PFM workshop took place in August 2022 after a two-year COVID hiatus. The next workshop is scheduled in January 2024. FAD and AFE support these workshops, financially and technically, while AFE continues to advise EAC on various PFM topics.

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Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Revenue	RM I / Tax Policy	Improve tax policy design
	RM II / Revenue Administration	Strengthen revenue administration management and governance arrangements (SDG 17.1)

IV. RISK ASSESSMENT AND MITIGATION

Description	Risk Assessment	Mitigation Measures
External climate/conditions		
Impact of Ukraine war and conflict in Gaza.	Medium	Time the implementation appropriately.
Political Support		
All member states must agree to the harmonized framework. Political instability at the member states' level may slow down and even stop implementation of reforms.	High	Close consultation with AFR Department and government authorities. Hold workshops to increase buy-in at officials' level.
Management and Technical Staff Support and Commitment		
No risk identified.	Low	Not required.
Resource Adequacy		
Although current EAC Secretariat leadership is strongly in favor of this project, there are no policy experts at the Secretariat.	Low	Hold workshops to ensure minimum level of policy expertise.
Other Risks		
<u>Timeliness</u> : The team fails to achieve the milestones and deliver the expected outcomes on-time and project fails. <u>Sustainability</u> : Reform fatigue may weaken commitment. <u>Security</u> : Certain EAC states are fragile or conflicted states. This may prevent normal technical assistance activities.	Medium	<u>Timeliness</u> : The project will be delivered and monitored by IMF staff and experienced HQ experts. Steering Committee will be kept informed and consulted on possible changes. <u>Sustainability</u> : Regular high-level engagement. <u>Security</u> : Use of alternative modes of TA delivery, such as remote assistance, and delivery of workshops in more secure member countries or outside the region.

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V. CD DELIVERY PLAN

Table 2. Summary of Indicative CD Delivery

CD Modalities	FY24	FY25	FY26	FY27	FY28	Grand Total
RM I / Tax Policy						
In-person activities (FB)						
Workshops	-	3	2	2	-	7
RM II / Revenue Administration						
In-person activities (FB)						
HQ-led CD mission (incl. LTX)	-	2	2	-	-	4
STX CD (incl. LTX)	1	1	-	-	-	2
Workshops	-	-	-	-	-	-
Remote activities (DS)						
STX CD (incl. LTX)	-	1	1	-	-	2
Trainings	-	1	1	-	-	2

Table 3. First Year Workplan

Timing	CD Delivery	Modality	Proposed Topics of CD
RM I / Tax Policy			
FY24—Q4	STX CD	Virtual	Finalize Directive on Tax Procedures
FY25 – Q1	Workshop	Virtual	Tax treaty support
FY25 – Q2	Workshop	In-person	Initiate work on VAT directive
FY25 – Q3	Workshop	In-person	Continue work on VAT directive
FY25 – Q4	Workshop	In-person	Finalize work on VAT directive
RM II / Revenue Administration			
FY25—Q1	HQ mission	In-person	International tax administration
FY25—Q2	Training	Virtual	International tax administration
FY25—Q3	HQ mission	In-person	Mission with FITAS workshop
FY25 – Q4	STX	Remote	Follow-up FITAS workshop

*EAST AFRICAN COMMUNITY***VI. PROGRAM FINANCIALS**

	FY24 Q4	FY25	FY26	FY27	TOTAL (USD)
Direct Delivery	43,425	731,320	575,030	125,573	1,475,348
Module RM I - Tax Policy	0	177,546	121,915	125,573	425,034
Module RM II - Revenue Administration	43,425	553,774	453,115	0	1,050,314
Subtotal	43,425	731,320	575,030	125,573	1,475,348
Trust fund management fee (7%)	3,040	51,192	40,252	8,790	103,274
TOTAL	46,465	782,513	615,282	134,363	1,578,622

The estimated budget for this project is \$1,578,622, but endorsement is requested for \$828,978 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured.

*EAST AFRICAN COMMUNITY***ANNEX I. TARGETED LOGICAL FRAMEWORK**

Objective	
RM I / Tax Policy	
Improve tax policy design	
Outcome(s)	Indicator(s)
Increased/decreased revenue quantity	Regional measures agreed and implemented.
Objective	
RM II / Revenue Administration	
Strengthened revenue administration management and governance arrangements (SDG 17.1)	
Outcome(s)	Indicator(s)
Tax and/or customs laws are updated, simplified, and better aligned with modern standards and international protocols.	Administrative provisions are harmonized and consolidated, for example, under a tax procedures code.
Corporate priorities are better managed through effective risk management.	Additional capabilities on international tax administration.