

I. COUNTRY REFORM PROGRESS

The GPFP project has supported advancing fiscal reforms in the East African Community (EAC), achieving key outcomes in the areas of tax policy and revenue administration. IMF fiscal CD priorities align well with the strategic objectives of the EAC's Treaty for Establishment of the East African Community (in which Article 83(2)(e) provides that partner states shall harmonize their tax policies with a view to removing tax distortions for a more efficient allocation of resources within the Community); Article 32 of the Common Market Protocol which 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; Article 8 of the East African Monetary Union Protocol that provides for harmonization and coordination of fiscal policies and avoidance of harmful tax competition; and the EAC's Domestic Tax Harmonization Policy (approved in May 2019), which calls for tax harmonization through Council directives.

Increased economic integration and domestic resource mobilization (DRM) is being promoted among EAC partner states through GPFP-supported work. This includes advancing or completing projects that have already been underway, such as directives on excise taxation and administrative procedures, and preparation of a model tax treaty (for use by partner states in negotiations with non-Partner States) and a multilateral tax treaty that would apply among partner states. The directives will improve the efficiency of the tax systems and administrations in the partner states, removing barriers to intra-community trade and investment. The tax treaty products will facilitate intra-community economic relations and better protect the tax bases of partner states in their dealings with non-EAC countries while providing a healthy environment for foreign direct investment.

The current work under the GPFP is further benefiting partner states in these respects. The tax harmonization work is now focusing on a VAT directive, and the IMF has provided training in tax treaty negotiation skills. Additional effort by partners state is needed to finalize approval of the draft council directive for the harmonization of legislation on tax procedures and administration developed with IMF support. EAC Partner States have created a Community of Practice (CoP) that is enhancing their capabilities to manage international tax risks, building capabilities in international compliance risk management (CRM). Future work will continue the progress in this area, such as the development of a handbook on international CRM. The continued partnership of the EAC and the IMF, supported by GPFP funding, will be critical in advancing these workstreams and increasing economic integration and DRM.

II. PROJECT DELIVERY HIGHLIGHTS

Revenue Module I – Tax Policy

Key Progress in FY25: EAC excise directive is drafted and will be considered for approval at a meeting of the EAC Ministerial Council by July 2025. Two tax policy workshops have been held so far under the project. A first workshop (with Revenue Administration and LEG) was held in August 2024 on an EAC directive on VAT harmonization. The workshop made good progress in outlining the issues to be covered in the directive and the approach to take. In October 2024, a workshop was held to train EAC Partner State authorities on tax treaty negotiation skills. This workshop was valuable because of the shortage of skilled treaty negotiators in the region's governments. Overall, the work should contribute to economic integration and DRM in the EAC.

Previous Progress: Work on the VAT directive follows the IMF's assistance in developing a draft excise directive, both of which are key objectives for the EAC's tax harmonization work. They will contribute to better resource mobilization and more efficient and effective taxation. The treaty negotiation skills training follows the development of tax treaty products with FAD support that will help promote trade and investment while protecting tax bases in the region.

Next Steps: FAD and LEG are preparing a first draft of the VAT directive and a study of the impacts of the directive, to be considered at a June 2025 workshop. The objective is to complete the VAT directive work by the end of FY26.

Revenue Module II – Revenue Administration

Key Progress in FY25: EAC Partner States have enhanced their capabilities to manage international tax risks under the guidance of the IMF. They first developed a roadmap based on FITAS self-assessments and then created a CoP (led by the Kenya Revenue Authority) to establish a forum where tax officers can engage in continuous knowledge exchange and share experiences with peers and experts, exploring emerging trends and approaches in international tax administration. In this context, EAC Partner States built capabilities in international CRM and bridged the gap between international tax theory and the practical application of international tax toolkits (such as transfer pricing guidelines) through hands-on clinics. This capacity-building effort adds to previous achievements in harmonizing tax policies and administration.

Previous Progress: In previous years, guided by the IMF, partner states completed a draft council directive for the harmonization of legislation on tax procedures and administration. Although partner states are still reviewing and approving the draft council directive, they have taken tangible steps toward agreeing on the terms of such harmonization process.

Next Steps: Looking ahead, guided by the IMF, partner states will begin developing a Handbook on International CRM for EAC countries. During the recent IMF-WB Spring Meetings, the EAC Secretariat expressed its satisfaction with the work the IMF is conducting on international tax administration.

III. LOGICAL FRAMEWORK

Country – East African Community		
RM I: Objective - Improve Tax Policy Design - TPD		Rating - 2
Outcome	Rating	Narrative
Increased/decreased revenue quantity	2 Partially Achieved	Excise directive drafted and will be considered for approval in May 2025. The first workshop on VAT directive was held in Aug 2024. EAC model treaty approved May 2024. EAC multilateral treaty awaiting approval at Council level. Workshop on treaty negotiation skills held October 2024.

RM II: Objective - Strengthened revenue administration management and governance arrangements (SDG 17.1) - RAM		Rating - 3
Outcome	Rating	Narrative
Tax and/or customs laws are updated, simplified, and better aligned with modern standards and international protocols	2 Partially Achieved	The draft council directive for the harmonization of legislation on tax procedures and administration was completed with FAD and LEG support. EAC Partner States are still reviewing the draft council directive.
Corporate priorities are better managed through effective risk management	3 Largely Achieved	The project developed a roadmap to enhance EAC Partner States' capabilities on international tax administration based on FITAS self-assessments. In addition, EAC Partner States agreed to create a CoP (led by Kenya Revenue Authority) to establish a forum where tax officers can engage in continuous exchange of knowledge and experiences with peers and experts and explore emerging trends and approaches on international tax administration. Hands-on clinics bridged the gap between international tax theory and the practical application of international tax toolkits (such as transfer pricing guidelines).

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External Climate/Conditions		
RM I: Impact of Ukraine war and conflict in Gaza.	Medium	Time the implementation appropriately.
RM II: Impact of Trade Policies Uncertainties	High	Time the implementation appropriately.
Political Support		
RM I, RM II: 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.	Very High	Close consultation with the IMF's African Department (AFR) and government authorities. Hold workshops to increase buy-in at officials' level.
Management and Technical Staff Support and Commitment		
N/A	N/A	N/A
Resource Adequacy		

Description	Rating	Mitigation Measures
RM I, RM II: Although the current EAC Secretariat leadership is strongly in favor of this project, there are no policy experts at the Secretariat.	Low	Hold workshops to ensure a minimum level of policy expertise.
Other Risks		
RM I, RM II: Timeliness: The team fails to achieve the milestones and deliver the expected outcomes on time and project fails.	Medium	Timeliness: The project will be delivered and monitored by IMF staff and experienced HQ experts. The Steering Committee will be kept informed and consulted on possible changes.
RM I, RM II: Sustainability: Reform fatigue may weaken commitment.	Medium	Sustainability: Regular high-level engagement.
RM I, RM II: Security: Certain EAC states are fragile or conflicted states. This may prevent normal technical assistance activities.	Medium	Security: Use of alternative modes of CD delivery, such as remote assistance, and delivery of workshops in more secure member countries or outside the region.

V. PROJECT MANAGERS CONTACT INFORMATION

Project Manager	Module PM	E-mail
Kevin Shoom (FADT2)	Kevin Shoom (FADT2) Miguel Pecho (FADR2)	KShoom@imf.org MPecho@imf.org