

I. COUNTRY REFORM PROGRESS

The Global Public Finance Partnership (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 EAC). The EAC Partner States are Burundi, the Democratic Republic of the Congo, Kenya, Rwanda, Somalia, South Sudan, Tanzania, and Uganda.

Increased economic integration and domestic resource mobilization (DRM) are 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. 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. In furtherance of the effective use of the model tax treaty, the IMF provided training in tax treaty negotiation skills.

The current work under the GPFP is further benefiting Partner States in these respects. The tax harmonization work is now focusing on a value-added tax (VAT) directive. In FY26, the IMF prepared a background paper and led a workshop on the directive, after which a revised draft of the VAT directive was circulated to the Partner States for comments. Additional effort by Partner States is needed to finalize approval of the draft council directive for the harmonization of legislation on tax procedures and administration completed in September 2023 with IMF support. On international tax administration, EAC Partner States have created a Community of Practice (CoP) that is enhancing their capacities to manage international tax risks, building capabilities in international compliance risk management (CRM). Future work will continue 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

RM I: Revenue Module I – Tax Policy

Key Progress in FY26: A key focus of the project has been assistance by FAD and LEG with implementation of the EAC's tax harmonization policy through developing directives for the various tax bases. The directives will contribute to better resource mobilization and more efficient and effective taxation. Two workshops have been held and a background study undertaken for a VAT directive. The most recent workshop, in June 2025, resulted in a draft VAT directive that was sent to EAC Partner States for review. A key feature of the draft directive is an innovative approach to placing guardrails on the use of the VAT system for incentives and social measures.

Previous Progress: The IMF supported the development of four EAC products prior to FY26 through workshops and training sessions. A model tax treaty, for use bilaterally with non-EAC countries, was

developed and approved in FY24. FY24 also saw the development of a multilateral tax treaty to cover all EAC Partner States; it is going through the EAC approval process. The tax treaty products will help promote trade and investment while protecting tax bases in the region. A directive on excise tax was developed in FY23 and FY24; it is also awaiting approval from EAC ministers. FAD led a workshop in FY25 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; it will help them make best use of the treaty products recently produced. Finally, the work on a VAT directive was initiated in FY25, setting the stage for the study and workshop in June 2025.

Next Steps: The IMF stands ready to continue working on the VAT directive once Partner States provide comments on the 2025 draft. Once their comments have been received, FAD and LEG will determine whether another workshop is needed. This work could proceed in the first half of FY27 if comments are received on a timely basis. The IMF anticipates that at most one more workshop is needed before the VAT directive can be advanced through the EAC's internal processes for approval. The IMF's contributions for the excise directive and multilateral tax treaty are complete and finalization of these products now rests with the EAC.

RM II: Revenue Module II – Revenue Administration

Key Progress in FY26: FAD CD has contributed to increasing skills for passing sound international tax administration reforms in EAC Partner States by training them on structured, risk-based approaches and by strengthening institutional capacity to implement these reforms effectively. FAD CD also strengthened country capacity through hands-on, practice-oriented support focused on international compliance risk management (CRM). Through targeted clinics, tax officials built practical skills to apply international tax toolkits—such as transfer pricing guidelines—in day-to-day risk identification, case selection, and audit processes. This approach helped bridge the gap between international tax concepts and operational practice, enhancing administrations' ability to manage cross-border tax risks more effectively.

Previous Progress: Under FAD CD guidance, Partner States undertook FITAS self-assessments to diagnose weaknesses in international tax administration and outline possible reform roadmaps tailored to their specific risk profiles and administrative capacity. To reinforce reform implementation and promote regional consistency, FAD CD supported the establishment of an EAC CoP on international tax administration, led by the Kenya Revenue Authority (KRA). The CoP provides a structured forum for tax officials to exchange operational experience, discuss emerging risks and administrative responses, and engage with peers and experts on international tax administration issues.

Next Steps: Looking ahead, FAD CD will build on the reforms and capacity developed to date by supporting Partner States in the preparation of an EAC Handbook on International CRM, currently under development. This handbook is intended to consolidate regional experience, good practice, and practical guidance into a durable reference tool to support sustained implementation of international tax administration reforms.

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	The IMF supported the EAC Secretariat and Partner States by completing the VAT directive study in June 2025 and discussing it with the Partner States at a workshop that month, which was also used to advance the first draft of the VAT directive. To date, Partner States have not provided comments on the draft directive. The next step is for Partner States to provide comments, after which the IMF can assist with any revisions needed. The excise directive and multilateral treaty continue to await approval by the EAC. The IMF has therefore assisted in advancing the various products, while more needs to be done by the EAC to finalize and implement them.
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	3 Largely 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 approving the draft council directive.
Corporate priorities are better managed through effective risk management	3 Largely Achieved	The IMF supported EAC Partner State authorities by providing structured, hands-on technical assistance to diagnose weaknesses, design reforms, and build practical capacity in international tax administration. This included FITAS self-assessments, further CD through hands-on clinics that focused on the operational application of international tax tools, and a CoP. Building on this engagement, the IMF is supporting the development of an International CRM Handbook to consolidate guidance and regional experience, with an initial set of chapters expected to be shared with Partner States in mid-April. After its conclusion, the revenue administration component of the EAC project will conclude in April 2026.

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External Climate/Conditions		
Ukraine war and conflict in Middle East may impact on the EAC through higher and more volatile commodity prices and disruptions to trading relationships, causing Partner States to focus more on domestic issues at the cost of increased harmonization.	Medium	Time the implementation appropriately so that measures can be implemented over several years, once temporary shocks have dissipated or the market has adjusted.
Certain EAC states are fragile or conflicted affected states. This may prevent normal technical assistance activities.	High	Use of alternative modes of CD delivery, such as remote assistance, and delivery of workshops in more secure member countries or outside the region.
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.	Very High	Close consultation with the IMF's African Department and government authorities. Hold workshops to increase buy-in at officials' level by educating officials and resolving differences, so that the officials are willing and able to defend and promote the outputs within their own governments. Include sufficient lead time for the directives to take effect to take into account any short-term instabilities.
Management and Technical Staff Support and Commitment		
RM I: Lack of buy-in and/or technical knowledge amongst the officials of the Partner States, reflecting capacity constraints and different policy approaches and administrative practices.	Medium	Hold workshops to educate officials of Partner States about the issues being discussed and guide them to possible solutions. Encourage open discussion of country positions during the workshops to accommodate concerns and resolve differences.
Resource Adequacy		
Although the current EAC Secretariat leadership is strongly in favor of this project, there are no policy experts at the Secretariat.	Medium	Hold workshops to ensure minimum level of policy expertise within Partner States. Liaise with the Secretariat to ensure they have sufficient understanding of the issues, including excise, income, value added taxation, international taxation issues, and tax administration.
Other Risks		
<i>Timeliness</i> : The EAC Secretariat fails to achieve the milestones	High	The project will be delivered and monitored by IMF staff and experienced HQ experts. This includes

Description	Rating	Mitigation Measures
and deliver the expected outcomes on time and project fails.		following the progress of each deliverable (directives, treaty products) and communicating to the EAC that finalizing products is key before additional resources will be devoted to new products. The Steering Committee will be kept informed and consulted on possible changes.
<i>Sustainability:</i> Reform fatigue may weaken commitment.	High	Regular high-level engagement during IMF-World Bank Annual and Spring Meetings to reinforce importance of finalizing products and the economic benefits from increased tax harmonization.

V. PROJECT MANAGERS: CONTACT INFORMATION

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