

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) 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. 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. During the first half of FY26, the IMF prepared a background paper and led a workshop on the directive, following which a revised draft of the VAT directive has been circulated to the Partner States. 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. 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 developed with IMF support. During the 2025 Annual Meetings, the EAC Deputy Secretary indicated that endorsement of the council directive is expected by the end of calendar year 2025. 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 the IMF's Fiscal Affairs Department (FAD) and Legal Department (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. In FY26, this objective has been advanced through a workshop, in June 2025, that resulted in a draft VAT directive that is currently being reviewed by EAC Partner States. 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. A background study on the VAT directive was also completed by FAD and circulated to EAC Partner States prior to the June workshop.

Previous Progress: A draft directive on excise taxation was concluded in November 2023 and is awaiting approval from EAC ministers. The first workshop on the VAT directive was held in August 2024; it produced an outline that informed the preparation of a first draft of the directive. On tax treaties, FAD assistance contributed to the completion in 2023 of a model tax treaty and development of a multilateral tax treaty; the former is final, and the latter is going through the EAC approval process. These products will help promote trade and investment while protecting tax bases in the region. FAD led a workshop to train EAC Partner State authorities on tax treaty negotiation skills in October 2024. 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.

Next Steps: The near-term focus is on advancing the VAT directive. Partner State comments have not yet been received but are anticipated before the end of calendar year 2025. The preparatory work required to incorporate substantive changes to the directive, based on the feedback FAD and LEG anticipate from Partner States, will necessitate in-person multilateral discussions. To enable these exchanges and ensure the revisions are effectively integrated, an additional workshop will need to be organized. Accordingly, a request for supplementary funding will be submitted for SC endorsement to support this workshop.

RM II: Revenue Module II – Revenue Administration

Key Progress in FY26: Regarding the harmonization of tax procedure and administration legislation, there is little to report in this reporting cycle (as in the previous one) as no feedback has been received from the Partner States of the EAC Secretariat. FAD and LEG completed drafting of a council directive to harmonize these legislations long time ago, which is now in the process of approval by the respective authorities. Assistance has been continuously offered to clarify any necessary information to expedite approval, but we have not been called upon. On international tax administration, there is also little to report, since it was decided not to organize an in-person workshop in November 2025, but rather to prioritize virtual engagements through the community of interest created for member states. Appetite for this format seems very low, as very few participants have joined the meetings and engagements, with only the representatives from Kenya and Uganda standing out. The fact that the main counterpart for our projects at the EAC Secretariat has left his position has also affected the planning of further activities and the continuity of engagement with member countries.

Previous Progress: On the harmonization of tax procedure and administration legislation, FAD and LEG completed drafting a council directive a long time ago, which is currently under approval by member countries. On international tax administration, in-person workshops were held to discuss key aspects of the IMF Framework for International Tax Administration Strengthening (FITAS). In this context, Partner States have developed capabilities in international compliance risk management 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 and training activities. Partner States also conducted FITAS self-assessments to identify vulnerabilities and weaknesses in this workstream and 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.

Next Steps: To complement the training activities of the technical assistance on international tax administration, the workplan includes developing a best practices manual tailored to the EAC region countries' needs. This manual would capture the approaches discussed in the workshops and meetings to improve the management of international tax risks. The IMF will start defining the content of this manual based on previous IMF work on this workstream and determine the best way to develop it before April 2026, including the participation of representatives from member countries if possible and interested.

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 VAT directive study was completed in June 2025 and discussed with EAC Partner States at a workshop that month. The workshop was also used to advance a first draft of the VAT directive. Significant progress was made and a second draft was circulated for comments after the workshop. A key feature is an innovative approach to placing guardrails on the use of the VAT system for incentives and social measures. Next steps for the VAT directive are further revisions based on forthcoming comments from the Partner States, and approvals within the EAC machinery. Following completion of the VAT directive, the EAC will need to decide whether to pursue further tax harmonization with respect to income taxes.
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. During the Annual Meetings, the EAC Deputy Secretary indicated that endorsement of the council directive is expected by the end of the calendar year 2025.
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). Development of the handbook has been delayed.
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IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External Climate/Conditions		
RM I, RM II: Impact of Ukraine war and conflict in Gaza.	Medium	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 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		
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 EAC Secretariat 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. This includes 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.
RM I, RM II: Sustainability: Reform fatigue may weaken commitment.	Medium	Sustainability: Regular high-level engagement at Annual and Spring Meetings to reinforce importance of finalizing products and the economic benefits from increased tax harmonization.

Description	Rating	Mitigation Measures
RM I, RM II: Security: Certain EAC states are fragile or conflicted affected 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

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