

## I. COUNTRY REFORM PROGRESS

The East African Community (EAC) is currently made up of eight Partner States: Burundi, Democratic Republic of Congo (since July 2022), Kenya, Rwanda, Somalia (since March 2024), South Sudan, Uganda, and Tanzania.

The Treaty for the establishment of the EAC 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. Similarly, 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 EAC. Finally, 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.

In 2023, the EAC Council of Ministers revised timelines for the establishment of the East African Monetary Union from 2024 to 2031. The Sectoral Council of Finance and Economic Affairs meeting in May 2023 observed that, although progress has been made in the implementation of the prerequisites including the macroeconomic convergence criteria, implementation was far behind timelines. Capacity development (CD) support from the IMF's Fiscal Affairs Department (FAD) can contribute to furthering the convergence ambitions of Partner States.

## II. PROJECT DELIVERY HIGHLIGHTS

### RM I: Revenue Module I – Tax Policy

**Key Progress in FY25:** (i) Draft excise directive agreed at working level and sent to EAC Ministers for approval in May 2024. Ministers asked the EAC Secretariat for additional economic analysis. This is to be provided to Ministers by May 2025, at which time it is anticipated that the directive would be approved. (ii) Revised model tax treaty and multilateral tax treaty agreed at working level and sent to EAC Ministers for approval in May 2024. Model tax treaty was approved; multilateral tax treaty is going through a legal scrub. FAD delivered a workshop in October 2024 on tax treaty negotiation skills. (iii) Value added tax (VAT) directive: FAD organized a first workshop in August 2024, at which EAC Partner States agreed on an outline for the directive.

**Next Steps:** For the VAT directive, FAD to compare existing domestic legislation and provide analysis of potential impacts from the proposed directive. FAD and the IMF's Legal Department (LEG) will jointly prepare a first draft of the VAT directive. The analysis and draft directive will be discussed at a second workshop, the timing for which is to be determined.

### RM II: Revenue Module II – Revenue Administration

**Key Progress in FY25:** On tax harmonization, 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 for approval. Regarding compliance risk management (CRM), two CD activities (workshops) were conducted so far. With FAD support, EAC partner states 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 Community of Practice (led by the Kenya Revenue Authority, KRA) 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.

**Next Steps:** Guided by the IMF team, Partner States will continue expanding their knowledge of CRM fundamentals and apply them for managing international tax risks. The key milestone will be the development of a Risk Matrix containing risk, description, cause, indicators, sources of information, likelihood of occurrence, consequence, overall rating, compliance strategy, among others. Depending on the availability of tax data, the IMF team will develop an RDF calculator for forward-looking compliance planning.

### III. LOGICAL FRAMEWORK

| Country – East African Community                                                                                      |                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-----------------------------------------------------------------------------------------------------------------------|----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| RM I: Objective - Improved tax and non-tax revenue policy (SDG 17.1) - TXP                                            |                      | Rating - 3                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Outcome                                                                                                               | Rating               | Narrative                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Increased/decreased revenue quantity due to amended tax rates or base                                                 | 3 Largely Achieved   | Draft excise directive completed and sent for approval to the EAC Ministers in May 2024. They requested further economic analysis. The EAC Secretariat is conducting this analysis and anticipates returning to Ministers to again seek approval in May 2025. Revised model tax treaty and multilateral tax treaty agreed at working level and sent to EAC Ministers for approval in May 2024. Model tax treaty was approved; multilateral tax treaty is going through a legal scrub. FAD delivered a workshop in October 2024 on tax treaty negotiation skills. VAT directive: FAD organized a first workshop in August 2024, at which EAC Partner States agreed on an outline for the directive. |
| RM II: Objective - Strengthened revenue administration management and governance arrangements (SDG 17.1) - RAM        |                      | Rating - 2                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| 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 Community of Practice (led by Kenya's KRA) 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.                                                                                                                                                                                                                                       |

#### IV. RISK ASSESSMENT

| Description                                                                                                                                                               | Rating | Mitigation Measures                                                                                                                                                              |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>External climate/conditions</b>                                                                                                                                        |        |                                                                                                                                                                                  |
| RM I: Impact of Ukraine war.                                                                                                                                              | High   | Time the implementation appropriately; less aggressive policy changes.                                                                                                           |
| RM II: Impact of Ukraine war and conflict in Gaza.                                                                                                                        | Low    | Time the implementation appropriately.                                                                                                                                           |
| <b>Political Support</b>                                                                                                                                                  |        |                                                                                                                                                                                  |
| RM I: All member states must agree to the harmonized framework                                                                                                            | High   | Hold workshop to address concern; less aggressive policy changes.                                                                                                                |
| 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. | Medium | Close consultation with the IMF's African Department (AFR) and government authorities. Hold workshops to increase buy-in at officials' level.                                    |
| <b>Management and Technical Staff Support and Commitment</b>                                                                                                              |        |                                                                                                                                                                                  |
| RM I: None.                                                                                                                                                               | Medium | Assist with external analysts who support technical people.                                                                                                                      |
| <b>Resource Adequacy</b>                                                                                                                                                  |        |                                                                                                                                                                                  |
| RM I: None                                                                                                                                                                | Medium | Assist with external analysts who support technical people.                                                                                                                      |
| RM II: 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                                                                                                                       |
| <b>Other Risks</b>                                                                                                                                                        |        |                                                                                                                                                                                  |
| RM I: None                                                                                                                                                                | Low    | Not required.                                                                                                                                                                    |
| 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 II: Sustainability: Reform fatigue may weaken commitment.                                                                                                              | Medium | Sustainability: Regular high-level engagement.                                                                                                                                   |
| 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                                                                                                   |
|----------------------------|---------------------------------------------|----------------------------------------------------------------------------------------------------------|
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