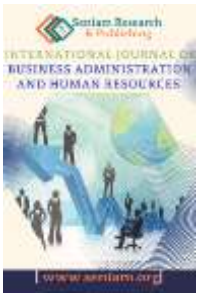
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Revenue Securitization as Fiscal Instrument in East Africa: A Comparative Analysis of Kenya, Tanzania, Uganda, and Rwanda

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ABSTRACT

Government revenue securitization has emerged as a defining fiscal controversy in East Africa, with Kenya's decision to ring-fence future levy collections through Special Purpose Vehicles generating a live dispute with the International Monetary Fund over sovereign debt classification. This paper adopts a structured comparative case analysis methodology, drawing on primary fiscal documents, official government gazettes, multilateral technical reports, and central bank publications to examine how Kenya, Tanzania, Uganda, and Rwanda have diverged in their approaches to domestic revenue mobilization. An original Fiscal Instrument Classification Matrix is introduced, plotting sovereign financial instruments along two axes: fiscal transparency and the hardness of the debt service obligation. The analysis demonstrates that Kenya's securitization model occupies a structurally distinct and fiscally risky position, combining hard economic debt obligations with deliberately limited parliamentary and public oversight, while Tanzania, Uganda, and Rwanda have each addressed comparable revenue pressures through Quadrant I instruments that preserve transparency and fiscal flexibility. The paper argues that the core problem in Kenya is not securitization as an instrument class but the specific governance quadrant its government securitization occupies, an architecture that transfers future revenue control to private bondholders, systematically understates sovereign debt stock, and constrains future administrations. Implications are drawn for debt sustainability analysis, International Monetary Fund program design, and the architecture of fiscal rules across the East African Community.

Keywords:
Revenue securitization, fiscal transparency, sovereign debt, East Africa, Special Purpose Vehicle, Fiscal Instrument Classification Matrix, debt sustainability, domestic revenue mobilization

INTRODUCTION

Securitization, broadly understood as the conversion of future cash flows into tradable securities sold to investors for upfront capital, is a well-established instrument in private finance. Its application in sovereign fiscal management raises a fundamentally different set of questions, questions that existing public debt frameworks are poorly equipped to resolve. When a government pre-sells a decade of fuel levy collections through a Special Purpose Vehicle operating outside the formal budget process, the transaction

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simultaneously resembles borrowing in its economic structure and avoids borrowing in its accounting treatment. This duality is not accidental; it is the instrument's defining feature and the source of its controversy.

The controversy is live and consequential in Kenya. Since mid-2025, the Government of Kenya has raised at least KSh 335 billion, equivalent to approximately USD 2.6 billion, by securitizing revenue streams including the Road Maintenance Levy Fund, the Railway Development Levy Fund, a sports infrastructure levy supporting the construction of Talanta Stadium, and passenger charges at Jomo Kenyatta International Airport (Chinedu, 2026). The International Monetary Fund's position, articulated in successive program discussions and formalized in a technical assistance report published in April 2026, is that these instruments constitute sovereign debt under the Government Finance Statistics Manual 2014 framework and must be classified accordingly (IMF, 2026). Kenya's National Treasury has consistently rejected that classification, arguing that once revenue rights are transferred to a Special Purpose Vehicle, the government carries no residual fiscal risk.

This disagreement is not a narrow accounting dispute. It has direct and material consequences for Kenya's reported public debt-to-GDP ratio, for the country's access to a successor International Monetary Fund program following the expiry of the previous USD 3.6 billion arrangement in April 2025, and for the fiscal options available to future administrations who will inherit the obligation to generate sufficient levy revenue to service these instruments year after year. The National Infrastructure Fund, recently signed into law, aims to mobilize KSh 5 trillion over a decade using leverage ratios of up to twelve times, with securitization as the intended primary instrument (Chinedu, 2026). At that scale, the classification question becomes existential for Kenya's fiscal sustainability framework.

Three neighboring countries, Tanzania, Uganda, and Rwanda, have confronted broadly comparable revenue mobilization pressures during the same period without adopting government revenue securitization. Tanzania has deepened a conventional government securities market that attracts consistent institutional oversubscription. Uganda has raised direct excise duties through parliamentary approval, absorbing the immediate political cost of cost-of-living pressure rather than deferring fiscal obligations. Rwanda has overhauled its tax architecture, converting fixed-rate fuel levies to ad valorem structures that grow automatically with economic activity. The variation across these four cases, one active securitizer and three non-adopters with distinct reasons for abstaining, provides a well-structured basis for comparative analysis.

This paper makes two primary contributions to the literature on East African public finance. The first is the Fiscal Instrument Classification Matrix, an original analytical framework that plots sovereign financial instruments along two axes, fiscal transparency and obligation hardness, to produce a four-quadrant classification that distinguishes instruments by their governance properties rather than merely by their legal form. The second is a systematic application of this framework across all four country cases, demonstrating that Kenya's revenue securitization occupies the most fiscally dangerous quadrant of the matrix and that viable alternatives occupy the least dangerous. The paper draws on a desk review methodology employing primary fiscal documents, International Monetary Fund and World Bank technical reports, central bank publications, official government gazettes, and credible grey literature. The broader significance of this analysis extends beyond East Africa. Across sub-Saharan Africa, governments facing fiscal consolidation pressures, constrained access to concessional financing, and growing infrastructure deficits are increasingly attracted to structured financial instruments that promise to mobilize private capital without appearing in official debt statistics. The conditions that drove Kenya toward revenue securitization, namely exhausted conventional borrowing headroom, missed revenue targets, accumulated arrears, and stalled public works, are not uniquely Kenyan.

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They are structural features of the fiscal landscape across a range of lower-middle-income African economies. The analytical framework introduced in this paper, and the comparative evidence assembled from four East African countries, therefore provide a regionally relevant toolkit for evaluating structured fiscal instruments wherever they emerge, and for distinguishing those that genuinely expand fiscal space from those that merely relocate and obscure fiscal obligations.

METHODOLOGY

The methodological approach is a structured comparative case analysis, an established design in comparative public policy research that enables causal inference across a small number of cases through systematic variation in a key explanatory variable. The four countries were selected on the basis of shared East African Community membership, broadly comparable levels of economic development, similar revenue mobilization challenges, and divergent fiscal strategies in response to those challenges. This combination produces a most-similar systems design in which the variation to be explained, namely the adoption or non-adoption of government revenue securitization, can be traced to identifiable differences in fiscal stress levels, institutional capacity, and capital market development rather than to differences in background economic conditions.

The desk review format is both appropriate and necessary given the frontier nature of the empirical material. Government revenue securitization in East Africa as a sovereign fiscal strategy is a phenomenon of 2025 and 2026; the first Kenyan transaction involving the Road Maintenance Levy Fund was initiated in mid-2025, and the International Monetary Fund's formal technical assessment was published only in April 2026 (IMF, 2026). Peer-reviewed secondary literature addressing this specific phenomenon does not yet exist. The desk review therefore draws on primary fiscal documents including national budget statements, official government gazettes, parliamentary records, central bank monetary policy reports, and International Monetary Fund and World Bank country assessments, supplemented by credible policy commentary from institutions including the Institute of Economic Affairs Kenya (Barasa, 2025; Nzomo, 2026) and African Sovereign Debt Justice Network (2025). This approach is consistent with established practice in desk reviews covering emerging policy phenomena, where the timeliness and policy relevance of analysis requires engagement with primary and grey literature before the secondary literature has accumulated.

The analytical framework applied consistently across all four case studies is the Fiscal Instrument Classification Matrix introduced in the following section. Its application provides methodological discipline, ensuring that each country's fiscal instruments are evaluated against the same two axes rather than assessed through country-specific narratives that resist comparison. The framework's two-axis design is intentionally parsimonious: it captures the two governance dimensions, transparency and obligation hardness, that the empirical literature and the International Monetary Fund's own classification standards identify as the most consequential for debt sustainability and fiscal risk management (IMF, 2014; Kemoe & Zhan, 2018; Ülgentürk, 2017).

FISCAL INSTRUMENT CLASSIFICATION MATRIX

Existing public finance frameworks classify sovereign financial instruments primarily on the basis of legal obligation, distinguishing formal debt, which creates a legally enforceable repayment duty, from contingent liabilities and guarantees, which create obligations conditional on specified events. This binary classification is analytically insufficient for instruments such as revenue securitization, which possess the economic characteristics of debt while being architecturally designed, through the Special Purpose Vehicle mechanism, to avoid its legal classification. The Fiscal Instrument Classification Matrix addresses this gap by introducing two orthogonal classification axes.

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The transparency axis captures the degree to which a fiscal instrument is recorded on-balance-sheet in official public debt statistics, subject to full parliamentary authorization before issuance, disclosed to citizens and creditors in real time, and reported consistently to multilateral institutions in conformity with the Government Finance Statistics Manual 2014 (IMF, 2014). High-transparency instruments appear in the national debt register, are voted on by parliament before issuance, and are reported in standard debt sustainability analysis frameworks. Low-transparency instruments are routed through private entities, recorded outside the formal budget, disclosed partially or retrospectively, and structured in ways that avoid conventional debt ceilings.

The obligation hardness axis captures the degree to which an instrument creates an unavoidable debt service commitment as opposed to a contingent or discretionary one. A conventional Treasury bond carries a hard obligation: the issuing government must pay coupons and redeem principal on schedule regardless of fiscal conditions. A contingent government guarantee is softer: the obligation crystallizes only upon occurrence of a specified trigger event. Revenue securitization occupies a distinctive position on this axis. In formal legal terms, the Special Purpose Vehicle bears the repayment obligation to bond investors, making the instrument appear soft. In economic terms, however, the commitment is hard: if the pledged levy does not generate sufficient revenue, the government faces either a repayment shortfall that impairs investor confidence, or politically unacceptable levy increases that harm consumers and the economy. The government has no genuine exit from this obligation regardless of what the legal documentation says.

The matrix produces four quadrants. Quadrant I instruments are high-transparency and carry hard obligations; conventional Treasury bonds and bills are the paradigmatic example, and the fiscal strategies of Tanzania, Uganda, and Rwanda all rely on instruments that sit in this quadrant. Quadrant II instruments are high-transparency with softer, contingent obligations; explicitly disclosed government guarantees to state-owned enterprises that are recorded in fiscal risk statements belong here. Quadrant III instruments are low-transparency with softer obligations; implicit guarantees to state enterprises that appear off-balance-sheet but crystallize only under stress are representative examples. Quadrant IV instruments are low-transparency and carry hard economic obligations; this is where Kenya's government revenue securitization sits. The instruments are economically equivalent to hard debt, yet are recorded off-balance-sheet and are subject to limited parliamentary or public oversight.

The Fiscal Instrument Classification Matrix is analytically valuable because it reframes the policy debate correctly. The International Monetary Fund's objection to Kenya's securitization program is not that securitization is inherently problematic as an instrument class. The Fund's Treasury Cabinet Secretary John Mbadi explicitly acknowledged that the IMF views securitization as one of the most innovative ways of raising funds (Muiruri, 2025). The IMF's concern is a governance concern: Kenya's specific instruments belong in Quadrant IV, and Quadrant IV exposure creates systemic fiscal risk that standard debt sustainability analysis cannot capture if the instruments are excluded from the measured debt stock. Kemoe and Zhan (2018) demonstrate empirically that higher fiscal transparency reduces sovereign interest rate spreads and increases foreign demand for sovereign debt, confirming the practical market consequences of the transparency axis. Instruments that migrate from Quadrant I to Quadrant IV therefore impose a real financing cost, not merely an accounting inconvenience.

It is also important to distinguish private sector asset-backed securitization from government revenue securitization at the outset. Private sector transactions, such as Sun King's KSh 20.1 billion securitization of pay-as-you-go solar receivables and d.light's USD 176 million facility covering Kenya, Tanzania, and Uganda, sit in Quadrant I of the matrix on the private side because their

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transparency is high, their obligations are explicitly allocated to private entities, no sovereign balance sheet is implicated, and investors receive fully structured securities with clearly defined asset pools (Sun King, 2025; Yuen, 2024). These instruments expand energy access, mobilize local currency capital, and carry no fiscal governance concerns. They share the Special Purpose Vehicle legal form with Kenya's government securitization but differ in every governance and accountability dimension that the Fiscal Instrument Classification Matrix captures.

Table 1: Fiscal instrument classification matrix: quadrant assignements

Instrument	Transparency Axis	Obligation Axis	FICM Quadrant
Treasury Bonds and Bills	High	Hard	I
Ad Valorem Tax Levies (Rwanda model)	High	Hard	I
Direct Excise Duty Increases (Uganda model)	High	Hard	I
Private Sector ABS: Sun King, d.light	High	Hard (private only)	I (private)
Explicit Contingent Government Guarantees	High	Soft (contingent)	II
Implicit SOE Guarantees	Low	Soft (contingent)	III
Government Revenue Securitization via SPV (Kenya)	Low	Hard (economic)	IV

Note. Source: Authors' construction based on International Monetary Fund (2014) and Kemoe and Zhan (2018).

KENYA: REVENUE SECURITIZATION UNDER FISCAL STRESS

Architecture of the Securitization Program

Kenya's government revenue securitization program was initiated against a backdrop of sustained and worsening fiscal pressure. Public debt reached a peak of 72% of gross domestic product at the end of the 2022/23 fiscal year, subsequently declining modestly to 66% at the close of 2023/24, a level that the joint International Monetary Fund and World Bank Debt Sustainability Analysis of October 2024 classified as high risk of debt distress (IMF, 2026). Interest payments had expanded to absorb approximately one-third of tax revenue, and the debt service-to-revenue ratio reached 67.1% as of May 2024 (Cytonn Investments, 2025). Tax revenue targets were consecutively missed over multiple financial years, the public Finance Act of 2024 was partially withdrawn following protests against proposed tax measures, and conventional domestic and external borrowing headroom was effectively exhausted. Kenya's public debt rose from KSh 10.92 trillion in December 2024 to KSh 12.3 trillion by late 2025, with the increase driven almost entirely by domestic borrowing (Muiruri, 2026).

The securitization program began in mid-2025 when the Kenya Roads Board channeled KSh 7 out of every KSh 25 per liter collected from the Road Maintenance Levy into a Special Purpose Vehicle called Oak Assetco SPV Limited. This vehicle raised KSh 175 billion upfront to clear verified contractor arrears and revive over 580 stalled road projects across the country (African Sovereign Debt Justice Network, 2025; Market Trends Africa, 2025). The initial capital was disbursed through a bridge loan facility syndicated by the Trade and Development Bank, KCB Bank Kenya, Absa Bank Kenya, and UBA Kenya Bank, with KSh 93 billion distributed directly to road contractors through the Kenya National Highways Authority, Kenya Rural Roads Authority, and Kenya Urban Roads Authority before the formal bond issuance was completed (Muiruri, 2025). The government subsequently extended the securitization model to the Railway Development Levy Fund, proposing through the Miscellaneous Fees and Levies Amendment Bill 2025 to pledge up to 90% of that fund's annual collections, which generate approximately KSh 50 billion per year from a 2% import duty charge, to finance the Standard Gauge Railway extension from Naivasha to Malaba (Munda, 2026). Separately, Linzi FinCo issued a KSh 44.7 billion infrastructure bond on the Nairobi Securities Exchange to finance Talanta Sports Stadium in preparation for the 2027 Africa Cup of Nations (African Sovereign Debt Justice

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Network, 2025). By April 2026, total receipts across all securitization vehicles stood at KSh 335 billion (Chinedu, 2026).

The government's defense of these arrangements rests on three positions. The first is that once revenue rights are transferred to a Special Purpose Vehicle, the government carries no residual risk because the SPV is a distinct legal entity (Muiruri, 2025; Musau, 2025). Treasury Cabinet Secretary John Mbadi framed the dispute with the International Monetary Fund as an accounting matter rather than a substantive one, arguing that the IMF concern is not about the economic soundness of securitization but about classification conventions. The second argument is that the transactions represent financial innovation using local capital markets to reduce reliance on foreign loans, aligning with a broader policy narrative around domestic resource mobilization. The third argument is practical necessity: the inherited backlog of KSh 520 billion in pending contractor bills and 580 stalled road projects constituted a genuine economic drag, and securitization offered the only available instrument for addressing it rapidly.

IMF Classification Dispute and Fiscal Governance Concerns

The International Monetary Fund's technical assistance report of April 2026 directly and unambiguously challenges all three government arguments. Under the Government Finance Statistics Manual 2014, the classification of proceeds from a securitization arrangement does not depend on the legal separation of the Special Purpose Vehicle. If the SPV is a legally separate institutional entity, the proceeds constitute a loan from that entity to the government; if it is not, they constitute direct government borrowing. Under both treatments, the liability sits on the sovereign's balance sheet (IMF, 2026; Njuguna, 2026a). The Manual's framework, which is the internationally recognized statistical reporting standard for government finance statistics, admits no interpretation under which the transfer of future revenue rights to a private vehicle removes the economic liability from the government that created and pledged those revenue streams.

The governance concerns extend beyond the accounting treatment. Multiple parliamentary critics, including Kiharu Member of Parliament Ndindi Nyoro, noted that the KSh 175 billion fuel levy transaction and the KSh 44.7 billion Talanta bond were incurred without adequate parliamentary authorization for the specific amounts and without full public disclosure of lender identities or repayment terms (African Sovereign Debt Justice Network, 2025). Reel Financial (2026) identifies the central accountability failure: it remains unclear which financial institutions are providing liquidity for these deals, whether Parliament has specifically approved them as borrowing, and what the exact repayment schedules and conditions are. This opacity constitutes a direct challenge to Article 201 of the Kenyan Constitution, which mandates openness, accountability, and public participation in all matters related to public finance. Applying the Fiscal Instrument Classification Matrix, the instruments sit in Quadrant IV on both axes simultaneously: the economic obligation is hard, and the transparency architecture is deliberately limited.

The macroeconomic embedded in the fuel levy securitization is worth examining precisely. The Kenya Roads Board directed KSh 7 of every KSh 25 collected per liter of petrol and diesel to the Oak Assetco SPV for the duration of the bond's repayment period (Njuguna, 2026a). This allocation is not discretionary; it is contractually committed to private bondholders. Kenya's fuel prices were already among the highest in Africa at KSh 186.31 per liter, compared with Tanzania's KSh 143.17 per liter and Ethiopia's KSh 113.94 per liter (Market Trends Africa, 2025). The fuel price differential reflects a combination of import costs, global market conditions, and domestic policy choices including successive levy increases. The securitization obligation introduces a further structural constraint: even if global oil prices fall substantially, the government cannot pass the full benefit to consumers without threatening the levy revenue that services the

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bonds. Pricing discretion on a basic commodity has, in effect, been transferred from a democratic government to private bondholders for the duration of the instrument's life.

The implications for debt sustainability are direct. Kenya's public debt stood at 67.8% of gross domestic product as of June 2025, with interest payments absorbing approximately one-third of tax revenue and a debt service-to-revenue ratio of approximately 62.6% (Cytonn Investments, 2025; Mobio, 2025). The International Monetary Fund's April 2026 Regional Economic Outlook projects the debt-to-GDP ratio rising further to 71.6% in 2026 and 72.4% in 2027, approaching the 2023 peak, on the basis of persistent fiscal deficits estimated at 6.4% of GDP in both years (Njuguna, 2026b). Adding the KSh 335 billion in securitized revenues to the measured debt stock, as the IMF recommends, would increase the reported ratio by approximately 3 percentage points. More significantly, the prospective scale of the National Infrastructure Fund, which targets KSh 5 trillion in securitized mobilization at leverage ratios of up to twelve times, suggests that Quadrant IV exposure could dwarf the current KSh 335 billion if the classification dispute is resolved in the government's favor (Chinedu, 2026). The Institute of Economic Affairs Kenya's assessment identifies the same structural pattern: debt accumulated at a five-year compound annual growth rate of 9.0% to KSh 11.5 trillion as of May 2025, outpacing average GDP growth of 4.7% over the same period (Cytonn Investments, 2025). This trajectory is incompatible with the World Bank's modelled pathway for Kenya to reduce its debt-to-GDP ratio to approximately 44% by 2035, which requires transparent fiscal consolidation grounded in revenue broadening and expenditure rationalization rather than financial engineering that defers obligations while obscuring their scale (World Bank, 2025).

Private Sector Securitization: A Legitimate Contrast

The existence of a vibrant and uncontroversial private sector securitization market in Kenya and the broader East African region provides an important analytical contrast that the Fiscal Instrument Classification Matrix captures clearly. Sun King, the world's largest off-grid solar energy company, closed a KSh 20.1 billion securitization in July 2025, the largest and first majority commercial-bank-backed transaction of its kind in Sub-Saharan Africa outside South Africa (Sun King, 2025). The deal converts future customer repayments on pay-as-you-go solar products into investable securities backed by private capital from Absa Bank Kenya, Citi, Co-operative Bank of Kenya, KCB Bank, and Stanbic Bank Kenya. Its local currency denomination is analytically significant: earlier rounds of off-grid solar financing were denominated in United States dollars, creating exchange rate risk for borrowers making payments in Kenyan shillings. The shift to local currency securitization eliminates this risk and improves portfolio quality and borrower affordability simultaneously. d.light's USD 176 million securitization facility, closed in July 2024, extends the same model across Kenya, Tanzania, and Uganda, using PayGo consumer loan receivables as the underlying asset pool to fund expansion of affordable solar access to low-income households (Yuen, 2024). Both transactions sit in Quadrant I of the Fiscal Instrument Classification Matrix: their transparency is high, their obligations are clearly allocated to private entities with no sovereign recourse, and investors receive fully structured securities against identifiable asset pools. The Special Purpose Vehicle form is identical to that used in Kenya's government securitization; every governance and accountability dimension differs.

TANZANIA

Conventional Bond Market as Fiscal Anchor

Tanzania's approach to domestic fiscal financing demonstrates that the revenue mobilization challenge confronting East African governments can be addressed through deeply conventional instruments, provided those instruments are supported by sufficient institutional development. The Bank of Tanzania manages a government securities market offering Treasury bills across four maturities of 35, 91, 182, and 364 days, and

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Treasury bonds across tenors from two to twenty-five years, through biweekly competitive auctions (Bank of Tanzania, 2025). The market has developed progressively since the early 2000s, with the government gradually extending its issuance toward longer maturities: by April 2023, 165 Treasury bonds were outstanding across seven tenors, and the most recent additions of 20-year and 25-year bonds have attracted the strongest institutional demand (Akeel et al., 2024).

The depth and resilience of this market has been demonstrated repeatedly in recent months. In November 2025, Treasury bill auctions attracted bids of TZS 798.4 billion against a tender of TZS 352.0 billion, a 2.3 times oversubscription, while Treasury bond auctions recorded approximately 3.0 times oversubscription, with declining yields indicating improving sovereign creditworthiness rather than fiscal stress (Tanzania Investment and Consultant, 2025). A 25-year bond auction in May 2025 attracted TZS 794 billion in subscriptions, the highest subscription ever recorded for any bond auction in Tanzania, driven primarily by commercial banks and pension funds (Christopher, 2025). Tanzania's domestic debt stood at TZS 37,459.1 billion in September 2025, representing 29.4% of total public debt, with long-term government bonds accounting for 73% of the domestic portfolio and the creditor base diversified across commercial banks at 36.4%, other financial institutions at 39.7%, and pension funds at 23.9% (Bank of Tanzania, 2025). This diversification reduces concentration risk and underpins predictable borrowing costs.

The macroeconomic performance that underlies this market confidence is documented in the Bank of Tanzania's October 2025 Monetary Policy Report. Domestic revenue reached TZS 9,138.8 billion in the first quarter of 2025/26, surpassing the target by 4.2%, driven by strong tax collections and improved compliance (Bank of Tanzania, 2025). Tanzania's public debt-to-GDP ratio of approximately 40.6% remains comfortably below the East African Community's 55% convergence threshold, and the International Monetary Fund has not raised debt transparency concerns comparable to those directed at Kenya. The World Bank's June 2024 Tanzania Domestic Bond Market Development diagnostic report confirms that the secondary market infrastructure is broadly functional, with trading conducted through both the Dar es Salaam Stock Exchange and over-the-counter mechanisms, though approximately 80% of secondary market transactions occur over-the-counter (Akeel et al., 2024). The report identifies remaining weaknesses, particularly the practice of fixing bond coupons pre-auction for periods of two to three years regardless of market movements, which can create pricing distortions, and recommends further coupon alignment reforms.

Tanzania's 2024/25 budget, totaling TZS 49.35 trillion, planned to raise 70.1% of total resources from domestic revenue and to borrow TZS 6.62 trillion domestically, of which TZS 4.02 trillion would roll over maturing securities and TZS 2.60 trillion would finance new development spending (Tanzania Invest, 2025). This is a transparent and auditable fiscal structure in which the relationship between revenue collection, borrowing, and expenditure is fully visible to parliament and to the public. Applying the Fiscal Instrument Classification Matrix, Tanzania's primary fiscal financing instruments sit in Quadrant I: high transparency, with all issuances conducted through public competitive auctions with disclosed yields and publicly available results, and hard obligations fully recorded in national debt statistics consistent with international standards.

The bond market's strength does carry a secondary tension. A peer-reviewed study employing quarterly Bank of Tanzania data from 2003 to 2024, using an autoregressive distributed lag error-correction model and multiple robustness checks, found evidence of private sector crowding-out effects: private sector credit growth moderated from 18.4% in 2023/24 to 15.1% in 2024/25 as banks redirected liquidity toward high-yielding government bonds, and lending rates averaged 15.5% with limited responsiveness to monetary policy signals (Mwakalila, 2025). This is a genuine macroeconomic cost that Tanzania's

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policymakers are actively managing through the Bank of Tanzania's interest rate corridor and Central Bank Rate framework. Critically, however, it is a cost that is visible, debated publicly, and addressable through conventional monetary and fiscal policy tools. It is categorically different from the opaque obligation transfer embedded in a Quadrant IV securitization structure.

UGANDA

Direct Taxation as Fiscal Discipline

Uganda's fiscal response to the revenue mobilization challenge in 2026 demonstrates a fundamentally different calculus from Kenya's, one that prioritizes transparency and future fiscal flexibility over immediate liquidity at the cost of immediate political pain. Uganda's parliament approved the Excise Duty Amendment Bill 2026, introducing an increase of UGX 200 per liter on fuel excise duty, raising petrol from UGX 1,550 to UGX 1,750 per liter and diesel from UGX 1,230 to UGX 1,430 per liter, with the measure expected to generate UGX 450 billion in additional annual budget revenue (Kato, 2026; URN, 2026). The political debate in parliament was explicit, public, and contested. Opposition members challenged the measure; the State Minister for Finance defended it; sector economists warned of multiplier effects on transport costs, food prices, and production costs (Kato, 2026). The debate that erupted was precisely the democratic accountability mechanism that should accompany a hard fiscal obligation.

The broader 2026 Ugandan tax reform package reflects a coherent fiscal consolidation strategy oriented toward building a wider, more sustainable domestic revenue base. Beyond fuel, the package raises Pay As You Earn tax rates to 40% for monthly incomes exceeding UGX 10 million while increasing the tax-free threshold from UGX 235,000 to UGX 335,000 to protect low-income earners, doubles excise duty on cement from UGX 500 to UGX 1,000 per 50-kilogram bag, increases duty on sugar from UGX 100 to UGX 300 per kilogram, and introduces stamp duty on motor vehicle transfers (Ruhindi, 2026). The overall revenue target from new tax policy measures is UGX 2.3 trillion, with the balance to come from Uganda Revenue Authority administrative improvements (Ladu, 2026). KPMG Uganda's budget brief for 2025/26 notes that Uganda's fiscal strategy prioritizes domestic revenue mobilization through base-broadening and rate adjustment, with close coordination of fiscal and monetary policy and no structured financial vehicles intermediating the government's obligations (KPMG Uganda, 2025).

Uganda's tax-to-GDP ratio has historically been among the lowest in the East African Community, standing at approximately 13% in the mid-2010s against the government's own target of 16% and the International Monetary Fund's recommended minimum of 18% for adequate development financing (World Bank, 2019). The 2026 reforms represent a deliberate and transparent effort to close this gap through base broadening, the single most durable and fiscally sound approach to the revenue mobilization challenge. Each new instrument added to the Ugandan tax base generates annual yield that remains fully under parliamentary and executive control, is recorded transparently in budget documents, and can be adjusted or reversed through normal legislative processes. None of this fiscal flexibility is available to the portion of Kenya's fuel levy already committed to private bondholders through the Oak Assetco SPV.

The direct fiscal comparison between Uganda and Kenya on the specific question of fuel levy management is analytically instructive. Both countries raised fuel levies: Kenya increased the Road Maintenance Levy from KSh 18 to KSh 25 per liter in July 2024, and Uganda increased excise duty by UGX 200 per liter through the 2026 amendment (Munda, 2026; URN, 2026). The critical difference lies in what each government did with the resulting revenue stream. Uganda retained the full annual yield as current budget revenue, preserving complete future flexibility and recording the obligation transparently on the budget's expenditure side. Kenya securitized KSh 7 of the new KSh 25 levy, permanently

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transferring a portion of future collections to a private SPV and eliminating the government's discretion over that revenue slice for the duration of the bond's life. The instrument chosen at the tax stage was similar; the post-collection governance architecture was entirely different, with consequences that will compound over many years.

Applying the Fiscal Instrument Classification Matrix, Uganda's 2026 fiscal instruments occupy Quadrant I consistently. The excise duty amendments were introduced through the parliamentary process with full public disclosure of expected yield, debated by parliamentary committees with stakeholder input, and will generate annual revenue recorded transparently in standard budget accounts. There is no Special Purpose Vehicle, no off-balance-sheet obligation, and no transfer of future revenue control to private entities. The political cost of transparency is real, in the form of public opposition to cost-of-living increases, but it is the appropriate cost of democratic fiscal governance.

RWANDA

Tax Architecture as Infrastructure Finance

Rwanda's fiscal strategy for infrastructure financing represents the most architecturally sophisticated response among the four comparator countries, and the one that most directly addresses the structural weakness that drove Kenya toward securitization. Kenya's motivation for securitizing future levy revenues was partly the erosion of fixed-rate levies in real terms: a KSh 18 per liter levy set in nominal terms loses purchasing power each year as import prices and construction costs rise, creating an ever-widening gap between the levy's nominal yield and the infrastructure financing it is expected to support. Rwanda identified the same structural problem and solved it through tax design rather than financial engineering.

In May 2025, Rwanda enacted Law No. 013/2025, establishing a levy on petrol, gas oil, and motor vehicles for road maintenance, converting the existing fixed fuel levy of RWF 115 per liter to a 15% ad valorem levy on the cost-insurance-freight value of imported fuel (Republic of Rwanda, 2025). This structural shift is more consequential than the accompanying rate adjustment. A fixed per-liter levy generates constant nominal revenue regardless of import price movements, meaning that inflation and rising global fuel costs progressively erode its real value, requiring periodic parliamentary increases to maintain purchasing power. A 15% ad valorem levy set on the cost-insurance-freight value automatically grows with import prices: when global oil prices rise, the levy yield rises proportionally, and when construction costs increase, the road maintenance fund's purchasing power is partially preserved. The levy also applies a new annual road use fee of between RWF 50,000 and RWF 150,000 per vehicle depending on type and size, adding a usage-based charge that grows with vehicle fleet size as the economy develops (Kamanzi, 2025; PwC, 2026).

The broader 2025 tax reform package of which these road levies form a part spans fiscal years 2025 to 2030 and covers multiple revenue categories. Value-added tax was reintroduced on previously exempt items including mobile phones, selected ICT equipment, and fossil fuels, generating a new revenue stream that grew with digital adoption and fuel consumption simultaneously. A digital services tax of 1.5% on income earned by foreign digital platforms operating in Rwanda was introduced alongside a 3% tourism accommodation levy, both channeled directly into the standard budget (PwC, 2026). Capital gains tax was increased from 5% to 10% with an expanded scope covering financial instruments including debt, options, and licenses, and excise duties on cigarettes, alcohol, and gaming were increased substantially (Rwanda Revenue Authority, 2024; UNDP, 2025).

The revenue performance of these reforms in their first six months of operation confirmed the design's effectiveness. Total reform-related revenue in the first half of 2025/26 (July to December 2025) reached RWF 131.7 billion, exceeding the projected RWF 129.3 billion and achieving 101.9% of target (Ntirenganya, 2026).

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Value-added tax on fossil fuels accounted for 46.9% of total reform revenue and exceeded its target, while the fuel levy, VAT on ICT equipment, and beer excise duty together contributed a further 24.3% (Ntirenganya, 2026). The Rwanda Revenue Authority (2024) collected RWF 3,061.2 billion in 2024/25, representing 51.2% of the total government budget, up from 48.9% in the previous year. The International Monetary Fund endorsed Rwanda's reform package following its June 2025 review, citing 2024 GDP growth of 8.9%, controlled inflation, progress on state-owned enterprise oversight, and digitalization of public finance systems (Kamanzi, 2025).

The United Nations Development Program's assessment of Rwanda's reforms notes that new levies and VAT reintroductions fund infrastructure projects including road maintenance and tourism development within the standard budget framework, with revenue channeled into dedicated public treasury accounts subject to standard fiscal oversight (UNDP, 2025). There is no Special Purpose Vehicle, no off-balance-sheet obligation, and no transfer of future revenue control to private entities. All instruments sit in Quadrant I of the Fiscal Instrument Classification Matrix: high transparency, hard obligation, fully recorded in national debt and budget statistics, and subject to parliamentary oversight and public accountability.

Rwanda's medium-term fiscal ambition, to reach a tax-to-GDP ratio of 23% by 2035, reflects a strategy of building fiscal capacity through structural transformation rather than through financial market innovation (UNDP, 2025). The contrast with Kenya's trajectory is stark. Kenya's tax-to-GDP ratio stood at approximately 15.2% in recent assessments, yet the government has already mortgaged a decade of future fuel levy collections to service private bonds (Cytonn Investments, 2025). Rwanda, facing similar developmental financing pressures, is widening its fiscal space year by year through base-broadening and rate architecture, preserving full control over its revenue streams and full flexibility for future policy adjustments.

COMPARATIVE DISCUSSION AND POLICY IMPLICATIONS

The four country cases examined in this paper, viewed through the Fiscal Instrument Classification Matrix, produce a coherent regional picture with clear analytical and policy implications. All four governments face a shared underlying structural challenge: domestic tax-to-GDP ratios that fall substantially below the levels required to finance development ambitions from domestic resources. Africa's average tax-to-GDP ratio declined from 16.1% of GDP in 2010 to 14.2% in 2021, well below the 15% minimum that the African Development Bank estimates is necessary for a developing country to adequately finance Sustainable Development Goals commitments (OECD et al., 2024). The median African country would need to increase its tax-to-GDP ratio by approximately 13.2 percentage points to close the estimated structural financing gap (Mukasa & Simpasa, 2024). None of the four countries under examination is close to that threshold, and all four face annual infrastructure financing gaps that domestic revenues alone cannot bridge.

The variation in how these four governments have responded to this shared challenge is the central empirical finding of this paper. Tanzania has invested in bond market depth, creating an institutional infrastructure that commands consistent oversubscription at declining yields and provides reliable access to long-tenor domestic capital without off-balance-sheet architecture. Uganda has chosen direct taxation, accepting the immediate and transparent political cost of consumer price pressure in exchange for maintaining full control of future revenue streams and a clean, auditable fiscal position. Rwanda has invested in tax architecture, redesigning the structural relationship between economic activity and tax yield so that revenue grows automatically with the economy, reducing the frequency of politically sensitive rate adjustments and eliminating the fixed-rate erosion problem that

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partly motivated Kenya's securitization program. Kenya chose speed: the securitization program solved an immediate liquidity crisis created by accumulated pending bills and stalled infrastructure projects, but it did so through a Quadrant IV instrument that deferred the fiscal consolidation problem while reducing the options available to future policymakers.

A final observation concerns the relationship between fiscal instrument choice and sovereign creditworthiness over the medium term. Moody's upgrade of Kenya's sovereign rating from Caa1 to B3 in January 2026, citing reduced near-term default risk and improving reserve adequacy, demonstrates that short-term liquidity improvements can produce positive rating signals even against a background of structural fiscal fragility (Njuguna, 2026b). However, the upgrade explicitly reflected a lower floor rather than a resolved fiscal trajectory, and the rating agency's assessment did not account for the full scope of securitized obligations that the International Monetary Fund was simultaneously demanding be reclassified as sovereign debt. Credit ratings based on an incomplete picture of sovereign obligations are inherently fragile: if and when the IMF reclassification is adopted and the KSh 335 billion is incorporated into Kenya's measured debt stock, the rating improvement may be partially reversed. Tanzania's trajectory, maintaining a debt-to-GDP ratio below 41% with a clean and transparent debt register, and Rwanda's trajectory, with a declining ratio and an IMF-endorsed reform program, both suggest that sustainable creditworthiness improvements derive from genuine fiscal consolidation rather than from the accounting architecture of financial instruments. Uganda's willingness to absorb the immediate political cost of excise duty increases rather than defer obligations through structured vehicles reflects a similar institutional preference for transparent fiscal adjustment, and it is this preference, rather than short-term financial innovation, that creditors and rating agencies reward over the longer horizon.

Table 2: Comparative fiscal strategies: FICM analysis across four countries

Feature	Kenya	Tanzania	Uganda	Rwanda
Primary instrument	Revenue securitization via SPV	Treasury bonds and bills	Excise duty increases	Ad valorem tax reform
FICM quadrant	IV	I	I	I
Transparency level	Low	High	High	High
Obligation hardness	Hard (economic)	Hard (legal)	Hard (legal)	Hard (legal)
Parliamentary authorization	Partial, retrospective	Full, prior to issuance	Full, prior to enactment	Full, prior to enactment
Future revenue control	Transferred to bondholders	Retained by government	Retained by government	Retained by government
Debt-to-GDP (approximate)	67.8% (June 2025)	40.6% (2025)	Below 55% EAC threshold	Declining under reforms
IMF position	Reclassify as sovereign debt	Supportive of deepening	Supportive of base broadening	Endorsed reform (June 2025)

Note. Source: Authors' compilation from country-specific sources cited throughout the paper.

The policy implications of this comparative analysis operate at three levels. At the instrument design level, the analysis confirms that the transparency axis of the Fiscal Instrument Classification Matrix has direct and measurable fiscal costs. Kemoe and Zhan (2018) demonstrate that higher fiscal transparency reduces sovereign interest rate spreads and increases foreign holdings of sovereign debt for a panel of 33 emerging and developing economies. Kenya's decision to place KSh 335 billion of obligations in Quadrant IV, where they are excluded from standard debt sustainability analysis, does not eliminate the market's awareness of these obligations: it creates uncertainty about their true extent, which can widen sovereign spreads and reduce investor appetite for other Kenyan instruments. The sovereign-bank nexus amplifies this risk, since Kenyan banks heavily exposed to government securities face indirect repricing exposure if IMF reclassification causes a

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reassessment of sovereign debt metrics (Wachira, 2026).

At the debt sustainability analysis level, the International Monetary Fund's insistence on reclassifying Kenya's securitized revenues under the Government Finance Statistics Manual 2014 is technically correct and practically essential. The Voluntary Principles for Debt Transparency, developed under the auspices of the Institute of International Finance, define financial transactions to include any arrangements that have the economic effect of borrowing, regardless of their legal form (International Institute of Finance, 2019). Kenya's revenue securitization satisfies this definition. Including these instruments in the measured debt stock is a necessary precondition for accurate debt sustainability analysis. The OECD's framework for contingent liability management notes that effective management requires identification and disclosure of all fiscal risk exposures, and that instruments routed through special purpose vehicles require particular scrutiny precisely because their legal form may obscure their economic substance (Ülgentürk, 2017). Kenya's securitization program is a textbook case of the risk that this guidance is designed to prevent.

At the fiscal rule design level, the analysis supports a regional recommendation: the East African Community's fiscal convergence framework should be extended to include explicit Quadrant IV exposure limits, requiring member states to disclose and cap their issuance of off-balance-sheet instruments with hard economic obligations. Tanzania's bond market development, Uganda's direct taxation strategy, and Rwanda's tax architecture reforms all demonstrate that Quadrant I instruments can meet infrastructure financing needs across a range of market development levels and fiscal positions. The IIF's Voluntary Principles for Debt Transparency and the IMF's revised Public Sector Debt Statistics framework provide the technical foundation for such a rule. What is required is the political commitment within regional institutions to enforce it.

CONCLUSION

This paper examined government revenue securitization as a fiscal instrument in East Africa through the lens of an original Fiscal Instrument Classification Matrix, comparing Kenya's active securitization program with the conventional fiscal strategies of Tanzania, Uganda, and Rwanda. The analysis generates three substantive conclusions that advance the academic and policy literature on East African public finance.

The first conclusion is that the Fiscal Instrument Classification Matrix successfully reframes the policy debate from a binary debt versus non-debt question to a governance question about the quadrant in which a fiscal instrument sits. Kenya's government revenue securitization and private sector transactions such as Sun King's and d.light's share the Special Purpose Vehicle legal form but differ in every governance dimension that the matrix captures. Private sector asset-backed securitization sits in Quadrant I: high transparency, obligations clearly allocated to private entities, no sovereign balance sheet implicated. Kenya's government securitization sits in Quadrant IV: low transparency, hard economic obligation on the sovereign, and structural design oriented toward evading conventional debt accounting. The Fiscal Instrument Classification Matrix provides a consistent, replicable basis for this distinction that policymakers, International Monetary Fund program teams, and researchers can apply to any structured fiscal instrument in any developing economy context.

The second conclusion is that the comparative evidence from Tanzania, Uganda, and Rwanda demonstrates that the infrastructure financing gap cited by Kenya as justification for Quadrant IV securitization can be addressed through Quadrant I instruments. Tanzania has demonstrated this through bond market deepening that now commands institutional oversubscription at declining yields. Uganda has demonstrated it through direct excise taxation that is transparent, politically accountable, and fiscally clean. Rwanda has demonstrated it through tax

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architecture reform that eliminated the fixed-rate erosion problem at the root of the infrastructure financing gap without ever pledging a future revenue stream to private bondholders. Each approach carries costs: Tanzania faces potential crowding-out of private credit, Uganda faces consumer price pressure, and Rwanda faces short-term compliance challenges. These are real costs, but they are visible, debated, and manageable through standard policy instruments. The costs embedded in Kenya's securitization program, including the transfer of fuel pricing discretion to bondholders, the systematic understatement of sovereign debt stock, and the reduction of future fiscal flexibility, are less visible precisely because the instruments were engineered to avoid standard accountability frameworks.

The third conclusion is that the International Monetary Fund's insistence on reclassifying Kenya's KSh 335 billion in securitized revenues as sovereign debt under the Government Finance Statistics Manual 2014 is technically correct, practically essential, and not merely an accounting matter as the Treasury has suggested (IMF, 2026; Muiruri, 2025). It is a substantive fiscal governance determination with direct consequences for debt sustainability analysis, for the credibility of Kenya's fiscal consolidation program, and for the fiscal options available to future administrations. The ambition of the National Infrastructure Fund to mobilize KSh 5 trillion over a decade at leverage ratios of up to twelve times, with securitization as the primary vehicle, means that the scale of Quadrant IV exposure could expand many times beyond the current KSh 335 billion if the classification dispute is resolved in the government's favor. A resolution of that kind would not represent a victory for financial innovation; it would represent the normalization of off-balance-sheet sovereign borrowing at a scale that standard debt sustainability frameworks are not equipped to monitor or contain.

Future research should examine the conditions under which bond market deepening in lower-income East African economies, following Tanzania's trajectory, becomes feasible for countries with shallower institutional investor bases, and should assess whether the ad valorem tax architecture pioneered by Rwanda can be applied to revenue streams beyond fuel levies. The Fiscal Instrument Classification Matrix merits application to structured fiscal instruments in other sub-Saharan African contexts where governments face comparable revenue mobilization pressures and may be attracted to similar financial innovations. The regional evidence reviewed in this paper strongly supports the conclusion that durable fiscal development requires instruments in Quadrant I, not instruments engineered to remain in Quadrant IV.

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