



Tax Governance Is Becoming an ESG Issue: What East African Boards Need to Watch

As East Africa moves from voluntary sustainability commitments to disclosure standards, green finance taxonomies and carbon-market regulation, tax is becoming part of the governance architecture - not simply a compliance function.

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For several years, the ESG conversation in East Africa has been dominated by climate, sustainability reporting, diversity, community impact and responsible investment. Tax has often sat somewhere outside that conversation. That separation is becoming increasingly difficult to sustain.

A company can have an ambitious sustainability strategy, publish an impressive ESG report and secure green financing, but still face uncomfortable questions if its tax structures appear disconnected from where economic activity takes place, if material tax disputes are not properly governed, or if incentives promoted as supporting sustainable investment cannot be reconciled with the commercial substance of the underlying activity.

This is why tax governance is emerging as one of the more important - and still underdeveloped - elements of the “G” in ESG.

The connection is not entirely new. Kenya’s ESG architecture has already placed tax within the broader governance conversation: the Nairobi Securities Exchange ESG disclosure framework includes taxes among the economic topics listed companies are expected to address. The wider responsible-tax debate has likewise treated board accountability, compliance, business structure, relationships with tax authorities and transparency as core governance questions.

The question for boards is moving beyond “Are our tax returns up to date?” towards “Does our tax position reflect how we say this business creates value, manages risk and behaves as a responsible corporate citizen?”

East Africa's ESG Architecture is Hardening

Across East Africa, sustainability is steadily moving from principle to infrastructure. Reporting frameworks, banking regulation, green finance classifications and carbon-market rules are creating more formal expectations around how companies identify, measure and disclose sustainability-related risks and opportunities.

Market	Recent ESG Signal	Why Tax Governance Should Care
Kenya	CBK Green Finance Taxonomy and Climate Risk Disclosure Framework (2025); IFRS S1/S2 adoption road-map; regulated carbon-market framework.	Sustainability data increasingly affects finance, disclosures, incentives and the evidential record available to tax authorities.
Uganda	ICPAU sustainability reporting road-map (2025); Bank of Uganda climate-related financial risk guidance for banks.	Tax, finance and sustainability teams will need more consistent data and governance as climate risk becomes part of regulated financial decision-making.
Tanzania	Bank of Tanzania sustainability-related and climate-risk reporting guidelines for banks and financial institutions (2025).	Financial-sector ESG requirements increase pressure on borrowers and counterparties to produce reliable sustainability information with tax and supply-chain implications.
Rwanda	Rwanda Stock Exchange ESG reporting guidance; National Bank of Rwanda sustainability-related disclosure and climate-risk frameworks.	A growing disclosure architecture increases board accountability for consistency across financial, sustainability and tax narratives.

Regional developments summarised from public materials issued by CBK, ICPAK, ICPAU, Bank of Uganda, Bank of Tanzania, Rwanda Stock Exchange and National Bank of Rwanda.

These initiatives operate at different speeds and under different legal frameworks. But the direction is remarkably similar: ESG information is becoming measurable, reportable, financeable - and increasingly auditable. That has direct implications for tax.

The “G” Increasingly Leads Back To Tax

Governance is fundamentally about how an organisation makes decisions, allocates responsibility, manages risk and accounts for those decisions. Tax fits naturally within that definition.

A mature tax governance framework therefore asks more than whether filings are correct. It asks who owns the tax strategy, how significant tax risks are escalated, whether commercial structures are consistent with the group's stated sustainability and corporate-purpose narrative, how incentives are governed and whether material tax positions would withstand scrutiny from investors, regulators and tax authorities.

Tax is no longer just a number in the financial statements. It is part of the evidence a company presents about where it creates value, how it behaves and how its board exercises oversight.

1. ESG Disclosure Can Expose Tax Inconsistencies

One consequence of sustainability reporting is that businesses are publishing much more information about themselves: where employees are located, where assets sit, which markets generate revenue, how supply chains operate, where capital is invested and who manages the business.

Tax authorities increasingly have access to much of the same information. This creates an important governance issue. A sustainability report that describes Kenya as the centre of regional management, innovation and customer development may sit uncomfortably alongside a transfer pricing model under which relatively little profit is attributed to Kenya.

Likewise, a company that presents an East African subsidiary as strategically important for sustainability, procurement, technology or customer delivery should expect questions if its transfer pricing documentation describes the same entity as a limited-risk routine service provider.

The lesson is not that ESG disclosure creates tax risk. It is that inconsistent corporate narratives create tax risk. The tax function therefore needs a seat at the table before sustainability reports, investor disclosures and major ESG commitments are finalised.

2. Green Finance Will Increasingly Bring Tax Into The Financing Conversation

Kenya's Green Finance Taxonomy is a particularly important signal. It gives financial institutions a framework for assessing the extent to which economic activities align with climate objectives, while the accompanying Climate Risk Disclosure Framework is aligned with global standards including IFRS S2.

Once banks begin classifying lending and investment against recognised sustainability criteria, ESG data starts influencing access to capital. That turns what might previously have been a sustainability-team exercise into a CFO and board issue.

Tax incentives will often sit alongside that financing. Renewable energy, electric mobility, climate infrastructure and transition investments may attract exemptions, allowances, accelerated deductions or other fiscal support. Businesses therefore need to govern three questions together: does the activity qualify as sustainable, does it qualify for the proposed tax treatment, and does the commercial and operational substance support both claims?

Treating those questions separately creates avoidable risk.

3. Carbon Markets Make The Connection Even Clearer

Kenya's Climate Change (Carbon Markets) Regulations, 2024 provide a regulated framework for voluntary and compliance carbon markets. Among other requirements, projects must address certification and verification, ownership, safeguards, community arrangements where relevant, environmental integrity and contribution to sustainable development.

For business, a carbon credit is therefore not merely an ESG asset. It can simultaneously raise questions around ownership, income recognition, transfer pricing, VAT, withholding tax, cross-border payments, financing, benefit sharing and the allocation of value among project participants.

Consider a multinational funding a carbon project in Kenya through an offshore group company while local entities develop the project, interact with communities, manage implementation and generate the underlying emissions reductions. Who economically creates the carbon asset? Who owns it? Who bears project failure risk? Who should earn the return when credits are sold?

Those are sustainability questions. They are also classic tax and transfer pricing questions. Carbon-market governance should therefore bring tax advisers into the project at design stage - not when the first credits are sold.

4. International Climate Policy Is Beginning To Look Like Tax

The distinction between ESG policy and taxation is becoming even less clear internationally. The European Union's Carbon Border Adjustment Mechanism (CBAM) entered its definitive regime on 1 January 2026. It applies initially to selected carbon-intensive sectors including cement, iron and steel, aluminium, fertilisers, electricity and hydrogen.

For East African exporters in affected value chains, carbon data can now influence market access and landed cost. A manufacturer supplying an EU customer may increasingly find that competitiveness depends not only on price, quality and customs classification, but also on whether credible embedded-emissions data can be produced and verified.

The future tax function therefore needs to understand more than taxable profit. It increasingly needs to understand carbon, supply chains, customs data and the financial consequences of environmental policy.

5. Tax Incentives Deserve Stronger Esg Governance

Governments across East Africa will continue using tax policy to accelerate investment in renewable energy, electric mobility, green manufacturing and other sustainable activities. That is legitimate policy. But incentives create governance responsibilities on both sides.

For governments, incentives should be transparent, targeted and capable of evaluation against measurable economic and environmental outcomes. For businesses, the fact that an incentive is legally available does not eliminate the need to consider whether it is being used in the manner policymakers intended.

Responsible-tax frameworks have long emphasised that incentives should be aligned with genuine business and operational objectives and supported by economic substance. That principle becomes more important where a company simultaneously presents itself to investors as a responsible taxpayer.

The question is not whether businesses should decline legitimate incentives. They should use them. The governance question is whether the incentive is being used for the activity policymakers actually intended to encourage.

6. Tax Controversy Is Itself an ESG Issue

A large tax dispute can affect cash flow, earnings, reputation and investor confidence. Yet many boards still receive significant tax disputes relatively late - sometimes after positions have hardened and assessments have become material.

Good governance suggests a different approach. Material tax risks should be identified early. Positions involving significant judgement should have documented rationale. Boards should understand the organisation's tax risk appetite. Recurring disputes should trigger examination of the underlying operating model rather than simply another round of litigation.

There is also room for greater cooperative compliance across East Africa. Constructive relationships with tax administrations, early dialogue on significant uncertainties and professional resolution of disagreements are compatible with robust defence of legitimate taxpayer positions. Responsible tax does not mean paying more tax than the law requires; it means managing tax as a governed corporate risk.

Transparency Will Need Judgement – Not Slogans

The ESG movement has also increased expectations around tax transparency. Some businesses already publish tax strategies, explanations of effective tax rates and country-level information about taxes paid and economic activity.

That direction is likely to continue. But transparency should not become an exercise in publishing unexplained numbers. A company's total tax contribution can include corporate income tax, VAT, payroll taxes, withholding taxes, customs duties, excise and taxes collected on behalf of governments.

A credible tax-transparency narrative should explain the economic context rather than selectively presenting whichever number looks best. The objective should be understanding, not public relations.

A Practical Board Agenda

Six questions can help move tax governance from a compliance discussion to a board-level ESG discipline.

Governance Question	Why It Matters
Who owns tax strategy at board level?	Material tax positions increasingly intersect with reputation, capital allocation, financing and ESG commitments.
Do our ESG narrative and tax narrative tell the same story?	Sustainability reports, transfer pricing documentation and corporate structures should reflect the same underlying business reality.
Are green incentives and tax reliefs supported by genuine substance?	Incentives are likely to face closer scrutiny as governments balance climate ambitions with revenue mobilisation.
Can we trace and defend the tax treatment of carbon-related revenues and investments?	Carbon projects create new assets, revenue streams and cross-border value chains whose tax treatment may not be straightforward.
Can our systems produce reliable climate and tax data?	ISSB reporting, sustainable finance, CBAM and tax administration are all moving towards more granular and comparable data.
Would we be comfortable explaining our most significant tax structures publicly?	It is a useful test of whether legal compliance, commercial rationale and corporate responsibility are genuinely aligned.

East Africa Has a Policy Opportunity

There is an equally important message for policymakers. ESG should not simply result in another layer of levies, reporting requirements and tax incentives. The region has an opportunity to build more coherent fiscal frameworks in which climate policy, investment policy and tax policy reinforce each other.

Kenya's National Tax Policy already emphasises principles including predictability, stakeholder participation and a more structured approach to tax incentives. The next step is ensuring that environmental fiscal measures are integrated into that architecture rather than developed as stand-alone interventions.

There is also scope for regional coordination. Businesses increasingly operate East African supply chains rather than isolated national businesses. Widely divergent approaches to carbon credits, green incentives, ESG reporting and the taxation of climate investment risk adding complexity precisely when the region is trying to mobilise more private capital.

Regional convergence does not require identical tax systems. It requires sufficient coherence for investors to understand the rules.

THE TAXIQ AFRICA VIEW

The ESG discussion is entering a more mature phase in East Africa. The first phase was largely about commitment: sustainability policies, climate pledges and ESG reports. The next phase is about evidence.

Can the business demonstrate where value is created? Can it substantiate emissions data? Can it explain its use of incentives? Can it reconcile its tax structure with its operational footprint? Can its board demonstrate oversight of material tax risks?

Tax is not simply what remains after the sustainability strategy has been implemented. It is part of how the organisation finances that strategy, structures investment, interacts with governments and demonstrates responsible corporate behaviour.

As East Africa's ESG frameworks become more sophisticated, the companies best prepared will be those that stop treating tax, sustainability and governance as separate conversations.

Selected Public Sources

Public materials reviewed for the contemporary East African ESG context. Links are included for publication-review convenience; the final published version may shorten this list or convert it to editorial footnotes.

1. Central Bank of Kenya - Kenya Green Finance Taxonomy and Climate Risk Disclosure Framework for the Banking Sector (4 April 2025)
2. ICPAK - Roadmap for the Adoption of IFRS Sustainability Disclosure Standards in Kenya
3. ICPAU - Roadmap for Adoption of IFRS Sustainability Disclosure Standards - Uganda (2025)
4. Bank of Uganda - Financial Sector Stability Forum Communique noting Climate-Related Financial Risk Management Guidelines issued in October 2025
5. Bank of Tanzania - Guidelines on Reporting of Sustainability-Related Risks and Opportunities and Climate-Related Financial Risks Management and Disclosures (31 January 2025)
6. Rwanda Stock Exchange - ESG Reporting Guidelines
7. National Bank of Rwanda - Sustainability-related disclosure and climate-related environmental risk regulatory framework
8. Kenya Law - Climate Change (Carbon Markets) Regulations, 2024
9. European Commission - Carbon Border Adjustment Mechanism definitive regime (from 1 January 2026)
10. National Treasury of Kenya - National Tax Policy (2024)

Editorial note

This thought piece has been developed from TaxIQ Africa's earlier work on the intersection of tax and ESG and responsible tax governance, refreshed against public-source developments in East Africa. It is intended as thought leadership, not legal or tax advice. The tax, sustainability and regulatory treatment of any transaction or business model should be assessed against the facts and applicable law in the relevant jurisdiction.

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