

Tax Dialogues

An ACBF and HAUS Webinar Series

Knowledge Brief March 2025

"Tax landscape and its impact on expenditures and incentives in Africa"



This Knowledge Brief is developed to support policy-makers, practitioners tax administration officials, researchers, think-tankers, members of civil society organizations, and other stakeholders engaged in tax and related issues in Africa. The Brief is informed by the webinar organized by the African Capacity Building Foundation (ACBF) and the HAUS Finnish Institute of Public Management Ltd (HAUS) in partnership with the United Nations University World Institute for Development Economics Research (UNU-WIDER) under the African-Finnish Partnerships on Taxation Capacity in Africa (AFP-TCA) Program. The theme of the webinar “Tax landscape and its impact on expenditures and incentives in Africa” and the UNU-WIDER study “What is the impact of corporate tax incentives in Uganda?” provided the materials for the Brief.

Context

Africa’s economic landscape presents both promise and paradox. According to the African Development Bank (AfDB) 2025 Macroeconomic Performance and Outlook Report, real GDP growth is expected to rise to 4.1% in 2025 and 4.4% in 2026. This optimistic forecast is driven by economic reforms, decreasing inflation, and stronger fiscal and debt management. However, despite this positive outlook, the report emphasizes that Africa’s growth still falls short of the 7% threshold needed for significant poverty reduction (AfDB, 2025). Thus, boosting tax revenues becomes imperative to close the development financing gap. Moreover, the continent faces significant challenges, including potential global economic slowdowns, geopolitical tensions, and the adverse effects of climate change. These all point to the need to rely on Domestic Resources Mobilization (DRM) – for which taxes are an important dimension – for Africa’s sustainable development and socio-economic transformation.

Evidence from the OECD Revenue Statistics in Africa 2024 shows that in 2022, the average tax-to-GDP ratio for 36 countries was 16.0%. However, Africa’s average tax revenues remained lower than those in Asia and the Pacific (19.3%), Latin America and the Caribbean (21.5%), and OECD countries (34.0%). Within Africa, tax-to-GDP ratios varied significantly, ranging from 2.6% in Somalia to 33.5% in Tunisia, with 19 out of 36 countries below 15% (OECD, 2025).

In the context of narrowed fiscal space, African governments face significant pressure to stimulate growth and enhance domestic revenue generation. A persistent challenge is the tension between the need for revenue and the use of tax incentives to achieve specific policy objectives. While many countries incorporate various incentives into their tax systems, these measures often lack thorough analysis and scrutiny regarding their costs and effectiveness.

Tax incentives can be viewed as a form of government expenditure, as they result in lost tax revenue—termed “tax expenditure.” This concept highlights that tax expenditures are economically equivalent to direct budgetary expenditures, yet limited information on these provisions complicates discussions about their efficacy. Understanding the provisions and costs associated with tax expenditures—such as exemptions, deductions, reduced rates, and deferrals—is essential for enhancing the scrutiny of public spending.

Africa’s tax landscape: some key issues

The tax landscape in Africa is marked by both challenges and opportunities that significantly influence economic growth and development. As the continent strives for sustainable socio-economic transformation through the Sustainable Development Goals (SDGs) and the aspirations of the African Union’s Agenda 2063, several key issues emerge that warrant attention from policymakers and stakeholders.

Low tax-to-GDP ratios.

Africa’s average tax-to-GDP ratio remains low compared to other regions (16.0% for Africa, 19.3% for Asia and the Pacific, 21.5% for Latin America and the Caribbean, and 34% for OECD), limiting governments’ ability to fund essential services and development initiatives (OECD, 2025). These ratios not only hinder governments’ ability to finance public goods and services but also limit investments in critical areas such as health, education, and infrastructure. The implications of low tax revenues are far-reaching, contributing to reliance on external aid and increasing vulnerability to global economic fluctuations. Furthermore, the inequity in tax contributions can exacerbate social disparities, as marginalized groups may bear a disproportionate burden in funding public services through indirect taxes, while wealthier individuals and corporations may evade their fair share.

Impact of corporate tax incentives.

Corporate tax incentives are often implemented to attract foreign direct investment and stimulate local economies. However, these incentives can lead to significant revenue losses if not carefully designed and monitored. The case of Uganda highlights the need for a thorough evaluation of the effectiveness of such incentives (UNU-WIDER, 2024). The implications of poorly structured incentives include potential inequalities in the tax burden, as local businesses may not receive similar benefits, leading to competitive disadvantages. Additionally, the long-term sustainability of public finances may be compromised if these incentives do not translate into substantial economic returns, thereby affecting the government's ability to fund essential services.

Technological integration in tax systems.

Integrating technology into tax administration presents a significant opportunity to enhance efficiency, transparency, and compliance. Many African countries still rely on outdated tax collection methods, which can lead to inefficiencies and revenue losses (KPMG, 2023). Moreover, the uneven adoption of digital tools poses significant challenges. While technology can streamline processes and improve data accuracy, the limited infrastructure and digital literacy in some regions can exacerbate existing inequalities. Furthermore, without adequate cybersecurity measures, the transition to digital platforms may expose tax systems to risks of fraud and data breaches, undermining taxpayer confidence and potentially leading to revenue losses. Thus, digitalizing tax administration is not just an efficiency measure but a strategic lever for inclusive development.

Tax and the informal economy.

The informal economy in Africa plays a crucial role in shaping the continent's tax landscape, contributing significantly to employment. While some businesses and individuals genuinely operate below the tax threshold, the sector is not homogenous. Some businesses and individuals may be strategically avoiding taxation leading to revenue losses for governments. The informal economy presents opportunities for growth and innovation, and developing inclusive tax policies that recognize the realities of informal work can help broaden the tax base in the long run, enhance revenue collection, and support sustainable economic development.

Tax expenditures in Africa: some insights

The effective management of tax incentives and tax expenditures is crucial for fostering economic growth and ensuring fiscal sustainability in African nations. However, several key issues arise in this context that merit the attention of policymakers.

Origination of tax expenditure by a host government agency.

Tax expenditures often originate from specific government agencies that aim to promote economic development or attract foreign investment. For instance, in Uganda, the Ministry of Finance, Planning, and Economic Development has been instrumental in proposing various tax incentives to stimulate various sectors. However, the lack of a coordinated approach can lead to introducing incentives not aligned with national economic priorities, resulting in inefficiencies and potential revenue losses.

Design of tax expenditures.

The design of tax expenditures is crucial for their effectiveness. Many incentives are crafted without a comprehensive analysis of their long-term fiscal implications. Well-crafted incentives should be targeted, transparent, and aligned with national development priorities. However, many tax expenditures are designed without adequate consideration of their long-term implications on revenue generation and equity. Poorly structured incentives can create distortions in the market, favoring certain sectors or businesses over others, and complicating the tax landscape for compliance.

Oversight and enactment of tax expenditure provisions.

Effective oversight is essential to ensure tax expenditures are implemented transparently and accountably. In many African countries, oversight mechanisms are often weak, leading to a lack of transparency in enacting tax provisions. For instance, the lack of rigorous scrutiny in approving tax incentives in Uganda has resulted in approximately half of the firms benefiting from tax holidays remaining highly profitable even if subjected to the standard Corporate Income Tax (CIT) rate of 30%. Additionally, the cost of the five tax incentives under study amounts to as much as USD 42 million annually, representing nearly one-fifth of Uganda's total annual CIT revenue. This highlights the need for robust frameworks to govern the enactment of tax expenditures (UNU-WIDER, 2024).

Administration and monitoring.

Tax authorities face significant challenges in administering and monitoring tax expenditures. Effective implementation requires adequate resources and capacity to track compliance and evaluate the impacts of incentives. Without proper monitoring, governments may struggle to understand the fiscal implications of tax incentives, resulting in misallocation of resources.

Recommendations

Strengthening tax policy frameworks.

This involves conducting comprehensive assessments of existing tax incentives and expenditures to evaluate their effectiveness and alignment with national development goals. Establishing clear guidelines for the design and implementation of these incentives will ensure they are transparent, targeted, and in line with national priorities.

Integration of technology in tax administration.

Investing in digital infrastructure to upgrade tax collection systems can enhance efficiency, transparency, and compliance. Implementing robust cybersecurity measures is also vital to protect taxpayer information and build confidence in digital platforms. Digital systems help create good quality data for the analysis of tax expenditures.

Improving oversight and accountability.

Establishing regular and dedicated tax expenditure reporting to monitor tax expenditures will promote transparency and accountability in their implementation. Strengthening legislative oversight of

tax incentives, requiring thorough evaluations before approval, and ensuring regular reporting on their impacts are essential steps.

Effective monitoring and evaluation of tax expenditures.

Establishing clear metrics for evaluating the effectiveness of tax expenditures, including their economic impact, will help in understanding their benefits and costs. Regular public reporting on these expenditures will enhance transparency and public accountability.

References

Aderonmu, 2023. Formalizing Africa's Informal Sector Through the AfCFTA: An Opportunity for Economic Transformation. Journal of Public and International Affairs Special edition 2023.

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Appendix 1. Tax Dialogue Series Webinar 1 Agenda

Time (GMT+3)	Agenda Item	Facilitator/Speakers
Moderator: <i>Barassou Diawara</i> ; Senior Knowledge Management Expert, ACBF		
15:00 – 15:10	Welcome and Introduction	• Mamadou Biteye; Executive Secretary, ACBF • Kirsi Aaltola; Director, Development Services, HAUS
15:10 – 15:40	Presentation of a Case Study on Tax Incentives from Uganda	• Maria Joste; Research Associate, UNU-WIDER
15:40 – 16:00	Interactive Panel Discussion	• Mohamed Salat Osman; Program Officer, Economic and Social Governance, ACBF • Chifundo Mchowa; Researcher, German Institute of Development and Sustainability (IDOS) • Everlyn Muendo; Policy Officer, Tax Justice Network Africa (TJNA) • Lyla Latif; Chair, Committee on Fiscal Studies, Faculty of Law, University of Nairobi, Nairobi, Kenya • Ronald Nyenje Makumbi; Statistics and Policy Analysis, Uganda Revenue Authority (URA) • Hamadou Kabore; Director, Foresight and Monitoring of Reforms, Directorate General of Tax, Burkina Faso Facilitator: Amina Ebrahim; Research Fellow, UNU WIDER
16:00 – 16:25	Q&A Session	Facilitator: Amina Ebrahim ; Research Fellow, UNU WIDER
16:25 – 16:30	Closing Remarks and Way Forward	Konsta Heikkila – Chief Partnership Adviser, African-Finnish Partnerships on Taxation Capacity in Africa, ACBF & HAUS

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Tax Expenditures / Incentives

25 March 2025 | 15:00 - 16:30 PM EAT (GMT+3)

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FACILITATOR

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CASE STUDY PRESENTATION

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