

INTERNATIONAL MONETARY FUND

AFRICAN AND FISCAL AFFAIRS DEPARTMENTS

# Tax Expenditures in Sub-Saharan Africa

Prepared by an IMF team led by Todd Schneider, and  
comprised Sandhya Garimella, Li Liu, Simon Naitram,  
Can Sever, Felix Simione, Irena Jankulov Suljagic, and  
Qianqian Zhang.

2025



DEPARTMENTAL PAPER



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**Cataloging-in-Publication Data**  
**IMF Library**

Names: Schneider, Todd Turner, author. | Garimella, Sandhya (Research Analyst), author. | Liu, Li, 1983- author. | Naitram, Simon, author. | Sever, Can, author. | Simone, Felix, author. | Jankulov Suljagic, Irena, author. | Zhang, Qianqian, author. | International Monetary Fund, publisher.

Title: Tax expenditures in Sub-Saharan Africa / Prepared by an IMF team led by Todd Schneider, and comprised Sandhya Garimella, Li Liu, Simon Naitram, Can Sever, Felix Simone, Irena Jankulov Suljagic, and Qianqian Zhang.

Other titles: Tax expenditures in SSA. | International Monetary Fund. African Department. | International Monetary Fund. Fiscal Affairs Department.

Description: Washington, DC : International Monetary Fund, 2025. | Oct. 2025. Includes bibliographical references.

Identifiers: ISBN:

9798229023887 (paper)

9798229023993 (ePub)

9798229023931 (WebPDF)

Subjects: LCSH: Tax expenditures--Sub-Saharan Africa.

Classification: HJ4642.S3 2025

**Acknowledgments**

Prepared by an IMF team led by Todd Schneider, including Li Liu, Irena Jankulov Suljagic, Simon Naitram, Can Sever, Felix Simone, Sandhya Garimella, and Qianqian Zhang, with contributions from Haya Abu Sharar (AFR), Thornton Matheson, Petit Patrick, and Ross Warwick (FAD).

The paper benefited from invaluable comments by Costas Christou and AFR mission chiefs, and Ali Abbas, Maria Cavalleri, Alexander Klemm, Anamaria Maftai, Mario Mansour, Jeta Menkulasi, Miguel Pecho, Anthony Ramarozatovo, and Daniel Rodriguez (FAD).

The Departmental Paper Series presents research by IMF staff on issues of broad regional or cross-country interest. The views expressed in this paper are those of the author(s) and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

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International Monetary Fund, Publication Services

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## Executive Summary

This paper seeks to shed light on tax expenditures (TEs) in sub-Saharan Africa (SSA), draw attention to the presence of significant data gaps, transparency, and governance issues in the region, and build on studies by other institutions and agencies. It reviews how the IMF has engaged on this issue in recent years and highlights the importance of TEs to macro-fiscal stability in the current liquidity-constrained environment. It also offers some practical recommendations to policymakers and external stakeholders for advancing work in this area.

Tax expenditures are broadly defined as provisions within the tax system that reduce tax liability relative to a defined benchmark. These provisions, which may take the form of exemptions, deductions, credits, or preferential rates, act as indirect fiscal transfers from government resources to beneficiaries, effectively functioning in a manner similar to direct subsidies, grants, or transfers. Most countries have a range of TEs embedded in their respective tax frameworks, although the degree to which such provisions are (i) well defined and transparent; (ii) routinely and rigorously costed with respect to revenue forgone; (iii) administered under a clear legal framework; and (iv) assessed with respect to their stated objectives varies widely across countries.

Investigation and assessment of TEs started in the mid-1960s and spread first among OECD member states before being adopted elsewhere. The policy objectives behind them are typically economic or social in nature but may also be environmental, political, or cultural. Although many of these objectives could be fulfilled by direct spending, governments may find it easier and more efficient to target relief or incentives through the tax system. That said, TEs do incur a fiscal cost in terms of revenue forgone and add complexities to the tax system, raising concerns about revenue administration, governance, fairness, and lack of public scrutiny.

The landscape of TEs in sub-Saharan Africa has become more defined in recent decades, but there remain substantial gaps. For roughly 30 percent of SSA countries, no inventory or estimate of revenue forgone from TEs exists. For the remaining SSA countries, only about half are assessed as having a full and published estimate. The absence of a full estimate in the other half could likely be improved through a rigorous assessment based on a benchmark tax system. Publication of these estimates—which is vital to assessing their success or failure relative to stated objectives—varies, with roughly one-third of countries with such an estimate choosing not to publish. Despite the variance in reporting, publishing, and oversight, the macro-economic importance of TEs is clear, with indicative estimates of revenue forgone ranging from 0.1 percent to nearly 13 percent of GDP in the sub-Saharan Africa region.

Sub-Saharan Africa's current macro-fiscal challenges highlight the need for a reexamination of TEs in the region. Tighter global financial conditions, declining official development assistance, and increased commodity price volatility and capital flows volatility have renewed sub-Saharan Africa policymakers' attention to domestic revenue mobilization—particularly as higher borrowing costs for sub-Saharan Africa countries, coupled with rising debt levels and interest rate spreads, put substantial pressure on debt service-to-revenue ratios. Adding the impact of global trade uncertainty and a rapidly shifting external environment are other factors for greater attention to addressing financing gaps through "own" resources, which in turn spotlights the need for greater scrutiny of TEs.

A closer look at how the IMF has addressed TEs as part of its surveillance, program engagement, and capacity development would also seem timely. Analyzing TEs, assessing their revenue impact, and proposing reforms in line with sustainable medium-term fiscal frameworks lies at the heart of the IMF's mandate and core expertise. Survey data suggest that TEs have indeed been a significant focus for the IMF. However, more could potentially be done in this area given the current conjuncture and the need to enhance domestic revenue mobilization, transparency, and good governance.

Assessing TEs is not a simple task in a region with known capacity constraints. Establishing a benchmark tax system against which to estimate revenue forgone through TE measures requires not only timely access to data but also significant expertise in applying the right methodology. On the positive side, the knowledge base in this area is deep—built up over six decades of practice in a broad range of countries and among key international financial institutions (the IMF, OECD, and World Bank). Though potentially daunting, establishing a TE framework and integrating revenue costs into fiscal planning are achievable objectives, as demonstrated by a growing number of sub-Saharan Africa countries.

The remainder of this paper is structured as follows: Section 1 lays out how TEs are defined and the current thinking on their costs and benefits; Section 2 highlights the macroeconomic impact of TEs; Section 3 explains the current macroeconomic and financial context of sub-Saharan Africa to highlight the importance of TEs at this juncture; Section 4 explains the current state of data and information on TEs in the region; Section 5 looks at how the IMF has addressed TEs in the context of surveillance, program engagement, and capacity development; Section 6 offers concrete recommendations and a road map for reforms; and Section 7 concludes.<sup>1</sup>

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<sup>1</sup> Outside the scope of this paper is any attempt to propose a new methodology for estimating TEs, estimate the cost of TEs for individual SSA countries, assess the relative importance of individual types of TEs specifically for SSA countries and their impact, or delve into particular constraints (technical and/or governance) on estimating and publishing TE estimates in SSA countries. These issues could form the basis for future work.



# Acronyms and Abbreviations

AfDB	African Development Bank
ASYCUDA	Automated System for Customs Data
CD	Capacity Development
CDMAP	Capacity Development Management Administration Program
CIT	Corporate Income Tax
DRC	Democratic Republic of the Congo
EAC	East African Community
ECA	Economic Commission for Africa
ECF	Extended Credit Facility
EFF	Extended Fund Facility
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GRA	Gambia Revenue Authority
GTED	Global Tax Expenditures Database
IFA	International Fiscal Association
IIPF	International Institute of Public Finance
IMF	International Monetary Fund
LICs	Low-Income Countries
MONA	Monitoring of Fund Arrangements
MoFEA	Ministry of Finance and Economic Affairs
OECD	Organization for Economic Co-operation and Development
PCI	Policy Coordination Instrument
PCT	Platform for Collaboration on Tax
PSI	Policy Support Instrument
REO	Regional Economic Outlook
SBs	Structural Benchmarks
SCF	Standby Credit Facility
SADC	Southern African Development Community
SSA	Sub-Saharan Africa
TE	Tax Expenditure
TPU	Tax Policy Unit
VAT	Value-Added Tax
WoRLD	World Revenue Longitudinal Database



# 1. A Primer on Tax Expenditures

## A. What Are Tax Expenditures?

Tax expenditures (TEs) are provisions that reduce tax liability relative to a benchmark tax system. The resulting reduction in tax liability can be used to deliver financial support to individuals, companies, or nongovernmental organizations (Heady and Mansour 2019). These provisions in the tax regime can take various forms—including exemptions, deductions, credits, or preferential tax rates—that lower tax liabilities for targeted beneficiaries. Whereas some TEs are codified in tax laws, others emerge through decrees, ministerial orders, regulations, or budget gazettes, and may also arise from administrative discretion exercised by revenue authorities within the boundaries of the legal framework. In some cases, TEs can even arise from decisions of non-revenue authorities or be provided outside of the legal framework.

Tax expenditures are effectively a transfer of resources from the government to the taxpayer. Because they reduce the tax liability of the taxpayer (therefore increasing after-tax income) and commensurately reduce the revenue of the government (thereby reducing financial resources available to fund other priorities), they are functionally equivalent to certain types of direct government spending, such as subsidies or grants.

Despite their similar effects, TEs are procedurally different from direct spending. For example, whereas direct spending typically requires legislative approval, often on an annual basis, TEs can remain in effect indefinitely once enacted and without a mandate for periodic reapproval. According to the Global Tax Expenditures Database (2021), 105 countries published TE reports during 1990–2022, whereas a further 113 jurisdictions did not publish any information on TEs. Of those countries that did publish, only 57 publish on an annual basis. Moreover, the planning and reporting practices for TEs can be very different across countries.

Tax incentives are a form of TE, but not all TEs are incentives. Tax incentives are designed specifically to encourage particular behaviors among targeted groups. They are part of TEs, together with provisions intended for other purposes, such as simplifying the tax system or improving redistribution (ECA 2024).

The main approach to measuring TEs is the revenue forgone method, which almost all reporting countries use. This approach measures the value of direct revenue losses associated with the existence of a specific TE. It assumes that taxpayers would not change their economic behavior if TEs were removed.<sup>2</sup>

Identifying and costing TEs requires defining a benchmark tax system that acts as a reference point. Defining a benchmark system helps differentiate between features of the tax system that are structural relief and those that are TEs (World Bank 2024). A benchmark system should be grounded in principles of fairness, efficiency, and simplicity. Because countries differ in the way they view and weigh these principles, benchmarks often vary substantially across countries. There are three broad approaches typically used to define benchmark tax systems (Beer and others 2022):

- The reference tax law approach takes a country's existing tax system as the starting point, usually focusing on a limited set of existing tax provisions. For example, a benchmark tax system for personal income tax may simply rely on the existing system of tax rates, whereas it excludes any other provisions that provide tax relief.

<sup>2</sup> The other two approaches are (1) the revenue gain approach, which measures the revenue that would be gained from removing a specific TE. This requires incorporating the behavioral responses of taxpayers into the estimation; and (2) the outlay equivalent approach, which measures how much direct expenditure would be needed to provide a benefit equivalent to the amount that the TE provides to taxpayers.

- The conceptual approach defines the benchmark based on an ideal tax system, usually guided by the theory of tax policy. For example, tax theory suggests that an ideal value-added tax (VAT) has a single tax rate across all goods and services, with no exemptions or reduced rates apart from a zero rate on exports.
- The expenditure subsidy approach identifies TEs as only those provisions that could be provided as a subsidy or direct expenditure. For example, a tax credit of \$75 could also be provided as a direct subsidy of \$100, assuming the subsidy is itself taxable at a 25 percent rate.

## B. Types and Uses of TEs

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Tax expenditures can take various forms. Most common among these are the following:

- Tax exemptions. These exclude income from the base of an income tax or exclude specific goods and services from the base of a consumption tax. For example, some countries allow exemptions from customs duties for imported goods below a specific monetary value.
- Tax allowances or deductions. These are subtracted from the tax base before applying the tax rate. A common example is a deduction for mortgage interest paid.
- Credits and offsets. These are deducted from tax liability, including tax credits for charitable donations or pension contributions. Some tax credits may even cause an individual's tax liability to turn negative and to be fully refundable.
- Tax rate reductions, rate relief, or concessional tax rates. For example, a corporate tax regime might allow reduced tax rates for small businesses, or a VAT-style consumption tax may allow reduced rates for basic goods.
- Tax deferrals. These involve a delay in the payment of tax. Accelerated depreciation allows companies to defer tax liability by recognizing expenses earlier, even as the value of that tax liability is eroded over time. Beyond this, deferred taxes might also lower tax liability if they are transferred to a period where the taxpayer faces a lower tax rate.

Tax expenditures are often introduced by governments to pursue some policy objectives, which are typically economic or social in nature, but may also be environmental, political, or cultural. They can be broadly categorized as those intended to incentivize specific behaviors or provide financial relief. Common policy objectives include:

- Stabilizing or reducing the cost of necessities such as basic foods or fuel.
- Attracting or incentivizing new investment.
- Supporting production in targeted industries.
- Providing an advantage to domestic production.
- Providing financial support to individuals or households caring for dependents.
- Incentivizing small and medium-sized business formation.
- Promoting human capital investment in socially beneficial areas such as education or health care.
- Encouraging research and development.

Although many of these objectives could be fulfilled by direct spending, governments may find it easier and more efficient to target relief or incentives through the tax system. For instance, the tax system is already designed to identify income levels so that spending targeted to certain income levels might be easier to

route through the tax system than through the general budget. Similarly, some actions that governments aim to incentivize can be easily captured by the tax system—such as spending money on research and development. In other cases, governments may find it administratively simpler to provide relief or incentives by “offsetting” tax liability rather than collecting all revenue and making all desired direct expenditures, all without the need to create a bureaucracy to administer direct spending (for example, the child/family tax credit and investment tax incentives).<sup>3</sup>

## C. History of Thought

The concept of TEs emerged in the 1960s to highlight how certain tax provisions work similarly to spending programs. The concept of TEs took shape, when US Treasury Assistant Secretary for Tax Policy Stanley Surrey coined this new term to describe provisions in the tax code that functioned like direct spending—but without the same level of transparency or scrutiny. Surrey’s work laid the groundwork for identifying and measuring such provisions, leading to the inclusion of a chapter on TEs in the US federal budget in 1968 and annual reporting under the 1974 Congressional Budget Act (Bartlett 2001). About the same time, Germany launched a similar practice in its 1967 subsidies report. This idea gained traction globally through forums like the International Fiscal Association (IFA) and the International Institute of Public Finance (IIPF). By the 1980s, many countries—including Austria, Canada, France, Spain, and the UK—had adopted reporting frameworks. By 1996, nearly all OECD countries were formally reporting on TEs (OECD 1996; Kraan 2004; World Bank 2024).

Scholars and international institutions have often focused on whether TEs are effective in achieving their stated aims. One of the objectives of TEs has been to incentivize investment, particularly in developing countries. However, a long literature documents uncertain and uneven effects of tax incentives on investment. There is a lack of consistent evidence of positive impacts of tax incentives on total private investment or economic growth (Klemm and Van Parys 2011). The role of tax incentives can be quite limited in generating new investment compared with other structural factors like infrastructure, political stability, and resources (Tanzi and Zee 2001). TEs aimed at supporting households can also be ineffective when they subsidize behavior that would have occurred anyway or fail to reach low-income groups with little tax liability. Scholars have also long criticized TEs for creating “upside-down subsidies” that primarily benefit higher-income taxpayers despite being targeted at supporting lower-income households, ultimately undermining the equity of the tax system (Surrey and McDaniel 1985; Gravelle 2005; Marr and Highsmith 2011).

Questions have also been raised about the efficiency of TEs. A standard concern has been that TEs distort incentives across economic decisions, for example, by making one good relatively less expensive than others (Tait 1988). In addition, tax incentives to support smaller firms might distort economic activity by providing disincentives for firms to invest and grow (Benedek and others 2017). Another concern is that TEs lead to inefficiently high tax rates, whereas a broader tax base and a lower tax rate in the absence of TEs can raise the same revenue with less distortion to economic activity (Feldstein 2015; Burman and others 2017; Kaplow 2017). Efficiency can also extend to the administration of TEs, which can offer administrative cost savings through economies of scale and scope, by using existing tax reporting structures instead of separate government spending programs (Swift, Brixi, and Valenduc 2004). However, costs related to identifying and quantifying risks of revenue leakage or harmful noncompliance can be substantial, particularly in developing countries (Pecho and others 2024).

Tax expenditures can be undesirable from a governance perspective. They are seldom subject to the same scrutiny as direct expenditures. They often lack sunset clauses and are rarely reviewed for performance, especially in developing countries (Heady and Mansour 2019). If the public does not fully perceive the cost of TEs, it may result in inefficiently high public spending (Burman and Phaup 2012). Tax incentives are

<sup>3</sup> The efficiency gains are even larger when TEs are meant to be temporary, as in responding to a shock.

sometimes viewed as reflecting political deals rather than targeted policy design (Swift, Brixi, and Valenduc 2004). Further, TEs reduce transparency and complicate budget planning because of their unpredictable revenue costs and limited oversight. Unlike direct spending, their fiscal impact is harder to estimate and control, increasing the risk of unanticipated deficits and undermining the credibility of the budget (Swift, Brixi, and Valenduc 2004).

These considerations underscore the need for their rigorous evaluation, given the potentially significant implications for effectiveness, efficiency, and governance. These concerns are typically more relevant in developing countries, where TEs are widely used but often lack clear targeting and systematic oversight. Despite these limitations, TEs remain politically popular. As joint work of the IMF and others (2015) and Beer and others (2022) emphasizes, improving the design, reporting, and governance of TEs is essential to enhance their transparency, alignment with development goals, and overall policy effectiveness. Reforms such as embedding provisions in tax law and publishing regular expenditure reviews are viewed as important for creating better outcomes. Importantly, as Sugin (2011) argues, meaningful reforms depend on better information—policymakers need a clearer understanding of what TEs do, who benefits, and how they compare to alternative policy tools.

## 2. The Macroeconomic Importance of TEs

### A. Impact on Revenue

The most direct impact of TEs is through lower tax revenues than would be collected in their absence. This results directly from their definition as provisions that reduce tax liability relative to a benchmark tax system. The fiscal cost of TEs can be substantial. TEs cost about 4 percent of GDP and 25 percent of tax revenue, on average, across the 109 countries that contribute to the Global Tax Expenditure Database (GTED) report (Redonda and others 2025). Such fiscal costs need to be accounted for and ideally made public to enhance fiscal sustainability and transparency. They should also be weighed against their estimated benefits<sup>4</sup> to ensure that they are cost-effective in achieving their policy objectives.

Tax expenditures, particularly when large or poorly targeted, can have macro-critical implications that extend beyond revenue losses. Major TEs can affect the economy through redistribution, changing incentives, or shifting the composition of public spending. For example, widespread VAT exemptions or reduced rates can erode the tax base, whereas they disproportionately benefit wealthier groups that consume more of the exempted goods, thereby weakening the progressivity of the tax system (de la Feria and Redonda 2020; Thomas 2020) and eroding fiscal space for pro-poor public investment or social transfers. Some TEs can become procyclical. For example, more generous exemptions or deferrals during downturns to support the economy become procyclical during upturns when they remain unassessed and a semi-permanent feature of the tax system. This pattern can erode revenue over time, constraining fiscal space and amplifying vulnerabilities. Because not all TEs are subject to annual budget reviews, their crisis-driven expansion often persists, shifting spending away from more transparent and progressive uses (IMF and others 2015).

Tax expenditures make the tax system more complex, posing challenges to revenue administration and potentially diminishing effective revenue generation. As a tax system becomes more complex, the cost of compliance to taxpayers increases, which in turn induces higher levels of noncompliance (Kaplow 1996). Multiple exemptions, deductions, credits, and special regimes tend to obscure the baseline tax liability and make it more difficult for taxpayers to determine their obligations. For individuals and firms without access to professional tax advice, this can result in miscalculations or delays. Further, complex systems can create more loopholes for tax planning and avoidance. Complexity also makes it more likely that revenue administrators may commit involuntary errors in collection. Even in an advanced country context as far back as 1995, it was estimated that the complexity of the income tax system cost the United States between 10 and 17 percent of revenues raised (Slemrod 1996; Gale 2001).

Competition for investment through TEs can erode revenues and cause a “race to the bottom”. Developing economies often use types of TEs to attract foreign investment. Although the use of TEs may be politically attractive, evidence suggests they often yield limited long-term investment benefits and can severely erode the tax base. Foreign investment depends critically on regulatory stability, infrastructure, and governance (IMF and others 2015). Location-specific profits, such as those derived from extractive industries and telecommunications, do not require additional incentives.<sup>5</sup> Such incentives can also become redundant because of tax reforms elsewhere, such as the implementation of the global minimum tax in other countries. Overlapping and poorly coordinated incentives across countries can encourage harmful tax competition,

<sup>4</sup> Common TEs in SSA include investment incentives that are cost based (for example, targeted investment tax credits and accelerated depreciation) and profit based (for example, corporate income tax holidays), VAT zero-rating and exemptions, and duty concessions.

<sup>5</sup> The location of these resources can create significant profits without the need for additional incentives, and should actually be taxed more, representing a negative TE.

where jurisdictions undercut one another without collectively increasing investment (Keen and others 2014). The result is a significant loss of potential revenue with little to show in terms of inclusive growth or structural transformation.

## B. Impact on Equity

Tax expenditures can influence the distribution of after-tax income in positive and negative ways. For example, well-designed TEs—such as refundable tax credits or targeted deductions for low-income households—can potentially enhance equity by reducing effective tax burdens for vulnerable groups. In some cases, certain TEs may be more easily administered and targeted than equivalent spending programs, particularly in countries with limited capacity to deliver cash transfers or subsidies. However, as many countries have not formally operated TEs through budgetary processes, their distributional effects are less visible and rarely subject to ex-ante or ex-post evaluation. This opacity can lead to a misperception of neutrality in the tax system, whereas it perpetuates structural inequities. Without transparency and clear distributional assessments, TEs can reinforce inequality and erode the redistributive function of the fiscal system (OECD 2010).

Tax expenditures may also distort the fairness of outcomes between taxpayers and potentially undermine the principle of horizontal equity. Horizontal equity entails that individuals with comparable income or circumstances should bear similar tax burdens. The distortion from TEs to horizontal equity often arises when access to TEs is uneven or opaque. For instance, individuals with access to sophisticated tax planning or professional advice are more likely to benefit from complex deductions or exemptions, whereas others—particularly those in the informal sector or with lower financial literacy—may not be aware of their existence. Alternatively, when TEs are granted on a discretionary basis, or where TEs are only accessible for a specific time, this may result in a tax system where similarly situated taxpayers face very different effective tax rates—based not on ability to pay or economic substance but on access, timing, or influence. Such distortions weaken the legitimacy of the tax system and contribute to declining tax morale, especially in developing economies where state capacity and transparency are already under strain (Fishbien 2024). Over time, when taxpayers view the system as unfair or captured by vested interests, trust in government more broadly may suffer, making both tax collection and broader governance reforms more difficult to sustain.

## C. Impact on Transparency and Governance

Tax expenditures are frequently not subject to the same level of scrutiny as direct spending through the budget, weakening transparency and hindering well-informed policymaking. Unlike direct budgetary expenditures, TEs are often unquantified and unreported. This lack of oversight can make it easier to enact and maintain TEs than direct spending programs, even if direct spending might be a more efficient or transparent way to achieve the same policy goals. Proliferation of TEs also makes the overall tax system more complex. This can lead to distortions in the tax system and a less clear understanding of the government's activities and priorities, making it difficult to track how public funds are being used and to hold decision makers accountable.

More concerning is the potential for misuse of TEs, especially where there exists discretionary power to grant such measures. Without rigorous oversight, discretionary TEs can be granted based on political connections or other improper criteria, inducing rent seeking by taxpayers and more corruption by involved officials. The perception of favoritism toward special interest groups can erode public trust in government. Tax exemptions can also increase opportunities for tax avoidance and evasion (for example, transfer pricing between related firms to shift profits to the tax-exempt taxpayer or activity). This can make it more difficult and costly for revenue authorities to monitor and lead to further erosion of revenue collection.

When TEs add layers of complexity to the standard tax system, they can weaken the effectiveness of standard fiscal instruments. The main levers of tax policy (for example, tax rates, thresholds, deductions, and credits) can become ineffective in raising revenue or providing countercyclical relief if a tax base has been



hollowed out by layers of TEs. Although identifying and costing TEs does not in itself imply that they should be repealed, TE evaluation can yield important information about effective base-broadening measures to support fiscal consolidation. However, the challenge of accurately measuring the impact of TEs, including the absence of reliable data, further complicates the landscape of governmental accountability.

## D. The Potential Benefits of TEs

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The counterbalancing force is that the objectives of TEs can also have a significant macroeconomic impact. Well-designed tax incentives may encourage additional investment, job creation, or technology upgrades—objectives that can be especially relevant in countries seeking structural transformation. Similarly, certain TEs—such as VAT zero-rating on basic goods or targeted income tax deductions for low-income households—can serve as indirect social protection tools, mitigating the burden of taxation on vulnerable groups and complementing underdeveloped social safety nets. However, the actual effectiveness of TEs in achieving these outcomes depends heavily on context, tax administration capacity, and policy design.

Tax expenditures, if properly designed, implemented, and assessed, can support investment, equity, and economic resilience under certain conditions. The effectiveness of TEs in achieving these objectives depends heavily on their design. For example, under a VAT regime, zero-rating basic goods to reduce the tax burden on poor households is generally more effective than providing tax exemptions (Chandler, Thomas, and Tremblay 2025). Although direct transfers are typically more effective than reduced VAT rates in addressing equity concerns, there are conditions under which reduced or zero VAT rates on goods used by poor households can be an effective means of addressing distributional concerns, such as where the government does not have well-targeted cash transfer programs available (Keen 2015) or where the revenues from applying a standard VAT rate to all goods cannot be earmarked for cash transfers (van Oordt 2018). Another example is tax incentives intended to support investment. Incentives that reduce the cost of investment (such as accelerated depreciation) are generally more effective than profit-based incentives (such as tax holidays). However, even with well-designed tax incentives, their success in attracting investment depends on a wide range of external factors, including the type of investment being targeted, the broader investment strategy, institutional features, and even the state of international tax rules.

## E. Macroeconomic Importance in Sub-Saharan Africa

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Tax expenditures could have a particularly substantial impact on revenue collection in sub-Saharan Africa. TEs are estimated to be large as a share of revenue earned in some sub-Saharan Africa countries (ECA 2024). In sub-Saharan Africa, where tax administration capacity is often constrained and informal economic activity is widespread, complex tax systems can further widen the compliance gap and reduce effective revenue collection. A race to the bottom in special tax regimes has also long existed in sub-Saharan Africa, with effective tax rates for foreign investment close to zero because of a myriad of generous tax holidays, preferential rates in special economic zones, and wide-ranging exemptions for targeted sectors (Abbas and Klemm 2013).

Weak fiscal institutions in some countries in the region could exacerbate concerns about fairness and governance in the use of TEs. In practice, many sub-Saharan Africa TEs tend to be regressive, disproportionately benefiting higher-income individuals and larger firms. With high informality across the region, fewer low-income taxpayers can benefit from TEs. Because governance is a particularly strong concern in sub-Saharan Africa, the region is also likely to be highly vulnerable to the misuse of TEs. In countries where individuals are already averse to paying taxes (Robinson 2023), misuse of discretionary power over TEs could further weaken the already low efficiency of tax collection in sub-Saharan Africa.

### 3. The Sub-Saharan Africa Context

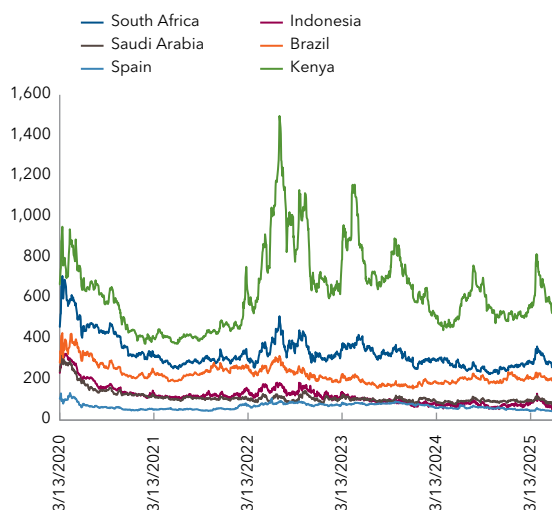
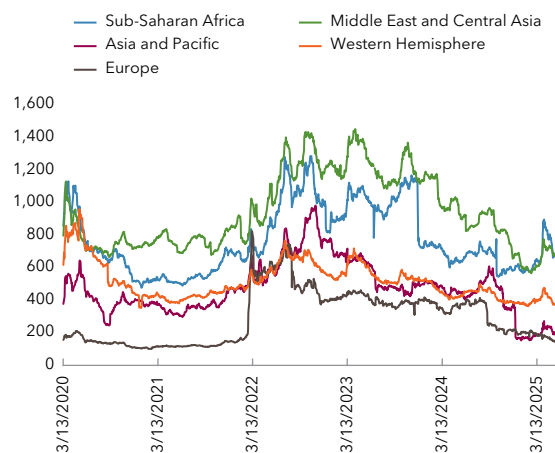
#### A. Recent Developments in Sub-Saharan Africa

Domestic revenue mobilization has long been an important policy objective in sub-Saharan Africa. The implementation of the African Union's Agenda 2063, for example, relies on member states' capacity to mobilize adequate financial resources. The rationale for greater revenue mobilization in sub-Saharan Africa includes the need to finance development goals such as poverty and inequality reduction, support fiscal consolidation amid elevated debt vulnerabilities, strengthen the state-building capacity, and respond to growing climate-related financing needs (IMF 2018b). The African Development Bank estimates that, by 2030, Africa will need to close an annual financing gap of \$402.2 billion for prioritized key areas of the sustainable development goals—education, energy, productivity, and infrastructure—to advance its structural transformation process (AfDB 2024).

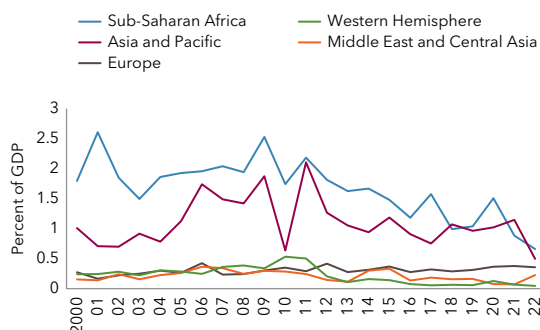
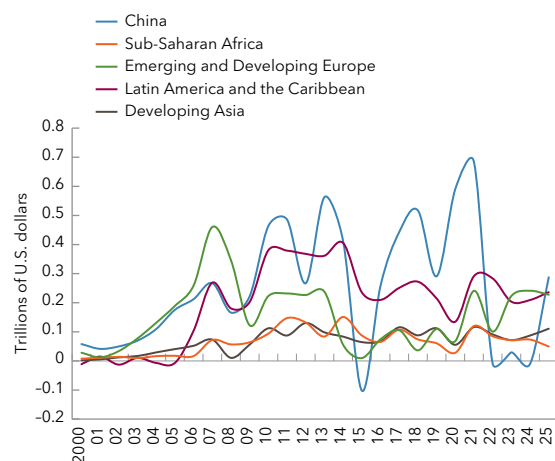
Progress in revenue mobilization has been mixed in sub-Saharan Africa. Some countries have had episodes of significant revenue increases, notably 3-year windows of an average increase of 0.5 percent of GDP per year (Akitoby and others 2020). Examples include Rwanda (2010–14), Uganda (2013–15), Namibia (2005–07), Comoros (2001–03), Cabo Verde (2004–07), and Liberia (2009–12). However, many countries still underperform their revenue collection potential. Those countries that have made progress pursued revenue administration and tax policy reforms in parallel, frequently through improvements in compliance and the unwinding of exemptions and tax holidays. Many focused on indirect taxation, notably VAT and excise taxes, whereas property taxes played only a limited role (Akitoby and others 2020).

The recent global funding squeeze, declining aid, and increased volatility have renewed sub-Saharan Africa policymakers' attention to domestic revenue mobilization. Although global liquidity has tightened in recent years, sub-Saharan Africa has faced a disproportionate impact: interest rate spreads have risen more sharply in sub-Saharan Africa than in other regions (Figure 1, panels 1 and 2). In parallel, aid inflows to sub-Saharan Africa have declined significantly, with grant support dropping faster than in other regions (Figure 1, panel 3), exacerbating fiscal vulnerabilities in many LICs and fragile states. In 2025, sub-Saharan Africa is expected to lose \$4.2 billion in external funding (a 7 percent decline from 2023) as the OECD projects a 9–17 percent drop in Official Development Assistance (AfDB 2025; OECD 2025). Compounding these pressures, global trade uncertainty—stemming from geopolitical fragmentation, tariff shocks, and the loss of preferential trade arrangements—has further weighed on export performance. Capital inflows have also slowed, reflecting both heightened risk aversion among investors and reduced appetite for frontier market debt, further tightening financing conditions for sub-Saharan Africa economies (Figure 1, panel 4).

These external shocks have had broad macro-fiscal consequences for the region. First, public debt and debt service burdens have surged, driven by rising borrowing costs and depreciation of local currencies against the dollar. Second, commodity price volatility—especially for oil-importing countries—has eroded fiscal space and weighed on revenue performance, as many governments have faced higher import bills and energy-related subsidies. Third, with external concessional financing drying up, many sub-Saharan Africa countries are increasingly forced to rely on domestic borrowing—often at higher costs—to finance basic service delivery and development spending. In this context, improving domestic revenue mobilization is not just an imperative for long-term fiscal sustainability; it is increasingly a near-term necessity. Reining in TEs—especially those that are poorly targeted or regressive—can be a key part of this adjustment, helping expand the tax base while preserving equity and fostering accountability in public finance.

**Figure 1. The Global Funding Squeeze****1. Selected Countries: Weighted Average Bond Spreads, 2020-25***(Basis points)***2. Selected Regions: Weighted Average Bond Spreads, 2020-25**

Sources: IMF Sovereign Spread Monitor and WoRLD Revenue Longitudinal Database.

**3. Selected Regions: Grants, 2000-22***(Percent of GDP)***4. Capital Inflows by Region, 2000-25***(Trillions of US dollars)*

Sources: IMF; World Economic Outlook database; and IMF staff calculations.

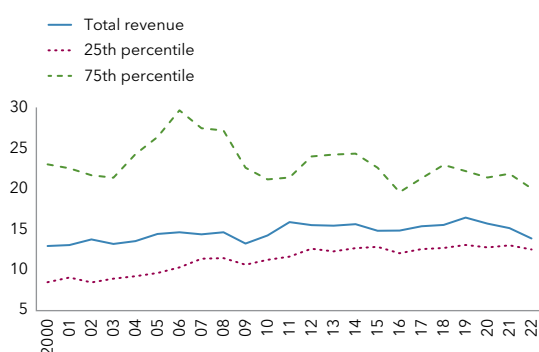
Revenue-based fiscal consolidation offers a promising path for sub-Saharan Africa. First, domestic revenue mobilization is still relatively low, leaving room to raise revenue through tax policy and revenue administration reforms, including TEs. Second, the negative growth effects of revenue-based adjustments seem to be less acute in sub-Saharan Africa—high levels of informality and relatively low tax levels attenuate the pain caused by tax hikes on growth when compared with other regions (IMF 2024). Other literature (Alesina, Giavazzi, and Favero 2019) also shows that revenue-based adjustments tend to be more durable when the revenue-to-GDP ratio is lower, as is the case in sub-Saharan Africa.

## B. Trends in Revenue Mobilization and Challenges in Sub-Saharan Africa

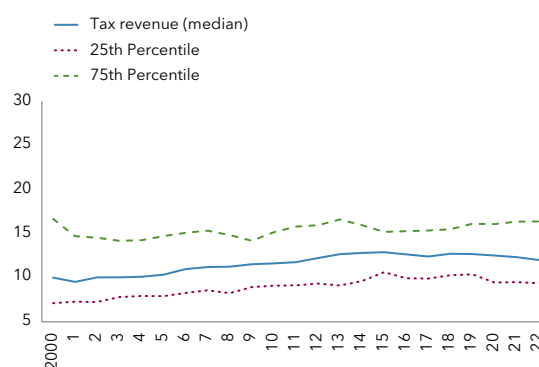
Revenue mobilization in sub-Saharan Africa has increased over time but has slowed in recent years. The median total revenue-to-GDP ratio in sub-Saharan Africa rose from about 13 percent in 2000 to 16 percent in 2019, before falling back to about 14 percent in 2022 after the COVID-19 pandemic (Figure 2, panel 1). The improvement was driven mostly by tax revenue (Figure 2, panel 2). As of 2022, 18 countries in sub-Saharan Africa have a revenue-to-GDP ratio above 13 percent, the minimum level required for acceleration in growth and development (Gaspar and others 2016). Top-performing countries include mostly those from the Southern Africa region (Figure 2, panel 3).

**Figure 2. Sub-Saharan Africa: Revenue and Tax Revenue**  
(Percent of GDP)

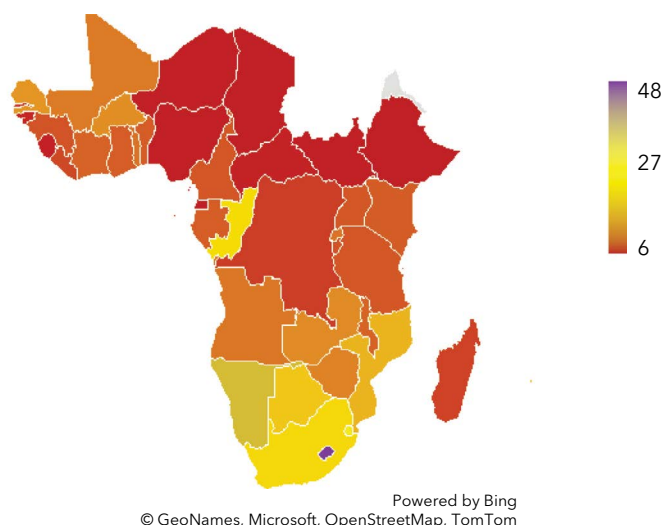
### 1. Total Revenue Excluding Grants, 2000-22



### 2. Tax Revenue, 2000-22



### 3. Tax Revenue to GDP, 2024



Sources: IMF staff calculations; IMF Fiscal Affairs Department; and WoRLD Revenue Longitudinal Database.

Note: GDP = gross domestic product.

The recent slowdown in revenue mobilization has been more pronounced in sub-Saharan Africa than in other regions. Although revenue declined in all regions during the pandemic, the decline in sub-Saharan Africa was sharper (Figure 3, panel 1). Moreover, some regions have registered a slight recovery in the post pandemic years, whereas revenue continued to decline in sub-Saharan Africa. This is partly explained by the disruption in tax administration and measures to support the private sector amid the pandemic, whereas the level of economic activity was more resilient. Almost 40 percent of sub-Saharan Africa countries provided extensions and exemptions to taxpayers on their direct taxes (Aslam and others 2022), some of which persisted through recent years in some countries.

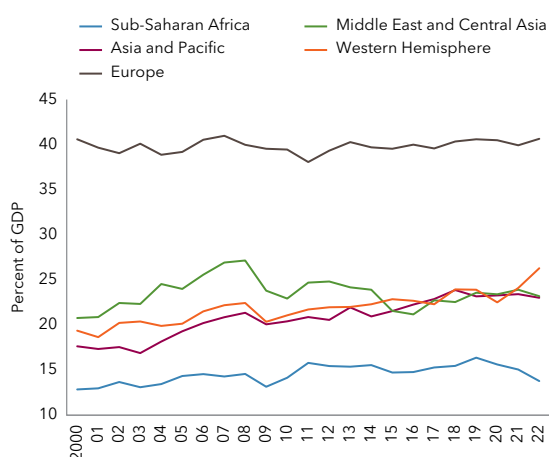
Indirect taxes remain the main source of revenue in sub-Saharan Africa, despite their declining contribution in recent years. The impetus behind rising revenues in sub-Saharan Africa during 2000–24 has mainly been indirect taxation (Figure 3, panel 2), notably VAT. However, the contribution of indirect taxes has declined in recent years due in part to roughly half of sub-Saharan Africa countries providing VAT relief during the COVID-19 pandemic through acceleration of refunds, new exemptions, and extension of filing deadlines (Aslam and others 2022). Although these interventions supported liquidity in the short term, many have remained in place longer than initially intended, undermining VAT productivity and revenue performance.

The contribution of direct taxes has also declined, albeit to a lesser extent. The decline reflects new corporate income tax (CIT) exemptions to vulnerable sectors, notably tourism and hospitality, alongside temporary tax deferrals and rate reductions. Although the contribution of trade taxes has remained broadly stable in recent years, significant trade tax relief measures were also introduced in many sub-Saharan Africa countries by lifting customs duties amid the pandemic to reduce the cost of essential imports. These TEs have lasted the longest and have, in some cases, persisted well beyond the peak of the pandemic (Aslam and others 2022).

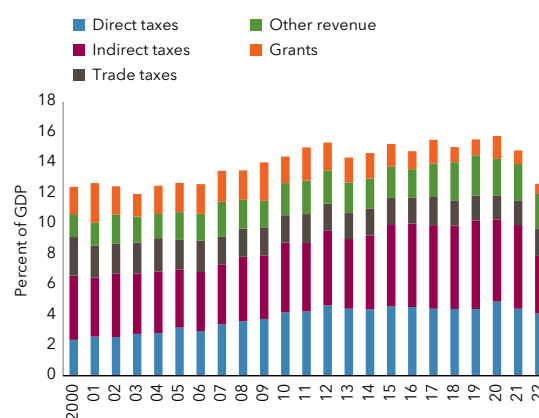
**Figure 3. Sub-Saharan Africa: Revenue Comparison and Sources of Revenue**

(Percent of GDP)

**1. Selected Regions: Total Revenue Excluding Grants**



**2. Sub-Saharan Africa: Sources of Revenue**



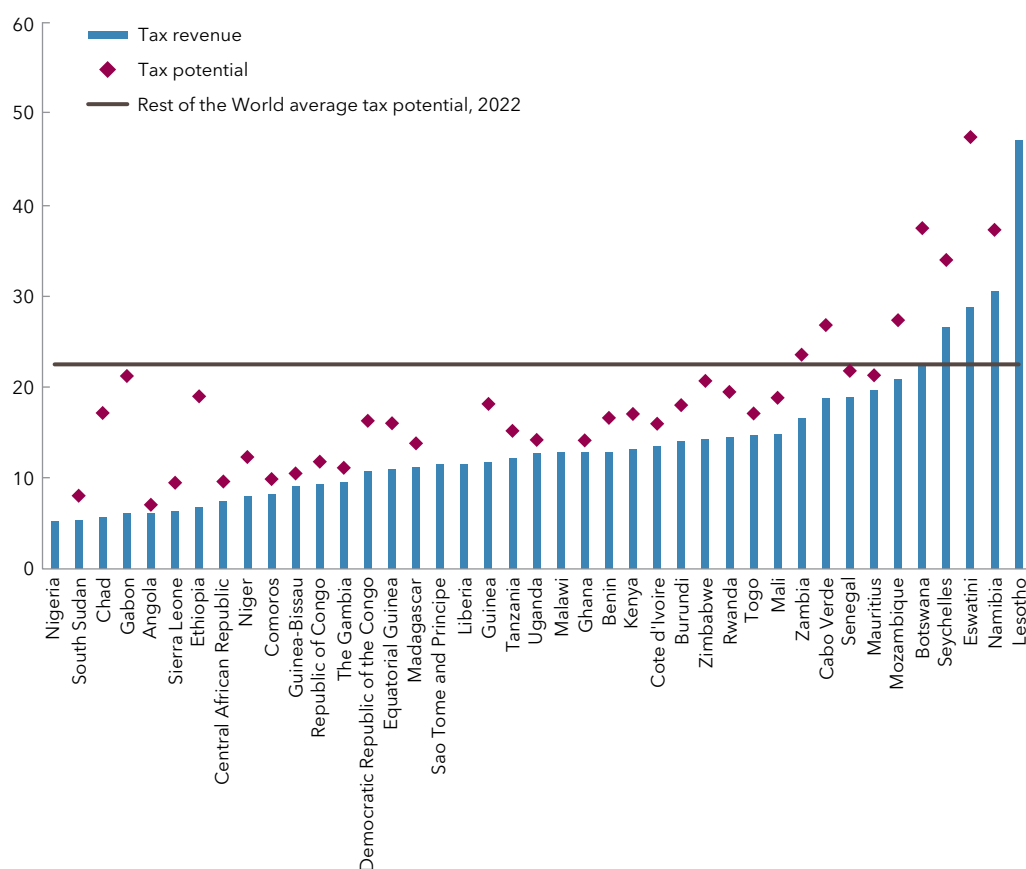
Sources: IMF staff calculations; IMF Fiscal Affairs Department; and WoRLD Revenue Longitudinal Database.

Note: GDP = gross domestic product.

Rationalizing TEs could be a key step toward narrowing the significant tax gap in sub-Saharan Africa countries. Revenue collection in many sub-Saharan Africa countries is significantly below estimated potential—the highest level of revenue that a country can achieve given its underlying macroeconomic and structural conditions (Fenochietto and Pessino 2010, 2013; IMF 2018b). Analysis based on the IMF WoRLD database

suggests that the tax gap—the difference between actual collection and potential—exceeds 5 percentage points of GDP in about a third of sub-Saharan Africa countries. The cross-country heterogeneity in the estimated tax potential reflects differences in the level of economic development, the degree of informality, trade openness, and public sector effectiveness and corruption. Moreover, the region’s estimated tax potential—reflecting the upper bound of feasible revenue performance—is itself substantially lower than in other parts of the world, underscoring long-standing structural constraints (Figure 4).<sup>6</sup> In this context, scaling back costly and often poorly targeted TE could contribute to narrowing the tax gap by strengthening revenue performance and improving the efficiency of the overall tax system.

**Figure 4. Tax Revenue and Tax Potential, 2023**  
(Percent of GDP)



Sources: IMF staff calculations; IMF Fiscal Affairs Department; and WORLD Revenue Longitudinal Database.

Note: Tax revenues for Lesotho, Namibia, Botswana, and Eswatini are inflated by the inclusion of shared customs revenues under the Southern African Customs Union. Tax potential estimates for some countries (for example, Uganda, Tanzania, Kenya, and Mauritius) differ from those obtained in some single-country analyses. The estimates in this figure are based on the SFA modeling, which assumes that a country deviates from its potential only by underperforming. The estimation relies on a longitudinal data set with 193 countries, covering the period from 1990 (1980 in some cases) to 2022. The dependent variable is tax revenue excluding natural resource revenue, as well as social security contributions, as these are not readily available for most low-income and developing countries. The main independent variables are real per capita GDP, the square of per capita GDP, the share of the agriculture sector in percent of GDP as a proxy for informality, trade openness, government effectiveness, and a measure of corruption perception in the public administration. GDP = gross domestic product; SFA = Stochastic Frontier Analysis.

<sup>6</sup> Importantly, estimates of tax potential should be used cautiously and as broad indicators to inform long-term revenue mobilization goals rather than as policy targets (Mansour and others 2025).

Given the narrowing of external financing options and the growing urgency of building macroeconomic resilience and meeting development needs, sub-Saharan Africa countries will need to look inward for under-explored areas of tax policy. TEs become more problematic in this context, as these implicit forms of government support represent a significant, and often opaque, source of forgone revenue. If not regularly assessed and rationalized, they can erode the tax base, create inequities, and undermine transparency and fiscal control. TEs represent a sizable but largely hidden component of fiscal policy and require fuller documentation. In many sub-Saharan Africa countries, they are not routinely reported, evaluated, or integrated into budget planning, despite their potentially significant fiscal costs. The next section will explore the current landscape of TEs in sub-Saharan Africa.

## 4. TEs in Sub-Saharan Africa

### A. The Landscape of TEs in Sub-Saharan Africa

As noted in Section 1, TEs have been studied for more than half a century. The German Federal Republic was the first to evaluate TEs in 1966. This was followed by the United States in 1968 under the leadership of the US Treasury and focused on individual and corporate income taxes. Since then, analysis and costing of TEs have become common practice among OECD countries, albeit some do not report regularly. The OECD itself published TE studies in 1984, 1986, and 2003. For other country groupings, significant variation exists in reporting practices. In the G20, for example, two members—China and Saudi Arabia—do not report on TEs. In addition, there is heterogeneity in the types of data reported, ranging from provision-level data to aggregated estimates.

The scope of TEs in Africa and their potential cost in terms of forgone revenue is less clear than in other country groups. The analysis and costing of TEs, either as a stand-alone exercise or as part of the budget, are still evolving. South Africa, Senegal, Benin, and member states of the East African Community began publishing reports on this issue in the early 2000s. More recently, West African Economic and Monetary Union (WAEMU) countries have been striving to produce annual TE reports (Decision 08/2015/CM)<sup>7</sup>, quantifying the fiscal impact of exemptions and special regimes on revenue (Dordevix and Maftei 2025). Furthermore, member states of the Economic Community of West African States (ECOWAS) are invited to adopt guidelines on TE estimation in their national legislation, including in the context of the 2025 Addis Tax Initiative.<sup>8</sup> Whereas more countries have since followed suit, many sub-Saharan Africa countries still lack comprehensive analysis and costing of TEs, and even fewer regularly report or scrutinize TEs as part of their annual budgets. This is a concern given the current conjuncture of tight liquidity, declining aid flows, and rising spending needs. In addition, developing economies are particularly at risk from two types of TEs—those aimed at attracting investment, and those intended to address rising food prices.

The comparatively low level of reporting on TEs in sub-Saharan Africa stems from the complexity of the issue, data limitations, and capacity constraints. Estimating TEs is challenging and requires defining a benchmark tax system for each country. A strict evaluation methodology<sup>9</sup> should also be established, requiring timely access to tax and other data. These issues explain the large variations in estimates of tax expenditures between countries and even within the same country from year to year or from one government to the next (Geourjon and Rota-Graziosi 2024). For example, a benchmark tax includes (i) the rate structure, (ii) accounting conventions, (iii) the deductibility of compulsory payments, (iv) provisions to facilitate administration, and (v) provisions related to international fiscal obligations (Kraan 2004). However, these indications leave open many questions, such as which provisions belong to the benchmark tax, as well as different views regarding the normative tax base (the monetary sum in the hands of private households to which the tax ought to be applied—income, value added, profit, or sales). Views of the appropriate normative base differ not only across national tax systems but also between citizens' and politicians' interpretations of the same national tax system.

Additional complexity arises from the origin of TEs in Africa. Although there are broad similarities across countries with respect to the most common types of TE measures—exemptions, waivers, holidays, allowances, reduced or zero-rated items, and tax deferrals—it is not uncommon for such measures to exist outside the national tax framework (such as those granted by non-revenue agencies or by local governments). Without sufficient scrutiny, these sorts of measures may evade broader efforts to identify and cost TEs for the economy as a whole.

<sup>7</sup> With guidelines even stronger than those of the EU. This has the potential to encourage countries to adopt solid principles for TE production through soft laws.

<sup>8</sup> The Addis Tax Initiative (ATI) aims to promote fair and effective domestic revenue mobilization, policy coherence, and the social contract through partnerships and knowledge building.

<sup>9</sup> For additional detail on methodologies and assessment, see Geourjon and others (2018).

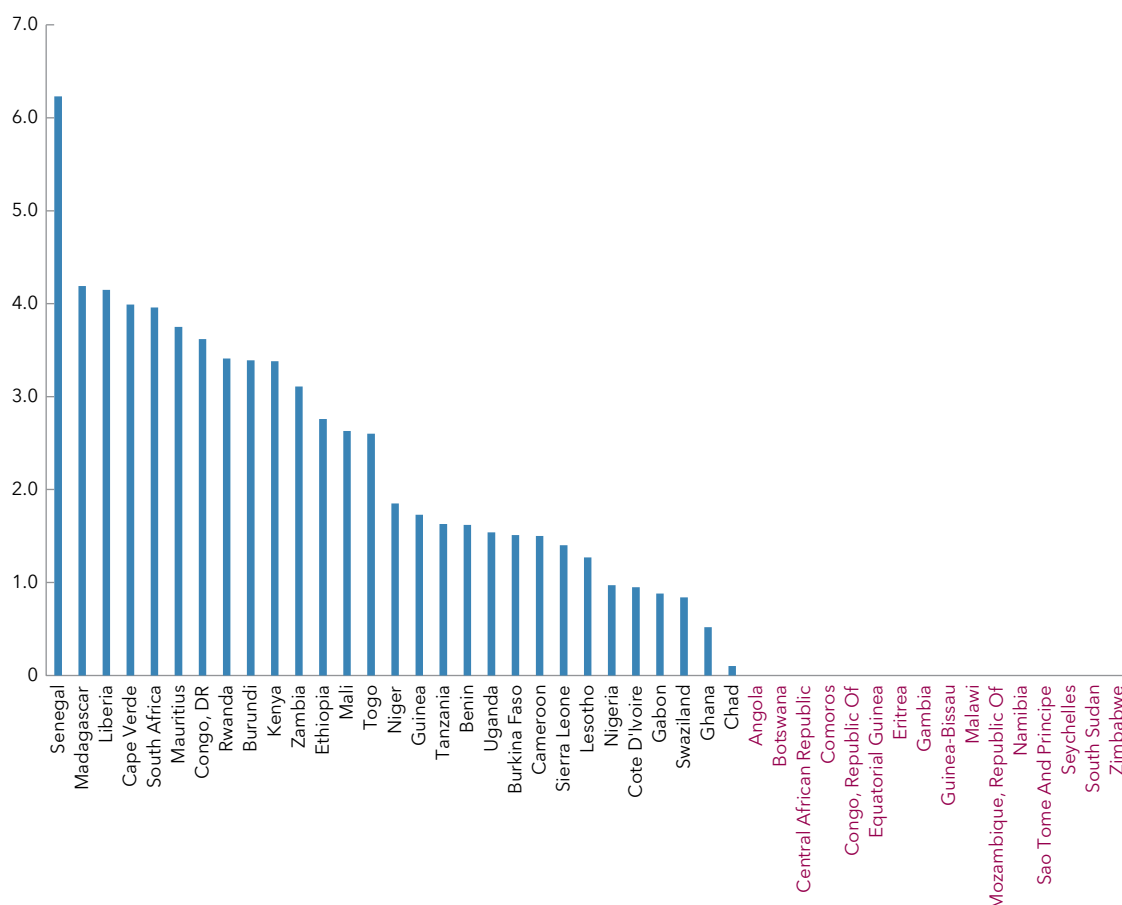


## B. Estimates of TEs in Sub-Saharan Africa

The constraints mentioned in the previous section highlight the difficulty of comparing estimates of forgone revenue from TEs in sub-Saharan Africa. Without a standard methodology and an agreed set of principles for establishing a benchmark tax system, assessing the full scope of TEs in the region and their revenue impact is very difficult.

This context is crucial when interpreting cross-country comparisons available in publicly available databases, as careful analysis and understanding of benchmark tax systems are essential for accurate and country-comparable estimates. For instance, data from the GTED provide a snapshot of TEs and their estimated cost in terms of forgone revenue in sub-Saharan Africa (Figure 5). However, this data is not uniform in its calculation, drawn from various public sources, and not always estimated from a benchmark tax regime.<sup>10</sup> Comparability—even between different years for the same country—is limited. Nonetheless, the GTED plays a valuable role in suggesting an indicative range of revenue forgone while also highlighting reporting gaps in the region.

**Figure 5. Sub-Saharan Africa: Estimated TEs**  
(Revenue forgone, percent of GDP, latest available year)



Sources: Global Tax Expenditures Database.

Note: Individual estimates of the TEs cannot be aggregated, given the estimates could cover different types of TEs across countries. GDP = gross domestic product; TEs = tax expenditures. For countries marked in red, no data is available on the GTED.

<sup>10</sup> For additional detail on how the GTED compiles data on TEs and the limits to comparability, see the GTED Flagship Report—Shedding Light on Worldwide Tax Expenditures (2021).

A more rigorous approach to estimating forgone revenue from TEs was undertaken by the United Nations Economic Commission for Africa (ECA 2024) using a self-selected sample of African countries with a common focus on measures affecting VAT and CIT. The focus on VAT and CIT was chosen given that these are typically the largest revenue generators in sub-Saharan Africa countries and where significant TEs are usually found. Importantly, the ECA study used a single methodology (the revenue forgone approach) to estimate the revenue cost of VAT and CIT TEs in eight sub-Saharan Africa countries (Table 1). A catalog of TEs for each country under the VAT and CIT frameworks was compiled and costed based on actual tax return data. Like the information sourced from GTED, the ECA study offers a useful snapshot, but with a tighter focus and a standardized benchmarking approach across the sample countries.

**Table 1. Sub-Saharan Africa: Estimated TEs by Tax Type**

Country	VAT TEs as % of GDP	CIT TEs as a % of GDP	Total as % of GDP	VAT TEs as a % of total revenue	CIT TEs as a % of total revenue	Total as % of total revenue
Benin	1.30	0.01	1.31	9.9	0.5	10.4
Burkina Faso	0.23	0.39	0.62	1.5	2.5	4.0
Ghana	0.52	0.26	0.78	3.8	1.9	5.7
Kenya	2.69	0.52	3.21	17.2	2.2	19.4
South Africa	1.19	0.06	1.25	4.7	0.2	4.9
Tanzania	0.86	0.00	0.86	7.5	0.1	7.6
Uganda	0.45	0.19	0.64	3.5	1.5	5.0
Zambia	13.50	1.53	15.03	68.7	7.8	76.5

Source: Primary data collection by ECA in 2022.

Note: CIT = corporate income tax; ECA = Economic Commission for Africa; GDP = gross domestic product; TEs = tax expenditures; VAT = value-added tax.

The data from GTED and ECA suggest three intuitive points. First, many sub-Saharan Africa countries have yet to either undertake a rigorous assessment of TEs—using a benchmark tax system or alternative methodology—or to publish such estimates for review and scrutiny. Second, based on the available data, the cost of TEs (as a share of GDP or total revenue) is significant but varies widely across sub-Saharan Africa countries. Third, the bulk of TEs are likely to be found in the VAT and CIT regimes.

IMF country-level knowledge can help elaborate on these earlier studies. The many constraints noted in the previous section preclude a comprehensive estimate of the cost of TEs across all sub-Saharan Africa countries. Given the lack of a standard methodology and assumptions, there will always be an element of comparing apples to oranges when looking across any region. However, in an effort to broaden the knowledge base regarding the state of TE accounting and publication in sub-Saharan Africa, a survey of IMF country teams working on these economies was conducted to provide yet another view on (i) the prevalence and depth of TE analysis in the region, (ii) estimated costs (in terms of revenue forgone), and (iii) the degree of public transparency with respect to TEs (that is, whether the estimates are published either as part of annual budgets or as a stand-alone report). Results of the country team survey are shown in Figure 6.

Four findings are worthy of note:

- Out of 45 sub-Saharan African countries surveyed, 32 country teams reported information or estimates on tax expenditures. Of those, 22 teams reported that the estimates were published.

- Of those reporting estimates of TEs, only 17 country teams had what might be considered “comprehensive” inventories and costing. The remainder reported on some specific TEs (such as a list of business tax, VAT, or customs exemptions). For these countries, coverage was assessed to be only partial and unlikely to have captured the full depth of TEs and forgone revenue.
- Of the 32 country teams reporting that an inventory of TEs was available, eight reported that they were not aware of, or that rules about TEs were not embedded in, legislation, and 13 indicated that TEs were not governed by a single authority (such as a Ministry of Finance or revenue agency).
- Of the remaining country teams reporting that no inventory of TEs was available, only one indicated that such an exercise was in train or that technical assistance was expected.

**Figure 6. Heatmap of Countries' Responses to TE Survey**

	Existing Estimate	Full / Partial	Itemized / Aggregated	Published	Legislation	Centralized Authority
	Yes	Green for full	Green for itemized	Yes	Yes	Yes
	No	Yellow for partial	Yellow for Aggregated	No	No	No
Burundi						
Benin						
Central African Republic						
Cote d'Ivoire						
Cameroon						
Democratic Republic of Congo						
Cabo Verde						
Ethiopia						
Gabon						
Ghana						
Guinea						
Guinea Bissau						
Kenya						
Liberia						
Lesotho						
Madagascar						
Mali						
Mozambique						
Mauritius						
Niger						
Nigeria						
Rwanda						
Senegal						
Sierra Leone						
South Sudan						
Eswatini						
Seychelles						
Chad						
Tanzania						
Uganda						
South Africa						
Zambia						
Angola						
Burkina Faso						
Botswana						
Republic of Congo						
Comoros						
Eritrea						
Gambia						
Equatorial Guinea						

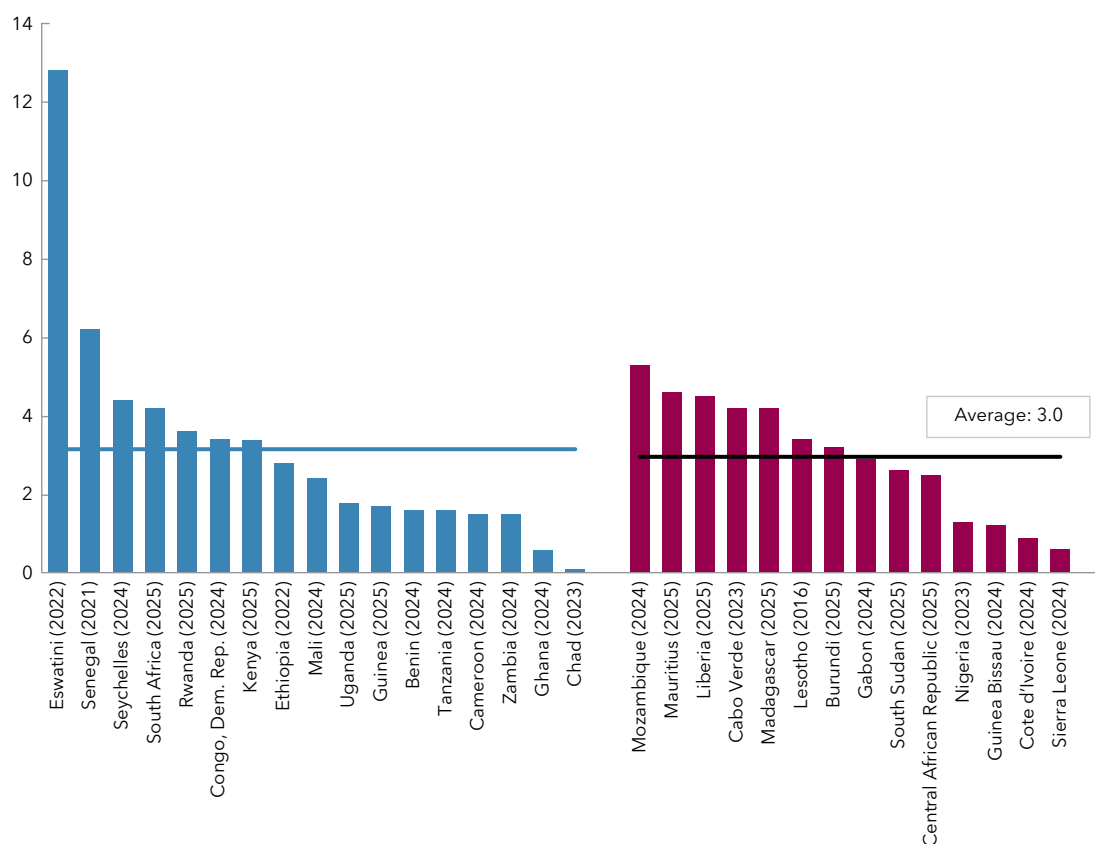
**Figure 6. Heatmap of Countries' Responses to TE Survey (Concluded)**

	Existing Estimate	Full / Partial	Itemized / Aggregated	Published	Legislation	Centralized Authority
	Yes	Green for full	Green for itemized	Yes	Yes	Yes
	No	Yellow for partial	Yellow for Aggregated	No	No	No
Malawi						
Namibia						
Sao Tome and Principe						
Togo						
Zimbabwe						

Source: IMF staff calculations and assessments.

Note: TE = tax expenditure.

The country-level survey confirms the general findings of both the GTED and ECA reports with respect to (i) the range of revenue forgone across sub-Saharan Africa countries (anywhere from 0.1 percent in Chad to nearly 13 percent in Eswatini, averaging about 3 percent across all reporting countries inclusive of those with both partial and more comprehensive estimates—Figure 7); and (ii) that comparability of these estimates is inherently difficult given the different methods and assumptions used across countries, both with and without third-party technical assistance.

**Figure 7. Estimated Costs of TEs***(Percent of GDP; blue indicates full estimates, red/maroon indicates partial estimates)*

Source: IMF staff calculations and assessments.

Note: GDP = gross domestic product; TE = tax expenditure.

## 5. How is the IMF Addressing TEs in Sub-Saharan Africa?

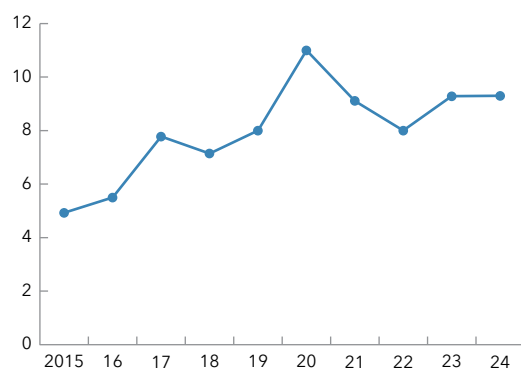
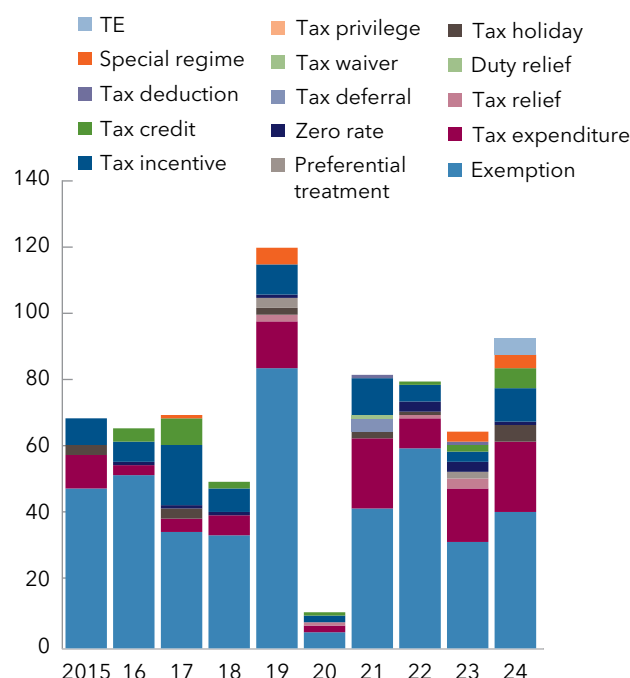
This section explores the degree to which TEs are addressed in the IMF's work in sub-Saharan Africa. It specifically focuses on the IMF's surveillance reports, program conditionality, and capacity development (CD) efforts for the sub-Saharan African region to explore how the IMF has been addressing TEs.<sup>11</sup>

### A. Surveillance

Tax expenditures have been routinely examined in IMF surveillance of sub-Saharan African countries. The IMF's surveillance of individual members is conducted through Article IV Consultations, which present regular assessments of economic developments, policies, and potential risks to both national and global financial stability. As part of this study, IMF staff reports for 94 Article IV Consultations across 30 sub-Saharan African countries over 2015–24 were reviewed for discussion of TEs. Ninety-five percent of IMF staff reports contained at least one reference to TEs. Mentions of TEs were identified using a list of keywords—focused largely on various types of TEs (for example, exemptions, deductions, special rates). Notably, all 30 countries for which Article IV Consultations were conducted during this period had at least one report referencing TEs. On average, these keywords were mentioned 5 1/2 times per Article IV staff report. These results confirm consistent and broad coverage of TEs in IMF surveillance activities in the region, in line with the IMF's mandate and expertise in tax policy and revenue administration.

The intensity of TE coverage in IMF surveillance has risen in recent years (Figure 8). The average number of keyword mentions per report increased from 6.7 during 2015–19 to 9.3 during 2020–24, representing a 40 percent increase in the number of mentions per report. The main topics explored relate to tax exemptions and tax incentives, with references to tax exemptions accounting for over 60 percent of all references. About half of the increase in coverage in IMF surveillance reports during 2020–24 was because of a rise in mentions of the main term “tax expenditures,” rather than of specific types of TEs. The average number of mentions of “tax expenditures” per report increased substantially from 0.6 during 2015–19 to 2.0 during 2020–24, suggesting a heightened focus on the broader macro-criticality of TEs. This is also consistent with sub-Saharan African policymakers' renewed attention to domestic revenue mobilization efforts in recent years (see Section 3). Overall, these findings highlight the persistent and growing emphasis that IMF surveillance has placed on assessing and reviewing TEs, as well as improving the institutional frameworks governing them.

<sup>11</sup> To capture IMF coverage of tax expenditures, a list of keywords relating to tax expenditures is developed and covers exemption, exempt from tax, TE, tax relief, duty relief, tax holiday, preferential treatment, zero rate, tax deferral, tax waiver, tax incentives, tax credit, tax deduction, special regime, special tax regime, and common acronyms for tax expenditures (TE, TEA, TEs). Where applicable, plural forms of these keywords are also captured.

**Figure 8. Coverage of TE Topics in IMF Surveillance, 2015–24****1. Coverage of TEs by Year***(Number of keyword mentions per Article IV report)***2. Keyword Mentions by Topic***(Number of keyword mentions)*

Sources: IMF Article IV staff reports and IMF staff calculations.

Note: The scope of this analysis is limited to stand-alone Article IV staff reports. Keywords for which there are no mentions are excluded from the second panel, including “tax privilege” and “duty relief.” Surveillance was constrained by the COVID-19 pandemic—only one stand-alone Article IV Consultation was completed in 2020. The number of keyword mentions in Panel 2 in 2020 was low as a result of limited surveillance activity during the COVID-19 pandemic. TE = tax expenditure.

## B. Programs

IMF programs across sub-Saharan Africa have identified TEs as a macro-critical issue and have sought to address them through structural conditionality as part of their respective Fund-supported arrangements. There were 72 IMF-supported program approvals across 36 sub-Saharan African countries between 2015 and 2024. The inclusion of structural benchmarks (SBs)<sup>12</sup> on TEs in those programs underscored their macro-relevance (Figure 9).<sup>13</sup> Out of those cases, 46 programs (64 percent of programs) in 30 countries (83 percent of countries) had SBs related to TEs. In total, there were 96 SBs targeting TEs, amounting to 5.5 percent of all SBs. These measures represented a larger share of all SBs in programs approved during 2016–20 (except in 2018). Although such conditionality remains frequent, its occurrence as a share of all SBs introduced in IMF-supported programs has somewhat declined in recent years, possibly because of crowding out by other priorities.

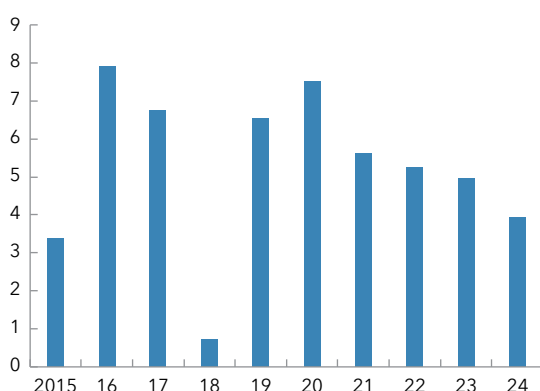
<sup>12</sup> Structural benchmarks are “reform measures that often cannot be quantified but are critical for achieving program goals and used as markers to assess program implementation” (<https://www.imf.org/en/About/Factsheets/Sheets/2023/IMF-Conditionality>).

<sup>13</sup> Data are from the IMF Monitoring of Fund Arrangements (MONA) database. The year represents the program approval year. This potentially generates a downward bias in the number of SBs (as presented in the right-hand side chart in Figure 9), particularly during 2023–2024, because programs approved in those years can have additional reviews in 2025 and further, with possibly additional SBs on TEs. However, the ratio of TE measures to all SBs is less likely to suffer from such a bias (the left-hand side chart in Figure 9).

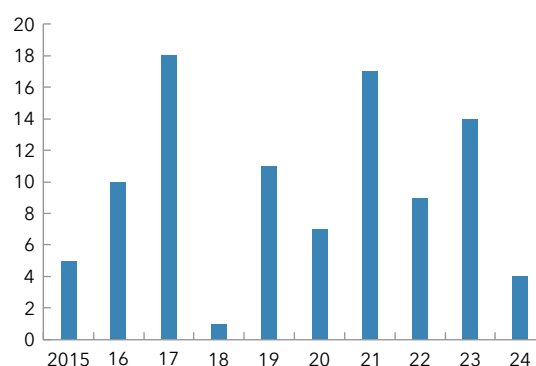
IMF programs have included a range of measures on TEs, including efforts to eliminate or reduce their prevalence and improve their monitoring, reporting, transparency, and governance. About one-third of these SBs entailed direct policy interventions to eliminate or contain TEs. The remaining SBs included measures to develop and publish action plans or strategies to rationalize TEs; reform legal and institutional frameworks to enable more rules-based management; improve data and information systems to ensure timely and effective monitoring; prepare stocktaking exercises to quantify and assess revenue impacts; complete audits to evaluate the rationale behind existing TEs; and publish detailed information on various types of TEs to improve transparency and raise public awareness and scrutiny.

**Figure 9. Structural Benchmarks on TEs in the IMF-supported Programs**

**1. SBs on TEs**  
(Percent of all SBs)



**2. SBs on TEs**  
(Count)



Sources: IMF Monitoring of Fund Arrangements (MONA) and IMF staff calculations.

Note: Structural benchmarks on TEs in the IMF UCT programs for sub-Saharan Africa over 2015–24 are documented based on the MONA database (accessed on May 15, 2025). Three-quarters of the programs were ECF, whereas the rest consisted of EFF, PCI, PSI, SBA, and SCF. Repeated SBs within the same program are counted as one. Broad measures, such as revisions to tax policy or base, are excluded unless they specifically refer to TEs. The x-axis shows the program approval year. SBs shown for each year indicate the SBs in programs approved in that year. SBs = Structural benchmarks; UCT = Upper Credit Tranche; ECF = extended credit facility; EFF = extended fund facility; PCI = policy coordination instrument; PSI = policy support instrument; SBA = Stand-by Arrangement; SCF = standby credit facility.

## C. Capacity Development

The IMF provides capacity development and guidance to countries in sub-Saharan Africa on managing, evaluating, and reporting TEs, and on addressing revenue administration aspects for their management.<sup>14</sup> The aim is to help governments optimize their tax systems, enhance fiscal transparency, and ensure that tax policies effectively support economic development and social objectives. The key areas of focus include the following:

- Reporting and transparency. The IMF offers guidance on accounting for TEs and integrating this information into fiscal management. It emphasizes the importance of making TE information publicly available, including its budgetary impact, to enhance transparency and accountability.

<sup>14</sup> For a detailed discussion of IMF's CD program, see (1) *Tax Expenditure Reporting and Its Use in Fiscal Management: A Guide for Developing Economies* (Heady and Mansour 2019), (2) *How to Evaluate Tax Expenditures* (Beer and others 2022), and (3) *Managing Tax Incentives in Developing Countries* (Pecho and others 2024).

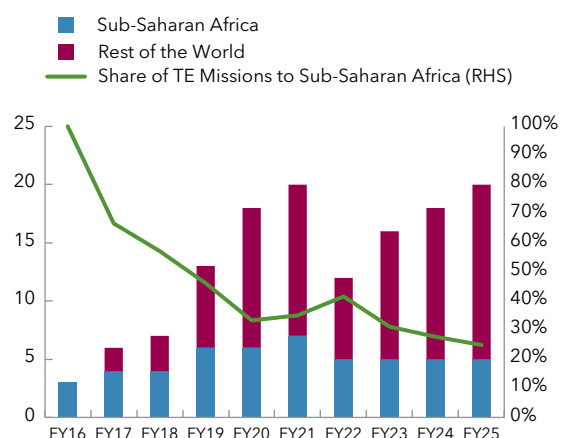
- **Evaluation and reform.** The IMF encourages countries to systematically evaluate TEs by assessing their effectiveness, efficiency, and impact on equity and the broader economy. It provides tailored guidance based on varying levels of data availability and analytical capacity, and advises countries to eliminate ineffective TEs as part of fiscal consolidation efforts.
- **Compliance and administrative costs.** Effective management of TEs requires a robust compliance risk management (CRM) framework. Tax authorities employ various CRM frameworks to systematically identify, assess, and prioritize compliance risks, and determine appropriate treatment strategies. The IMF assists countries in systematically identifying compliance risks associated with TEs, that is, patterns of noncompliant behavior resulting in potential revenue leakages.
- **Supporting sustainable development.** The IMF recognizes the significant impact of TEs on a country's ability to mobilize revenue. By improving TE management, countries can enhance fiscal sustainability and better allocate resources to support development priorities.
- **Collaboration and capacity building.** The IMF collaborates with international organizations such as the World Bank, OECD, and UN to provide guidance on tax incentive reforms in the region. The IMF also offers CD assistance to strengthen countries' tax policy and administration, including the management of TEs.

Over the past decade, the IMF has carried out an average of five specialized CD missions annually to sub-Saharan African countries focusing specifically on TEs (Figure 10). The work covered 24 different countries and included a regional seminar for Central African Economic and Monetary Community (CEMAC) countries addressing TEs in the context of domestic revenue mobilization. The primary goals of these CD efforts have centered on promoting good governance and fiscal transparency across member countries. The support included building capacity in the identification, quantification, and publication of TEs, updating microsimulation models, and establishing tax policy units. Follow-up actions have addressed nontax revenue codification, preparation for provincial taxation, and support for tax rationalization.

Capacity development specifically targeting TEs in sub-Saharan Africa has remained stable in nominal terms but has declined as a share of overall CD missions during the fiscal years 2016–25. Although sub-Saharan Africa remains one of the largest recipients of CD assistance from IMF, this trend may indicate shifting priorities and capacity constraints among the authorities, suggesting that resources may be redirected toward other pressing needs or initiatives.

Analysis based on the IMF's Capacity Development Management and Administration Program (CDMAP)<sup>15</sup> and a predefined list of keywords reveals that 19 sub-Saharan African countries have incorporated discussions of TEs within their CD efforts since 2021 (Figure 11). These efforts go beyond targeted TE policy missions and include revenue administration aspects. For example, IMF tax policy experts and regional tax

**Figure 10. Number of IMF Tax Expenditure Missions, FY2016–25**



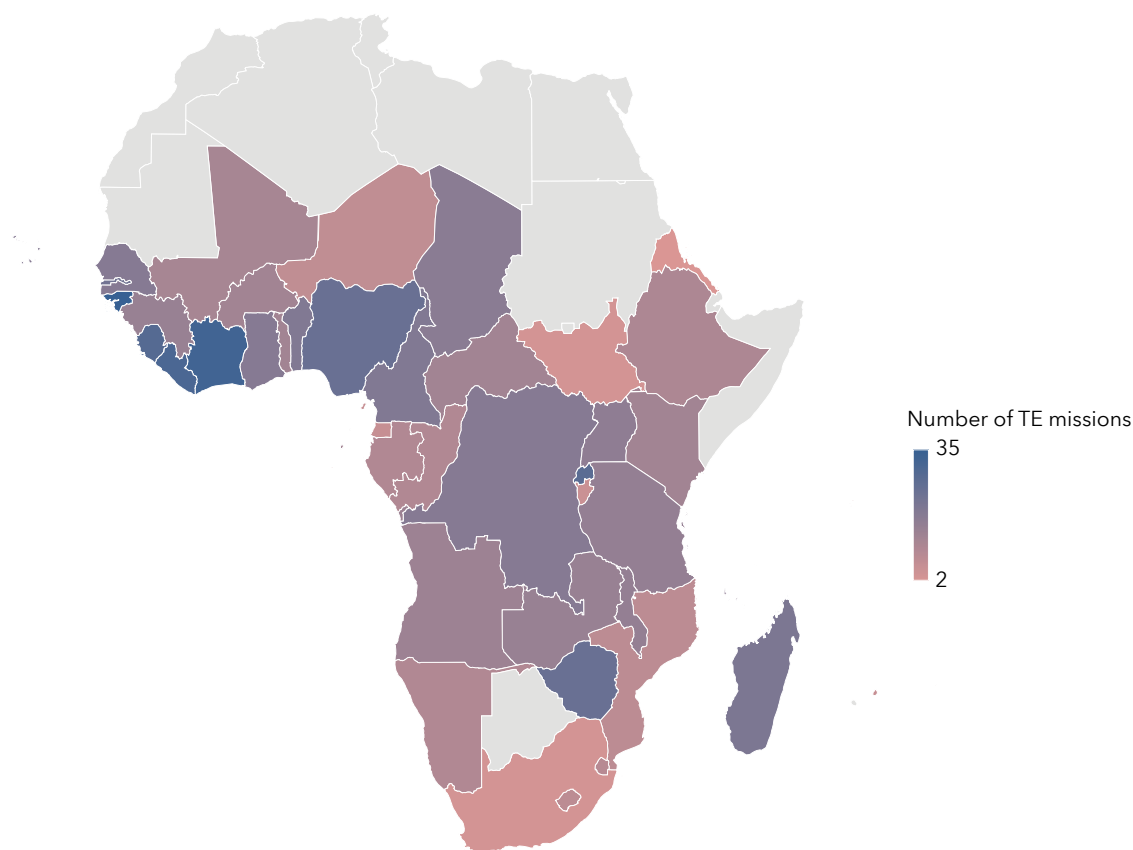
Sources: CDMAP and IMF staff calculations. TE = tax expenditure.

<sup>15</sup> CDMAP is the IMF's internal data platform on capacity development plans, budgets, and results across the IMF's portfolio for the membership.



policy advisors lead initiatives focused on domestic revenue mobilization and tax modeling. These models help estimate the impact of TEs and revenue yields from tax policy changes. This approach can complement targeted TE missions as it encompasses broader strategies and methodologies that not only assess specific tax benefits but also analyze overall revenue dynamics, making it more comprehensive for understanding tax policy implications. The work is complemented with CRM frameworks for a thorough understanding of the risks associated with each tax incentive. As streamlining TEs often requires considerable time to gain political support, revenue authorities must effectively manage the risks associated with tax incentives to prevent abuses and revenue leakages.

**Figure 11. Tax Expenditures Mentions Across Sub-Saharan Africa Countries, FY2021-25<sup>1</sup>**



Duty relief/s	Tax holiday/s	Preferential treatment/s	Zero rate/rating/s
Tax deferral/s	Tax waiver/s	TA/E/EA/s	Special regime/s
Tax credit/s	Tax deduction/s	Tax privilege/s	Tax incentive/s

Sources: CDMAP and IMF staff calculations.

Note: <sup>1</sup>The chart includes completed CD activities from Fiscal Affairs Department under projects tagged to the Tax Policy, Expenditure Policy, and Revenue Administration workstreams. TE = tax expenditure; CD = Capacity Development.

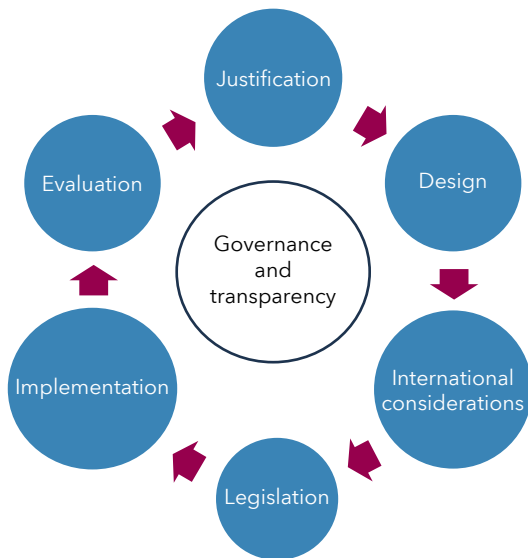
## 6. Technical Road Map for Reform in Sub-Saharan Africa

### A. Toward a Sound TE Policy Framework: Guiding Principles

As discussed in Section 2, a sound TE policy framework is critical to ensure their effectiveness while preserving the overall integrity of public finance and management. Without credible accounting and reporting, any revenue loss from TEs is overlooked and their benefits unassessed, so the risk is high that the benefits do not justify their costs. In the same spirit, the absence of reporting weakens governance, allowing for favors distributed in a nontransparent manner and leading to abuse and corruption.

This subsection lays out the key principles for a sound TE policy framework, following IMF and others (2015). These principles are designed to help policymakers maximize social gains and minimize associated risks across the lifecycle of a TE (Figure 12). They are largely aspirational—even among advanced economies, few have managed to achieve all the principles. Most sub-Saharan African countries face capacity constraints that may make it challenging to adhere to even the most basic principles. This highlights the importance of carefully assessing the design and implementation of such measures in light of available capacity. These principles are for tax incentives, but most apply equally to nonincentive TEs that serve redistribution purposes.

**Figure 12. Lifecycle of Tax Incentives**



Sources: IMF and others (2015) and IMF staff calculations.

Six fundamental principles guide the establishment of sound tax incentives. Some of these principles, when applied at the outset, alleviate the burden of complying with others at later stages—highlighting the importance of careful design and implementation of such measures in sub-Saharan Africa, tailored to country capacity.

- **Justification.** An incentive may be justified only if net social benefits can reasonably be expected, for reasons that are publicly articulated, and when more cost-effective policy alternatives are not available. Net social benefits arise when the social benefits of an incentive exceed the social costs. Social benefits involve activities with positive externalities—benefiting more than the recipients of TEs—and can take many forms, such as job creation or knowledge spillovers that incentives commonly target in the region. Social costs should be identified, including costs associated with compliance and implementation and those to wider society—such as resource misallocation, distortions to competition, or weakened public trust in the government because of (perceived) preferential treatment for special interest groups. An ex-ante assessment should document and ideally quantify the associated social benefits and costs to justify the incentive, and should also be made public.
- **Design.** Incentives should be designed to target and promote the favored activity, avoiding unnecessary distortions to other activities and limiting revenue costs. Direct targeting is necessary to prevent excessively broad application. This means that the benefit conveyed by the incentive is linked tightly to the level of business activity, reducing the risk that it will simply generate a windfall gain to taxpayers doing exactly what they would have done in its absence. In the investment context, this points to the use of cost—rather than profit-based incentives. The latter simply increase after-tax profit of the beneficiaries without direct ties to increases in investment. Unwelcome side effects should be anticipated and guarded against—such as profit shifting and the resulting increase in administrative complexity that often accompanies profit-based incentives. Exposure to revenue loss should be limited, including by using sunset provisions that set an explicit date at which the incentive will be terminated or reviewed.
- **International considerations.** Incentives should be sensitive to international commitments and circumstances, with an openness to mutually beneficial cooperation. In the sub-Saharan African region, regional cooperation is critical to limit the risks and mutual damage that incentives can create. If each country ignores the damage its incentives might cause others—through lower tax revenue—the resulting tax competition means that all countries may ultimately lose.
- **Legislation.** Tax expenditure legislation should be clear, integrated into tax law, and subject to effective oversight. Tax expenditure policies should not be enacted without review and an expression of opinion by the Ministry of Finance. They should be clear, minimize discretion, and have robust governance safeguards. They should be ratified by the law-making body or parliament to provide sufficient transparency and accountability for their approval. All incentives should be consolidated in the main body of tax law and publicized.
- **Implementation.** Tax expenditures should be implemented with a view to promoting voluntary compliance, mitigating revenue and governance risks, and providing the data needed to evaluate them. The national revenue agency should hold the authority for implementing TEs. Basic compliance obligations should not be waived, including registration of tax beneficiaries and mandatory timely and complete filing to ensure monitoring and evaluation. Voluntary compliance should be supported by tailored service, assurance, and enforcement strategies, whereas rules and institutional arrangements should be put in place to ensure inter-agency cooperation and provide the data needed for implementation, monitoring, and assessment.
- **Evaluation.** All TEs should be subject to periodic, public, and evidence-based ex-post evaluation. Tax expenditures should be estimated and published regularly, including broad information on the beneficiaries. Tax incentive legislation should include a program for periodic, credible, and public evaluation. Evaluations should pay attention to the behavioral and external effects of incentives and be undertaken with an intensity proportional to their likely significance (that is, the greater potential revenue loss or distortion, the more rigorous the evaluation should be).

## B. How to Get There . . .

This subsection offers some practical guidance toward improving TE policy in sub-Saharan Africa, distinguishing between new and existing TEs, and for countries at different stages of TE reporting. The discussion focuses on justification and evaluation of TEs, and how to use evaluation to enhance other aspects such as justification, design, and implementation.

### Before Introducing New TEs: Discipline with ex-ante Assessment

New TEs should be costed and evaluated prior to implementation and well documented in an ex-ante assessment to inform decision making. A clearly stated objective is the first prerequisite for any new TE, providing the basis not only for a judgment of whether it can generate a net benefit but also for a clear test when it comes to ex-post evaluation of whether the measure delivered the promised net social benefit. The objective should be specific, such as increasing investment, creating jobs, promoting regional development, generating knowledge spillovers, and increasing the reliability of electricity supply. These objectives should be quantified whenever possible and justified only if their benefits outweigh the associated social costs. Examining the objectives of proposed TEs against those of existing measures can help identify redundancies.

Sub-Saharan African countries can tap into a wide range of existing tools, literature, and experiences from peer countries to assess the potential benefits and costs of TEs. For example, the impact of investment incentives on private investment can be projected using Effective Tax Rates tools or Corporate Income Tax Simulation Models.<sup>16</sup> Empirical evidence on the effectiveness of tax incentives in attracting FDI in developing countries remains largely inconclusive, suggesting that tax incentives alone are unlikely to be a cost-effective way to attract FDI. Similar findings have emerged from business surveys, which reveal greater importance attached to skill gaps, weak infrastructure, or unreliable energy supply. Distributional analysis based on consumption data can show whether VAT zero-rating and exemptions aimed at improving equity indeed benefit mostly low-income households.

Assessments should recognize that spending or regulatory measures may be better alternatives to TEs. Even if a TE passes the test of offering (or having delivered) a net benefit, there may be better ways to achieve the same end. The best targeted way to alleviate the increase in business costs because of poor roads or unreliable energy supply, for example, is likely to invest in necessary infrastructure rather than give broad tax reductions that some investors may not need. Targeted cash transfers and welfare payments are typically more progressive than VAT exemptions and can achieve poverty and inequality reduction at far lower fiscal cost (Warwick and others 2022).

Direct fiscal costs warrant special attention and can be assessed using simple methods in data- and capacity-constrained sub-Saharan African countries. Quantifying the direct fiscal cost of TEs is crucial in identifying their budgetary impact and determining cost-effectiveness. Practical guidance for undertaking cost-benefit analysis is available in World Bank (2024), ECA (2024), Beer and others (2022), and CIAT and UN (2018). Countries with limited data and capacity can start with simple metrics to assess individual TEs,<sup>17</sup> such as dollar cost per job created (Box 1). Ex-ante costing of TEs anchors ex-post evaluation and underscores the need for time limits to contain fiscal costs.

<sup>16</sup> With detailed applications discussed in IMF (2015).

<sup>17</sup> When used for different TEs, such metrics can also enable the ranking of fiscal instruments with similar objectives based on their cost-effectiveness and help identify any potential redundancies.

### Box 1. Use Simple Metrics to Assess Tax Incentives<sup>18</sup>

Ex-ante justification. Suppose that the TE associated with a proposed incentive is \$300,000, that the government's objective is to increase employment, and that it is willing to forgo revenue of \$250 to create an additional job. If it is expected to create 1,500 additional jobs, then the implied revenue cost per job is \$200. As this is less than what the government is willing to pay per job, the incentive is shown as desirable. It may also lead to other benefits, such as additional CIT revenue as new and profitable firms enter the activity. Whether or not this is actually the case, the simple calculation is enough to suggest that the incentive is justified.

Ex-post evaluation. Suppose that, upon the expiration of the incentive, only 500 jobs were created. This implies an actual cost per job of \$600. The incentive can then only be warranted if it has generated other benefits worth forgoing at least \$175,000 of tax revenue. The onus would then be on those supporting the incentive to provide a convincing explanation of what those other benefits were and how much they were worth; otherwise, the incentive should be removed.

A useful starting point. Such simple exercises are not definitive, but they can initiate a meaningful conversation on the social value of incentives. Over time, and with efforts to collect the data needed, ways might be found to provide a more complete analysis by providing some sense of the possible impact on firm behavior. This might come, for example, by comparing developments in employment and investment of firms in the qualifying sectors between those who did and those who did not receive the incentive, or between sectors for which the incentive is/is not available, or between periods when some sectors qualified and when they did not. Care will need to be taken to make comparisons between groups that were otherwise similar, but again, this can provide the basis for a constructive assessment.

Recognizing and accounting for TEs' overall costs facilitates effective design and implementation. This means recognizing (and quantifying as far as possible) costs related to indirect effects, such as reduced activities and revenues from those adversely affected, revenue loss from potential abuse of TEs, or higher administrative and compliance costs associated with more complex TEs. Doing so encourages taking preemptive measures—for example, using simple and well-targeted incentives, putting safeguards in place, and ensuring effective monitoring to prevent abuse. Identifying these costs can also facilitate data collection and sharing for ex-post evaluation.

### Reforming Existing TEs: Start Using TE Reporting

Tax expenditure reporting exposes all forms of government spending—both direct and indirect—through the tax code to the same level of scrutiny in the budget process. When used effectively, it facilitates informed decision making, as well as public understanding and advocacy when made public.

Tax expenditure reporting is a clear starting point for countries without cost data. As noted in Section 4, nearly one-third of countries in sub-Saharan Africa do not publish any TE reports. Among those that do report, only half maintain what could be classified as “comprehensive” inventories and cost assessments. Development of a TE report should be a priority for these countries, with external support if capacity constraints are the main barrier to implementation. To make TE reporting fit for purpose, it needs to follow

<sup>18</sup> This box is reproduced from Liu, Seydou, and Keen (2025).

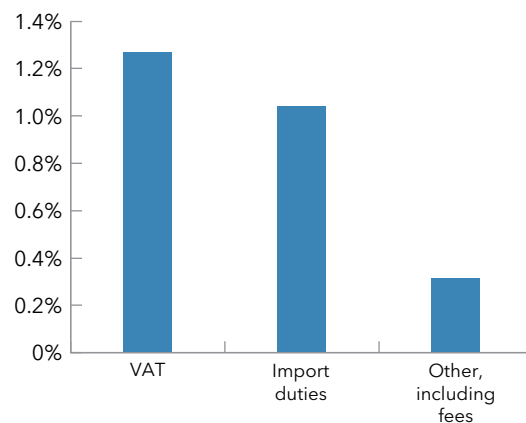
a principled approach to the definition of a benchmark, costing method, and information reported. The IMF (Heady and Mansour 2019) provides a standard framework for TE reporting. World Bank (2024) further provides a TE reporting format (Table 24) that can be readily adopted by sub-Saharan African countries.

TE reporting can start with import data but needs to expand to all types of TEs by utilizing domestic data. For sub-Saharan African countries, it is common that TE reporting starts with import concessions. High-quality data are available through customs, and when used properly, such information can already be used to improve policy (as seen in the Democratic Republic of Congo, discussed in the following section). However, focusing exclusively on import data has significant limitations, and reporting should gradually expand to all TEs (Box 2).

## Box 2. Moving Toward TE Reporting: The Gambia

**Box Figure 1. Customs Concessions in The Gambia, 2024**

(Percent of GDP)



Sources: Gambian authorities and IMF staff calculations.

Note: VAT = value-added tax.

Tax exemption costing in The Gambia. The Gambia does not yet have a full TE report but is making progress to produce one. The current focus is on monitoring total duty waivers and exemptions granted on imports. Comprehensive and standardized data from Automated System for Customs Data (ASYCUDA) makes this computationally simple. The Gambia Revenue Authority (GRA) shares findings with the Ministry of Finance and Economic Affairs (MoFEA). Aside from customs, reporting of domestic exemptions and waivers is on an ad hoc basis.

The differences between concessions and TEs. Customs concessions are a worthwhile starting point but warrant care in TE reporting. Available data are often of good quality, and customs concessions can be fiscally large—especially in low-income countries. In 2024, total customs concessions in The Gambia amounted to 2.6 percent of GDP, with nearly half from import VAT. However, such figures do not necessarily map to TEs, depending on the benchmark tax system. For import duties, a benchmark using the Common External Tariff of Economic Community of West African States (ECOWAS) would give rise to a smaller TE estimate than using the statutory tariff rates. For VAT, concessions related to imports of intermediate inputs by VAT-registered entities do not constitute VAT expenditure or result in revenue loss, because final consumption is the benchmark tax base for VAT. These caveats highlight the importance of developing a broader framework for, and understanding of, TE reporting.

## Box 2. Moving Toward TE Reporting: The Gambia (Concluded)

A framework for TE reporting. The Gambia is in the process of developing such a framework. With IMF support (Swistak, Warwick, and Muyangwa 2025), the authorities plan to publish their first TE report by the end of 2025. A phased approach is adopted to grow institutional knowledge and in-house technical capacity over time. The first report will focus on defining the benchmark tax system, creating a TE inventory, and identifying TEs related to customs concessions. A working group from the GRA and MoFEA has been formed to advance these objectives, as an important first step to establish a strong base for future reports when more data and tools become available to estimate the cost of domestic TEs.

Tax expenditure reports should serve as a key input into ex-post evaluation, which should assess whether individual TEs generated the net benefit intended and then take a reasoned decision as to whether to retain, reform, or rescind. Although a full and rigorous assessment is difficult for any country, and aspirational in many sub-Saharan African countries,<sup>19</sup> TE reports can and should be used to make a start—for example, by using simple metrics as discussed in Box 1 and utilizing qualitative information.

Qualitative information such as objectives, beneficiaries, and durations in TE reports can already inform policy. Analysis of this information can help understand and improve the current system in several ways, especially in the face of data or capacity constraints.

- Providing a full picture of the TE framework. Grouping TEs by policy objectives can uncover redundancy and the need for streamlining when multiple measures (for example, child tax credits, childcare tax deductions, and VAT exemptions for clothing) benefit the same group. This would suggest the need to assess whether there is over-subsidization through the tax system and the need for better coordination with direct spending.<sup>20</sup> This analysis also helps identify measures that no longer align with national priorities or have become socially irrelevant (for example, fuel TEs that conflict with renewable energy uptake and decarbonization). In such cases, a recommendation can be made for their repeal even without costing.
- Prioritizing evaluation of key TE items. With some indication of the scope and generosity of different TEs used, descriptive statistics of such information can help prioritize which ones to further evaluate. For example, TEs with low uptake or only a handful of beneficiaries can serve as a starting point to assess whether these are needed or can be delivered in other ways.<sup>21</sup> Alternatively, measures with the largest expected fiscal cost or expected cost per beneficiary warrant deeper analysis of their actual benefits and costs.

Deepening cost and benefit analysis of major TEs to inform decisions on their continuation or reform. Evaluation is complex and inherently challenging. Although a full spectrum of methods—from simple indicators to econometric analysis—can be used, evaluation should be tailored to accommodate data availability and analytical capacity, with a minimum requirement of using structural analysis to inform the cost-effectiveness

<sup>19</sup> For tax incentives, a fully rigorous ex-post assessment requires: (1) information on (or estimation of) the extent to which the incentive did in fact change behavior, what any such changes implied for revenue, and whatever objective the incentive is intended to serve—which was ideally set out in establishing the TE; and (2) a judgment on the importance to be attached to those revenue and wider effects.

<sup>20</sup> For example, when targeted cash transfer programs are introduced, these should be accompanied by elimination of TEs that serve the same purposes.

<sup>21</sup> In the Netherlands, the evaluation report determined that some untargeted incentives likely had budgetary costs disproportionate to their purpose, while other incentives were deemed inefficient because they were not extensively used by firms (Ministerie van Financiën 2023).

and distributional impact of TEs. Multiple guides (PCT 2015; CIAT & UN 2018; Beer and others 2022; World Bank 2024) provide details on how to conduct in-depth impact studies, which are resource intensive and require dedicated technical assistance or training.

Data- and resource-constrained sub-Saharan African countries should explore alternative data sources and evaluation methods and gradually improve data collection and reporting. Any evaluation is only as good as the underlying data used, and many countries in the region face significant challenges in data collection and sharing. For example, tax-exempt firms in sub-Saharan African countries typically do not file tax returns, and as a result, CIT expenditure costing based on tax returns can significantly understate their aggregate costs. In this case, macro-based CIT expenditure costing may provide a more complete picture (Box 3). Over the medium term, various efforts can help narrow the data gap, including establishing centralized databases, integrating administrative and survey data, leveraging digital technologies to better track and monitor TEs, as well as amending legislation to mandate the filing of tax returns for all TE recipients. Seeking external support for evaluation, including from academics, international financial institutions, and nonprofits, can also ensure impartiality while improving the quality of evaluation.

A partial TE assessment is preferable to no assessment. The absence of ideal data should not be used as an excuse not to assess. Although a full cost-benefit analysis is ideal, a simple estimate of revenue forgone is a major improvement over TEs that are fully out of sight. Regardless of the specific data or methods used, recommendations for reform should be part of the analysis, clearly outlining the different outcomes of the TE to inform decisions on whether to maintain, reform, or repeal the provision. Tax expenditures that cannot be evaluated because of the nature of the measure itself should likely be reformed or removed.

### **Box 3. Improving TE Reporting and Reform in Uganda**

Uganda's tax revenue yield is 13 percent of GDP, so the government needs to strengthen domestic revenue mobilization to secure durable fiscal space for priority spending and growth (IMF 2024). Because its tax system is characterized by relatively high statutory tax rates (30 percent for CIT and 18 percent for VAT) and narrow tax bases, base-broadening TE reform combined with modest rate reductions could help boost not only revenue but also economic efficiency and growth.

Uganda began publishing TE reports in 2020 following World Bank assistance in defining its benchmark tax system and TE inventory. The 2020 report estimated the total cost of TEs at 1.7 percent of GDP, with the most recent 2023–24 report indicating a total cost of 1.8 percent of GDP. This relatively low level of TEs (compared with the global average of about 4 percent of GDP reported by GTED) reflects both the inclusion of significant TEs in the benchmark tax system and insufficient data to cost numerous measures.

IMF tax policy missions in 2022 (Benedek and others 2022), 2023 (Matheson and Mylonas 2023), and 2025 (Matheson, James, and Mylonas 2025) estimated TEs to have a much higher cost. For example, the aggregate CIT expenditure was estimated at 2.3 percent of GDP, and the aggregate VAT expenditure at up to 4.6 percent of GDP. To develop more accurate gauges of revenue loss from TEs, these missions recommended that Uganda refine its benchmark tax system and TE inventory, improve filing compliance, and broaden data inputs.



### Box 3. Improving TE Reporting and Reform in Uganda (Concluded)

Since the 2022 mission, Uganda has broadened its tax base. The VAT base has been marginally broadened by taxing the leather industry and diapers, along with iron industry inputs (other than billets). Discretionary waivers for income tax were eliminated (with grandfathering), although they are still applied to import tariffs. Further base-broadening is envisioned in Uganda's second domestic revenue mobilization strategy.

Uganda has also drafted a governance framework for TEs, which includes many strong features. These include centralization of TE authority under the Ministry of Finance, broad consultation with government and private stakeholders on TE policy, ex-ante evaluation of proposed TEs, parliamentary review and ratification, and postimplementation monitoring. Additional features that would improve the draft plan include eliminating discretionary waivers, conditioning use of TEs on comprehensive tax filing, and setting a periodic cycle for reviewing major TEs.

## C. Getting Started

Establishing a sound TE framework is often a lengthy and challenging process, particularly for countries in sub-Saharan Africa. However, they can start this crucial journey with some basic tasks, including a few discussed in the following section, and seek external support in training and technical assistance to facilitate the process. By taking these initial steps with external guidance, sub-Saharan African countries can gradually build a sound TE framework that ultimately strengthens their economic management and policy outcomes.

Mandating TE assessments, both ex-ante and ex-post, can also improve TE governance. Weak governance frameworks in sub-Saharan Africa often undermine accountability and transparency, and limit public oversight of TEs. Tax expenditure assessments can play a critical role in strengthening institutional accountability through mandatory public disclosure of TE reports, independent audits, as well as regular review and evaluation. Good governance is particularly important for controlling investment tax incentives, an important factor undermining tax revenues in Africa. Ideally, the Ministry of Finance should have full authority in granting and managing TEs, with related government agencies effectively implementing, monitoring, collecting data, and providing feedback for evaluation and improvement. All TE provisions should be consolidated in tax legislation to ensure fiscal discipline and minimize risks of corruption and rent seeking. These steps could reduce misuse, enhance public trust, and support more effective tax policy design and implementation.

Establish a dedicated group to start the process. This group should maintain oversight of the governance and management of TEs by ensuring coherence in their origination, design, approval, implementation, and reporting. It should provide the minister with advice and analysis (including cost-effectiveness) in line with the objectives of TEs and the government agency. This avoids a key pitfall in TE policy—a fragmented approach that leads to inconsistency and insufficient information sharing on risks, costs, and benefits. Ideally, this would fall under the core responsibilities of a tax policy unit; however, in the absence of a tax policy unit, a specialized group should be established. In the Democratic Republic of Congo (DRC), such a working group has been instrumental in spearheading successful TE reforms (Box 4).

#### Box 4. Tax Expenditure Reporting and Reform in the Democratic Republic of Congo

DRC started producing TE reports in 2019. A dedicated working group within the Ministry of Finance initially benefited from technical support from the IMF, but it gradually became independent and autonomous in 2022. When TE costing was first done, there was no legal provision to allow the TE report to be published, and only a summary table was released in the annex of the budget on revenue. A decree was subsequently passed in 2023 to include the TE report as a full annex to the budget.

A key lesson from the DRC experience is that, despite challenges related to data gaps and limited capacity, starting the TE report with imperfect data and leveraging available information to improve policy has been key to getting the process rolling. Progress is incremental. For example, there remains no costing of VAT expenditure, as the country does not have an updated household survey or precise input/output data on the flow of goods and services within the economy. Recognizing the limitations of tax exemption reporting, the government developed an internal rationalization plan for TEs—a list of 10 items including their rationale, legal provisions, fiscal costs, and beneficiaries, along with a short analysis of their relevance. The rationalization plan is communicated at higher levels of the Ministry of Finance as part of budgetary discussions on revenue. Of this plan, three items have so far been eliminated: (1) duty-free shops with local branches, the first to be removed in 2023; (2) special presidential programs offering preferential tax treatment for large investment projects, fully discontinued in 2025; and (3) two duty-free programs for imported vehicle parts for local assembly (mostly motorcycles and bicycles), fully terminated in 2025. Many of the remaining seven should undergo significant modifications, such as the regimes of the Investment Code or Special Economic Zones, as well as VAT exemptions (Petit, Blouin, and Charlet 2025).

The DRC authorities are aiming to broaden the rationalization plan into a management plan, which could also articulate justifying and keeping some TEs based on equity or efficiency criteria. To enable a more comprehensive evaluation of TEs, the government, with IMF assistance, is now investing in cost and benefit analysis in three topics: the impact of the Investment Code, beneficiaries of VAT exemptions, and the rationalization of VAT exemptions.

Progress is also being made in analyzing VAT exemptions. The VAT return has just been amended in 2025 to include an annex that provides information at the product level for each taxpayer on exempted sales, distinguishing between sales under statutory exemptions and sales to exempted customers. This will complement existing information on VAT exemptions for imports to provide a full idea of who benefits from these exemptions and the nature of the exemptions, pending the availability of better data for VAT expenditure costing.

The DRC experience also highlights the need for a dedicated group on TE policy. In the absence of a tax policy unit (TPU), two permanent structures collaborated with IMF TA providers, which are also responsible for organizing other working groups, including the one on TEs.

Coordinate on a regional basis to avoid proliferation of TEs because of a race to the bottom. Collaboration can take various forms. Regional frameworks have sought to coordinate tax incentive policies. For example, the SADC Protocol on Finance and Investment and the EAC's proposed "Code of Conduct" promote transparency and cooperation by facilitating information exchange and joint decision making. Such frameworks help strengthen governance and can support TE policies that contribute to sustainable investment without undermining fiscal stability. Regional cooperation mechanisms can also support capacity building, cost-benefit analyses, and institutional reforms to curb abuse and improve TE governance.

## 7. Conclusions

Governments in sub-Saharan Africa have faced significant fiscal and financial pressures in the wake of multiple shocks since 2020. Sub-Saharan African countries have been particularly hard hit, with interest rate spreads rising more sharply than in other regions. Public debt and debt service burdens have surged, driven by rising borrowing costs and depreciation of local currencies against the US dollar. Commodity price volatility has eroded fiscal space and, in many cases, negatively affected revenue performance, as many governments have faced higher import bills and energy-related subsidies. With external financing drying up, many sub-Saharan African countries are increasingly forced to rely on domestic borrowing—often at a higher cost—to finance basic service delivery and development spending. In this context, improving domestic revenue mobilization is not just an imperative for long-term fiscal sustainability; it is increasingly a near-term necessity.

With the increased focus on domestic revenue mobilization, a careful assessment and costing of TEs in sub-Saharan Africa could be an essential component of enabling more sustainable fiscal frameworks. Less is known about the extent and cost (in terms of forgone revenue) of tax expenditures in sub-Saharan Africa than in other regions. Nearly a quarter of all countries in the region do not report an inventory of TEs, and many others have reporting and cost estimates that could be materially improved. Reported estimates must, in some cases, be taken with a grain of salt and the variance in revenue losses is high. However, even considering a regional average (among reporting countries) of about 3 percent of GDP suggests the need for greater public scrutiny as governments press to fill financing gaps.

Additional benefits to governance, transparency, and equity could accrue from a more systematic approach to assessing TEs relative to their intended objectives and incorporating their costs into annual budgets. Tax expenditures are often exempt from the level of scrutiny applied to direct spending lines through the budget, weakening transparency and hindering well-informed policymaking. Equally concerning is the potential for misuse of TEs, especially where there exists discretionary power to grant such measures, and the negative impact this can have on public trust in government, revenue authorities, and compliance. Equity is also an important consideration. If well designed, TEs can enhance equity by reducing effective tax burdens for vulnerable groups. Conversely, distortions to horizontal equity can emerge when access is uneven or opaque. Individuals with sophisticated tax planning or professional advice are more likely to benefit from complex deductions or exemptions. Further, where TEs are granted on a discretionary basis, or are only accessible for a specific time, these may result in a tax system where similarly situated taxpayers face very different effective tax rates. Such distortions weaken the legitimacy of the tax system and contribute to declining tax morale.

Understanding the scale of TEs in sub-Saharan Africa and assessing their costs and benefits is essential for effective public finance management, sound policy formulation, and robust governance. Despite facing capacity constraints, sub-Saharan African countries should consider the net benefits that can accrue from such an exercise—taking note of case studies in the region. A road map to this end could include the following considerations: (1) mandating TE (individual measure) assessments, both ex-ante and ex-post, and incorporating these as part of the budget process; (2) undertaking a partial assessment with imperfect data and simple methods, which is better than no assessment, as it provides an initial policy tool and can serve as a stepping stone to a more rigorous inventory and costing of TEs; (3) seeking external support in training and technical assistance, and making use of existing guidance and tools from international financial institutions (IMF, World Bank, OECD); and (4) pursuing regional coordination, including regional directives that lay out best practices in TEs and require information sharing, which can help discipline national TEs. Basic training and workshops at the regional level can facilitate peer learning, help address common challenges, and streamline TEs at the regional level.

IMF has an important role to play in this area, as TE policy falls within its core expertise. The IMF has deemed TEs in sub-Saharan African macro-critical and has addressed them comprehensively—through surveillance, programs, and CD. The emphasis placed on TEs in IMF surveillance has increased since 2020, coinciding with a renewed focus on domestic revenue mobilization in the region. This is mirrored in the frequent use of structural conditionality aimed at TEs as part of IMF programs since 2015, as well as the extensive technical assistance and CD in this area. This focus appears to have diminished in sub-Saharan Africa in recent years, possibly because of competing objectives. Given the urgency of domestic revenue mobilization in the region, a renewed focus by area and technical assistance departments may be warranted.

TEs are not a silver bullet for the region's financing needs, nor is identification and costing the final step in the process. Identifying TEs on a systematic basis, providing a rigorous assessment of their net costs, and making this information publicly available are the first steps toward ensuring their efficacy as part of a sustainable medium-term fiscal framework. Critically, policymakers should be prepared to act on this information—reducing or eliminating TEs where costs exceed benefits and applying scrutiny and a legal framework to the granting of new measures. Stakeholder support will be significant in this context, as will continued policy and technical support from international financial institutions.

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**PUBLICATIONS**

**Tax Expenditures in Sub-Saharan Africa**

ISBN 9798229023887

