Policy Brief

Issue No: 4/2024 **June 2024**

A vehicle to articulate development issues and foster dialogue

Sub-Saharan Africa (SSA) Needs to Collect More Taxes and Spend Better[1]

Summary – *SSA's public debt remains high at 60 percent of its Gross Domestic Product (GDP) in 2023, with many countries facing a funding squeeze due to limited sources of revenue and high borrowing costs. Government interest payments now consume 12 percent of revenues, more than double the level from a decade ago, while official development assistance has decreased. This diverts funds from investment and development, hindering growth and building resilience to shocks. SSA countries should broaden their respective tax bases, improve tax progressivity, strengthen taxation of the wealthy and enhance tax administration. Improving the effectiveness and efficiency of expenditure requires better governance, e-procurement, addressing wage rigidities, and using digital tools. Strengthening medium-term planning, regular expenditure reviews, and promoting public-private partnerships are also essential. These combined strategies are crucial for rebuilding fiscal buffers, preparing for future shocks, and achieving sustainable development. sustainable development.*

1. Introduction

In its latest Regional Economic Outlook for Sub-Saharan Africa (SSA), the International Monetary Fund (IMF) projects economic growth to rise to 3.8 percent in 2024, up from 3.4 percent in 2023, with nearly two-thirds of countries anticipating higher growth.[2] The IMF expects this economic recovery to continue beyond 2024, with growth projections reaching 4 percent in 2025.

On the fiscal front, fiscal consolidation has stabilized, with public debt ratios largely around 60 percent of GDP in 2023, projected to ease further in 2024. However, the region still faces an acute funding squeeze, and debt service obligations continue to swell. In 2023, government interest payments took up 12 percent of revenues (excluding grants) for the median sub-Saharan African country, more than doubling from a decade ago. Significant external debt repayments loom, including US$5.9 billion on Eurobonds in 2024 and US$6.2 billion in 2025, along with substantial bank loan repayments—both syndicated and bilateral—over the next two years.

This funding squeeze partly reflects a reduction in the region’s traditional funding sources, particularly Official Development Assistance (ODA), which has steadily declined as a percentage of GDP over the past 15 years. This reduction is compounded by the redirection of aid towards the Russia-Ukraine conflict in Europe and the Israeli-Palestinian conflict in the Middle East. Moreover, China’s official bilateral lending is significantly lower than its peak in 2016. As traditional funding sources have declined, governments have sought alternative options. Increased integration into international debt markets and the deepening of local financial markets have led to contracting more commercial debt, both domestically and externally, on non-concessional terms.

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[1] This policy brief is an output of the Strategic Policy Advisory and Research Unit (SPARU) of the UNDP South Africa Country Office . The policy brief was prepared to stimulate policy debate on financing the 2030 Agenda for Sustainable Development and Africa Agenda 2063 in SSA. The views expressed in this policy brief are those of the author and do not represent the views of UNDP, the United Nations or any of its affiliate organizations. For more information, please contact the author at rogers.dhliwayo@undp.org.

[2] https://www.imf.org/en/Publications/REO/SSA/Issues/2024/04/19/regional-economic-outlook-for-sub-saharan-africa-april-2024

What does this mean for countries? It means much-needed funds are being diverted from investment and development spending to cover interest payments, which hampers the region's growth potential and its ability to withstand future shocks. In this context, mobilizing additional revenue and improving the effectiveness and efficiency of expenditure are crucial. These efforts are essential to rebuild fiscal buffers, prepare for future shocks, and achieve sustainable development. To be most effective, these two strategies must be implemented together in SSA.

To collect more revenue, SSA countries should broaden the tax base and integrate the informal sector, strengthen tax administration, strengthen taxation of the wealthy, eliminate tax exemptions and incentives, reduce tax avoidance and illicit financial flows,[3] enhance tax enforcement and compliance, increase personal income, property, and environmental taxes, raise natural resource and 'sin' taxes and address base erosion and profit shifting internationally.[4]

To spend better, SSA countries should enhance governance in public institutions, adopt e-procurement services, address rigid wage and entitlement structures, utilize digital tools for efficiency, implement performance-based budgeting, strengthen medium-term planning with a Medium-Term Expenditure Framework, conduct regular public expenditure reviews, promote public-private partnerships (PPPs) and build capacity for financial management.

Building effective, transparent, and accountable revenue systems, alongside improved public service delivery and strict anti-corruption measures, will strengthen the social contract between taxpayers and governments, ensuring sustainable development and better preparation for future economic shocks.

2. Taxation trends in SSA: a brief overview

Mobilizing tax revenue to fund public services and infrastructure for achieving the Sustainable Development Goals (SDGs) remains a significant challenge in SSA. In 2021, the average tax-to-GDP ratio in 33 SSA countries was 15.6 percent, which is below the averages of Asian and Pacific economies (19.8 percent), Latin America and the Caribbean (21.7 percent), and the OECD (34.1 percent) (see table 1.1).[5] This ratio had also declined from its pre-pandemic level of 15.8 percent in 2019. These figures highlight the urgent need to enhance tax administration and broaden the tax base in SSA to secure stable and increasing revenue streams for crucial development projects and economic resilience.

In 2021, the tax-to-GDP ratios in SSA ranged from 5.9 percent in Equatorial Guinea to 32.5 percent in Tunisia (see table 1). Botswana saw the largest increase in its tax-to-GDP ratio, rising by 2.8 percentage points (p.p.), followed by South Africa (1.9 p.p.) and the Democratic Republic of the Congo (1.8 p.p.).[6] Conversely, Chad experienced the largest decrease, with a decline of 4.6 p.p., followed by the Seychelles (2.6 p.p.) and Equatorial Guinea (2.5 p.p.). Revenues from taxes on goods and services were the only tax category to increase on average across SSA in 2021, rising by 0.2 percent of GDP after a 0.4 percent decline in 2020. Value-added Tax (VAT) revenue specifically increased by 0.1 p.p. in 2021, following a 0.3 p.p. fall in 2020.[7]

Non-tax revenues[8] declined by 0.3 p.p. across the 33 SSA countries in 2021, averaging 5.8 percent of GDP. [9] While revenues from rents and royalties increased by 0.4 p.p., revenues from grants and the Southern African Customs Union fell by 0.3 p.p. and 0.5 p.p., respectively. Between 2010 and 2021, tax revenues increased by 1.5 p.p. of GDP on average, while non-tax revenues decreased by 1.4 p.p., resulting in only a modest overall increase in public revenues as a share of GDP.[10]

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[3] Annual illicit capital flight from Africa is estimated at US$88.6 billion on average, about 3.7% of Africa's GDP (UNCTAD, 2020).
[4] There is also scope to raise environmental taxes. South Africa introduced a carbon tax in 2019 with a carbon levy on fuel and an emissions tax on businesses. This is in addition to five other environmental taxes which already existed: the plastic bag levy (implemented from 2004/05); the incandescent light bulb levy (2009/10); the electricity levy (2009/10); the CO_2 tax on vehicle emissions (2010/11); and the tyre levy (collected by SARS from 2016/17) (See https://businesstech.co.za/news/finance/328277/5-green-taxes-that-are-hitting-south-africans-in-the-pocket/).
[5] https://www.oecd.org/tax/tax-policy/revenue-statistics-in-africa-2617653x.htm
[6] See https://africamonitor.ifw-kiel.de/datastories/taxation_in_africa.html
[7] ibid.
[8] Non-tax revenue refers to the income generated by governments from sources other than taxes such as frees and charges, fines and penalties, natural resource royalties, rents, donations and grants bond issues and profits of state-owned companies
[9] https://www.oecd.org/tax/tax-policy/revenue-statistics-in-africa-2617653x.htm
[10] https://orbitax.com/news/archive.php/OECD-Releases-Report-Finding-t-54073

The rise in tax mobilization is largely driven by VAT , which constitutes about a third of total tax revenue.[11] Revenues from corporate income taxes in SSA have remained stable at around 2.8 percent of GDP. However, these revenues fall short of potential due to tax competition and profit shifting by multinational companies, with the IMF (2019) estimating that developing countries collect US$200 billion less from corporate taxes annually due to these practices.[12] Non-tax revenue remains significantly underutilized in sub-Saharan Africa (SSA), contributing only 1-2 percent of total revenue collection, compared to 10 percent or more in Latin America. According to the IMF's Regional Economic Outlook for SSA (2019), the overall revenue gap among SSA countries is estimated at 3-5 percent of GDP on average, indicating substantial potential to maximize non-tax revenues.

A critical issue is whether the increased reliance on VAT makes the overall tax system regressive, disproportionately affecting the poor, vulnerable groups[13] and women.[14] Unlike in advanced economies, the ratio of direct to indirect tax revenues in SSA has remained broadly unchanged or has modestly increased. While revenues from progressive income taxes have risen slightly, property tax receipts have stagnated despite rapid urbanization and rising property prices over the past two decades.[15]

Several factors hinder SSA countries' efforts to increase necessary revenues for development. These include the prevalence of the informal sector,[16] revenue loss from base erosion and profit shifting (BEPS), challenges in taxing natural resources, tax administration issues, lack of political commitment to address tax incentives and exemptions, difficulties in deploying technology for tax administration, low internet penetration, tax evasion, illicit financial flows (IFFs), corruption, and inconsistencies in tax systems between national and sub-national levels.

Despite these challenges, a fundamental issue with revenue mobilization efforts in SSA is the flawed social contract by which taxpayers are expected to fulfill their tax obligations. In the context of revenue mobilization and taxation, the social contract implies that citizens pay taxes with the expectation that the government will provide public services such as education, healthcare, police protection, infrastructure, and welfare programmes in return.

Compromising this social contract has significant implications for compliance with revenue mobilization efforts. Studies show that when citizens see value in the taxes they pay, they are more likely to comply voluntarily (e.g., Berggren, Bjørnskov, and Lipka, 2015; Keho, 2015; Dianda, Ouedraogo, and Ouedraogo, 2020). This is a key aspect of tax administration, and many advanced economies successfully generate tax revenue based on this principle.

In SSA, the social contract regarding tax payments is flawed for two main reasons. First, the taxes collected do not sufficiently translate into improved public services, and the benefits from governance seem to benefit only a few. According to Pew Research (2015), while an average of 78 percent of respondents from SSA countries were confident that their government would help tackle major problems (such as healthcare and education), 59 percent believed that government was run for the benefit of the few rather than for all.[17] Second, improvements in public services in SSA are often overshadowed by high levels of corruption, opaque public expenditures, embezzlement, and procurement scandals. Vertical accountability is a significant governance challenge in many SSA countries. The region consistently ranks lowest globally in the Corruption Perceptions Index (CPI), with an average score of 33 out of 100 in the 2023 edition.[18] Corruption distorts citizens' views on governance and fairness in the tax

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[11] https://www.oecd.org/tax/tax-policy/revenue-statistics-in-africa-2617653x.htm

[12] IMF, (2019). "Corporate Taxation in the Global Economy, " *IMF Policy Paper*, Available at https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/03/08/Corporate-Taxation-in-the-Global-Economy-46650

[13] Lustig, N, (July 2018). "Fiscal Policy, Income Redistribution and Poverty Reduction in Low and Middle Income Countries," Available at https://www.cgdev.org/sites/default/files/fiscal-policy-redistribution-low-middle-income-countries.pdf

[14] https://opendocs.ids.ac.uk/opendocs/bitstream/handle/20.500.12413/18276/ICTD_WP186_FINAL_amended.pdf?sequence=4&isAllowed=y

[15] The former is associated with worsening income distribution in SSA (Sulemana, Nketiah-Amponsah, Codjoe, and Andoh, 2019).

[16] The informal economy in Africa remains among the largest in the world, representing nearly 55 percent of the cumulative GDP of SSA (https://blogs.afdb.org/afdb-championing-inclusive-growth-across-africa/post/recognizing-africas-informal-sector-11645). In some African countries, informal sectors may contribute up to 91 percent employment of the non-agricultural labor force (AUC/OECD, 2019).

[17] https://www.pewresearch.org/global/2015/09/16/health-care-education-are-top-priorities-in-sub-saharan-africa/development-in-africa-report-06/

[18] https://www.transparency.org/en/press/2023-corruption-perceptions-index-diverting-resources-from-public-services-africa

system (Boly, Konte, and Shimeles, 2019). The IMF (2019) estimates that countries with the lowest levels of corruption collect 4 percent of GDP more in tax revenues than those with the highest levels of corruption at similar income levels.

3. Collect better and more taxes

To take forward the 2030 Agenda for Sustainable Development and Agenda 2063, including adapting to and mitigating climate change, SSA countries will need access to adequate, stable, predictable, and affordable finance. Although ODA remains relevant, with the likelihood of ODA declining post-COVID-19, SSA governments need to generate fiscal space and mobilize additional funding from innovative sources. Pension funds, mutual funds, sovereign wealth funds, private corporations, development banks, and other investors from middle-income countries could be tapped into as additional sources of finance. This section outlines strategies for SSA countries to increase fiscal space through domestic revenue mobilization to finance the SDGs.

Relying more on domestic resources enhances a country's ownership of development policies, ties accountability to citizens rather than external investors and aid donors, and reduces the volatility associated with external funding. Therefore, increasing domestic revenue mobilization is crucial for financing the SDGs and COVID-19 recovery. In several low-income SSA countries, revenue collections are below 20 percent of GDP which is insufficient for SDG financing. This shortfall reflects issues in revenue administration, tax enforcement, compliance, and exemptions. For example, many SSA countries exempt petroleum fuels from VAT and zero-rate some products. Addressing these issues by strengthening revenue administration, enhancing tax enforcement, improving compliance, and reducing exemptions and zero-rated items can create significant fiscal space. Additionally, raising the VAT threshold could be beneficial, as the cost of taxing small taxpayers is often higher per unit of revenue. This shortfall reflects issues in revenue administration, tax enforcement, compliance, and exemptions. For example, many SSA countries exempt petroleum fuels from VAT and zero-rate some products. [19] Addressing these issues by strengthening revenue administration, enhancing tax enforcement, improving compliance, and reducing exemptions and zero-rated items can create significant fiscal space.[20]

Another revenue-boosting strategy is expanding corrective taxes, or "sin taxes," on socially undesirable activities such as alcohol and cigarette consumption. For instance, the Philippines imposed higher sin taxes on alcohol and cigarettes in January 2013, generating around P91.6 billion in revenues within eleven months, earmarked for the healthcare sector.[21] Corrective taxes generate government revenue while making vices more expensive. Additionally, naturally progressive taxes like property tax, inheritance tax, and capital gains tax should be expanded. As low-income SSA countries urbanize, taxing urban properties that generate rental income could support urban and municipal infrastructure and services, including transportation.

Strengthening tax administration through information and communication technology (ICT) is also crucial. ICT can reduce tax leakages, improve tax administration efficiency, and increase government accountability in resource management. It simplifies the tax filing and payment process, reducing compliance costs for taxpayers and operating costs for governments (OECD, 2012). ICT also enhances transparency, limiting revenue leakage opportunities.

The South African Revenue Service's (SARS) e@syFile system serves as a model for the continent. It enables real-time submissions from a company's enterprise resource planning software to the SARS system, with monthly reconciliations allowing for refunds within 48 hours of the month's close. Although voluntary, it is highly popular, with about 90 percent of eligible businesses participating. The system's speed is a significant incentive, especially for small businesses, resulting in South Africa's VAT gap being the lowest in Africa at 13.3 percent (United Nations Economic Commission for Africa, UNECA, 2019).[22]

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[19] In some SSA countries for instance, fuels are exempt from VAT and mineral products are zero rated.
[20] The issue of cost recovery where public services are provided above "basic needs" levels should also be investigated.
[21] dela Peña, Zinnia B., (2013). "Cigarette, alcohol taxes up 81.5%," *The Philippine Star*, 21 December, Available at http://www.philstar.com/business/2013/12/21/1270420/cigarette-alcohol-taxes-81.5.
[22] https://www.businesslive.co.za/bd/opinion/2020-08-25-sub-saharan-africa-needs-to-up-its-game-to-stem-falling-tax-revenue/ and https://archive.uneca.org/sites/default/files/PublicationFiles/era-en-final-web.pdf

For SSA countries rich in natural resources, there are options to raise revenues either by directly extracting these resources through state-owned enterprises, joint ventures, or other forms of co-extraction, as seen in Botswana (diamonds), Brazil (oil), Indonesia (oil and gas), and Malaysia (forestry, tin, oil, and gas) (Chang 2007). Alternatively, they can sell off the exploitation rights and tax the profits, both of which can provide transitory revenues for social investments. It is essential to carefully design the right types of contracts, including licenses, joint ventures, and production-sharing arrangements (Radon 2007).

While Norway's approach of taxing oil profits and storing the revenues in the Petroleum Fund (now the Government Pension Fund Global) is well-known, developing countries offer several innovative examples of channeling natural resource revenue streams for social development. For instance, Peru expanded taxes levied on the mining sector, with the proceeds invested into health and education programmes.[23] Mongolia financed a universal rights-based child benefit from taxation on copper exports; when copper prices dropped in 2009, Mongolia was advised by international financial institutions to target its universal child benefit, but the government refused. This decision proved correct as copper prices rose again in 2010/11.[24]

On the other hand, countries like Chile, Papua New Guinea, and Iran have created "stabilization funds" based on windfall taxes. These funds help smooth income and expenditure, saving in prosperous years for "rainy days" when commodity prices are lower, ensuring consistent investments in social and economic development. It is crucial for natural resource-endowed SSA countries to reinvest revenues from natural resources to build long-term wealth and finance the SDGs.

In conclusion, these measures need to be supported by technical assistance to improve the efficiency of the tax system and international tax cooperation. The latter is fundamental as multinational companies significantly contribute to the tax revenues of most SSA countries. Protecting the tax base from practices like profit shifting is imperative. Former South African Finance Minister Nhlanhla Nene highlighted this during the 2015 Africa Tax Administration Forum (ATAF) Conference on Base Erosion and Profit Shifting in Sandton, South Africa:[25]

> "*In some African countries, tax revenue from multinational enterprises often represents a significantly greater share of the tax base than in more developed countries. Such countries rely heavily on multinational enterprise taxation. For example, Rwanda reported that 70 percent of its tax base came from multinational entities, and Nigeria reported that they made up 88 percent of its tax base. In Burundi, one multinational company contributed nearly 20 percent of the country's total tax collection. In this context, the revenue loss from BEPS [base erosion and profit shifting] can be very substantial for some countries in Africa, and addressing these BEPS issues is therefore crucial.*"

4. **Tapping wealth: boosting tax revenue from High-Net-Worth-Individuals (HNWIs)[26]**

The COVID-19 pandemic has highlighted the growing importance of strengthening the taxation of HNWIs. In several low-income SSA countries, this requires both broadening the tax base to include wealthy taxpayers who are not currently registered and improving compliance among higher-income earners. Central to this challenge is the effective taxation of income from diverse non-labor sources, such as property, and developing strategies for taxing wealth held and earned offshore.

Several low-income SSA countries have struggled significantly to collect revenues from the wealthy. Efforts to strengthen taxation of the rich in SSA have primarily focused on personal income taxes, and for good reason: the collection of personal income taxes averages only about 3 percent of GDP in several

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[23] See Peruvian Times, "Peru Organization Says New Mine Tax to Make Important Dent in Social Breaches," 30 August 2011, http://www.peruviantimes.com/30/peru-organization-says-new-mine-tax-to-make-important-dent-in-social-breaches/13513/

[24] The issue of targeting its universal child benefit is important though for Mongolia in light of the volatility of commodity prices on the international market

[25] See Mail & Guardian, "Tax-base erosion cripples Africa," 23 April, 2015, http://mg.co.za/article/2015-04-23-tax-base-erosion-cripples-africa

[26] High-net-worth individuals (HNWIs) are typically defined as those with wealth exceeding US$1 million, excluding a person's main residence (OECD 2009). HNWIs include both high-wealth and high-income individuals.

low-income SSA countries[27], compared to closer to 10 percent in wealthier countries.[28] This discrepancy is largely due to substantial and well-documented gaps in compliance among the wealthy.

Often overlooked, however, is the potential importance of property taxes, which directly target wealth rather than income. Evidence suggests that the wealthy in SSA countries tend to invest heavily in real estate, yet the taxation of these properties has been largely ineffective. Income taxes on rental income are notoriously difficult to collect, and property taxes are the most underperforming major tax type across SSA's lower-income countries. High-performing countries collect 2-3 percent of GDP in property taxes, while many lower-income countries collect as little as 0.1-0.2 percent of revenue from this source.[29]

This underperformance is driven by poor taxation of high-value properties, which are often not registered or are severely undervalued for tax purposes. Contributing factors include poorly designed systems, corruption, and political interference. However, there is significant potential for rapid improvement. For example, an ICTD-supported project in Freetown to reform the property tax system resulted in a five-fold increase in revenue potential and a three-fold increase in actual collections in the first year.[30] Impressively, this was driven almost entirely by fairer valuation and collection among owners of high-value properties. The average tax liability among the top 20 percent of property owners tripled as a result of the reform, while tax liabilities for lower-income groups declined.[31]

Effectively taxing high net worth individuals (HNWIs) in SSA requires a a multifaceted approach to ensure compliance, minimize evasion, and promote fairness. Key strategies include:

1. **Creating specialized units**: Tax authorities should establish specialized units focused on HNWIs, equipped with trained personnel and advanced technology. For example, in April 2021, the SARS launched the High Wealth Individual (HWI) Unit to address the complexities of HNWIs' tax affairs and provide dedicated service.[32]
2. **Utilizing data analytics**: Advanced data analytics can track financial activities and identify potential tax liabilities.
3. **Developing integrated tax systems**: Consolidating information from various sources, including banks, property registries, and investment portfolios, can provide a comprehensive view of HNWIs' financial activities.
4. **Regular reviews of tax laws**: Regularly updating tax laws to close loopholes exploited by HNWIs is essential.
5. **Implementing general anti-avoidance rules (GAAR)**: GAAR can counteract aggressive tax planning strategies.
6. **Participating in international frameworks**: Engaging in international frameworks for the automatic exchange of financial information helps track offshore assets and income.
7. **Establishing public registries of beneficial ownership**: Public registries reveal the true owners of companies and trusts, enhancing transparency.
8. **Enhancing wealth taxes**: Introducing or improving taxes on wealth, including property, luxury goods, and financial assets, can increase revenue.
9. **Taxing capital gains**: Ensuring capital gains are taxed at rates comparable to ordinary income prevents preferential treatment.
10. **Stricter penalties for evasion**: Imposing stricter penalties for tax evasion and non-compliance acts as a deterrent.
11. **Robust enforcement**: Adequate resources for tax authorities to investigate and prosecute tax evaders are crucial.
12. **Exploring blockchain technology**: Using blockchain can enhance transparency and traceability in financial transactions.

Additionally, the international tax regime offers opportunities for coordinated taxation of HNWIs through:

[27] https://www.ictd.ac/news/high-net-worth-individuals-taxed-more-world-economic-forum/
[28] South Africa has long been an exception in terms of personal income tax collection, achieving over 10 percent of GDP by
[29] https://www.ictd.ac/news/high-net-worth-individuals-taxed-more-world-economic-forum/
[30] https://www.ictd.ac/blog/freetown-new-property-tax-system-quintuple-revenue
[31] ibid.
[32] https://www.sars.gov.za/individuals/high-wealth-individual-unit/

1. **Information Sharing**: Bilateral tax treaties and multilateral instruments like the OECD Convention on Mutual Administrative Assistance in Tax Matters facilitate the exchange of taxpayer information.[33]
2. **Substantive Rules**: Establishing rules relating to the taxation of HNWIs helps ensure compliance across borders.

These strategies can help SSA countries more effectively tax their wealthiest citizens, increasing revenue and promoting greater economic equity. For instance, the ICTD-supported property tax reform in Freetown saw a five-fold increase in revenue potential and a three-fold increase in collections within a year, demonstrating the impact of focused and fair taxation efforts.

5. Improving the effectiveness and efficiency of public expenditure in SSA: spend better

SSA loses over 3.7 percent of its GDP annually to illicit financial flows[34] and 2.5 percent to inefficient tax incentives[35]. Additionally, inefficiencies in public spending cost the region more than 2.5 percent of GDP yearly, driven by multiple factors.[36]

A flawed government procurement system, marred by a lack of transparency and corruption, costs the health sector nearly US$9.5 billion annually, reducing access to basic health services.[37] Rigid wage and entitlement structures and deficient public institutions exacerbate these losses.[38] The IMF (2020) underscores the significant impact of public institution quality on spending efficiency and resource mobilization.[39]

Compared to other regions, SSA public expenditure inefficiency is high and spans multiple sectors.[40] Between 2000 and 2017, inefficiencies in education and infrastructure resulted in annual losses exceeding US$40 billion.[41] In health, inefficiencies caused an annual loss of US$28 billion, lowering SSA's life expectancy by over ten years.[42] SSA countries have a lower average public spending efficiency score (0.585) compared to other developing regions (0.825).[43] Empirical studies suggests that if public spending is more efficient, SSA countries could achieve the same output with 41 to 48 percent fewer resources[44] and double their performance.[45]

To address this, SSA countries must strengthen governance across public institutions. IMF research suggests that better governance could reduce inefficiency, potentially recovering over 50 percent of infrastructure investment returns.[46] Furthermore, improved governance and efficiency could deliver as much as US$110 billion in new tax revenue over 2020-25, according to a study[47] by the United Nations Economic Commission for Africa (UNECA).[48] Aligning public expenditure management with debt management and investment promotion frameworks is crucial to avoid debt cycles from mismanaged infrastructure investments.[49]

Leveraging e-procurement services can enhance transparency, accountability, and efficiency in public procurement, curbing corruption and reducing costs. Addressing wage and entitlement rigidities can

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[33] https://www.oecd.org/tax/exchange-of-tax-information/convention-on-mutual-administrative-assistance-in-tax-matters.htm
[34] https://unctad.org/system/files/official-document/aldcafrica2020_en.pdf
[35] https://www.one.org/africa/stories/true-impact-tax-incentives-africa/
[36] https://www.un.org/osaa/news/fighting-inefficiencies-public-spending-africa%E2%80%99s-next-battle
[37] ibid
[38] https://openknowledge.worldbank.org/server/api/core/bitstreams/0c1d36ac-c1a4-5cca-a9bf-1d36666a9c0b/content
[39] https://www.imf.org/en/Blogs/Articles/2020/09/03/blog090320-how-strong-infrastructure-governance-can-end-waste-in-public-investment
[40] https://www.imf.org/en/Publications/FM/Issues/2021/03/29/fiscal-monitor-april-2021
[41] https://www.un.org/osaa/news/fighting-inefficiencies-public-spending-africa%E2%80%99s-next-battle
[42] https://www.imf.org/en/Publications/WP/Issues/2022/03/04/Patterns-and-Drivers-of-Health-Spending-Efficiency-513694
[43] The score is from 0 (least efficient) to 1 (most efficient). The methodology of calculating the score is detailed in the publication. See *"In Search of Fiscal Space in Africa: The Role of the Quality of Government Spending" Available at* https://shs.hal.science/halshs-01222812/document
[44] https://shs.hal.science/halshs-01222812/document
[45] https://eujournal.org/index.php/esj/article/view/14439
[46] https://www.imf.org/en/Blogs/Articles/2020/09/03/blog090320-how-strong-infrastructure-governance-can-end-waste-in-public-investment
[47] https://www.uneca.org/sites/default/files/chapterimages/era2019_eng_Chapter_3.pdf
[48] This is more than double the US$51.8 billion SSA received in official development assistance as of 2018, according to the Organization for Economic Cooperation and Development (OECD)
[49] https://www.un.org/osaa/sites/www.un.org.osaa/files/docs/2118580-osaa-eurobonds_policy_paper_web.pdf

reallocate savings to developmental activities, such as social protection and reducing energy subsidies. SSA should also:

1. **Adopt digital tools**: Digitalization can improve service efficiency and reduce costs. South Africa's adoption of digital health tools could save up to $4.3 billion by 2030.[50]
2. **Implement performance-based budgeting**: Linking budgets to performance outcomes ensures effective use of funds. Nigeria's performance-based budgeting has enhanced accountability.
3. **Strengthen medium-term perspective in planning and budgeting**: Implement an MTEF by issuing indicative budget ceilings for two years beyond the budget year to each ministry. This enables medium-term planning within resource constraints, promoting strategic resource allocation, transparency and predictability. For example, South Africa's MTEF has improved fiscal discipline and resource allocation by providing clear fiscal constraints and encouraging ministries to plan strategically for the medium term. Similarly, Uganda's adoption of the MTEF has enhanced budget predictability and efficiency.
4. **Conduct regular public expenditure reviews**: Independent audits can identify inefficiencies. Ethiopia's expenditure reviews have helped reallocate resources effectively.
5. **Promote public-private partnerships (PPPs)**: PPPs leverage private sector efficiency for public services. Tanzania's infrastructure projects have benefited from improved project completion times and reduced costs.
6. **Enhance capacity building**: Training government officials in procurement and public financial management improves expenditure efficiency. Ghana's capacity-building programs have led to better financial oversight and project management.[51]

6. Conclusion and policy implications

To advance the 2030 Agenda for Sustainable Development and Agenda 2063, SSA countries need stable and affordable finance. With declining post-COVID-19 ODA, SSA countries must increase fiscal space and mobilize innovative funding from pension funds, sovereign wealth funds, private corporations, development banks, and middle-income countries' investors. Increasing domestic revenue is crucial for financing SDGs and recovery, enhancing national policy ownership, and reducing funding volatility.

Key strategies to collect more taxes include:

- Revenue administration: Improve tax enforcement, compliance, and reduce exemptions.
- Strengthening taxation of the wealthy by broadening the base among wealthy taxpayers, some of whom are not registered at all, and improving compliance among the relatively wealthy, higher-income earners.
- Corrective taxes: Implement taxes on alcohol, cigarettes, property, inheritance, and capital gains.
- Tax administration via ICT: Use ICT to reduce tax leakages and increase efficiency (e.g., South Africa's e@syFile system).
- Natural resource revenue: Raise revenue through direct extraction, selling exploitation rights, or taxing profits. Use stabilization funds to manage economic fluctuations.

To improve the effectiveness and efficiency of expenditure:

- Governance: Strengthen public institution governance.
- E-Procurement: Enhance transparency and reduce procurement costs.
- Wage and entitlement structures: Reallocate savings to development activities.
- Digital tools: Improve service efficiency and reduce costs.
- Performance-based budgeting: Link budgets to performance outcomes.
- Medium-term planning: Implement a MTEF for strategic resource allocation.
- Public expenditure reviews: Conduct independent audits to identify inefficiencies.
- Public-private partnerships (PPPs): Leverage private sector efficiency for public services.
- Capacity building: Train officials in procurement and public financial management.

[50] https://www.mckinsey.com/industries/healthcare/our-insights/how-digital-tools-could-boost-efficiency-in-african-health-systems#/
[51] https://findevlab.org/wp-content/uploads/2024/04/FDL_Policy-Note_Bright-Simons_Navigating-the-Governance-Gap-in-Global-Development-Finance_-Lessons-from-Ghana_April_2024_FINAL.pd

SSA countries must collect more domestic revenue and spend it more effectively and efficiently by strengthening tax administration, enhancing the taxation of the wealthy, efficiently utilizing natural resource revenues, and improving governance and strategic planning.

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Table 1:1: Tax Revenue as % of GDP across African Countries (2020-21)

	Year	2020	2021
Country			
OECD - Average		33.6	34.1
Non-OECD Economies	Botswana	12.2	15.0
	Burkina Faso	16.1	15.6
	Cameroon	12. 8	13.3
	Cabo Verde	18.3	16.8
	Chad	14.6	10.0
	Congo	9.8	8.3
	Democratic Republic of the Congo	7.3	9.1
	Côte d'Ivoire	13.1	13.9
	Egypt	13.6	14.1
	Equatorial Guinea	8.4	5.9
	Gabon	12.0	10.3
	Ghana	13.1	14.1
	Guinea	11.6	11.2
	Kenya	15.8	15.2
	Lesotho	19.4	20.7
	Madagascar	10.1	10.7
	Malawi	12.6	10.8
	Mali	18.6	19.3
	Mauritania	12.3	13.3
	Mauritius	20.3	20.0
	Morocco	27.3	27.1
	Namibia	18.6	19.7
	Niger	9.8	10.8
	Nigeria	5.5	6.7
	Rwanda	17.1	17.0
	Senegal	18,6	18,7
	Seychelles	30.5	27.9
	Sierra Leone	11.0	11.7
	South Africa	25.2	27.0
	Eswatini	17.9	18.0
	Togo	15.4	17.0
	Tunisia	32.5	32.5
	Uganda	11.1	12,2
Other Groups	Asia-Pacific	19,6	19.8
	Africa	15.5	15.6
	Latin America and the Caribbean (LAC)	20.9	21.7

https://stats.oecd.org/viewhtml.aspx?datasetcode=RS_AFR&lang=en

Notes:

1. Data include sub-national government tax revenues for Eswatini, Mauritius, Morocco, Nigeria (state revenues only) and South Africa for 2021. The Africa (33) average and the averages for Asia-Pacific (29 economies), LAC (25 countries) and the OECD (38 countries) are unweighted.
2. The Africa (33) average should be interpreted with caution as data on social security contributions are not available for Chad, the Republic of the Congo, Guinea, Sierra Leone, Togo and Uganda and are only partially available for Cameroon and Senegal. Social security contributions for Botswana, Lesotho and Malawi are deemed to be null as they do not meet the criteria to be classified as social security contributions set out in the OECD classification of taxes in the interpretative Guide.
3. The tax-to-GDP ratio for South Africa includes payments made by South Africa to the Southern African Customs Union pool.

https://www.oecd-ilibrary.org/docserver/15bc5bc6-en-fr.pdf?expires=1718126371&id=id&accname=guest&checksum=8A91A72FD425ED7E29EFE6B3CD0E9967