

Terms of Reference: Research paper on Tax expenditures, Illicit Financial Flows and Revenue losses in Africa: Implications for Domestic Resource Mobilisation and Debt sustainability

1. Background

Domestic Resource Mobilisation (DRM) is one of the main priorities in Africa's long-term development agenda. The ability of African states to independently finance public services, social protection, and infrastructure is a matter of economic sovereignty and political self-determination as much as it is a technical fiscal objective. The failure to mobilise and generate adequate revenue internally forces governments to borrow externally or depend on donor funding. These two perpetuate continued cycles of debt and dependence that structurally constrain development choices. The [2015 Addis Ababa Action Agenda](#) recognised DRM as the primary engine for sustainable development financing. It placed domestic revenue generation ahead of external flows. However, despite this consensus, Africa's fiscal trajectory remains fragile.

The structural weakness of Africa's revenue base is well-documented. According to the [African Tax Administration Forum \(ATAF\)](#), Africa's average tax-to-GDP ratio is around 15 percent which is less than half the OECD average of over 30 percent. This revenue gap limits governments' capacity to fund essential public services. It then translates into expenditure compression, constrained capital investment, and deepening reliance on debt. This is, however, framed as a challenge of "insufficient taxation" which is analytically incomplete. A growing body of evidence from institutions such as ATAF, the Addis Tax Initiative (ATI), the United Nations Economic Commission for Africa (UNECA), the United Nations Conference on Trade and Development (UNCTAD), and Tax Justice Network Africa (TJNA) highlights a more complex and troubling reality. There is evidence that African countries are not only under-taxing, but they are losing substantial existing revenues through both legal and illegal mechanisms embedded within their own fiscal systems and the broader global financial architecture.

On the legal side, there are tax expenditures which are defined as revenue foregone through statutory exemptions, deductions, preferential tax rates, credits, and incentive regimes. Tax expenditures have emerged as a significant and largely opaque component of African fiscal policy. These instruments are often deployed as a measure to attract foreign direct investment (FDI), promote specific sectors, or provide social relief. However, unlike direct government expenditures, they are rarely subjected to parliamentary oversight, performance evaluation, or cost-benefit scrutiny. The [ATI](#) has consistently highlighted that tax expenditure reporting across African countries remains weak, inconsistent, and insufficiently institutionalised. In several East African countries, tax expenditures have been estimated at up to three percent of GDP, with limited evidence of commensurate economic returns. When aggregated across the continent, they represent enormous and largely invisible fiscal transfers. This then forms a hidden public spending that escapes the scrutiny applied to on-budget expenditure.

On the illegal side, we have Illicit Financial Flows (IFFs). These are covert outflows of capital through mechanisms like trade misinvoicing, transfer pricing manipulation and profit shifting by multinational enterprises, abusive tax avoidance, and the concealment of assets in offshore financial centres. The landmark [High-Level Panel on IFFs](#) from Africa, convened under UNECA and chaired by former South African President Thabo Mbeki, produced one of the most authoritative assessments of this challenge. It's estimated that Africa

looses something between US\$50 billion and US\$88 billion annually due to IFFs. [UNCTAD's](#) subsequent analysis placed this figure at approximately US\$88.6 billion per annum which is equivalent to 3.7 percent of Africa's GDP. These outflows drain resources that could otherwise finance healthcare, education, and infrastructure. They also weaken institutional capacity and public trust in fiscal systems. Extractive industries and trade-related misinvoicing remain the dominant channels through which these outflows occur. This further reflects the commodity dependence of many African economies and the opacity of cross-border commercial transactions.

This research is further augmented by the theoretical contributions of scholars such as Dr. Lyla Latif, whose work foregrounds the structural inequalities embedded in the global tax architecture. [Latif \(2024\)](#) argues that the fiscal regimes of many African countries are substantially shaped by global power asymmetries in which multinational corporations, international investors, and influential creditor nations exercise disproportionate influence over the design of tax systems. This framing challenges the existing purely technocratic approaches to DRM reform and demands attention to questions of fiscal sovereignty. That is, the capacity of African states to independently determine and enforce their own tax policies in alignment with national development priorities. The intersection of tax expenditures and IFFs, analysed through this lens, reflects more than an administrative failure. It starts to be a systemic condition arising from Africa's location within an inequitable global economic order.

It is against this backdrop that the African Forum and Network on Debt and Development (AFRODAD) seeks to commission this research. The study aims to provide a rigorous, evidence-based analysis of the dual fiscal leakage problem. It looks at both tax expenditures and IFFs and their collective implications for domestic resource mobilisation and debt sustainability across the African continent.

2. Problem Statement

Africa's revenue challenge is fundamentally structural driven by two reinforcing leakage mechanisms, tax expenditures, and illicit financial flows. The former is very much legal in form but economically equivalent to public spending and the latter is illegal and continues to erode an already constrained revenue base. African governments deploy a wide array of tax including corporate tax holidays, value-added tax (VAT) exemptions, customs duty waivers, ring-fencing provisions, and accelerated depreciation allowances. Their primary objective is to attract foreign direct investment, pursue industrial policy objectives, and respond to political economic pressures. While these instruments carry legitimate policy rationale, the evidence increasingly suggests their fiscal costs exceed their developmental returns. Their competitive deployment produces a "race to the bottom", in which countries progressively outbid one another in generosity, eroding tax bases individually and regionally, which the SADC Model Law on Public Financial Management has explicitly identified as a regional governance concern. As [Dr. Latif \(2024\)](#) demonstrates, these concessions frequently reflect asymmetric bargaining power rather than deliberate development strategy. These dynamics are further compounded by weak tax administration capacity, regulatory loopholes, and Base Erosion and Profit shifting (BEPS) by multinational enterprises. This exposes relatively advanced systems like South Africa's to significant revenue losses.

IFFs further deepen the problem through trade misinvoicing, abusive transfer pricing, and tax evasion facilitated by opacity in global financial structures. Critically, the distinction between legal and illegal revenue losses is often artificial in economic terms. Both reduce the effective tax base and shift the fiscal burden onto less mobile actors who lack the means to engage in tax planning or capital flight.

The cumulative fiscal impact of these leakages manifests most acutely in rising public debt. When governments cannot mobilise sufficient domestic revenue, they borrow to close the financing gap. This compounds debt service obligations and crowds out productive public investment. In this sense, public debt is best understood as the deferred fiscal cost of prior revenue losses as resources not collected through taxation are effectively borrowed from future revenues at significant interest. The figures are sobering. According to [AFRODAD's own analysis](#) and data from the [International Monetary Fund](#), Africa's total external debt as a share of export earnings rose from 74.5 percent in 2010 to approximately 140 percent by 2022. In 2022 alone, African governments allocated approximately 12 percent of their total revenues to debt servicing. Between 2019 and 2022, 25 African governments allocated more to servicing their debts than to the health of their citizens. Zimbabwe has remained in debt distress since 2000, with public debt estimated at [US\\$21.5 billion](#). Zambia became the first African country in the COVID-19 era to default on its Eurobond obligations in November 2020. Malawi, among the most climate-vulnerable economies in the region, carries a public [debt-to-GDP ratio of approximately 67 percent](#) and has been in active debt default since 2022. Ghana became the fourth African country to apply for debt restructuring under the G20 Common Framework in early 2023, after its default on Eurobond. These are not isolated cases, they are symptomatic of a continental fiscal architecture in which revenue losses have cumulatively produced unsustainable debt trajectories.

3. Justification of Research

The case for commissioning this research rests on the magnitude of the fiscal losses documented above and the urgency of the policy confronting African governments. Rising debt distress, post-COVID fiscal pressures, accelerating global tax reform debates, and a growing demand for tax justice creates a window of opportunity for a thorough, Africa-centred analysis of the revenue leakage problem. Revenue losses from tax expenditures and IFFs have direct and measurable consequences for public service delivery, infrastructure investment, and social protection systems. When fiscal space is compressed by avoidable revenue losses, governments face impossible trade-offs between meeting debt obligations and funding schools, hospitals, and social grants. The Mbeki Panel Report concluded that these flows constitute a major structural impediment to Africa's development, requiring coordinated action. However, the panel's recommendations remain largely unimplemented across much of the continent.

The study will assess revenue losses through tax expenditures and IFFs in 4 African countries while making linkages to debt. The study will also examine current tax legislation in the 4 countries and make comparative analysis with at least 1 developed country to draw from best practices in curbing Illicit Financial Flows as well as progressive tax measures. The study will provide actionable recommendations to countries in curbing illicit financial flows and reducing tax expenditures to increase domestic resource mobilisation and reduce debt dependency.



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4. **Scope of the assignment:** The study will investigate revenue losses through Illicit Financial Flows and Tax Expenditures in four African countries including linking this to debt implications.
5. **Key Outputs:** One (1) Comparative Paper (maximum 25 pages excluding references, cover page and annexes).
6. **Timing:** The Research Study should be completed within 30 working days from the time the contract is signed between the selected consultant and AFRODAD.
7. **Reporting:** The Consultant will report to the Policy, Advocacy & Research Manager and the Policy, Research & Advocacy Officer for Domestic Resource Mobilisation.
8. **Copyright:** All materials/documents arising out of this consultancy work shall remain the property of AFRODAD.
9. **Competencies:** The Consultant should have skills and experience in the following areas:
 - Policy aptitude and experience on environment studies/ public finance management/economics
 - Postgraduate degree in Economics, Development studies/ international development economics/ environment /and possess a degree in economics with experience in environment.
 - A minimum of 5 years of professional experience in undertaking similar or related task; familiarity with Public Finance Management/ Environment / economics
10. **How to apply:** Interested applicants should submit an Expression of Interest (Eoi), including a proposed budget (in USD), a timeline, and relevant Curriculum Vitae (CVs), to procurement@afrodad.org and copy diana@afrodad.org by Friday, 16th October 2026, using the subject line "EOI: Tax Expenditures, Illicit Financial Flows and Revenue Losses in Africa" (only shortlisted candidates will be contacted).