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**| RESEARCH ARTICLE**

# The Role of Tax System and Informal Sector in Enhancing Revenue Mobilization in Sub-Saharan Africa

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**| ABSTRACT**
Domestic revenue mobilization remains a central challenge for economic growth in Sub-Saharan Africa (SSA), where limited tax coverage, high levels of informality, and institutional weaknesses constrain fiscal capacity. This study investigates the roles of the tax system and the informal sector in shaping revenue mobilization across selected SSA countries between 2010 and 2022. The study is guided by two main objectives: (1) to assess the role of the tax system in enhancing revenue mobilization, and (2) to examine the influence of the informal sector on revenue performance in the SSA context. Adopting a quantitative research design, the study employs a fixed effects panel regression model using secondary data from 10 SSA countries. Key variables include tax system effectiveness, informal sector size, government expenditure, financial inclusion, and political stability. Complementary statistical techniques—such as stationarity tests, multicollinearity checks, and model specification diagnostics—ensure robustness and validity. The results reveal a strong, positive, and statistically significant relationship between the tax system and revenue mobilization, affirming the critical importance of efficient and well-administered tax structures. In contrast, the informal sector's impact on revenue was found to be statistically insignificant, suggesting that its influence may be mediated by other institutional or technological factors. Political instability had a negative effect, while government expenditure contributed positively. The study underscores the urgent need for SSA governments to reform and digitize tax systems, enhance institutional credibility, and design context-specific strategies to engage the informal sector. For accounting and public finance research, the findings highlight the importance of integrating governance and macroeconomic dynamics in studying revenue performance.

**| KEYWORDS**

Revenue Mobilization, Tax System, Informal Sector, Sub-Saharan Africa, Fiscal Policy, Panel Regression, Tax Compliance, Institutional Quality.

**| ARTICLE INFORMATION**

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## 1. Introduction

Revenue mobilization remains central to the developmental agenda of Sub-Saharan Africa (SSA), a region striving to build resilient economies in the face of rapid urbanization, infrastructural deficits, and a growing informal economy. As public demands escalate, the pressure on governments to generate sustainable domestic revenues intensifies. This challenge is compounded by the dual influence of a fragmented tax system and the pervasive growth of the informal sector, both of which significantly shape the region's fiscal landscape (Mpofu, 2022). The informal sector in SSA has been growing exponentially, absorbing a significant portion of the labor force. Estimates suggest that the informal economy accounts for over 60% of employment and up to 40% of GDP in most SSA countries (Gwaindepi, 2022). This growth is driven by a combination of factors including limited formal employment opportunities, regulatory burdens, and a youthful population eager to participate in economic activities. Consequently, the sector acts as a buffer against unemployment and poverty, contributing significantly to household incomes and national consumption. However, despite its economic relevance, the informal sector operates largely

outside the purview of official regulatory frameworks. As such, it evades formal taxation, often due to the lack of enforceable mechanisms and administrative capacity. This leads to a paradoxical situation where the informal economy supports livelihoods yet undermines the fiscal capacity of governments (Chimilila & Leyaro, 2022).

Despite a growing body of literature, several gaps persist in understanding the nexus between informal sectors, tax systems, and revenue mobilization in SSA. Firstly, many existing studies adopt qualitative approaches, leaving a deficit of robust, empirical data that quantitatively examines causality between sectoral growth and tax performance (Muchiri, 2014). There is a need for econometric modeling and panel data analysis to explore long-term trends and policy impacts across different SSA contexts. Secondly, there is insufficient disaggregation of informal sector dynamics. Informal enterprises are heterogeneous, ranging from subsistence hawkers to highly profitable, unregistered SMEs. A one-size-fits-all tax approach ignores this diversity and risks policy failure (Joshi, Prichard & Heady, 2014). Geographically, research has tended to concentrate on Anglophone countries like Kenya, Nigeria, and Ghana, with Francophone and Lusophone SSA nations receiving limited scholarly attention. This imbalance limits the generalizability of findings and policy recommendations (Rotich, 2020). Lastly, the interplay between digitalization, financial inclusion, and revenue mobilization in the informal sector is under-researched. Mobile taxation, digital wallets, and blockchain offer transformative potential, but empirical evidence on their effectiveness remains scant (Mpofu, 2022).

In light of these gaps, this study is both timely and essential. As SSA countries strive toward the Sustainable Development Goals (SDGs), especially those related to inclusive growth and infrastructure, mobilizing adequate domestic revenue becomes non-negotiable. However, achieving this requires a fundamental rethinking of both tax systems and informal sector integration. This study contributes to the literature by offering a quantitative assessment of how tax systems and informal sector characteristics jointly influence revenue outcomes in SSA. Using multi-country panel data, it evaluates the effectiveness of presumptive taxation, institutional quality, and digital infrastructure in mobilizing tax revenue from the informal economy. By centering the analysis on Sub-Saharan Africa, it ensures contextual relevance and policy applicability across diverse political and economic systems. Additionally, the study provides actionable insights for policymakers, tax administrators, and international development agencies. It advocates for differentiated tax policies, enhanced regulatory transparency, and ICT-driven tax administration tailored to informal sector realities. As emphasized by Di John (2010), successful revenue mobilization strategies must be rooted in political economy analysis and stakeholder engagement to be truly transformative (Di John, 2010). Basically, the dual challenges of an expanding informal sector and an underperforming tax system must be addressed synergistically. A tax system that ignores informality risks chronic revenue shortfalls, while policies that criminalize informality may exacerbate social exclusion. Therefore, bridging this divide is not merely a technical exercise—it is a developmental imperative. The study thus offers a path forward by illuminating how inclusive, context-sensitive tax reforms can unlock the untapped revenue potential of Africa's informal economy.

### *1.1 Objectives of the Study*

The following are the objectives of the study:

1. To assess the role of the tax system in revenue mobilization in Sub-Saharan Africa
2. To examine the role of the informal sector in revenue mobilization in Sub-Saharan Africa

## 2. Literature Review

### *2.1 The Role of the Informal Sector in Revenue Mobilization*

While inherently challenging to tax, the informal sector holds latent potential for revenue mobilization. Its integration into the formal tax base could significantly widen the tax net, especially through simplified presumptive tax regimes and digital payment systems. For instance, innovations in mobile money platforms and ICT tools have proven instrumental in identifying and engaging informal businesses (Mpofu, 2022; Chimilila & Leyaro, 2022). Nevertheless, the willingness of informal actors to pay taxes hinges on factors such as perceived fairness, tax education, administrative transparency, and the visibility of public service delivery. When taxation is seen as a tool of coercion rather than mutual obligation, compliance diminishes. According to Boakye and Sarpong (2022), the perception of inequity and lack of consultation discourages informal entrepreneurs from formalizing or participating in tax processes. Additionally, the proliferation of informal operations increases opportunities for illicit financial flows, which further depletes public revenues (Uzoechina et al., 2023). Therefore, any effective tax policy must be rooted in a nuanced understanding of the informal economy's structure, motivations, and constraints.

Moreover, the heterogeneity within the informal sector presents an additional challenge for taxation strategies. Informal enterprises range from subsistence-level traders to high-turnover, unregistered businesses operating with formal sector-like capacities. Applying a uniform tax approach across such a diverse group risks overburdening the most vulnerable while enabling higher-earning informal actors to remain outside the tax net. As Joshi, Prichard, and Heady (2014) emphasize, taxation efforts must distinguish between livelihood-driven informality and tax avoidance disguised as informality. This distinction is crucial for

designing equitable tax systems that foster inclusivity without stifling micro-enterprises, which often serve as the backbone of local economies in Sub-Saharan Africa.

In addition, the administrative costs of taxing the informal sector often outweigh the short-term revenue benefits, especially in contexts of weak institutional capacity. Without investment in taxpayer identification systems, enforcement mechanisms, and incentive structures, efforts to integrate informal actors may result in superficial compliance or outright resistance. Gwaindepi (2022) argues that coercive enforcement in the absence of governance legitimacy can deepen mistrust and drive further economic activity underground. Therefore, sustainable revenue mobilization from the informal sector depends not only on fiscal tools but also on broader institutional reforms, including improvements in service delivery, legal protections for small businesses, and participatory governance frameworks.

### *2.2 The Role of the Tax System in Revenue Mobilization*

The tax system in SSA has undergone several reforms aimed at increasing efficiency, compliance, and equity. These include the broadening of VAT coverage, digitization of tax administration, and restructuring of income tax brackets. Yet, structural weaknesses such as limited administrative capacity, political interference, and a narrow tax base (Kamasa et al., 2025; Bah, 2024) have hampered the effectiveness of these reforms. Moreover, institutional quality plays a pivotal role in shaping tax outcomes. Weak institutions create fertile ground for corruption, tax evasion, and inefficiencies. According to Bah (2024), institutional deficiencies are significantly correlated with low tax performance in SSA. This has prompted calls for stronger governance frameworks, streamlined regulatory processes, and greater autonomy for tax authorities. It is also important to consider the type of tax instruments deployed. Studies indicate that over-reliance on consumption taxes such as VAT disproportionately affects lower-income groups and informal operators. Progressive income tax structures, in contrast, remain underutilized due to weak enforcement mechanisms (Mansour & Keen, 2009).

In addition to structural and institutional barriers, tax morale—or the intrinsic willingness of citizens to pay taxes—remains a critical yet often overlooked component of tax system performance. In SSA, tax compliance is frequently undermined by perceptions of government inefficiency, lack of transparency, and the failure to deliver public goods in a visible and accountable manner. As highlighted by Oloyede and Nwachukwu (2021), when taxpayers perceive that their contributions are mismanaged or not reciprocated through essential services, voluntary compliance declines. Thus, enhancing tax morale through civic education, participatory budgeting, and transparent fiscal reporting should be seen not merely as complementary reforms, but as integral to a functional tax system.

Furthermore, the design and implementation of digital tax innovations offer both opportunities and pitfalls. On one hand, the digitization of tax administration—through e-filing platforms, real-time transaction monitoring, and mobile payment systems—has shown potential to reduce leakages and improve compliance efficiency (Mpofu, 2022). However, these technological reforms must be accompanied by institutional readiness, digital literacy campaigns, and safeguards against exclusion. Without these, such tools may inadvertently widen existing inequalities or impose compliance burdens on small-scale taxpayers ill-equipped to navigate digital systems. Therefore, while digitalization is a promising frontier, its success depends heavily on the enabling institutional environment and the inclusivity of reform design.

## 3. Theoretical Framework

The theoretical underpinning of this study rests upon two foundational frameworks: the Theory of Optimal Taxation and the Institutional Theory. These theories provide analytical lenses for interrogating how tax policy design and institutional environments influence tax compliance and the capacity to mobilize revenue—especially within economies dominated by informal sectors, such as those in Sub-Saharan Africa (SSA). The Theory of Optimal Taxation helps conceptualize how governments can design tax policies that efficiently raise revenues while minimizing distortions to economic behavior. On the other hand, Institutional Theory explains the behavioral dynamics of taxpayers, particularly in informal sectors, and the role of institutions in shaping compliance norms and revenue outcomes. When used in tandem, these theories enable a comprehensive understanding of the structural and behavioral impediments to tax revenue mobilization in SSA.

### *3.1 Theory of Optimal Taxation*

The Theory of Optimal Taxation, pioneered by economists such as Mirrlees (1986), seeks to determine how governments can design tax systems that maximize social welfare while limiting economic inefficiencies (Mirrlees, 1986). At its core, this theory addresses the trade-off between equity and efficiency in taxation: how to tax individuals and businesses in a way that is fair, yet does not discourage productive activity or lead to widespread evasion. In the context of SSA, where informal economic activities dominate, the practical application of optimal tax theory becomes complex. The informal sector often falls outside the purview of formal taxation due to administrative challenges and lack of proper identification systems. As Sørensen (2007) notes, optimal taxation must adapt to real-world constraints, including limited enforcement capacity and poor tax morale in developing economies (Sørensen, 2007). Therefore, while the theoretical framework recommends marginal taxation based on income levels

or economic behavior, SSA governments must accommodate these realities by adopting simpler and broader-based tax regimes—such as presumptive taxes or VAT-based approaches.
Moreover, the theory emphasizes the need to design taxes that create minimal distortions in economic choices. However, in SSA, the current tax structures often disproportionately burden formal businesses and salaried workers while leaving large portions of informal income untaxed. This leads to horizontal inequity and undermines the legitimacy of the tax system. Mankiw, Weinzierl, and Yagan (2009) argue that optimal tax design should strive for neutrality and fairness to improve compliance and voluntary participation in the tax system (Mankiw et al., 2009). Tax compliance is also central to optimal taxation models. However, compliance behavior in SSA is often influenced by not only tax rates or audit probabilities— as economic models suggest— but also by perceptions of fairness, governance, and the effectiveness of public service delivery. This further illustrates the limits of purely mathematical models in environments where informal norms and institutional weaknesses shape compliance more than rational cost-benefit analysis.

Recent developments in optimal taxation theory have also included capital taxation and firm-level taxation, which are particularly relevant as SSA seeks to integrate the informal sector into broader revenue systems. Piketty and Saez (2012) advocate for progressive capital taxation to reduce inequality while Kopczuk and Slemrod (2006) underscore the need to recognize the heterogeneity of firms when designing tax policy (Piketty & Saez, 2012; Kopczuk & Slemrod, 2006). These perspectives are crucial when considering the range of informal enterprises in SSA, from micro-traders to large unregistered firms. In summary, the Theory of Optimal Taxation underscores the importance of well-designed tax systems for efficient revenue mobilization. However, in the context of SSA's informal economies, its assumptions must be adapted to the institutional and behavioral realities that prevail in these settings.

### *3.2 Institutional Theory*

Where optimal taxation theory focuses on economic efficiency and tax design, Institutional Theory shifts the focus to the rules of the game—formal and informal—that govern organizational and individual behavior. This theory posits that the effectiveness of public policies, including tax administration, is contingent upon the strength, credibility, and adaptability of institutions (Scott, 2005). Institutional theory is particularly relevant for analyzing tax compliance in the informal sector. The sector's reluctance to formalize or comply with tax obligations often stems from a lack of trust in public institutions, perceptions of corruption, and the failure of governments to reciprocate compliance with quality public services. According to Peters (2011), institutions shape not only the administrative apparatus of taxation but also the norms, values, and beliefs that underpin taxpayer behavior (Peters, 2011).

In the SSA context, weak institutions are a recurring theme. They manifest in tax administration inefficiencies, lack of enforcement, and politicization of fiscal policies. This discourages compliance and encourages informal operations. Dacin, Goodstein, and Scott (2002) emphasize that institutional change is slow and requires both coercive and normative pressures (Dacin et al., 2002). Therefore, policies aimed at improving revenue mobilization must address deeper governance and institutional issues, not merely administrative reforms. Furthermore, Institutional Theory highlights the importance of legitimacy in ensuring tax compliance. When tax authorities are viewed as illegitimate or exploitative, informal businesses are less likely to comply voluntarily, regardless of the simplicity or fairness of the tax regime. This institutional legitimacy is built over time through transparent governance, civic engagement, and demonstrable returns on taxation (Willmott, 2015).

The theory also accounts for the diversity of institutions across SSA. While some countries have made significant progress in tax reforms and digitalization, others still grapple with outdated laws, manual systems, and poor inter-agency coordination. Institutional variability explains the differential outcomes in revenue mobilization across the region and highlights the need for context-specific solutions. Importantly, institutional inertia can hinder reform efforts. As Amenta and Ramsey (2010) argue, entrenched interests and path dependencies often resist structural changes that might improve tax performance (Amenta & Ramsey, 2010). In SSA, this is visible in resistance to taxing politically sensitive groups within the informal economy, such as small traders and transport unions. Overcoming such resistance requires political will, stakeholder engagement, and a long-term institutional reform agenda. Institutional theory thus complements the optimal tax framework by explaining why even well-designed tax policies may fail if the underlying institutions are weak or misaligned. It underscores that revenue mobilization is not merely a technical challenge but also a political and institutional one.

## 4. Methods

### *4.1 Data Collection*

This study adopts a quantitative research approach, allowing for an empirical examination of the relationships between tax compliance, the informal sector, and revenue mobilization in Sub-Saharan Africa (SSA). Quantitative methods offer the rigor required to test theoretical assumptions, explore causal relationships, and ensure generalizability across diverse national contexts (Sørensen, 2007). To that end, the study relies on secondary panel data drawn from reliable and publicly accessible databases,

including the World Bank's World Development Indicators (WDI), the International Monetary Fund's Government Finance Statistics (GFS), and the African Tax Administration Forum (ATAF). These sources provide consistent, cross-country indicators that are essential for comparative fiscal analysis. Additionally, governance and institutional quality indicators are sourced from the World Governance Indicators (WGI), while tax compliance proxies are drawn from the Tax Administration Diagnostic Assessment Tool (TADAT) reports and related IMF country assessments. These multi-institutional sources ensure data triangulation, enhancing the reliability and validity of the research findings (Mankiw et al., 2009).

### *4.2 Sample Population*

The study focuses on a panel of ten SSA countries selected based on the availability and completeness of data from 2010 to 2022. The countries include Kenya, Ghana, Nigeria, Rwanda, Tanzania, Ethiopia, Uganda, Zambia, Senegal, and Côte d'Ivoire. These nations represent a diverse spectrum of tax administration systems, levels of informality, and institutional capacities. Moreover, they have all undertaken varying degrees of tax reform and have publicly available data, making them suitable for comparative analysis. By examining these countries over a 12-year period, the study captures temporal dynamics and the evolution of fiscal and institutional frameworks in the region. Longitudinal analysis is particularly important given the slow-moving nature of institutional change and the progressive efforts at informal sector integration across many SSA economies (Amenta & Ramsey, 2010).

### *4.3 Measures*

In order to quantify the relationship between revenue mobilization, tax system, and informal sector, this study incorporates several variables, categorized into dependent, independent, and control variables. The measurements and sources of these variables are summarized in Table 1 below.

Table 1: Measurements of Variables

| Variables | Definitions | Acronym | Measurements | Data Source |
|---|---|---|---|---|
| Tax System | The structure, policies, and efficiency of the tax regime | TAXSYS | Tax-to-GDP ratio | World Bank |
| Revenue Mobilization | The total amount of tax revenue collected by governments as a proportion of the economy. | REV | - Total tax revenue as a percentage of GDP | World Bank |
| Economic Growth | The rate at which a country's economy expands over time. | GDPG | - Annual GDP growth rate (%) | World Bank |
| Government Expenditure (Control Variable) | The total amount of spending by the government on public services and infrastructure. | GOVEXP | - Public spending as a percentage of GDP | Our World in Data |
| Political Stability (Control Variable) | The degree of predictability, effectiveness, and security in a country's political system. | POLSTAB | - Political stability index | World Bank Governance Indicators |
| Financial Inclusion (Control Variable) | The proportion of the population with access to formal financial services. | FININC | - Account ownership at a financial institution or mobile money provider (% of population ages 15+) | World Bank Global Findex Database |
| Informal Sector | The size of the informal economy as a proportion of total GDP. | INFORMAL | - MIMIC model-based estimates of informal output (% of GDP) | World Bank |

### *4.4 Model for the Study*

In order to investigate the relationship between tax compliance, the informal sector, and revenue mobilization, a panel regression model is employed. The panel data structure accommodates both cross-sectional (between countries) and time-series (over years) variation, improving the efficiency and explanatory power of the analysis. The study utilizes a fixed effects (FE) model to control for country-specific unobserved heterogeneity. The fixed effects estimator is particularly suitable here as it accounts for time-invariant characteristics that may affect tax revenue performance, such as cultural tax norms or legal structures. In cases where serial correlation or endogeneity issues are detected, a Generalized Method of Moments (GMM) approach will be applied to ensure consistent estimation (Sørensen, 2009).

#### *4.4.1 Model Specification*

In order to empirically analyze the study's objectives, different econometric models are specified for each research question. These models incorporate key dependent, independent, and control variables, ensuring a robust and comprehensive analysis of revenue mobilization, tax compliance, and the informal sector in Sub-Saharan Africa (SSA):

$$REV_{it} = \propto + B_1 INF_{it} + B_2 TC_{it} + B_3 FINNIC_{it} + B_4 GOVEXP_{it} + B_5 POLSTAB_{it} + \epsilon_{it}$$

Where:

$REV_{it}$ = Revenue mobilization in country $\boldsymbol{i}$ at time $t$.
$INF_{it}$ = Size of the informal sector, measured as a percentage of GDP.
$TC_{it}$ = Tax compliance, measured as the average time spent on tax filing (hours per year).
$FINNIC_{it}$ = Financial inclusion.
$GOVEXP_{it}$ = Government expenditure (control variable.
$POLSTAB_{it}$ = Political stability (control variable).
$\epsilon_{it}$ is the error term.
$\propto$ = Constant term.

### *4.2 Analytical Techniques*

To ensure the rigor and validity of the quantitative findings, the study employs a comprehensive suite of analytical techniques. Initially, descriptive statistics are used to summarize the central tendencies and dispersion of key variables, providing a preliminary understanding of their distribution across countries and over time (Mankiw et al., 2009). Subsequently, correlation analysis assesses the direction and strength of relationships among variables, thereby identifying potential multicollinearity or spurious associations. To ensure time-series reliability in panel data, stationarity tests such as the Levin-Lin-Chu (LLC) and Im-Pesaran-Shin (IPS) are conducted. These tests prevent misleading inferences caused by non-stationary variables (Sørensen, 2007). Furthermore, model specification tests, including the Hausman test, determine the suitability of fixed effects versus random effects models, ensuring consistency in parameter estimation. Additionally, multicollinearity is assessed through Variance Inflation Factors (VIF) to avoid inflated standard errors, while the Breusch-Pagan test checks for heteroskedasticity, ensuring homoscedastic residuals. Finally, a panel regression analysis is performed to quantify the impact of tax compliance and the informal sector on revenue mobilization, controlling for institutional and macroeconomic factors (Bah, 2024).

### *4.3 Data Quality Measures*

Ensuring data quality is paramount in quantitative research, particularly in multi-country panel studies. To begin with, data were obtained exclusively from internationally recognized and validated databases such as the World Bank, IMF, and ATAF, thus minimizing errors associated with unreliable reporting (Scott, 2005). Secondly, data cleaning procedures were implemented, including outlier detection, treatment of missing values, and cross-verification of indicators across sources. Observations with more than 10% missing values across key variables were excluded to preserve statistical power and integrity. Moreover, consistency checks were performed by comparing overlapping indicators across time, while variable transformations (e.g., natural logarithms) were applied where necessary to reduce skewness and ensure normality. These steps collectively enhance the reliability, comparability, and internal validity of the dataset, providing a robust foundation for empirical analysis (Amenta & Ramsey, 2010).

## 5. Results

### *5.1 Descriptive Statistics*

The descriptive statistics in Table 2 offer a foundational understanding of the variables under investigation across 130 observations. Notably, the mean value for the tax system (13.13%) and revenue mobilization (11.58%) suggests relatively low tax-to-GDP ratios across the selected SSA countries, reflecting limited tax capacity and efficiency—a finding consistent with prior literature on weak revenue systems in developing regions (Bah, 2024). Conversely, the informal sector's mean share of 41.63% underscores its significant dominance in SSA economies, which likely contributes to the underperformance of revenue mobilization. The standard deviation (7.05) also reflects substantial variability in informality across countries. Meanwhile, financial inclusion, averaging 38.71%, is moderately developed, but its high variability (std. dev. = 19.78) points to uneven access to financial services. The skewness and kurtosis statistics reveal that revenue mobilization is highly negatively skewed and leptokurtic, with a Jarque-Bera p-value of 0.0000, confirming non-normality. This highlights the possibility of structural asymmetries or data outliers. Furthermore, political stability has a negative mean (-0.58), indicating systemic governance fragility, which may further hinder revenue efforts. In summary, the results provide crucial empirical context for understanding the fiscal constraints and heterogeneities shaping tax policy effectiveness in Sub-Saharan Africa.

Table 2: Descriptive Statistics Results

| | Tax System | Revenue Mobilization | Informal Sector | Financial Inclusion | Government Expenditure | Political Stability |
|---|---|---|---|---|---|---|
| Mean | 13.13112 | 11.58143 | 41.63697 | 38.71038 | 17.16740 | -0.584600 |
| Median | 12.32224 | 12.18725 | 41.30902 | 41.67000 | 17.11839 | -0.435854 |
| Maximum | 26.68286 | 13.31329 | 55.05973 | 81.57000 | 26.88392 | 0.660963 |
| Minimum | 0.000000 | 0.000000 | 29.73612 | 3.700000 | 10.17665 | -2.339440 |
| Std. Dev. | 4.319863 | 2.269084 | 7.050784 | 19.78179 | 4.218759 | 0.724815 |
| Skewness | -0.134115 | -4.094264 | -0.057210 | 0.220277 | 0.187916 | -0.631506 |
| Kurtosis | 5.043146 | 21.27176 | 2.068579 | 2.412090 | 2.108904 | 2.588398 |
| Jarque-Bera | 23.00130 | 2171.591 | 4.770120 | 2.923515 | 5.066216 | 9.558334 |
| Probability | 0.000010 | 0.000000 | 0.092083 | 0.231828 | 0.079412 | 0.008403 |
| Sum | 1707.045 | 1505.586 | 5412.807 | 5032.350 | 2231.762 | -75.99794 |
| Sum Sq. Dev. | 2407.296 | 664.1879 | 6413.048 | 50480.19 | 2295.933 | 67.77106 |
| Observations | 130 | 130 | 130 | 130 | 130 | 130 |

Source: Field Data (2025)

### *5.2 Correlation Analysis*

The correlation analysis in Table 3 reveals insightful relationships among the variables under study. Firstly, the positive correlation between the tax system and revenue mobilization (r = 0.363), though moderate, suggests that improvements in tax system structure—such as efficiency, administration, and coverage—tend to enhance domestic revenue collection. This aligns with the theory of optimal taxation, which posits that effective system design can directly boost revenue performance (Mirrlees, 1986).

Conversely, the informal sector shows a negative correlation with both the tax system (r = -0.280) and revenue mobilization (r = -0.124),** reaffirming the commonly held view that informality erodes the taxable base and complicates enforcement mechanisms (Joshi et al., 2014). Interestingly, financial inclusion is negatively correlated with informality (r = -0.293), implying that greater access to formal financial systems may reduce informal activities—a dynamic increasingly emphasized in digital tax reform strategies. Furthermore, government expenditure correlates strongly with the tax system (r = 0.538), suggesting fiscal expansion may be supported by tax reforms. Notably, political stability is positively related to informality (r = 0.353), warranting further investigation into institutional dynamics. Overall, these relationships justify deeper multivariate analysis to assess causality.

Table 3: Correlation Analysis Results

| | | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|---|
| 1. | Tax System | 1.000000 | | | | | |
| 2. | Revenue Mobilization | 0.363171 | 1.000000 | | | | |
| 3. | Informal Sector | -0.280473 | -0.123850 | 1.000000 | | | |
| 4. | Financial Inclusion | 0.149651 | -0.041867 | -0.293138 | 1.000000 | | |
| 5. | Government Expenditure | 0.537897 | -0.174653 | -0.160131 | 0.398862 | 1.000000 | |
| 6. | Political Stability | 0.236269 | -0.190852 | 0.353418 | 0.071183 | 0.289153 | 1.000000 |

Source: Field Data (2025)

### *5.3 Stationary Tests*

The stationarity tests presented in Table 4 confirm the statistical reliability of the revenue mobilization series, which is a critical prerequisite for time-series and panel regression analysis. All four tests—Levin, Lin & Chu (LLC), Im, Pesaran and Shin (IPS), ADF-Fisher, and PP-Fisher—consistently reject the null hypothesis of a unit root at the 1% significance level. Specifically, the LLC test reports a highly significant test statistic of -58.2961 (p = 0.0000), indicating strong stationarity under the assumption of a common unit root process across panels.

Similarly, the IPS W-statistic of -14.2277 (p = 0.0000) corroborates these findings, even under the more flexible assumption of individual unit root processes. Both Fisher-type tests, based on the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) methodologies, also produce statistically significant Chi-square values (39.61 and 79.76 respectively), reinforcing the conclusion that the differenced revenue mobilization series is stationary. These results are methodologically significant, as they mitigate the risk of spurious regression—a common issue in panel data when variables exhibit non-stationarity (Sørensen, 2009). Consequently, the dataset is deemed suitable for further econometric analysis using fixed effects and GMM estimations.

Table 4: Stationary Tests Results

Panel unit root test: Summary

Series: D(Revenue Mobilization)

Sample: 2010 2022

Exogenous variables: Individual effects

User-specified lags: 1

Newey-West automatic bandwidth selection and Bartlett kernel

Balanced observations for each test

| Method | Statistic | Prob.** | Cross-sections | Obs |
|---|---|---|---|---|
| Null: Unit root (assumes common unit root process) | | | | |
| Levin, Lin & Chu t* | -58.2961 | 0.0000 | 10 | 100 |
| Null: Unit root (assumes individual unit root process) | | | | |
| Im, Pesaran and Shin W-stat | -14.2277 | 0.0000 | 10 | 100 |
| ADF - Fisher Chi-square | 39.6067 | 0.0056 | 10 | 100 |
| PP - Fisher Chi-square | 79.7647 | 0.0000 | 10 | 110 |

** *Probabilities for Fisher tests are computed using an asymptotic Chi-square distribution. All other tests assume asymptotic normality.*

### *5.4 Model Specification Tests*

The results of the Hausman test in Table 5 provide essential guidance on model selection. With a chi-square statistic of 9.397 (p = 0.0942), the test fails to reject the null hypothesis, implying that the random effects model is not significantly different from the fixed effects model. However, given the policy relevance of country-specific characteristics in SSA and the significance of some individual coefficient differences—such as tax system (p = 0.0334) and political stability (p = 0.0375)—the fixed effects model is deemed more appropriate for robust interpretation (Sørensen, 2009).

The panel regression output reveals that changes in the tax system (β = 0.840, p < 0.01) significantly and positively affect revenue mobilization, supporting the central hypothesis that efficient tax structures enhance fiscal capacity. Additionally, government expenditure is also positively significant (p = 0.0337), suggesting that productive spending may reinforce revenue flows. Conversely, political stability exhibits a negative and significant coefficient (p = 0.0316), potentially reflecting unstable regimes' weakened tax collection efficiency. While financial inclusion approaches significance (p = 0.0677), the informal sector remains statistically insignificant, warranting deeper exploration of mediating factors. Overall, the model demonstrates strong explanatory power ($R^2$ = 0.76) and sound statistical diagnostics, affirming its reliability for policy analysis.

**Table 5: Model Specification Tests**

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
|---|---|---|---|
| Cross-section random | 9.397091 | 5 | 0.0942 |

Cross-section random effects test comparisons:

| Variable | Fixed | Random | Var(Diff.) | Prob. |
|---|---|---|---|---|
| D(Tax System) | 0.839666 | 0.816101 | 0.000123 | 0.0334 |
| D(Informal Sector) | 0.037583 | -0.005764 | 0.009983 | 0.6644 |
| Government Expenditure | 0.141706 | 0.044586 | 0.003106 | 0.0814 |
| Financial Inclusion | -0.018505 | -0.005249 | 0.000047 | 0.0527 |
| Political Stability | -1.144382 | -0.129418 | 0.238028 | 0.0375 |

Cross-section random effects test equation:

Dependent Variable: REVENUE_MOBILIZATION1

Method: Panel Least Squares

Sample (adjusted): 2011 2022

Periods included: 12

Cross-sections included: 10

Total panel (balanced) observations: 120

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -2.483821 | 1.152222 | -2.155678 | 0.0334 |
| D(Tax System) | 0.839666 | 0.047088 | 17.83178 | 0.0000 |
| D(Informal Sector) | 0.037583 | 0.336888 | 0.111560 | 0.9114 |
| Government Expenditure | 0.141706 | 0.065859 | 2.151653 | 0.0337 |
| Financial Inclusion | -0.018505 | 0.010026 | -1.845743 | 0.0677 |
| Political Stability | -1.144382 | 0.525289 | -2.178578 | 0.0316 |

Effects Specification

Cross-section fixed (dummy variables)

| | | | |
|---|---|---|---|
| R-squared | 0.759894 | Mean dependent var | -0.149900 |
| Adjusted R-squared | 0.727879 | S.D. dependent var | 2.768187 |
| S.E. of regression | 1.444030 | Akaike info criterion | 3.689221 |
| Sum squared resid | 218.9482 | Schwarz criterion | 4.037657 |
| Log likelihood | -206.3532 | Hannan-Quinn criter. | 3.830722 |
| F-statistic | 23.73616 | Durbin-Watson stat | 2.662235 |
| Prob(F-statistic) | 0.000000 | | |

### *5.5 Multicollinearity Check*

The results of the multicollinearity check, presented in Table 6, confirm the absence of problematic multicollinearity among the independent variables included in the regression model. The centered VIF values—which are the standard benchmarks—are all

below the conventional threshold of 10, with most variables recording values close to 1, indicating a very low degree of linear interdependence. Specifically, the VIF for D(Tax System) is 1.03, while D(Informal Sector) (1.06), Government Expenditure (1.12), and Political Stability (1.07) similarly fall well within acceptable limits. Although the uncentered VIFs for some variables such as Government Expenditure (75.73) and Financial Inclusion (10.49) appear inflated, they are not relevant for diagnosing multicollinearity because they include the intercept and are influenced by model specification structure (Mankiw et al., 2009). The overall low centered VIFs imply that the coefficient estimates in the regression are not inflated due to multicollinearity, thus ensuring interpretative clarity and statistical reliability of the regression outputs. Consequently, the results strengthen confidence in the validity of the model findings and support the robustness of policy implications derived from the study.

Table 6: Multicollinearity Test Results

Variance Inflation Factors
Sample: 2010 2022
Included observations: 120

| Variable | Coefficient Variance | Uncentered VIF | Centered VIF |
|---|---|---|---|
| D(Tax System) | 0.002217 | 1.028641 | 1.028084 |
| D(Informal Sector) | 0.113494 | 1.209006 | 1.057473 |
| Government Expenditure | 0.004337 | 75.73008 | 1.116042 |
| Financial Inclusion | 0.000101 | 10.49024 | 1.171333 |
| Political Stability | 0.275928 | 6.805248 | 1.068735 |
| C | 1.327616 | 76.40145 | NA |

### *5.6 Regression Analysis*

This section presents a detailed interpretation of the regression results in Table 8, focusing on the study's key objectives: (1) assessing the role of the tax system in revenue mobilization in Sub-Saharan Africa, and (2) examining the influence of the informal sector on revenue mobilization. The analysis incorporates control variables to isolate the effects of the primary predictors, using a fixed effects panel regression model that explains over 75% of the variation in revenue mobilization ($R^2$ = 0.76), indicating a strong explanatory power.

#### *5.6.1 Assessing the Role of the Tax System in Revenue Mobilization*

The regression output shows a highly significant and positive relationship between the tax system and revenue mobilization, as evidenced by the coefficient of 0.8397 ($p < 0.0001$). This implies that a one-unit improvement in the tax system (e.g., through administrative efficiency, coverage, or enforcement) is associated with a 0.84 unit increase in revenue mobilization. This finding directly supports the first objective and aligns with theoretical expectations from the Theory of Optimal Taxation, which emphasizes efficient tax design as essential for maximizing public revenue with minimal distortions (Mirrlees, 1986; Mankiw et al., 2009).

The strong coefficient also reflects the increasing reliance on digitization and automation in modernizing tax systems across SSA. Countries like Rwanda and Ghana, for instance, have demonstrated how reforms targeting electronic filing, taxpayer registration, and VAT compliance have enhanced revenue outcomes (Bah, 2024). Additionally, the result reinforces prior findings that emphasize the significance of expanding the tax base beyond narrow formal channels by improving tax policy coherence and administrative integrity. Moreover, the strong statistical significance of the tax system variable suggests that among all the predictors included in the model, tax system performance is the most influential factor driving revenue growth. This result underscores the need for policymakers in SSA to prioritize sustainable, inclusive, and transparent tax policy reforms as part of broader economic development strategies.

#### *5.6.2 Examining the Role of the Informal Sector in Revenue Mobilization*

In contrast to the tax system, the informal sector exhibits an insignificant relationship with revenue mobilization, with a coefficient of 0.0376 and a p-value of 0.9114, far above conventional thresholds for significance. This outcome suggests that changes in the size of the informal sector do not statistically influence revenue outcomes in the short term, despite its substantial presence in SSA economies.

At first glance, this may appear counterintuitive, given the widely held view that informality undermines tax efforts by shrinking the taxable base (Joshi et al., 2014). However, this result could be explained by several contextual factors. First, many informal actors operate at subsistence levels and may generate revenues too small to meaningfully impact national collections, even if

fully taxed. Second, the ineffectiveness of enforcement mechanisms and weak institutional capacity across many SSA countries may neutralize efforts to extract revenue from informal operations. Furthermore, the result may reflect the persistent disconnect between informal sector growth and tax administration infrastructure. Without structured presumptive tax schemes, improved tax morale, and digital integration, the potential fiscal contribution of the informal sector remains largely untapped. The insignificance of this variable may therefore point to implementation gaps rather than a lack of theoretical or policy relevance.

### *5.6.3 Control Variables and Model Diagnostics*

Beyond the two main predictors, the regression model includes several control variables that offer additional insight. Government expenditure emerges as statistically significant ($\beta = 0.142$, $p = 0.034$), implying that fiscal expansion—possibly through improved public services and infrastructure—can stimulate tax revenue growth, likely through economic multiplier effects. Conversely, political stability has a negative and significant coefficient ($\beta = -1.144$, $p = 0.032$), suggesting that political unrest may disrupt tax administration, reduce business activity, and erode public trust in institutions—factors detrimental to tax collection.

Financial inclusion, while only marginally significant ($p = 0.068$), shows a negative relationship with revenue mobilization. This unexpected result could stem from transitional dynamics in digital finance, where financial inclusion does not yet translate into expanded tax bases, especially if digital platforms are not integrated into formal tax systems. The model also exhibits strong diagnostic properties. With an R-squared of 0.76 and adjusted R-squared of 0.73, it explains a substantial portion of the variance in revenue mobilization. The F-statistic (23.74) and its associated p-value (< 0.0001) confirm the overall significance of the model. Additionally, the Durbin-Watson statistic of 2.66 suggests that serial correlation is not a concern, supporting the reliability of the results.

In summary, the regression findings provide robust evidence for the importance of an effective tax system in driving revenue mobilization in SSA, affirming the first objective of the study. However, the second objective—regarding the informal sector's role—yields no statistically significant association, prompting a reevaluation of how informal sector integration into the tax net is conceptualized and operationalized in fiscal policy. These findings carry important implications for both theory and practice, advocating for comprehensive tax system reforms while simultaneously calling for more innovative, institutionally grounded approaches to taxing the informal economy.

Table 8: **Regression Analysis Results with Tax System and Informal Sector as Predictors**

Dependent Variable: D(Revenue Mobilization)

Method: Panel Least Squares

Sample (adjusted): 2011 2022

Periods included: 12

Cross-sections included: 10

Total panel (balanced) observations: 120

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| D(Tax System) | 0.839666 | 0.047088 | 17.83178 | 0.0000 |
| D(Informal Sector) | 0.037583 | 0.336888 | 0.111560 | 0.9114 |
| Government Expenditure | 0.141706 | 0.065859 | 2.151653 | 0.0337 |
| Financial Inclusion | -0.018505 | 0.010026 | -1.845743 | 0.0677 |
| Political Stability | -1.144382 | 0.525289 | -2.178578 | 0.0316 |
| C | -2.483821 | 1.152222 | -2.155678 | 0.0334 |

Effects Specification

Cross-section fixed (dummy variables)

| | | | |
|---|---|---|---|
| R-squared | 0.759894 | Mean dependent var | -0.149900 |
| Adjusted R-squared | 0.727879 | S.D. dependent var | 2.768187 |
| S.E. of regression | 1.444030 | Akaike info criterion | 3.689221 |
| Sum squared resid | 218.9482 | Schwarz criterion | 4.037657 |
| Log likelihood | -206.3532 | Hannan-Quinn criter. | 3.830722 |
| F-statistic | 23.73616 | Durbin-Watson stat | 2.662235 |
| Prob(F-statistic) | 0.000000 | | |

**6. Discussions**

The present study affirms the significant role of the tax system in enhancing revenue mobilization across Sub-Saharan Africa (SSA), as reflected by a highly positive and statistically significant coefficient for the tax system variable. This finding is strongly aligned with the conclusions of Mpofu (2022), who emphasized that institutional efficiency, modernization of tax administration, and simplification of tax codes have been central to improving domestic resource mobilization in SSA (Mpofu, 2022). Similarly, Bah (2024) found that institutional quality and tax system strength are positively associated with tax performance, reinforcing the notion that robust tax infrastructure yields higher compliance and revenue outcomes (Bah, 2024).

In contrast, while the tax system consistently proves pivotal, the role of the informal sector in revenue mobilization remains inconclusive. This study found the informal sector to be statistically insignificant in influencing revenue outcomes, a result that aligns with Gwaindepi (2022), who argued that informality, while substantial, is only one among many complex structural factors affecting revenue generation (Gwaindepi, 2022). Similarly, Adu (2021) observed that despite mobile phone penetration and attempts at digital engagement, informality remains elusive to direct taxation due to administrative, socio-political, and technological barriers (Adu, 2021).

However, this finding contrasts with earlier empirical work by Muchiri (2014), who identified a negative and statistically significant relationship between informal sector growth and tax revenue performance in Kenya, suggesting that informality directly erodes the tax base (Muchiri, 2014). The difference may be due to methodological distinctions: Muchiri relied on a country-specific time-series analysis, whereas the current study used a multi-country panel approach, potentially masking country-level variations in informal sector-tax relationships. Furthermore, Chimilila and Leyaro (2022) provided a contrasting perspective by emphasizing the potential of ICT-driven formalization to integrate informal actors into tax nets. Their findings showed that digital infrastructure—such as mobile payment systems and digital tax IDs—can mediate the informal sector's contribution to revenue mobilization (Chimilila & Leyaro, 2022). This nuance may explain why the informal sector appears statistically insignificant in this study—it may not be the size of informality per se that matters, but the extent to which informal activities are integrated into formal systems.

Additionally, Di John (2010) observed that political economy constraints often undermine tax reforms targeting the informal sector. These include patronage politics, administrative bottlenecks, and the fear of political backlash from informal groups—barriers that continue to hinder efforts despite theoretical potential (Di John, 2010). Such realities resonate with the current study's findings, especially when viewed alongside the significant negative effect of political instability on revenue mobilization, underscoring the broader institutional challenges in SSA. Moreover, the positive and significant association between government expenditure and revenue performance in this study also mirrors results from IMF-backed fiscal analyses. Aslam et al. (2022) noted that increased and strategic public investment—particularly in infrastructure, education, and digitization—can indirectly stimulate revenue generation by improving economic activity and broadening the tax base (Aslam et al., 2022).

In conclusion, the current study's findings on the positive impact of the tax system are widely supported across the literature. However, the insignificance of the informal sector contrasts with some country-level findings but aligns with broader regional assessments that view informality as a structurally embedded challenge, rather than a singular determinant of fiscal weakness. Future research may benefit from exploring interactive effects—such as how institutional quality or digital infrastructure mediates the link between informality and revenue outcomes—offering a more nuanced path forward.

**7. Practical Implications**

The findings from this study offer several practical implications for tax administrators, policymakers, and development agencies across Sub-Saharan Africa. Most prominently, the statistically significant and positive relationship between the tax system and revenue mobilization underscores the need for governments to invest in comprehensive tax system reforms. Enhancing

administrative efficiency, simplifying tax codes, and leveraging digital platforms such as e-filing and taxpayer databases can substantially increase the effectiveness of tax collection mechanisms. Moreover, the positive association between government expenditure and revenue suggests that investments directed toward institutional capacity-building—particularly in revenue authorities—can foster a stronger fiscal base. Additionally, efforts to improve voluntary compliance through public engagement, taxpayer education, and transparent tax usage reporting may help bridge the trust gap between citizens and tax institutions. These practical steps are particularly essential in contexts where historical grievances and political instability have weakened tax morale. Ultimately, this study supports the view that strengthening the tax system is not just a fiscal necessity but also a strategic development imperative.

## 8. Implications for Accounting Research

Beyond policy relevance, this study makes valuable contributions to the field of accounting research. It expands the conversation beyond firm-level compliance to macro-level fiscal behavior, particularly in under-researched contexts such as SSA. The empirical results support a broader institutional lens for accounting scholars—one that integrates public finance, governance, and socio-political dynamics into the analysis of revenue outcomes. This presents opportunities for future accounting research to explore how fiscal transparency, audit institutions, and budgeting systems influence not only public trust but also measurable tax behavior. Furthermore, the study's use of fixed effects panel regression across ten countries over a twelve-year period demonstrates the utility of longitudinal, comparative approaches in accounting research. These methods enable scholars to uncover structural patterns and causal pathways that may be invisible in single-country or firm-level analyses. As such, this research encourages the development of a more interdisciplinary and policy-engaged branch of accounting scholarship—particularly in emerging markets.

## 9. Limitations

Despite its significance, the study is subject to several limitations. Firstly, the operationalization of the informal sector remains a challenge. Most countries in SSA rely on indirect estimates based on labor force surveys or national accounts, which may not fully capture the heterogeneity or economic contribution of informal actors. This limitation could partially explain the statistical insignificance of the informal sector variable in the regression model. Secondly, the study includes only ten countries due to data availability constraints. While the selected countries are geographically and economically diverse, the limited sample size may affect the generalizability of findings to the broader SSA region. Thirdly, although the fixed effects model controls for unobserved, time-invariant heterogeneity, it does not entirely eliminate the risk of endogeneity. For instance, a well-performing tax system could both drive and result from higher revenue mobilization, introducing potential reverse causality.

## 10. Future Work

In light of these limitations, several avenues for future research are proposed. Firstly, future studies could employ more disaggregated data—such as firm-level or regional panel data within countries—to better capture local variations in informal sector behavior and its relationship with tax policy. Such granularity would allow for the identification of sector-specific taxation gaps and compliance challenges.

Secondly, researchers should consider employing dynamic panel models, such as the Generalized Method of Moments (GMM), to address potential endogeneity and explore causal feedback loops more robustly. Another promising direction is the examination of digital financial tools, such as mobile money and blockchain tax solutions, in integrating informal activities into the formal tax base. As fintech continues to evolve rapidly in Africa, understanding its implications for tax compliance and revenue mobilization is both timely and relevant.

Finally, comparative studies across regions—such as comparing SSA with Southeast Asia or Latin America—can help illuminate both universal and context-specific factors in revenue performance. Such cross-regional insights can support the development of tailored fiscal strategies while contributing to global debates on taxation, informality, and development finance.

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