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Effect of Tax Administration Efficacy on Tax Revenue Performance of Developing Countries. What Role Does Entrenching a Culture of Good Public Governance and High-Quality Public Service Play? A Critical Literature Review

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Abstract
While tax administration efficacy remains a central determinant of domestic tax revenue mobilization and fiscal sustainability,tax systems across many developing economies continue to face persistent challenges, including widespread tax non-compliance, administrative inefficiencies, weak enforcement mechanisms, governance deficiencies, corruption, and limited public trust in tax authorities. These challenges have undermined the capacity of governments to mobilize sufficient tax revenue, resulting in substantial fiscal deficits and constrained public service delivery.The consequences of ineffective tax administration have compelled many developing countries to increasingly rely on public borrowing as an alternative source of financing for growing public expenditure demands.However, this overdependence on public debt and dwindling tax revenue collection has left these developing countries in a fiscal dilemma where they are forced either to borrow expensively from international lenders or raise tax rates in order to fund expensive development initiatives. While excessive borrowing has contributed to rising debt burdens and fiscal vulnerability, increased taxation has elevated the cost of living, fueled public dissatisfaction, and led to intense criticism of government fiscal policies. Without improved tax compliance and effective public governance, developing countries risk sinking further into debt due to inadequate domestic revenue mobilization.This reality has renewed scholarly and policy interest in understanding the role of public governance in strengthening tax administration and promoting fiscal sustainability. Against this backdrop, this article examined the efficacy of tax administration in enhancing tax revenue mobilization in developing countries. The paper used desktop research methodology and drew information from past studies on tax administration, policy reports, and institutional analyses.The findings revealed that sustained improvement in tax revenue performance is contingent upon embedding a culture of good public governance and providing high-quality public services to improve citizenry trust with tax authorities. The paper recommends the implementation of governance and service-driven reforms aimed at strengthening tax administration efficacy, improving voluntary compliance, reducing reliance on external borrowing, and enhancing the fiscal social contract between governments and citizens in developing countries.
Key terms: Tax Administration Efficacy, Tax Revenue, public governance, Developing Countries

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I. Introduction

Today, while effective tax administration has been acknowledged as a cornerstone of state capacity, economic development, democratic governance and a means of safeguarding state sovereignty(Kimani *et al.,* 2024: Latif, 2026),It has also emerged as a critical tool for mobilizing domestic tax resources to finance public goodsand upscale the potential of developing countries to raise ample tax revenue andreduceoverdependence on external borrowing, grants and aid (IMF, 2019). However, the effectiveness of tax administrationsystems across developed and developing countries has varied significantly over time, partly explaining why developed nations collect more taxes than developing countries yet they all use similar model of taxation.In many developing countries,tax administration remains constrained not only by inefficiencies, but also by public governance challenges such as systemic corruption, discriminatory tax practices, and weak tax enforcement capacity, all of which undermine tax revenue performance.Against this backdrop, the past decade has witnessed growing attention from governments, business community, scholars, economists, and international organizations, with increasing emphasizes toward strengthening tax administration systems in developing economies. The focus has increasingly been on enhancing the tax-to-GDP ratio through reforms aimed at curbing corruption within tax revenue authorities, addressing tax administrative resource constraints,infrastructural deficits and reducing tax evasion, with the broader objective of improving fiscal capacity, economic growth, and development outcomes (Nuhu, Kawugan and Ibrahim, 2025).

While it is one thing to appreciate the role that taxes play in financing government expenditure, it is quite another different thing to have in place a system which actually collects and manages tax revenue effectively for a country. Notably, a good tax system depends largely on two things: A well-developed tax policy and an effective tax administration to implement this policy. This article makes no attempt to discuss tax policy issues. It concentrates fully on tax administration, noting that while development of an effective tax administration is not the panacea to developing countries tax revenue problems, improving tax administration would significantly improve tax revenue performance becauseweaknesses observed in developing tax administration, at least to some extent, explaindeveloping countries poor tax revenues (Henry, Yua and Mkuma*et al.,*2023).

The need for an efficient tax administration has ignited the urge for implementation of tax related reforms. Effective tax reforms have been acknowledged as crucial in mobilizing sufficient tax revenue for public services and infrastructure development. As a consequence, tax administrations have increasingly sought to improve their efficiency and effectiveness by adopting more proactive approaches ofpromoting taxpayer voluntary compliance. This shift has been largely driven by the expanded use of technology and the need to respond to the evolving expectations and needs of taxpayers. In this regard, many tax administrations have been among the early adopters of e-administration systems, enabling services such as online filing of tax returns, digital payment platforms, and the partial or full pre-filling of tax returns, all of which have significantly streamlined tax compliance processes and improved administrative performance (Nengak*et al.,* 2025).This has streamlined tax administration efficiency and enabled governments to collect tax revenue effectively, reduce tax evasion, and fund essential public services. As a consequence, tax administrations around the world have responded by increasingly turning to digital solutions as an attempt to make tax systems more efficient.

Tax administration encompasses a wider spectrum of activities that ensures that tax laws and regulations are adhered to. Some of the activities that tax administrators perform includes but not limited to taxpayer registration, tax return processing, tax assessment, collection, and enforcement. Thus, establishing an efficient and effective tax administration has been the primary goal of many tax authorities throughout the world so as to ensure tax revenues are collected promptly and accurately, minimizing the risk of tax evasion and increasing voluntary tax compliance (Salawu, 2023).The efficient administration of taxes is essential for economic development. Tax revenues are critical for funding public services and infrastructure development, which, in turn, promote economic growth. Effective tax administration helps also attract foreign investment, create job opportunities and promotes economic development. However, a poorly administered tax system can have adverse effects on economic development. It can lead to reduced tax revenues, which limits the government's ability to fund public services and infrastructure development. Moreover, a poorly administered tax system can discourage foreign investment, limiting job opportunities and economic growth (Niyi, 2022). The article highlights the significance of tax administration on revenue generation as inefficient tax administration result in lower tax revenues, reduced economic growth, and increased social inequality.

Fjeldstad&Heggstad(2020)argues that establishing an effective tax administration system is not solely a technical matter but a matter which remains deeply embedded in the quality of public governance and trust citizens have on their government. Unfortunately, developing countries remains trapped in cycles of poor governance characterized by high corruption levels, political instabilities and weak enforcement capacity.This raises a fundamental question of how such countries can build effective tax administration systems that serve the public interest while at the same time safeguarding their financial sovereignty. The answer, they suggest, lies in strengthening the quality of public governance, which in turn shapes the dominant tax philosophy guiding tax revenue authorities and influences everyday interactions between taxpayers and the state.For instance, when state adopt service-oriented tax administrationscharacterized by fairness, responsiveness, clarity of informationand respect for taxpayer rights, tax compliance costs reduce significantlyand this, helps to foster cooperative relationships. In this context, taxpayers are treated not merely as tax revenue sources but as stakeholders in the fiscal system.Conversely, when states adopt coercive and enforcement-oriented tax administrations marked by rigidity, opacity, inconsistent application of tax laws and limited respect for taxpayer rights, tax compliance costs tend to increase significantly. In such oppressive environments, taxpayers often face complex procedures, unclear information, frequent disputesand arbitrary penalties, which erode trust in the tax system and creates a fertile environment for endless tax avoidance schemes and tax evasion. Rather than being viewed as stakeholders by coercive tax system, taxpayers are treated primarily as subjects of control and tax revenue extraction, fostering adversarial relationships with tax authorities. This approach mostlyencourages tax evasion and avoidance, undermine voluntary tax compliance and weaken the overall legitimacy and effectiveness of the fiscal system.

From a theoretical point of view, taxation has been conceptualized as an implicit contract between the state and citizens, where taxpayers willingly comply in exchange for quality public services, accountability, and representation. However, weak tax compliance is often linked to perceptions of poor governance, corruption, and inefficient service delivery. On the basis of the foregoing, entrenching good public governancecharacterized by transparency, accountability, rule of law, and participation wouldstrengthen fiscal contract by enhancing citizens' trust in tax authorities and governments. It is important to note that when taxpayers perceive that tax revenues are managed prudently and translated into tangible public benefits, voluntary compliance increases, thereby improving tax administration efficacy. Moreover, the quality of formal institutions plays a big role in shaping administrative performance(Niyi,2022). Effective tax administration depends on robust legal frameworks, professional bureaucracies, and predictable enforcement mechanisms. However, institutional weaknesses such as political interference, discretionary decision-making and inadequate administrative capacity often undermine tax efficiency. It is therefore imperative to embed governance normssuch as integrity, procedural fairness and meritocracywithin tax institutions in order to improve standardized practices, reduced rent-seekingand improve tax compliance outcomes. High-quality public service thus becomes a mechanism through which institutional legitimacy and administrative effectiveness are reinforced.This is supported by the finding of Angbazo and Iorlaha (2024) who examined the conceptualinfluence of taxation reforms on its implications for revenue generationinNigeria. The findings revealed that tax reforms positivelyinfluenced income generation; However, the findings further noted that persistent challenges, including inadequate infrastructureand limited digital literacy, continued to hinder optimal tax outcomes.

1.2 Tax Revenue

Tax refers to a compulsory deduction imposed by a government to his people for purposes of raising public revenue to meet the expenses for executing public utility functions(Kimani *et al.,* 2024).Taxes are levied on all income earning people within a certain jurisdiction, whether employedor self-employed,through a finance law which is normallyapproved by parliament in every financial cycle. Taxes usuallytake many forms such as PAYE, capital gain tax, presumption tax,NSSF both Tier I & Tier 2, NHIF/SHA/SHIF, stamp duty, HousingLevi or in-terms of VAT attached to goods and services that are sold to the generalpublic.The revenue collected from the proceeds of taxation is always channeled to facilitateeconomic developments and infrastructure development. While taxation is geared towards positivedevelopments strategy, sometimes this is not always the case since imposing taxes which are notwarranted may lead to negative impact on financial performance of business entitiesand hence depriving them long term sustainability. High and multiple tax regimecan discourage investors from putting up investments that can create employmentsopportunity that is geared towards economic stability and well-being of its people.Taxation serves as the primary source of Government funding for all public activitiesboth for County Government as well as Central or regional Governments. The use of Taxes as a means of raising public revenue to fund economic development has a longhistory dating back several years ago. For instance, in Egypt, the practice was initiated as early as2000 BC, with taxes being collected on commodities such as cooking oil and othercommon goods. The primary objective behind the collection of taxes on variousproducts was to facilitate the financing of government activities and plans,specifically those related to economic developments (Deshpande, 2012). While ancient Egypt's centralized administration and effective record-keeping made tax collection comparatively efficient for its time, the process still involved logistical and administrative challenges such as variation ofharvests due to flooding and erratic weather conditions, corruption among local officials and tax collectors and remoteness of some areas which made it more difficult if not impossible to collect and monitor tax administration exercise.As nations continue to transform towards industrialized state, the collection of taxes hasbecome a very complex affair ridden with political, administrative, policy and legal controversies (Latif, 2026).

There are various measures of tax revenue performance. The most commonly used measures for assessing of how effectively a tax system generates tax revenue relative to its potential, economic capacity, and policy objectives. Tax revenue performance is commonly evaluated using indicators such as the tax-to-GDP ratio, which shows the proportion of national income collected as tax and reflects the overall efficiency of revenue mobilization. Another key measure is tax buoyancy, which captures the responsiveness of tax revenue to changes in GDP, indicating whether tax revenue grows proportionately with economic expansion. Tax elasticity is also used to isolate the impact of policy changes from economic growth by measuring how tax revenue responds to income changes under constant tax structures. In addition, collection efficiency ratios compare actual tax revenue with estimated taxable capacity, highlighting gaps caused by evasion, avoidance, or administrative inefficiencies. Together, these measures provide a comprehensive view of tax revenue performance and help policymakers evaluate the effectiveness of tax administration systems and reforms(Risdiawan&Nurhidayati, 2020).

1.3 Status of Tax Administration Efficacy AmongstDevelopingCountries

Although nations across the globe collect tax revenues from its citizenry to ensure smooth execution of their respective governments' operations, there is a significant difference in revenue collection between developed and developing countries. Developed countries tend to have more successful and advanced tax policies which enhance collection of revenue, as compared to developing countries. Moreover, developed countries have adopted digitized tax filing and payments systems with the aim of streamlining tax revenue collection and minimizing administrative burdens.According to Fjeldstad and Heggstad (2020), quality of governance, characterized by accountability and transparency of institutions, robustness of legal frameworks, and strength of the enforcement mechanisms, remains a primary challenging factor to effective tax revenue collection for nearly all developing countries. They pontificate that nations that have high standards of public governance tend to have high rate of tax compliance and revenue collection, whereas, those characterized by weak system ofpublic governance like many developing countries are often marred with inefficiencies and leakages in tax revenue collection resulting to significant tax revenue shortfalls.

Further, although both developed and developing countries have organized their tax revenue collection centers at both national and regional levels, tax systems for developing countries are largely inefficient, thus hampering tax revenue collection effortsreflecting differences in institutional development, political commitment,low voluntary tax compliance,weak enforcement, political stability and public governance quality which undermine tax administration efficacy. IMF (2021) indicates that governance indicatorssuch as control of corruption, regulatory quality, and government effectivenessare positively associated with tax revenue performance in Sub-Saharan Africa, including EAC countries (Ajaz & Ahmad, 2020). These findings underscore the need to move beyond purely technical reforms and address the governance and service dimensions of tax administration.From the foregoing, this article advances the argument that enhancing tax administration efficacy among developing countries requires entrenching a culture of good public governance and high-quality public service. Without any iota of doubts, goodpublic governance helps to foster legitimacy, trust and accountability while quality public service enhances taxpayer satisfaction and voluntary tax compliance. Together, these elements strengthen the fiscal social contract between the state and citizens, thereby improving tax revenue performance (Moore & Prichard, 2018).

IMF (2020) and OECD (2020)observed that large informal sectors, narrow tax bases, complex exemptions and persistent tax evasion continue to undermine tax revenue mobilization across the EAC. Fjeldstad and Heggstad (2020) further note that improvements in tax administration capacity are often offset by weak political commitment to enforce tax compliance among powerful economic actors, resulting in uneven application of tax laws. Moreover, limited institutional capacity, governance deficitsand low public trust exacerbate tax compliance challenges, leading to high tax enforcement costs and tax revenue leakages. Consequently, despite notable reforms and isolated successes, tax administration efficacy across many developing countries remains constrained by deep-rooted institutional, politicaland socioeconomic factors, underscoring the need for more comprehensive governance-driven and service-oriented reforms. Notably,weak public governance undermines the credibility of tax authorities, while poor service delivery discourages voluntary tax compliance and reinforces adversarial relationships between taxpayers and the state.

2.2 Theoretical Framework

2.2.1 Optimal Tax Theory

Optimal Tax Theory was first developed by Frank P. Ramsey (1927) and later refined by James Mirrlees (1971). The theory focuses on how government can design a tax system that raises sufficient government tax revenue while minimizing distortions to economic activities and maximizing social welfare. According to the theory, governments should impose taxes in a manner that achieves revenue objectives at the lowest possible economic cost. The central concern of the theory is balancing efficiency and equity so that taxation does not excessively discourage work, investment, savings, or consumption. Optimal Tax theory therefore provides a framework for determining the most efficient tax structure that can generate adequate revenue while promoting economic growth and welfare.

This theory is used in this paper to explain the relationship between tax administration efficacy and tax revenue by emphasizing that an optimal tax system must not only be well designed but also effectively administered. Efficient tax administration enhances taxpayer registration, assessment, collection, auditing, and enforcement mechanisms, thereby reducing tax evasion, avoidance, and revenue leakages. Through improved compliance and lower administrative costs, a larger proportion of tax liabilities is successfully converted into actual tax revenue. Furthermore, effective tax administration broadens the tax base by identifying previously untaxed individuals and businesses, allowing governments to collect more revenue without necessarily increasing tax rates. Consequently, Optimal Tax Theory suggests that improvements in tax administration efficacy would lead to higher tax revenue performance by increasing compliance, reducing collection inefficiencies, and ensuring that the intended revenue objectives of the tax system are achieved.

Despite its significance, Optimal Tax Theory has attracted several criticisms. First, it relies on unrealistic assumptions that governments possess sufficient information about taxpayers' incomes, preferences, and behavioral responses to taxation, which is often not the case in practice. Second, critics argue that the theory places excessive emphasis on economic efficiency while giving insufficient consideration to issues of equity, fairness, and social justice. Third, determining the optimal tax structure is often difficult because it requires complex economic modelling and extensive data that may not be available, especially in developing countries. Additionally, the theory pays limited attention to institutional factors such as corruption, political interference, governance quality, and administrative capacity, all of which significantly influence tax revenue outcomes.

Finally, the theory inadequately accounts for tax morale and taxpayer trust in government, factors that contemporary research identifies as crucial determinants of voluntary tax compliance and tax revenue performance. Therefore, while Optimal Tax Theory provides a useful framework for understanding the role of tax administration in revenue generation, its practical application remains constrained by real-world institutional and informational challenges(OECD, 2022).

2.2.2 Tax Incidence Theory

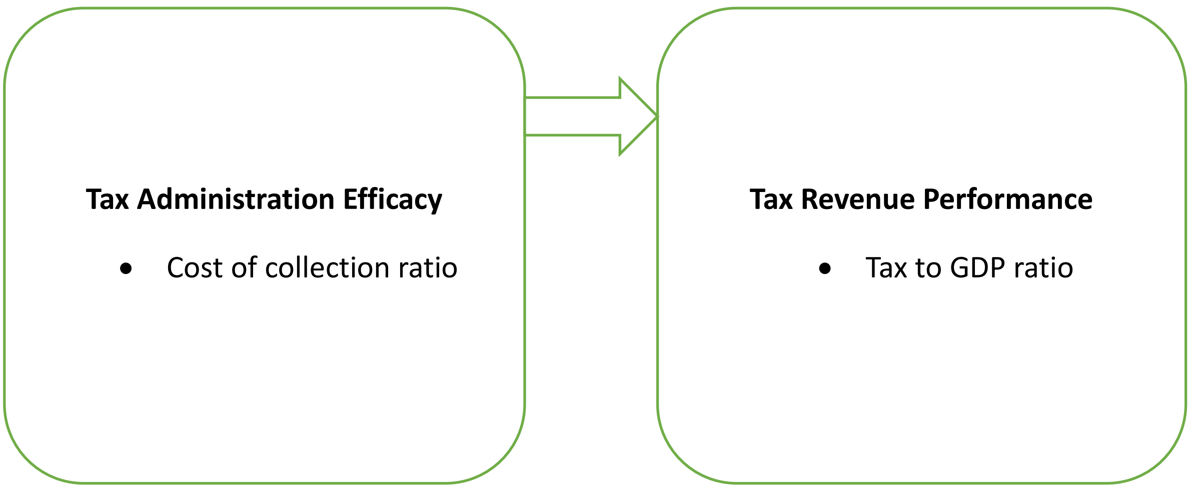
Tax Incidence Theory is a foundational concept in public finance associated with classical economists such as David Ricardo (1817) and later refined through neoclassical contributions by economists including John Stuart Mill and modern public finance scholars such as Musgrave (1959). The theory focuses on the economic distribution of the tax burden, explaining how the burden of a tax is ultimately shared between consumers and producers regardless of the statutory assignment. It is grounded in the idea that market forces, particularly demand and supply conditions, determine the final incidence of taxation after adjustments in prices and output.

In explaining the relationship between tax administration systems and tax revenue, the theory highlights that efficient tax administration enhances compliance and reduces distortions in market behavior, thereby improving revenue collection. A well-functioning tax system ensures that taxes are collected with minimal evasion and avoidance, which stabilizes government revenue. However, the actual burden of taxation as determined by elasticity of demand and supplyaffects taxpayer behavior, influencing compliance levels. For instance, when tax administration is weak, high effective tax burdens on inelastic sectors may encourage evasion, reducing overall tax revenue performance. Thus, the theory indirectly links administrative efficiency to revenue outcomes through its emphasis on burden distribution and behavioral responses(Organization for Economic Co-operation and Development, 2022).

The theory is, however, subject to several criticisms. One major limitation is its reliance on simplified assumptions such as perfect competition, full information, and fully flexible prices, which rarely exist in developing economies. It also tends to overlook institutional realities such as corruption, informal economic activity, and weak enforcement mechanisms, all of which significantly influence tax collection. Moreover, it assumes smooth market adjustments, ignoring time lags and rigidities that may distort the actual incidence of taxation in practice.Despite these criticisms, Tax Incidence Theory remains highly relevant in modern fiscal analysis as it provides a framework for understanding how tax burdens are distributed and how this distribution affects economic behavior and revenue performance. Contemporary scholars such as Musgrave and Musgrave (1989) emphasize its usefulness in guiding equitable tax design and improving efficiency in tax administration systems. It remains a key analytical tool for policymakers seeking to balance revenue generation with fairness and economic efficiency in both developed and developing economies.

2.3Conceptual Framework

A conceptual framework is a schematic representation of the relationship that exists between study variables. In this paper, tax administration efficacy was utilized as the independent variable while tax revenue performance was used as the dependent variable as depicted below:



Independent variable Dependent variable

2.4Empirical Review

Niyi (2022) did a study evaluating effect of tax administration on tax revenue generation in Nigeria. The government tax administration mechanisms, which are used to monitor tax collection, include tax audit, tax amnesty, tax enforcement and tax penalties. The study utilized survey research design and analyzed data using both descriptive and inferential statistics. The population of the study consisted of 302 audits and risk department personnel from the State Board of Internal Revenue and the Federal Inland Revenue Service in the southwest Nigerian states of Ekiti, Ondo, Osun, Oyo, Ogun, and Lagos. A total of 172 persons were sampled using the Taro Yamane sampling method to obtain the sample size. The researcher utilized a close-ended questionnaire to obtain primary data for the study. The data wasanalyzed using multiple linear regression analysis to obtain the inferential statistics. The findings revealed that for tax administration to be effective, tax administrators should continue to enforce tax laws against taxpayers by making tax penalties strong enough to deter would-be tax defaulters. Moreover, tax audit should be intensified to unravel any act of tax evasion and tax amnesty should be seldomly granted due to its negative effect on tax revenue in Nigeria.

Adebayo, Adeyemi and Osunwole (2022) did a study examining the influence of tax administration on government tax revenue generation of Osun State, Nigeria. Descriptive survey design and purposive sampling technique were employed. A total of 187 respondents participated in the study. Questionnaires were used to gather the data while descriptive and inferential statistics were used to analyzed data. The result showed that shortage and inadequate training of staff and improper records keeping has a negative and significant influence on tax revenue generation. These can pose challenges on government not to fulfill its obligation thereby leading to overdependence on external source of financing. The study recommended the need to establish an effective tax administration system managed by qualified personnel and guided by taxlaws to guide in tax administration.

II. Research Methodology

This study employed a desktop research methodology where secondary data was collected and analyzed from empirical studies and policy documents on the relationship between tax administration and tax revenue. The study also relied on peer-reviewed journal articles, government publications, statistical reports, working papers, books, and credible online databases. This method enabledcritical review of the existing knowledge, identification of patterns, and drawing of conclusions without the need to use primary data collection methods such as surveys or interviews.

III. Conclusion

The paper concludes that tax administrative efficacy is very significant in tax revenue collection and quite inseparable from the broader governance and public service environment in which tax authorities operate. Although technological innovations and tax policy reforms have generated notable improvements in tax revenue collection and tax compliance, their long-term success ultimately depends on the extent to which principles of good governance are institutionalized and supported by a strong culture of public service delivery.As a consequence, the paper concludes that developing countries ought to make efforts toestablish a tax administration system which is transparent, accountable, and the one that operates with highest level of integrity and professionalism toenhance institutional credibilityin order to fostertaxpayer trust and promote voluntary tax compliance. From the foregoing, this article demonstrates further that developing countries with stronger governance frameworks and service-oriented tax administrations tend to achieve better tax revenue outcomes and higher compliance levels than their counterparts who exhibit governance deficits and poor service quality that constrain tax administration efficacy. Thus,this paper concludes also that strengthening fiscal social contract would therefore require deliberate efforts to align tax administration practices with good public governance norms and citizen-centered service delivery.

IV. Recommendations

First, developing countries should institutionalize good public governance within tax administrations by strengthening accountability mechanisms, enforcing ethical standards, and enhancing transparency in tax processes. Moreover, Independent oversight bodies and internal integrity units should be empowered to deter corruption and build public confidence.

Second, tax authorities should invest in continuous professional development to improve staff competence, integrity and service orientation. Training programs should emphasize taxpayer rights, customer care and ethical conduct alongside technical tax skills.

Third, governments should prioritize taxpayer-centric service delivery by simplifying tax procedures, expanding digital platforms, and improving accessibility of tax services. High-quality service delivery reduces compliance costs and encourages voluntary tax compliance.

Fourth, regional cooperation among developing countries such as EAC should be deepened to promote exchange of best practices, harmonization of administrative standards, and joint capacity-building initiatives. Such collaboration would go a long way in enhancing efficiency and reducing cross-border tax evasion.

Finally, developing countries governments should strengthen the fiscal social contract by demonstrating clear links between tax payment and public service provision. Visible and accountable use of tax revenues wouldenhance legitimacy and reinforces a culture of tax compliance

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