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Abstract: The purpose of the study is to empirically analyze the effect of quality of governance on tax revenue in South Africa. This is done by analyzing a time series dataset covering 1996 to 2020. The study used voice and accountability, regulatory quality, government effectiveness, control of corruption, political stability and rule of law as proxies of quality of governance. Multiple regression analysis was performed to test hypotheses. Based on the regression results, all quality of governance variables in South Africa have a negative effect on tax revenue except corruption control. The findings of this study also include policy recommendations. The government of South Africa must design and implement effective ways to combat poor governance, which results in a tax revenue shortfall.

1. Introduction

To boost revenue collection, effective management is required. Improved governance leads to a more efficient tax collection system, which strengthens the economic structure (Izadkhasti et al., 2021). Consequently, better institutional quality can lead to increased public trust, increased tax revenues, and better-quality tax system performance. In the course of generating revenue, unindustrialized and emerging economies face a range of institution-related problems. Tahseen and Eatzaz (2010) state that tax administration corruption is one of the critical problems. The misuse of public funds by administrative officers in developing nations is a major source of corruption, according to Epaphra and Massawe (2017). While Schlenther (2017) notes that corruption hurts tax administrations' ability to collect revenue by reducing compliance rates and increasing tax evasion. Corrupt practices, therefore, cannot be deliberated in isolation, since they are part of the larger problem of governance and public administration. Having an effective governance system is essential for a country's future development and stability. How scant attention is paid to one of the most essential factors in the process of raising and collecting government revenues is astonishing.

Poor governance is the second major issue with inadequate revenue generation (Epaphra and Massawe, 2017). Bird et al. (2008) suggest that undeveloped economies' poor governance could be responsible for this lower tax revenue ratio. Likewise, Bai and Wei (2000) point out that weak institutions cause government tax collection to be ineffective, which in turn limits macroeconomic policy effectiveness. As a result, one could hypothesize an association between governance and tax revenue collection. In addition to supply-side dynamics, Bird et al. (2008) conclude that the tax-to-GDP ratio is subject to demand-side dynamics as well. The economy's ability to pay taxes is considered a supply-side issue, whereas institutional quality is considered a demand-side factor. Using Végh and Gribnau (2018) as an example, a sound governance framework makes tax administration more effective and leads to greater tax revenues.

A greater degree of governance might show that economic activity and tax revenue generation are performing well (Hassan *et al.*, 2021). As a result, it is critical to look at how strong governance affects tax revenue in emerging markets like South Africa. In order to enhance revenue collection, the

country has undertaken many tax reforms. They have, however, had little influence in recent years. In South Africa, the search for a long-term source of public finance has brought taxation to the fore.

Among the many tasks the government performs, two types of financial resources are employed to achieve its goals: tax revenue and non-tax revenue (Johnson and Omodero, 2021). Taxation, being one of the most significant sources of revenue, has long been a concern for macro- and microeconomic policymakers and strategists (Panahi, Fallahi, and Mardomdar, 2017). Hassan et al., (2021), continue by pointing out that a sound tax revenue fraction to GDP is critical for the government machinery to work effectively. The imbalance among sector tax shares and GDP, a restricted tax base, and poor taxpayer compliance are the main causes of low tax-to-GDP ratios in undeveloped economies (Shahzad, Naveed & Muqeem, 2016). As a result, unindustrialized economies frequently seek external support. While over-reliance on external sources causes long-term challenges for undeveloped economies, these governments should prioritize internal revenue mobilization (Gupta, 2007).

The impact of corruption on the South African economy and, by extension, the entire nation is well-documented. However, the impacts of corruption on the tax collection arm of the nation, South African Revenue Services (SARS), are less well-documented. SARS has had several hurdles in recent years, with its credibility being persistently tarnished under Tom Moyane's stint as SARS commissioner. This stint lasted from late 2014 to 2018, following scathing claims of incompetence and corruption. As a result of these allegations and significant under-collection over several years, the Nugent Commission of Inquiry was established in 2018. Commission findings pointed to irresponsible mismanagement under Moyane, the devastation of the Large Business Centre, which was intended for huge firms and high-net-worth persons, and a restructuring that caused numerous skilled professionals to lose their jobs. In light of the disbanding of key SARS units that pursued non-compliant large firm taxpayers, there were perceptions that some taxpayers were not paying their taxes. Corruption in tax administration and a lack of attention to the critical mission of revenue collection were directly related to political meddling. For several years, South Africa's revenue collection has lagged behind expectations. Government officials, audit firms and large multinational firms appear to have scant appreciation for the numerous laws in place to deter and punish corruption. They continue to engage in arrangements that are not just unlawful but also offensive, according to the state of capture report 2022.

Governance quality is of equal importance from this perspective. South Africa's nascent democracy has been founded on the trust and taxes of its citizens, and the risks were clear. A failure of SARS would mean the demise of South Africa. Will South Africa's tax authority be able to regain its reputation after controversies over accusations of corruption shaken the organization? How does robust governance affect South Africa's tax revenues? In this study, we aim to find out whether sound governance enhances tax revenues in South Africa. In order to increase tax mobilization more effectively, policy implications and reform ideas relating to governance quality must be derived.

This paper is arranged as follows: After the introduction in Section 1, Section 2 contains a literature review, and Section 3 covers the formulation of hypotheses. The data, model definition, and approach are described in Section 4. In section 5, we discuss empirical findings. The study concludes in section 6.

2. Literature Review

2.1. Taxation Mechanism

The benefit hypothesis holds that tax rates are automatically determined: people pay appropriately for the public services they get. In other words, people who enjoy the most government services pay more taxes. Accordingly, the goal of the benefit theory is to assess the quality of government services in terms of their efficacy. When it comes to taxes, people make choices based on how and what the government spends tax revenue on. Public's choices to pay or avoid taxes are influenced by factors such as infrastructure, power supply, and sound governance and improved social services.

In taxation theory, revenue and expenditures are divided according to a person's capacity to pay. Taxation is dependent on a person's capacity to pay. Most taxpayers view taxes as a burden, since they do not see a direct benefit immediately, which creates questions about how much each taxpayer should sacrifice. In this theory, all taxpayers should suffer the same overall loss of utility as a result of taxes; that is, the affluent should be taxed more than impoverished people. A variety of theories link tax revenue with institutional quality/governance. Besley and Persson (2009), for example, assert that coherent political institutions lead to a better tax system and proper tax use, which in turn increases the tax base. Nevertheless, they suggest that the causal impact of political institutions varies depending on whether the effectiveness or impartiality of those institutions is measured. Political institutions are likely to increase fiscal capacity by enhancing impartiality, but this does not necessarily have a positive effect on the efficacy of taxation schemes.

2.2. Quality of Governance Mechanism

Quality of governance is primarily defined as a set of guidelines, regulations, and best practices related to governance. These guidelines were designed to rank organizations based on how well they are governed. In other words, a framework called corporate governance is used to guide and oversee businesses (Cadbury Committee, 1992). Political, social, and legislative macro-institutions influence governance practices around the world and are ingrained in each country's corporate systems (Armitage et al., 2017).

Voice and Accountability: Voice and Accountability measures a nation's residents' perceptions of their ability to choose their government as well as their access to the freedoms of speech, association, and the press. The link between voice and accountability is at the heart of the pragmatic governance argument, or how sound governance could be implemented in daily life (see Grindle, 2004). A meaningful link between "voice" and "accountability" can be formed only when the public is empowered to demand change and those in positions of authority are willing to do so.

Regulatory Quality: This metric measures the government's ability to develop and execute sound rules and regulations that support and encourage private-sector growth. The regulatory framework is essential for combating poor corporate governance by public or corporate actors. Although earlier research in this field provides a helpful theoretical basis, it does not take into consideration how actors' attitudes about regulations are formed (Aguilera et al., 2018). The successful operation of society and the economy depends on well-designed regulations, which are a crucial institutional instrument for individuals, businesses, and the state. According to a set of principles, regulatory quality aims to encourage structural changes in a nation's regulatory regime, ensuring a robust, transparent, answerable, and progressive process that is conducive to the creation and growth of businesses, productivity improvement, contestability, financing, and international trade.

Government Effectiveness: In the realm of public policy, the concept of government effectiveness is essential (Duho, 2020). This metric measures the caliber of the civil service and its resistance to political influence. It also measures the effectiveness of policy formulation and execution. It also measures the legitimacy of the government's adherence to its declared policies. Effectiveness measurement involves using stakeholders' perspectives, making it a contentious notion to evaluate. It requires the development of appropriate policies, their effective execution, and generally speaking, citizen-centric policies. As a result, effectiveness is a crucial performance metric that South Africa is interested in using to enhance the well-being of its citizens.

Control of Corruption: Control of corruption refers to perceptions of how much public power is used for private benefit, encompassing both small-scale and large-scale corruption, and the "capturing" of the state by oligarchs and private interests. The efficacy of a nation's institutional structure and policies toward preventing and combating corruption is also gauged by the Control of Corruption indicator. Diverse communities however have different definitions of corruption. A distinct line between right and wrong, between reward and bribe, is impossible to draw[1]. However,

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[1] Rose-Ackerman, S. 2005. Corruption and Government Causes, Consequences, and Reform. Cambridge University Press, Cambridge, p.5

corruption can hinder the application and enforcement of effective governance principles and mechanisms.

The rule of law: The rule of law is the framework, procedure, institution, custom, or standard that upholds the legal parity of all inhabitants. This guarantees an impartial system of governance and, more broadly, precludes the arbitrary exercise of authority. In the constitutional democracy of South Africa, the rule of law holds more significance as a fundamental ideal.

2.3. Empirical Literature

Over the years, many academics have studied the effect of sound governance on tax revenue. Most countries' policymakers would like to produce effective institutional regulations in order to create the most effective tax system possible for their economies to prosper (Nguyen, 2015). As a result, tax collection is a crucial source of revenue for a country's efficient administration.

Corruption, as one of the features affecting governance practices, encourages corrupt people to prioritize their own welfare over the welfare of the public, lowering administrative efficiency (Purohit, 2007). Many past studies that looked at the link between corruption and tax revenue have found a clear adverse association between the two. Epaphra and Massawe (2017) used a panel data set covering 30 African nations from 1996 to 2016, for instance, to examine the effect of institutional variables (corruption and governance) and tax revenues on African economies. Fixed effects (FE) and random effects (RE) models were used to calculate all results. Corruption and governance are two major drivers of tax revenue in Africa, according to regression analysis results. Corruption adversely impacts tax revenue generation. However, sound governance, including government effectiveness, regulatory standards, the rule of law, and voice and accountability, positively impacts tax revenue generation, especially indirect taxes.

Additionally, Sydullah and Wibowo (2015) explored the cause-and-effect relationship using ASEAN nations' panel data from 2003 to 2012. The study also declares that voice and accountability controls, corruption, and political stability are all highly detrimental to tax ratios within those nations. However, the rule of law and regulatory quality are beneficial.

Using primary data collected through a survey as the primary data collection tool, Mohamed et al. (2022) looked into the impact of corruption and governance on tax revenue in Mogadishu. Entrepreneurs, directors, chief financial officers, and tax advisors received one of 399 questionnaires that were given out to them. SPSS software version 20 was used to analyze the data for descriptive analysis, correlations, and multiple regression to evaluate the relationship between independent and dependent variables. According to the report, factors like a stringent regulatory load and an absence of political stability have a substantial impact on how much revenue public sector organizations receive in taxes.

On the other hand, Nnyanzi et al. (2016) looked at how regional integration affects tax revenue in East Africa. According to the study, tax revenue negatively influences government effectiveness, the rule of law, and political stability. Its method (GMM estimation) is, however, weak, since it overlooks the variables' short and long-term effects.

For the period 1990 to 2005, Ajaz and Ahmad (2005) examined tax collection in 25 unindustrialized nations based on a panel data set of institutional and structural factors (corruption and governance). Results showed that tax revenue performance is adversely affected by corruption, but is improved by excellent governance. This was discovered by GMM regression analysis. Institutional variables also have a considerable impact on tax revenues.

According to certain studies, the quality of governance indicators and tax revenue have a positive relationship. Using Sub-Saharan African (SSA) data for the period 2002 to 2015, Gunay and Topal (2021) examine the effect of governance quality on tax collection efforts in 37 SSA nations. Governance and tax effort correlations are assessed using traditional panel data models and Sys-GMM estimation methods. The World Bank's six governance indicators and the composite quality of governance index are both measured in this study, which differs from earlier research. It was determined that all measures of governance in SSA countries positively impacted tax efforts.

In their study of tax revenue collection in developing and high-growth nations, Arif et al. (2018) examined the impact of corruption and governance on tax revenue collection. They used a panel dataset of ten countries from 2001 to 2015. Following the evaluation of the data for unit root and cointegration, the study makes empirical conclusions using pooled average estimates. Oddly, the results showed that corruption and governance affected emerging economies' tax revenue collection in a positive and substantial manner.

A survey of 32 American economies undertaken by Diode (2012) was conducted with the use of two different models: the random effect model (REM) and the fixed effect model (FEM). In the study, government income increases by 2 percent for every 1 percent rise in a free democracy.

The Fixed Effects and Random Effects methods were used by Hossain (2014) to analyze data from 55 developing nations between 2002 and 2012. The study concluded that large governments are linked to a willingness to pay taxes.

3. Hypothesis Development

In light of the literature review and the study objectives, the following hypotheses are proposed:

- H_1: There is a negative effect of the Voice and Accountability on Tax Revenue

- H_2: There is a negative effect of the Regulatory Quality on Tax Revenue

- H_3: There is a negative effect of the Government Effectiveness on Tax Revenue

- H_4: There is a negative effect of the Control of Corruption on Tax Revenue

- H_5: There is a negative effect of the Rule of law on Tax Revenue

4. Methodology

4.1. Data Measurement and Source.

The study examines the effect of quality of governance on tax revenue in South Africa from 1996 to 2020 using secondary data.

Table 1. Variables Measures and Sources of Data.

Variables	Abbrev.	Measurement	Source
Tax revenue	TAX	Total tax revenue to GDP ratio	SARS
Voice and Accountability	VA	(-2.5:2.5 scale)	World Bank
Regulatory Quality	RQ	(-2.5:2.5 scale)	World Bank
Government Effectiveness	GE	(-2.5:2.5 scale)	World Bank
Control of Corruption	CC	(-2.5:2.5 scale)	World Bank
Political Stability	PS	(-2.5:2.5 scale)	World Bank
Rule of law	RL	(-2.5:2.5 scale)	World Bank

Source: Authors construction.

4.2. Model Specification

Jamovi was applied by a researcher to predict the link between independent variables and the dependent variable through multiple regression. The study theorised an adverse relationship between governance indicators and tax revenue in South Africa.

The study's underlying model is shown below.

$$Y_t = \beta_0 + \beta_1 X_t + \beta_1 X_t \ \beta_1 X_t \ \mu_t \tag{1}$$

The dependent variable is Y, whereas the explanatory variable is X. The specific model for the study follows the preceding model.

$$Tax_i = \beta_0 + \beta_1 VA_t + \beta_2 RQ_{t} + \beta_3 GE_t + \beta_4 CC_t + \beta_5 PS_t + \beta_6 RL_t + \mu_t \tag{2}$$

5. Empirical Results

5.1. Descriptive Analysis

In light of the descriptive data in Table 2. The variable with the lowest mean value is Political Stability (PS), whereas the one with the highest mean value is Tax Revenue (TAX). The Political Stability (PS) variable has the lowest median value, while the Tax Revenue variable has the highest median value (TAX). The variable with the lowest maximum value is Political Stability, whereas the variable with the highest maximum value is Tax Revenue (TAX). The Political Stability (PS) variable has the lowest minimum value, while the Tax Revenue (TAX) variable has the highest minimum value.

Table 2. Descriptive Statistic Result.

	TAX	VA	RQ	GE	CC	PS	RL
N	25	25	25	25	25	25	25
Missing	0	0	0	0	0	0	0
Mean	32.9	0.579	0.370	0.431	0.200	-0.131	0.0872
Std. error mean	8.55	0.0460	0.0450	0.0478	0.0511	0.0326	0.0204
Median	24.5	0.640	0.380	0.410	0.120	-0.140	0.110
Standard deviation	42.8	0.230	0.225	0.239	0.255	0.163	0.102
Minimum	21.9	0.00	0.00	0.00	-0.120	-0.540	-0.120
Maximum	238	0.850	0.800	1.02	0.730	0.250	0.270
Skewness	4.99	-1.97	0.0420	0.137	0.785	-0.0944	-0.416
Std. error skewness	0.464	0.464	0.464	0.464	0.464	0.464	0.464
Kurtosis	24.9	3.25	-0.650	0.653	-0.622	0.847	-0.124
Std. error kurtosis	0.902	0.902	0.902	0.902	0.902	0.902	0.902

Source: Author's Computation.

5.2. Correlation Matrix

In Table 3, we found that tax revenue negatively correlated with a variety of independent variables. These variables include voice and accountability, regulatory quality, government effectiveness, corruption control, and the rule of law, with the exception of political stability. Moreover, tax revenue and independent variables do not appear to be highly correlated. A negative correlation between tax revenue and governance indicators, on the other hand, shows that tax revenue is low in economies with weak governance.

Table 3. Pearson Correlation Matrix.

		TAX	VA	RQ	GE	CC	PS	RL
TAX	Pearson's r	—						
	p-value	—						
VA	Pearson's r	-0.520	—					
	p-value	0.008	—					

RQ	Pearson's r	-0.351	0.622	—			
	p-value	0.085	<.001	—			
GE	Pearson's r	-0.386	0.801	0.792	—		
	p-value	0.057	<.001	<.001	—		
CC	Pearson's r	-0.179	0.502	0.626	0.809	—	
	p-value	0.391	0.011	<.001	<.001	—	
PS	Pearson's r	0.173	-0.508	-0.046	-0.415	-0.363	—
	p-value	0.407	0.010	0.828	0.039	0.075	—
RL	Pearson's r	-0.191	0.361	0.577	0.474	0.501	0.009	—
	p-value	0.361	0.077	0.003	0.017	0.011	0.968	—

Source: Author's Computation.

5.3. Coefficient of Determination Test (R^2)

Table 4 shows a value of R Square of 0.290, which indicates that governance variables may account for 29.0 percent of tax revenue. Approximately 71.0 percent of the variables are outside the scope of this study.

Table 4. Coefficient of Determination Test.

Model	R	R²	Adjusted R²	RMSE
1	0.538	0.290	0.0530	35.3

Source: Author's Computation.

5.4. Multicollinearity Test

Each independent variable had a tolerance value greater than 0.1 and a VIF value less than 10. Therefore, it can be concluded that this study did not take place or did not exhibit multicollinearity. The tolerance values for each independent variable in the multicollinearity test were greater than 0.1, and the VIF score was 10. As a result, multicollinearity did not exist or was unaffected in our investigation.

Table 5. Collinearity Statistics.

	VIF	Tolerance
VA	4.14	0.242
RQ	4.07	0.246
GE	9.90	0.101
CC	4.05	0.247
PS	2.00	0.501
RL	1.66	0.602

Source: Author's Computation.

5.5. Autocorrelation Test

The autocorrelation 2.01 test scores ranged from 1.5 to 2.5. These results indicate that there was no autocorrelation in this investigation.

Table 6. Durbin–Watson Test for Autocorrelation.

Autocorrelation	DW Statistic	p
-0.00719	2.01	0.456

Source: Author's Computation.

5.6 Multiple Linear Regression Analysis

Jamovi has been used to process data from a regression model that consists of independent and dependent variables for the following results:

Table 7. Model Coefficients - TAX.

Predictor	*Estimate*	*SE*	*t*	*p*
Intercept	93.26	23.8	3.9192	0.001
VA	-106.06	75.0	-1.4134	0.175
RQ	-14.36	76.1	-0.1886	0.853
GE	-1.12	111.8	-0.0100	0.992
CC	22.77	66.9	0.3402	0.738
PS	-19.17	73.6	-0.2606	0.797
RL	-2.41	107.6	-0.0224	0.982

Source: Author's Computation.

The regression equation model with moderation created in this work is as follows, as shown in the table above:

$$TAX = 93.26 - 106.06VA - 14.36RQ - 1.12GE + 22.77CC - 19.17PS - 2.41RL$$

6. Discussion of research results

The influence of the Voice and Accountability on Tax Revenue

According to hypothesis one, voice and accountability are likely to reduce tax revenue. Table 7 shows that the t-value of -1.4134 with a significance level of 0.175 indicates that the significance level is larger than 0.05, implying that Voice and Accountability have no beneficial impact on Tax Revenue. As a result, the first hypothesis is accepted.

The influence of the Regulatory Quality on Tax Revenue

In the second hypothesis, we investigate whether regulatory quality has an adverse impact on tax revenue. Table 7 shows that the t-value of -0.1886 with a significant level of 0.853 points to a significant level above 0.05, which suggests a negative link between regulatory quality and tax revenue. Thus, the second hypothesis cannot be accepted.

The influence of the Government Effectiveness on Tax Revenue

The third hypothesis explores whether government effectiveness negatively affects tax revenue. With a t-value of -0.0100 and a significance level of 0.992, it can be concluded that Government Effectiveness does not positively influence Tax Revenue, as shown in Table 7. As a result, the third hypothesis is accepted. It is consistent with the findings of Nnyanzi et al. (2016) that tax revenue adversely relates to the quality of governance in the East African Community.

The influence of the Control of Corruption on Tax Revenue

In a fourth hypothesis, we examine whether corruption control decreases tax revenue. The regression analysis shows that the t-value is 0.3402 with a significance level of 0.738, which indicates a positive impact of corruption control on tax revenue. As a result, the hypothesis in this study is rejected. These findings are backed by Johnson and Omodero's (2021) investigations, which show that anti-corruption measures have a favourable impact on tax revenue.

The influence of the Political Stability on Tax Revenue

The fifth hypothesis considers whether political stability decreases tax revenue. The regression results indicate that the t-value of -0.2606 with a significance level of 0.797 is larger than the significance level of 0.05, suggesting no meaningful influence of Political Stability on Tax Revenue. Interestingly, these findings suggest that political stability will not increase tax revenue. As a result, the hypothesis in this study is accepted.

The influence of the Rule of law on Tax Revenue

According to the sixth hypothesis, tax revenue can be negatively impacted by the rule of law. Based upon the t-value of -0.0224 and significant level of 0.982, Table 7 indicates a significant level of statistical significance superior to 0.05, therefore it can be confirmed that Rule of Law does not significantly affect Tax Revenue. Consequently, the hypothesis in this study is accepted.

Conclusion and Policy Implications

Most economies generate revenue primarily from taxation. This study examined how the quality of governance impacts tax revenue in South Africa. We contend in this study that weak governance has a detrimental impact on tax revenue in South Africa. The study used voice and accountability, regulatory quality, government effectiveness, corruption control, political stability, and the rule of law as proxy indicators of governance quality. Multiple regression analysis was used to make estimates. The results of this study show that, with the exception of corruption control in South Africa, all quality of governance variables are negatively linked with tax revenue. Also, in terms of raising tax revenue, the results suggest state-building expressions, like voice and accountability, as well as the rule of law, are more critical.

In addition to the results of this study, policy recommendations have also been made. The study found that corruption control is the only indicator that influences tax revenue positively in South Africa. The South African government must implement effective measures to fight weak governance, which results in revenue erosion. Taxpayers also have the freedom to openly voice their thoughts about the tax system when democratic political institutions are effectively in place. This results in more transparent and accountable tax administrations, revealing fiscal malfeasance.

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