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Original Article

Effects of Tax Revenue Mobilization on Population Well-being in Developing Countries: Exploring the Direct and Indirect Effects

[1]Sama Yong Francis, [2]Jumbo Urie Eleazar, [3]Visemih William Muffee
[1,2]Faculty of Economics and Management Sciences, Department of Economics, The University of Bamenda, Cameroon.
[3]Higher Institute of Commerce and Management, Department of Accounting, The University of Bamenda, Cameroon.

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Abstract: *This study aimed to investigate the direct and indirect effect of tax revenue mobilization on population well-being in developing countries. Specifically, the study examined the direct effect of tax revenue mobilization and the indirect effect on population well-being. The study used unbalanced panel data obtained from 100 developing countries, which spans from 2002 to 2021. A two-step System Generalized Method of Moment (SGMM) was used to measure the coefficients of the parameters. The findings indicated that tax revenue mobilization significantly enhances population well-being (life expectancy) by 0.702 points, significant at 1%. Finally, the results showed that tax revenue interacts with IFFs to produce negative direct effects and positive indirect effects when total tax revenues and taxes on international trade are considered. These opposing signs produce positive net effects of tax revenue on well-being. These positive net effects are nullified at IFFs thresholds of 4.932 and 4.1651 points, respectively, for total tax revenue and taxes on international trade. Equally, direct taxes from trade interact with IFFs, producing positive direct effects and negative indirect effects, leading to positive net effects on population well-being. The threshold for IFFs required to nullify this positive net effect is 9.05319 points. To account for the endogeneity problem, the moderating multiply regression estimation technique was used.*

Based on these findings, the policy recommendations are that, in as much as optimizing tax revenue collection is important for the population well-being of developing economies, these economies should put in place mechanisms to increase domestic revenue. To increase domestic resource mobilization. The study also recommends that governments should implement a moral approach when collecting taxes because the disrespectful treatment of taxpayers undermines their morals and can cause an increase cost of tax collection. Procedures used by tax auditors in their contracts with taxpayers should be made transparent and clear. Again, taxpayers should be treated as partners in a psychological tax contract and not as inferiors in a hierarchical relationship. This will give the taxpayer the incentive to pay taxes honestly without feeling the tax burden. Then, the cost of tax collection will be reduced, and the plundering of state revenue through IFFs will also be reduced.

Keyboards: *Direct and Indirect Effects, Tax, Revenue.*

I. INTRODUCTION

Recent developments indicate that tax revenue mobilization has gained prominence in the policy discourse. Donor organizations, both international and bilateral, have increasingly acknowledged the importance of taxation in guaranteeing longevity and taking ownership of the reconstruction process, among other things.

It is important to understand the place of tax revenue mobilization on well-being and economic development in developing countries. The most evident explanation is that, although taxes have the potential to be the main source of public revenue for development initiatives, that potential is only partially realized: most developing nations generate tax revenues equal to 15% of GDP or less, whereas other countries produce tax revenues that are two or three times higher (Brockmeyer, 2019; Ritter, 2015). Tax revenue is arguably more consistent and dependable than revenue from other avenues, and it is also less susceptible to the changing goals of aid donors in particular. Mobilizing tax money also offers several non-revenue advantages. It guarantees a more equitable distribution of the advantages of economic progress among the populace through the redistribution of income. (Muller et al., 2020; Joshi, 2020). This is a crucial development goal, particularly in light of the fact that poverty and inequality have not decreased despite the remarkable levels of well-being attained in some developing nations. Incentives and behavior can be shaped by taxes, and improvements in tax administration and policy can improve the business climate. Tax revenue reform is another tool that can be utilized to support economic development. (Coyle and Nguyen, 2022; Collins, 2020; Bouvatier et al., 2018). Lastly, mobilizing tax income is viewed as a way to enhance the social compact, advance government accountability to taxpayers, and improve general well-being (Mugge, 2022; Lemaitre, 2018; Kranke and

Yarrow, 2019). The benefits of domestic tax mobilization, both in terms of revenue and non-revenue, have led to its incorporation in the ongoing UN discussions on finance for development. The Monterrey Consensus, which was agreed by world leaders in 2002, acknowledged the necessity of "properly and effective systems of taxes and administration." (OECD, 2014).

In order to decrease reliance on official development assistance and enhance the quality of life in developing nations, these economies must close the infrastructure gap in numerous domains, including health, education, energy, ports, roads, highways, and effective administration. (Alenda-Domoutiez, 2022; Johannesen et al.,2016). They must also put good macroeconomic policies into practice. Thus, the mobilization of domestic resources could eventually assist these nations in overcoming these growth obstacles and achieving greater well-being. Despite many cooperation and government policies in curbing illicit financial flows and augmenting domestic tax revenue mobilization, the well-being of developing countries remains below expectations (Nchofung, 2022; Combes, 2019; Li et al., 2017; Bilicka and FUET, 2014). Analyzing the pathways through which taxes linked to IFF hinder tax revenue mobilization and how tax revenue mobilization affects well-being are important questions in developing countries. This is one of the motivations for this study which is really a serious gap that is identified in the literature.

II. LITERATURE REVIEW

Omondi (2020) evaluated the tax revenue mobilization reform process in Kenya and established its effect. Leyaro, Morrissey, and Owens (2010) carried out a study on the effects of Tax Revenue Mobilization Reforms (TRMR) on the well-being of households in Tanzania for the period 1991- 2007. The study followed Deaton's method grounded on prices and budget share of households using Tanzania's Household Budget Survey for the fiscal years 1991-1992, 2000-2001 and the year 2007. According to the study's findings, the real prices of food products increased during the study period, which resulted in a 20 percent reduction in the standard household's well-being that persisted throughout the 1900s and 2000s. The loss in well-being was larger among the low-income households based in the rural areas, where the decline in well-being was estimated at 27 per cent, and high-income households in the urban areas experienced a decline in well-being of only five per cent. The simulation results indicated that a tax cut would offset the well-being losses for all households, however, the low-income households in urban areas would benefit more than their counterparts in the rural areas. The effect on the high-income households was found to be the same regardless of the location. The study was similar to the present study to the extent that its objective was to estimate the effects of tax revenue mobilsation on well-being. However, the present study used an advanced model of Deaton's method that clearly showed the direct link between tax reforms and well-being.

Leahy, Lyons, and Tol (2011) studied the distributional effects of tax revenue mobilization in Ireland for the period 2007-2010. The study was motivated by the announcement by the Irish government to review VAT standard rates upwards to 22 per cent and 23 per cent in the years 2013 and 2014, respectively. The study used the 2004/2005 Household Budget Survey to examine the share of weekly disposable income that households spend on VAT. In addition, the study evaluated the possible effects of VAT reforms on well-being and tax revenue in Ireland; a micro-simulation model was used to estimate the effect of varying VAT rates on selected commodities and the related response of revenue. The study found that the Ireland tax revenue mobilization system was regressive and adversely worsened the well-being of the households in the first income decile, rural areas-based households and single-parent households. The study recommended that food items ought to be zero-rated to improve the well-being of people experiencing poverty, as this would result in lower-income decile households saving seven per cent of their disposable income and second-decile households saving nine per cent of the same. The study did not consider the effect that variations in VAT rates would have on the demand and supply of goods and services; the present study will incorporate this key aspect.

Go, Kearney, Robinson, and Thierfelder (2005) adopted the Computable General Equilibrium model (CGE) to examine the well-being and distributional outcome of likely reforms of the South African VAT system. They were interested in ascertaining the effect of an increase in VAT rates on household well-being. The study used South Africa's Social Accounting Matrix (SAM) for the year 2001, in which households were categorized into 10 income deciles. They proved that the availability of other tax structures that are beneficial to the poor households and at the same time only impose mild additional costs on the rich. Further, they considered a scenario where VAT is eliminated from the price system, whereas income tax is reviewed upwards proportionally. The study found the South African value-added tax to be slightly regressive, whereas the whole tax system was found to be progressive.

Further, the study noted that the VAT's marginal cost of funds was higher for the poor than for the rich. The study found VAT to be an effective source of revenue. It noted that it was possible to review the tax structure in a way that guarantees improvement in revenue generation of taxes without negatively impacting the well-being of the households. The study used an appropriate model and gave good recommendations on the possibility of a tax mix that may guarantee improved revenue collection without distorting the distribution of resources. However, the study did not give adequate information on the

specific tax mix. Again, the study did not factor in the possibility of tax evasion and tax avoidance by the higher income group if they realize that they are the targets of tax reforms.

III. METHODOLOGY OF THE STUDY

A) Nature and Sources of Data

This study makes use of panel data, which is unbalanced and comprises 20 years (2002 -2021) and 100 low- and middle-income countries. The data on tax revenue comes from the International Centre for Tax and Development's (ICTD) Government Revenue Dataset (GRD) and The IMF's tax revenue dataset. The data on the other variables come from various sources, including The World Bank Group (World Development Indicators & Worldwide Governance Indicators), The IMF World Economic Outlook (WEO) data, GFI data, Financial Action Task Force (FATF) dataset. The CEPII (www.cepii.fr) data set is a French international economics research facility offering a database containing gravity equation drivers for trade flows. Border dummy variables (which have a value of one when the two nations are adjacent), shared language dummy variables (which have a value of one when two nations speak the same language), colony dummy factors (which have a value of one if one of the two countries was the colony of the other), and distance (which is calculated between the economically significant cities of each country in kilometers "as the crow flies"). John Walker gathered the database on parameters influencing illicit financial transactions in order to estimate his model (Walker, 1999). The factors that determine attractiveness include corruption (which is measured using a simplified scale based on the Transparency International Index of 1996, whereby low-scoring nations have low levels of corruption), A dummy variable called Swift member, which has 1 for nations where financial institutions are members, Government attitude (a metric that increases with tolerance that represents a government's stance against money laundering), Bank secrecy (the score increases with secrecy) and conflict (a country's conflict status is scored, with 1 for peace and 4 for a major conflict). The financial sector size is determined by dividing the total size of all financial deposits (demand, time, and savings deposits) by GDP. Furthermore, he substitutes a measure of both physical and cultural distance for the distance in meters (Aaskoven, 2018; Torslov, 2020; Rusina, 2020). The remaining variables are nearly the same as Walker's.

B) Model Specification and Estimation Techniques

a. Modeling the Direct and indirect Effect of Tax Revenue Mobilisation on Population Well-being (proxied by life expectancy)

We investigated the direct effect of tax revenue mobilization on well-being. Considering the basis of the crowding out theory, external interventions in the form of rewards or sanctions may crowd out intrinsic endogenous growth miracles and reduce (crowd out) or totally destroy the private investment, which may reduce growth and, hence, population well-being. It is, therefore, established in many studies that tax revenue mobilization (TRM) may reduce incentives for production, which may reduce investment and population well-being. This, therefore, creates a linkage between tax revenue mobilization and population well-being (Omondi, 2020; Ndemezo and Baye, 2016). This leads us to derive the following model linking TRM and population well-being.

$$PWB_{it} = \alpha + \beta TRM_{it} + \gamma_i \chi_{it} + \nu_i + \mu_t + \xi_{it} \dots\dots\dots\dots\dots\dots (1)$$

From the model,PWB_{it} is population well-being, which is proxied by life expectancy; TRM is tax revenue mobilization and$\chi_{it} + \nu_i$ is a host of other variables that may affect population well-being. μ_t represents the specific temporal effect; ξ_{it} represents the error term; i is the name of the country; and t is the period under study.

We then investigate into the indirect effect of TRM on population well-being in developing countries. A good number of empirical studies explain many factors in curtailing IFFs linked to taxes and stress on tax revenue mobilization as a good way to improve population well-being. At the same time, the literature shows that tax revenue mobilization and illicit financial flows have implications on population well-being if they interact (Coyle and Nguyen, 2022; Faccio et al., 2021; Deabrooke and Wigan, 2015; Garcia et al.,2021). Following this body of literature, we specify the link between these variables as follows.

$$PWB_{it} = \beta_0 + \beta_1 IFF_{it} + \sum_{k=2}^{m} \alpha_k X_{itk} + \varepsilon_{it} \dots\dots \qquad (2)$$

PWB_{ii} is the population well-being proxied by life expectancy, IFF is the illicit financial flows, X_{it}stands for a vector of other variables expected to affect population well-being, εit is the white noise error term. From Equation (3.6), it is assumed that illicit financial flows are likely to be endogenous and can affect population well-being through tax revenue mobilization. Therefore, estimating the population well-being model without considering the potential endogeneity of TRM might lead to bias and inconsistent estimates of the effect of illicit financial flows on population well-being. To account for this potential endogeneity problem, a moderation multiple regression estimation technique is used (Aiken & West, 1991).

Empirical findings from Samuelson (1983) and Arrow (1953) indicated that population well-being can be maximized if the resources are used efficiently, such that the population well-being function will greatly depend on the level of Tax Revenue Mobilization (TRM). This means that TRM can indirectly influence population well-being through IFF. It is on this prelude that the implications of the moderating effect of TRM on IFF can be investigated by generating an interaction variable ($TRM_{it} * IFF_i t$) and including it in the model as an additional explanatory variable as thus:

$$PWB_{it} = \beta_0 + \beta_1 IFF_{it} + \beta_2 TRM_{it} + \beta_3 TRM_{it} * IFF_{it} + \sum_{i=4}^{n} \beta_{it} W_{it} + V_1 \quad (3)$$

$TRMit * IFFi$ is the interaction variable obtained by interacting TRM and IFF, and W_i is a vector of other variables expected to influence Population well-being, β_1 gives the magnitude of the effect of IFF on population well-being, $\beta_2$captures the magnitude of the TRM on population well-being and β_3 captures the magnitude of the effect of the interaction variable on population well-being. β_i is a vector of the magnitude of the effect of other control variables that may affect population well-being and $V_1$is the white noise error term.

Estimating a single equation and making IFFs exogenous would lead to simultaneous bias (Koutsioyannis, 1977; Gujarati, 2004). Hence, the appropriate model should be a system of simultaneous Equations involving three equations (we will use SGMM): population well-being equation, IFFs equation and moderating Equation. The most appropriate estimator for a system of simultaneous equations model involving these three equations is the SGMM technique. When these relationships are estimated, the reduced-form equations are obtained as follows:

$$PWB_{it} = \theta_0 + \theta_1 Z_1 + \sum_{it=1}^{n} \theta_i X_i t + V_2 \quad (4)$$

$$IFBF_{it} = \lambda_0 + \lambda_1 Z_2 + \sum_{it=1}^{n} \lambda_{it} X_{it} + V_3 \quad (5)$$

$$TRM_{it} * IFF_{it} = \omega_0 + \omega_1 Z_3 + \sum_{it=1}^{n} \omega_{it} X_{it} + V_3 \quad (6)$$

$$PWB_{it} = \delta_0 + \delta_1 \widehat{EIFF_{it}} + \delta_2 \widehat{TRM_{it}} + \delta_3 TRM_{it} \widehat{* IFF_{it}} + \sum_{i=4}^{n} \omega_i t \psi_{it} + V_5 \quad (7)$$

Equation (4) is the population well-being model, Equation (5) is the illicit financial flow model, Equation (6) is the interaction moderating model and Equation (7) represents the reduced form equation, which will be estimated using the SGMM technique.

The most popular approach in the literature for determining panel causality is the one put forth by Holtz-Eakin, Newey, and Rosen (1988, 1989). Biased estimates result from incorporating the fixed effect and the lag-dependent variables correlated with the error terms, as demonstrated by Nickell (1981). Using the first difference operator that removes each of the distinct fixed effects is advised by Anderson and Hsiao (1981). For difference regressions, this estimator employs the lag levels as an instrument, while for level regressions, it uses the most recent difference as an instrument. The initial differenced residuals are assumed to be free of second-order self-correlation, which forms the basis of the panel GMM estimator.

C) Description and Justification of Variables

a. Population Well-being

This metric accounts for mental, emotional, and social well-being in addition to physical health, explaining variations in life expectancy. It encompasses not just the absence of illnesses but also a feeling of contentment, opportunity, and absence of stress. In this study, it is the main dependent variable, and it is proxied by life expectancy measured in years, which varies from low-income, lower-middle and upper-middle-income countries. The variable has been utilized in the works of Holzenthal (2017) and Perez et al. 2012.

b. Illicit Financial Flows

The terms “illicit financial flows” and “capital flight” are frequently used synonymously in the literature (Kar and Cartwright-Smith, 2008; Ndikumana and Boyce, 2012). However, in practice, as well as by definition, the two are not the same. Capital flight can take two forms: the legal kind and the illicit kind. The legal form relates to capital that leaves the nation but is documented in the outgoing transfer entity’s accounting records. Investors and savers seeking more secure conditions or higher yields often resort to this type of capital flight. Regarding the illicit type of fleeing capital, it is not publicly reported and typically evades the tax code.

The owners of this money want to conceal their IFFs in order to evade prosecution (Ndikumana, 2014; High-Level Group, 2015). In such cases, owners would settle for negligible or even negative returns if they can conceal the funds' illicit source. Since these concealed resources include unregistered capital flows from criminal activity, bribery, and commercial activities, it only makes sense to classify them as unlawful. In this work illicit financial flows are aggregated from two components. These include illicit financial flows from domestic channels and flows from international trade. IFFs are measured by summing estimates from various transmission channels following the bottom-up approach that aggregates estimates from low to higher levels.

c. Tax Revenue Mobilisation

The tax burden ratio and the government revenue mobilization ratio are the two most widely used indicators in the literature (Ajaz and Ahmad, 2010; Torrance and Morrissey, 2013) to assess a nation's degree of government revenue mobilization. It is challenging to compare nations that are able to raise significant quantities of non-tax revenue—such as those with abundant natural resources—because tax revenues do not fully fund government spending. Utilizing the government revenue mobilization ratio, this restriction is removed. The entire amount of revenue from the government as a proportion of the nation's GDP is used to compute this ratio. Because it is less susceptible to the substitution effect among the main categories of government assets, it is preferred over the tax burden ratio (Dickinson, 2014).

For this reason, it is the ratio that is used in this study. In this study, tax revenue mobilization is disaggregated into total tax revenue, which is the sum of taxes from domestic revenue and taxes from international trade; total domestic taxes, composed of the sum of direct and indirect taxes; and taxes on international trade, including indirect taxes from imports and exports and direct corporate taxes from trade, generated from profits of Multination National Enterprises (MNEs). This separation was done for analysis.

d. Control variables

The selection of those factors as explicating factors is essential insofar as it gives us a sense of how institutional quality affects population welfare, government revenue mobilization, and potential policy measures to combat IFFs. The impact of institutional determinants on government revenue collection has been emphasized recently in both empirical as well as theoretical research (Feger, 2014; Hossain, 2014; Syadullah and Wibowo, 2015). The data collection assembled by Kaufmann et al. (2010) is the source of the institutional quality metrics. Indicators related to corruption and administration, such as the government's efficiency index and the control of bribery index, are used in this study.

e. Level of Financial Development

Both theoretical and empirical evidence have shown how a nation's degree of development affects its ability to mobilize revenue (Tanzi, 1992). The real per capita income of the nation and the level of monetization are two variables that are most frequently used to represent this statistic. Only a small number of research have shown a negative impact of the degree of financial development on government income compared to others that have identified a favorable and considerable impact (Dioda, 2012; Torrance and Morrissey, 2013). Wagner's law, which asserts that the share of public expenditure in GDP rises with living standards, has been used to bolster further the positive correlation between the per capita GDP and government revenues. The degree of financial development has been expressed in this study. In this study, the level of financial development was represented by the country's access to domestic credit in both formal and informal financial institutions, which include commercial banks and microfinance institutions, respectively. These institutions account seriously for revenue mobilization in a country.

f. Natural resource rents (the Share of Agriculture in GDP)

The two most commonly used measures of an economy's structure are the GDP shares of the agriculture and industry sectors. Tanzi (1992) contends that one of the elements most likely to affect a nation's tax collection rate is its economic structure. The author demonstrates how the agriculture industry significantly affects tax collections in emerging nations from both supply and demand. The less successfully those nations raise taxes, the larger the proportion of the GDP devoted to agriculture. The fact that the agriculture industry is hard to tax, particularly when a significant number of subsistence farmers dominate it, justifies this negative link. Torrance and Morrissey (2013) and Imam and Jacobs (2014) drew the same conclusion.

g. Trade Openness

Economists have differing opinions about how trade openness affects well-being. According to some, this mobilization is positively impacted by a nation's economic openness (Jafri et al., 2015; Cagé and Gadenne, 2016). Others worry that it might have a detrimental impact on public revenue levels, especially if trade openness results in lower tariffs (Bevan, 1999; Asghar and Mehmood, 2017). As a result, its impact on the collection of government revenue is mostly

unknown; an economic analysis is therefore required to elucidate the link involved. The relationship between the total of imports and exports relative to GDP is used to measure trade openness.

h. Information and Communication Technology (ICT)

It is a flexible usage for a wide range of technological resources and instruments that are used to generate, share, transmit, store, and exchange data. It also describes the fusion of the production and service sectors that use electronic data and information acquisition, transmission, and display (OECD, 2013). In this study, it is measured by the number of internet users per 100 or the number of electronic monitoring sources. Most governments have adopted E-taxation as an optimal way of enhancing tax revenue mobilization, which has proven efficient (Uyar et al.,2021).

i. Direct Investment (FDI)

It is a variable used to explain how inflows led to the proliferation of multinational companies or firms in developing countries. Which, therefore, means, that countries that receive more FDI inflows are more likely to experience more IFFs to be consistently significant in explaining export or import misinvoicing (Kar and Le Black, 2014). It is measured as a proportion of the amount received on GDP.

j. Education

The variable education is one of the control variables that account for school enrollment in primary, secondary and tertiary sectors—measured by the mean schooling.

k. Estimate and validation technique

Before we proceed to estimate the model, we shall first perform the Persaran (2003) second-generation unit root test that accounts for cross-sectional dependence. We shall equally employ the Persaran (2004) and Persaran (2015) cross sectional dependence test to check for cross-sectional dependence within our panel.

IV. RESULTS AND DISCUSSION

Table 1:DescriptiveStatistics

VARIABLE	Obs	Mean	Std. Dev.	Min	Max
Life expectancy	940	66.551	8.942	42.6	79.5
Tax revenue	882	.139	.071	.001	.609
Taxfrom international trade	828	.022	.035	-.016	.409
Direct taxes	733	.05	.03	0	.165
Trade openness	901	81.162	37.268	22.106	311.354
FDI	937	4.989	7.659	-15.745	103.337
ICT	933	19.126	19.285	.031	90
Financial development	812	35.439	29.159	1.095	160.125
Natural resource rents	940	11.25	13.279	.001	67.998
Education	933	6.968	2.778	1.3	12.6
Illicit financial flows	843	7.479	1.782	1.446	12.463

Source: *Computed by Authors 2024*

The summary statistics show that life expectancy used as a proxy for well-being on average is 66.5, with a deviation from this minimum value by 8.9 percentage points. We also note that life expectancy varies between 42.6 and 79.5 percentage points; this is within close range.

Table 2: Correlation matrix

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) Life expectancy	1.000										
(2)Tax revenue	0.041	1.000									
(3)Indirect taxes on trade	-0.436	0.590	1.000								
(4) Direct taxes on trade	0.248	0.661	0.141	1.000							
(5) Trade openness	0.049	0.323	0.217	0.101	1.000						
(6) FDI	-0.045	0.085	0.001	0.125	0.317	1.000					
(7) ICT	0.535	0.211	-0.229	0.401	0.144	-0.024	1.000				
(8) Financial development	0.481	0.160	-0.184	0.121	0.274	0.013	0.473	1.000			
(8) Natural resource rent	-0.034	-0.218	-0.044	-0.188	0.120	0.160	-0.155	-0.182	1.000		
(10) Education	0.621	0.331	-0.123	0.442	0.180	0.018	0.571	0.290	-0.81	1.000	
(11) Illicit financial flows	0.480	0.041	-0.184	0.185	-0.009	-0.087	0.305	0.404	0.014	0.243	1.000

Source: *Computed by Authors 2024*

The correlations suggest that domestic tax revenue mobilization and direct taxes on trade are positively linked to life expectancy. In contrast, indirect taxes on international trade are negatively related to life expectancy. The tax variables present low correlations among themselves. This is evidence that there is no risk of collinearity between them.

The instruments used are valid as both Hansen and Sergan probabilities are >5%. Equally, the number of instruments is all less than the number of cross-sections, this satisfies the Roodman (2009) rule for the validity of instruments. Equally, the model is globally significant as the Fisher statistics are significant. There is the absence of both first and second-order autocorrelations as Prop>AR1 is significant for first-order autocorrelation and Prop>AR2 are non-significant at 5% level for AR2. The result is robust across different specifications of tax revenue.

Table 3: Direct effect of Tax Revenue Mobilisation on population well-being (Results of System GMM)

	(1)	(2)	(3)
VARIABLES	**Dependent variable: life expectancy at birth**		
L.life expectancy	0.973***	0.989***	0.970***
	(0.00256)	(0.0132)	(0.00333)
Total tax revenue	0.702***		
	(0.227)		
Trade openness	-0.000941**	-0.00707***	-0.000303
	(0.000362)	(0.00162)	(0.000611)
FDI	0.000729	0.00203***	-0.00150*
	(0.000450)	(0.000755)	(0.000862)
ICT	-0.000376	0.000383	-0.00167**
	(0.000648)	(0.00132)	(0.000766)
Financial development	0.00130***	0.00190	0.00171***
	(0.000353)	(0.00180)	(0.000446)
Natural resource rents	0.00221***	0.00675***	0.00140
	(0.000753)	(0.00220)	(0.00113)
Education	0.0201***	-0.0244	0.0147*
	(0.00746)	(0.0224)	(0.00751)
Taxes on international trade		-2.084***	
		(0.211)	
Direct taxes			1.474***
			(0.398)
Constant	2.012***	1.679**	2.252***
	(0.169)	(0.822)	(0.207)
Time fixed effect	Yes	Yes	yes
Observations	505	631	402
Number of countries	83	82	69
Prop>AR1	0.0192	0.00796	0.0146
Prop>AR2	0.232	0.276	0.460
Instruments	33	33	33
Prop>sargan	0.272	0.724	0.148
Prop>Hansen	0.299	0.465	0.370
Fisher	72825***	5072***	49629***

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Source: *Computed by Author (2024)*

The regression coefficients show that the previous year's life expectancy has the strength to enhance the current year's life expectancy. Specifically, a percent improvement in the previous year's life expectancy will enhance the current year's life expectancy by 0.973 percentage points. Statistically significant at 1 percent. Looking at the coefficient of tax revenue, it shows that tax revenue mobilization significantly enhances life expectancy by 0.702, significant at 1 percent. With this in mind, we strongly reject the null hypothesis and conclude that tax revenue mobilization significantly enhances life expectancy in low- and middle-income countries.

The result again shows that taxes on international trade have a negative link with life expectancy. A percentage increase in taxes on international trade will decrease life expectancy by 2.084 percentage points. For direct taxes, the coefficient is positive, indicating a positive link between direct taxes and life expectancy in low-income countries. A percentage increase in direct taxes will increase life expectancy by 1.474 percentage points. This is significant at 1 percent.

With this in mind, we strongly reject the null hypothesis and conclude that taxes significantly affect life expectancy in low- and middle-income countries in the African continent, South America, and Asia.

Table 4: Indirect effect through Illicit Financial flows (system GMM)

	(1)	(2)	(3)
VARIABLES	**Dependent variable: life expectancy at birth**		
L. life expectancy	0.969***	0.924***	0.955***
	(0.00176)	(0.00352)	(0.00323)
Total tax revenue (A)	-0.799**		
	(0.330)		
Trade openness	-0.00104***	-0.00491***	0.000142
	(0.000266)	(0.000698)	(0.000109)
FDI	-0.00110***	0.000680	-0.00112***
	(0.000221)	(0.000730)	(3.82e-05)
ICT	-0.000652	0.00298***	0.000878***
	(0.000453)	(0.000801)	(0.000218)
Financial development	0.00136***	0.00377***	-0.000200*
	(0.000294)	(0.00128)	(0.000113)
Natural resource rents	0.000980	0.00497***	4.97e-05
	(0.000648)	(0.00153)	(0.000323)
Education	0.0239***	0.0636***	0.00573*
	(0.00553)	(0.0150)	(0.00309)
Illicit financial flows	-0.0127	0.0423***	0.0333***
	(0.00830)	(0.00882)	(0.00298)
Illicit financial flows*A	**0.162*** **		
	(0.0521)		
Taxes on international trade (B)		**-4.211*** **	
		(0.821)	
Illicit financial flows*B		1.011***	
		(0.125)	
Direct taxes (C)			**1.702*** **
			(0.458)
Illicit financial flows*C			**-0.188*** **
			(0.0464)
Constant	2.413***	5.020***	3.111***
	(0.132)	(0.181)	(0.194)
Net effect	0.142598	3.350269	0.295948
Threshold(+/-)	4.932	4.1651	9.05319
Time Fixed effect	Yes	yes	yes
Observations	431	572	503
Number of countries	81	81	75
Prop>AR1	0.0202	0.0154	0.0695
Prop>AR2	0.714	0.429	0.736
Instruments	41	51	61
Prop>sargan	0.154	0.993	0.695
Prop>Hansen	0.393	0.319	0.361
Fisher	55163***	63251***	375290***

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1
Source: *Computed by Authors (2024)*

The instruments used are valid as both Hansen and Sergan probabilities are >5%. Equally, the number of instruments is all less than the number of cross-sections, this satisfies the Roodman (2009) rule for the validity of instruments. Equally, the model is globally significant as the Fisher statistics are significant. There is the absence of both first and second-order autocorrelations as Prop>AR1 is significant for first-order autocorrelation and Prop>AR2 are non-significant at 5% level for AR2. The result is robust across different specifications of tax revenue.

Looking at the indirect effect regression, tax revenue interacts with illicit financial flows to produce negative direct effects and positive indirect effects when total tax revenues and taxes on international trade are considered. These opposing

signs produce positive net effects of tax revenue on population well-being. These positive net effects are nullified at illicit financial flows thresholds of 4.932 and 4.1651 respectively, for total tax revenue and taxes on international trade. Equally, direct taxes interact with illegal financial flows, producing positive direct effects and negative indirect effects, leading to positive net effects on well-being. The threshold for illicit financial flows required to nullify this positive net effect is 9.05319.

These results show that in as much as optimizing tax revenue collection is important for the population well-being of developing countries, these economies should put in place mechanisms that limit illicit financial flows. These flows should stay below the established thresholds for the countries to continue benefiting from the positive well-being effect of tax revenue.

l. Policy Recommendations

Based on these findings the study recommends that the government in low-income countries should establish clear, concrete, and up-to-date policies that can promote collection of taxes so as to boost production and increase well-being. This can be done by strengthening and modifying their tax collection method by using deterrence against tax evaders, and this will prevent taxpayers with low tax morals from escaping paying their due share of taxes. They should also modify their tax collection method by implementing a tax collection system that provides sufficient incentive for high-ability taxpayers to keep producing at the high level that corresponds to their ability.

The study also recommends that governments should implement a moral approach when collecting taxes because the disrespectful treatment of taxpayers undermines their morals and can cause an increase cost of tax collection. Procedures used by tax auditors in their contracts with taxpayers should be made transparent and clear. Again, taxpayers should be treated as partners in a psychological tax contract and not as inferiors in a hierarchical relationship. This will give the taxpayer the incentive to pay taxes honestly without feeling the tax burden. Then the cost of tax collection will reduce, and the plundering of state revenue through IFFs will also reduce.

The study again recommends that governments should put in place measures that curb aggressive tax avoidance or profit shifting by Multinational Enterprise (MNEs). Corporate taxation and the worldwide distribution of multinational profits are two ways to do this. They can examine how MNEs distribute their profits across their units worldwide and connect it to the relevant corporation tax rates and the fundamental economic activity of a specific unit. It is assumed that if the tax regime of another unit results in a lower tax rate, the MNE unit will probably relocate profit out of the nation. Utilizing unit-level microdata may yield the most accurate estimates of the transfer of profits by MNEs, contingent upon the accessibility of data.

Additionally, the government can discover probable tax evasion behavior by comparing MNE and equivalent non-MNE units with respect to profit shifting. The amount of profits shifted is then used as an indicator of IFFs. This is based on microdata on business statistics that statistical agencies have access to in many different nations. It can be challenging to completely execute in tiny economies with a limited number of businesses. This study was to evaluate the extent to which tax revenue mobilization affects population well-being in developing countries. The finding revealed that tax revenue mobilization significantly enhances life expectancy. The study suggests that governments should provide the necessary incentives to citizens to retain and invest a significant portion of their earnings and savings in their home nations, with a view to per capita income serving as the primary transmission route.

Based on the interaction between TRM and IFF, tax revenue mobilization moderates the effect of illicit financial outflow on population well-being in developing countries. The finding shows that tax revenue interacts with illicit financial flow to produce a negative direct effect and a positive indirect effect when tax revenue and taxes on international are concerned. That is, in as much as optimizing tax revenue collection is important for the well-being of developing economies, these economies should put in place mechanisms that limit financial flows. These flows are required to stay below the established threshold for the countries to continue benefiting from the positive well-being effect of tax revenue.

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