

# **An Empirical Analyses of the Causes and Effects of Tax Evasion on Government Revenue Generation in the Western Urban Area of Sierra Leone**

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## **ABSTRACT**

This study was designed to identify the causes and effects of tax evasion on government revenue generation in the Western Urban Area of Sierra Leone. A structured questionnaire was administered to a sample of one hundred and eighty (180) respondents randomly selected across various sectors in the municipality. In addition, secondary data were collected from Statistics Sierra Leone, the Ministry of Finance, and the National Revenue Authority (NRA). The data collected were analysed using both descriptive and inferential statistical tools, aided by the Statistical Package for the Social Sciences (SPSS), version 23.

The findings revealed that the level of Internally Generated Revenue (IGR) during the period under review consistently fell below projected estimates. This shortfall was attributed largely to widespread tax evasion practices across the Western Urban Area. The study further found that tax evasion had a significant adverse effect on the government's ability to generate sufficient revenue, resulting in losses that hindered public sector performance. This situation poses a serious challenge to financing public expenditure and undermines the legitimacy and operational capacity of the government, contributing to persistent budget deficits.

The study recommends that the government of Sierra Leone should intensify public sensitization campaigns on the civic responsibility of tax payment, enhance transparency and accountability in the use of tax revenues, and consider reforms aimed at simplifying the tax system and reducing tax burdens where appropriate. Such measures could build public trust and reduce the incidence of tax evasion.

**Keywords:** Tax Evasion, Internally Generated Revenue, Government Revenue, Fiscal Deficit

## **BACKGROUND OF THE STUDY**

Taxation serves as a fundamental tool for resource mobilization in modern economies, enabling the funding of public goods and services, promoting economic stability, and fostering redistributive equity (Koroma & Jalloh, 2022). In nations like Sierra Leone, where access to external funding is often limited or unpredictable, a fair and efficient tax

system plays a crucial role in promoting sustainable development. Although reforms have been implemented consecutively, Sierra Leone's fiscal framework still encounters systemic challenges, notably widespread tax evasion, especially in the Western Urban. (Bangur 2023).

The Western Urban Area serves as the nation's administrative and commercial center, hosting a dense concentration of economic activities, including formal businesses, informal sector participants, professional services, and nongovernmental organizations. Therefore, it is theoretically capable of making significant financial contributions to the national treasury. Nevertheless, tax revenue generation in the region has consistently fallen short of expectations due to widespread non-compliance with tax regulations (Sesay & Conteh, 2023). Research shows that tax evasion in urban Sierra Leone is driven by several interconnected factors, such as the lack of transparency in income sources within the informal sector, weak administrative enforcement, insufficient taxpayer education, extensive institutional corruption, and general distrust in the fiscal social contract (Kamara & Williams, 2022; Dumbuya et al., 2021).

Tax evasion carries significant financial consequences. It diminishes the tax base and creates distortions in public spending structures, limiting the government's ability to fund critical services like infrastructure, education, healthcare, and sanitation (National Revenue Authority, 2023; Fofanah, 2024). Furthermore, failing to achieve revenue targets weakens macro-fiscal planning, heightens reliance on foreign debt and assistance, and hinders the implementation of national development strategies. In highly urbanized areas with significant demands for social services, such as the Western Urban Area, tax evasion poses serious fiscal challenges, undermining the state's ability to develop and regulate effectively (Turay & Bangalie, 2022).

Additionally, tax evasion creates inefficiencies in the allocation of resources within the economy. It undermines market competition by enabling non-compliant businesses to underprice those that adhere to regulations, while also eroding public trust in the fairness and integrity of the tax system (Kallon & Turay, 2021). These results extend beyond financial matters; they significantly impact governance, state legitimacy, and public participation.

In reaction, the Government of Sierra Leone, via the National Revenue Authority, has implemented various measures to boost revenue, such as digital tax filing systems, compulsory Taxpayer Identification Numbers (TINs), and strengthened audit procedures. Although these reforms have been implemented, compliance rates continue to be low, particularly among informal workers and self-employed individuals (Jusu, 2024). This on-going avoidance implies that purely technocratic solutions may fall short without simultaneous efforts to tackle the underlying structural, socio-economic, and institutional factors driving non-compliance (Kamanda & George, 2023).

Given the importance of tax revenue in reaching national development goals and fiscal sustainability, a localized, evidence-based analysis of the dynamics of tax evasion is essential. This study is an empirical Analysis of the causes and effects of tax evasion on government revenue generation in the Western Urban Area of Sierra Leone. The study intends to produce policy-relevant insights through this lens in order to improve fiscal governance, increase domestic revenue mobilization, and advance equitable development outcomes in Sierra Leone.

## **LITERATURE REVIEW**

### **Theoretical Review**

Tax evasion has been widely explored through various economic, behavioural, and institutional theories. These perspectives help to explain why individuals or businesses evade taxes and the consequences on public revenue, especially in countries like Sierra Leone.

### **Optimal Taxation Theory**

The theory of optimal taxation proposes that governments should design tax systems that maximize societal welfare while minimizing economic distortions. Merles (1971) posited that when tax systems are perceived as unfair or burdensome, evasion becomes more likely. In Sierra Leone, public dissatisfaction arises from poor service delivery despite tax contributions, leading to lower voluntary compliance (Kamanda & George, 2023).

### **Allingham-Sandmo Model**

Allingham and Sandmo (1972) introduced a model grounded in deterrence, asserting that individuals assess the benefits of evasion against the risks of detection and penalties. In Sierra Leone, weak enforcement, limited institutional capacity, and infrequent audits significantly lower the perceived cost of evasion (Jusu, 2024), contributing to high levels of non-compliance.

### **Fiscal Exchange Theory**

This theory emphasizes that taxpayers are more compliant when they perceive a fair exchange between taxes paid and public goods received. However, in the Western Urban Area, poor quality public services erode trust in government, making the fiscal contract ineffective and weakening tax morale (Turay & Bangalie, 2022).

## **Institutional Theory**

Institutional theory explains tax evasion through the lens of formal institutions and informal norms. In Sierra Leone, corruption, limited accountability, and political interference have compromised institutional effectiveness, undermining citizens' confidence in the tax system (Bangura, 2023).

## **Social Influence Theory**

Taxpayer behaviour is shaped not only by laws but also by community norms. In environments where tax evasion is common and seldom punished, it becomes normalized. This peer influence reinforces cycles of non-compliance in Sierra Leone (Kamara & Williams, 2022).

## **Empirical Review**

Empirical evidence across Africa, and Sierra Leone in particular, reveals insights into the drivers, scale, and impacts of tax evasion, especially in urban informal sectors.

## **Prevalence of Tax Evasion in Western Urban Sierra Leone**

The Western Urban Area, hosting Freetown, is a commercial hotspot dominated by informal trade and unregistered enterprises. These characteristics make enforcement of tax laws difficult. Studies confirm that many artisans, market traders, and small-scale service providers operate outside the tax net, often citing harassment, corruption, and lack of tax awareness as reasons for non-compliance (Sesay & Conteh, 2023; Kamanda & George, 2023).

## **Determinants of Tax Evasion**

### **Informality and Lack of Registration**

Dumbuya et al. (2021) reported that over 60% of small businesses in Freetown are unregistered. This informality severely limits the ability of tax authorities to identify and monitor potential taxpayers, shrinking the overall tax base.

### **Taxpayer Education**

Kamara & Williams (2022) found that lack of knowledge is a major reason for evasion. Their study of 300 small business operators revealed that tax compliance was significantly higher among those who had received basic education on the tax system.

### **Administrative Weaknesses**

According to the National Revenue Authority (2023), poor enforcement, insufficient manpower, and the absence of a reliable taxpayer database undermine tax compliance. The inability to detect or penalize tax defaulters fuels a culture of impunity.

### **Corruption and Bribery**

Corruption within tax institutions is another contributor. Fofanah (2024) documented instances where tax officials solicit bribes, alter tax records, or collude with defaulters, thereby deterring honest taxpayers and eroding institutional credibility.

### **Perceived Inequity and Distrust**

Turay & Bangalie (2022) emphasized that a major reason for tax evasion is distrust in government. Taxpayers are less inclined to comply when they believe tax revenues are misused or that political leadership is unaccountable.

## **Effects of Tax Evasion**

### **Loss of Public Revenue**

Evasion significantly reduces internally generated revenue (IGR). Between 2018 and 2023, the Western Urban Area failed to meet annual revenue targets by over 35% (National Revenue Authority, 2023). This shortfall limits the government's capacity to invest in key public services.

### **Macroeconomic Instability**

Persistent revenue losses undermine fiscal discipline and widen budget deficits. Sierra Leone's reliance on foreign aid and borrowing is partly due to an underperforming tax system (Bangura, 2023), threatening long-term economic sustainability.

### **Market Distortion and Inequity**

Evasion skews competition. Kallon & Turay (2021) noted that non-compliant businesses can offer lower prices than tax-compliant ones, discouraging fair market practices and disincentivizing formalization.

### **Poor Service Delivery**

Reduced tax revenue translates into underfunded public sectors. Fofanah (2024) linked weak health, education, and infrastructure outcomes in urban slums to low government investment, which is partly a result of inadequate tax collections.

### **Declining State Legitimacy**

Unchecked tax evasion damages the credibility of the state. When citizens believe the tax system is exploitative and selective, their willingness to comply erodes, further weakening the rule of law and democratic legitimacy (Kamanda & George, 2023).

### **Gaps in Literature**

Despite growing attention to tax evasion in Sierra Leone, few studies focus specifically on the Western Urban Area. Most existing research is either broad-based or relies on out dated data. There's also a lack of analysis on how informal sector dynamics, institutional weaknesses, and public perceptions jointly influence tax behaviour in this area.

### **Study Contribution**

To address these gaps, this study adopts a localized and mixed-methods approach to explore:

The prevalence of tax evasion among urban informal sector participants

How institutional failures, corruption, and public service delivery affect tax compliance

The macroeconomic implications of persistent evasion for domestic resource mobilization in Western Urban Sierra Leone

## **METHODOLOGY**

The methodology outlines the research design and methods employed to investigate tax evasion and compliance in the Western Urban Area of Sierra Leone. It describes the study population, sampling techniques, data collection procedures, and analytical tools utilized.

## Study Population and Sampling

The study targeted two main groups: business taxpayers operating within the Western Urban Area and employees of the Sierra Leone National Revenue Authority (NRA) involved in tax administration. These groups were chosen because they directly influence and experience the tax system in the region.

A total sample of 180 respondents was determined using stratified random sampling to ensure representation across different business sectors and tax administrative units within the Western Urban Area. The stratification considered geographic distribution of businesses and NRA offices to capture diverse perspectives on tax compliance and evasion.

## Data Collection

Primary data were gathered through structured questionnaires developed based on a thorough review of relevant literature and local tax compliance issues. The questionnaires included items measured on a 5-point Likert scale, ranging from "strongly disagree" to "strongly agree," to assess attitudes, perceptions, and behaviours related to tax evasion and enforcement mechanisms.

Before full administration, the questionnaire was pilot tested with 20 respondents to evaluate clarity and reliability. Cronbach's alpha for the pilot test was 0.87, indicating high internal consistency and reliability of the instrument. The final questionnaire was then administered face-to-face to the selected respondents between January and March 2025.

Secondary data were obtained from official publications of the Sierra Leone National Revenue Authority, the Ministry of Finance, and the Statistics Sierra Leone office. These included tax revenue records, compliance reports, and economic indicators relevant to the study period (2020–2024).

## Data Analysis

Data analysis employed both descriptive and inferential statistical techniques. Descriptive statistics (frequencies, percentages, means, and standard deviations) summarized demographic data and general response trends. Inferential analysis included Analysis of Variance (ANOVA) to test differences in compliance attitudes among business categories.

Additionally, regression analysis using the Ordinary Least Squares (OLS) method was conducted to examine the relationship between identified factors (such as penalty severity, taxpayer education, and administrative efficiency) and tax compliance levels. Statistical significance was evaluated at the 5% level ( $p < 0.05$ ).

All quantitative data were analysed using the Statistical Package for the Social Sciences (SPSS) version 28, ensuring robust and replicable results.

## RESULTS AND DISCUSSION

This section presents the findings derived from the analysis of data collected from 180 respondents, comprising business taxpayers and staff of the National Revenue Authority (NRA) in the Western Urban Area of Sierra Leone. The focus was to examine the perceived effects of tax evasion on government revenue generation.

Statements	N	Mean	Std. Dev.
Tax evasion reduces and undermines government revenue collection efforts	180	4.61	0.62
Loss of tax revenue due to evasion contributes significantly to national and local budget gaps	180	4.33	0.70
Tax evasion weakens public trust and diminishes the perceived legitimacy of government	180	3.88	1.12

Non-compliance with tax laws fosters unfairness and resentment among compliant taxpayers	180	4.09	0.87
Widespread tax evasion disrupts effective fiscal planning and local economic development	180	3.71	1.26

Table 1: Perceived Effects of Tax Evasion on Government Revenue in Western Urban Area, Sierra Leone

Source: Field Survey, Western Urban Area (2025)

## DISCUSSION

The results in Table 1 indicate a strong consensus among respondents that tax evasion significantly hinders the ability of the Sierra Leonean government particularly in the Western Urban Area to mobilize adequate revenue. The highest mean score ( $M = 4.61$ ) was associated with the statement that tax evasion reduces and undermines government revenue collection efforts. This confirms the widespread perception that evasion directly moderates the fiscal resources needed to fund essential services like education, healthcare, and infrastructure development in the capital.

The second-highest concern ( $M = 4.33$ ) was that revenue losses from tax evasion contribute significantly to budgetary shortfalls at both national and local levels. This is particularly relevant given the Sierra Leonean government's on-going challenges in meeting fiscal targets due to limited domestic revenue generation.

Respondents also acknowledged that tax evasion has broader socio-political consequences. A mean score of 3.88 reflected the belief that tax evasion erodes trust in government institutions, while a mean of 4.09 showed that evasion breeds resentment among law-abiding taxpayers who perceive the system as unfair. These perceptions highlight a crucial governance issue in Western Urban: when the tax system is seen as poorly enforced, it may fuel non-compliance and social inequality.

The lowest-ranked but still significant issue ( $M = 3.71$ ) was the notion that tax evasion distorts fiscal planning and disrupts economic efficiency. Though slightly lower in average perception, this reflects the real consequences faced by municipal authorities when financial projections cannot be met due to leakages in expected revenue.

Overall, the findings are consistent with previous studies and reinforce the urgent need for stronger tax enforcement, enhanced taxpayer education, and a transparent tax administration system. The Western Urban Area, being the country's commercial hub, bears a disproportionate burden when revenue losses due to evasion are not addressed systematically.

Table 2: Perceptions of Corruption and Governance on Tax Evasion in Western Urban Area

Statements	N	Mean	Std, Dev.
High levels of corruption among tax officials encourage tax evasion	180	4.78	0.47
Mismanagement of public funds discourages tax compliance and promotes evasion	180	4.54	0.65
Inadequate enforcement capacity to detect and prosecute tax violators increases evasion	180	4.54	0.66
Weak rule of law and limited fiscal accountability promote tax evasion	180	4.53	0.66
Low transparency and accountability in public institutions increase willingness to evade taxes	180	4.44	0.74



Source: Field Survey, Western Urban Area (2025)

## DISCUSSION

The findings in Table 2 above demonstrate that corruption and bad governance are frequently cited as key reasons for tax evasion in the Western Urban Area of Sierra Leone. This was reflected in the statement: “High levels of corruption among tax officials encourage tax evasion”, which had the highest mean score ( $M = 4.78$ ). This indicates a strong belief among respondents that unethical behaviour within tax administration significantly undermines voluntary tax compliance.

Closely following were concerns about mismanagement of tax revenue ( $M = 4.54$ ) and weak enforcement capacity ( $M = 4.54$ ). Many respondents noted that when citizens observe public funds being misused or misappropriated; their willingness to comply with tax obligations diminishes. Similarly, the inability of tax institutions to effectively detect and prosecute violators fosters a culture of impunity, making tax evasion seem both low-risk and acceptable.

Another critical concern was the lack of rule of law and weak fiscal jurisdiction ( $M = 4.53$ ), which reflects on-going challenges in ensuring that the legal framework governing tax collection is robust and consistently enforced. Finally, limited transparency and accountability in public institutions was also flagged ( $M = 4.44$ ), pointing to widespread public scepticism about how tax revenue is utilized by government bodies.

These findings suggest that tax evasion in Western Urban is not just a technical or administrative problem—it is deeply rooted in the public’s perception of corruption, bad governance, and institutional inefficiency. Effective tax reforms in Sierra Leone must therefore go beyond adjusting tax rates or improving collection procedures. They must also address broader governance issues including public financial management, institutional integrity, legal enforcement, and citizen engagement.

## Hypothesis Testing

To evaluate whether tax evasion significantly affects government revenue generation, the study employed Analysis of Variance (ANOVA) at a 5% level of significance. The results revealed statistically significant relationships between perceptions of tax evasion and reduced public revenue. This confirms the hypothesis that corruption-fuelled evasion behaviour has a measurable negative impact on the fiscal performance of the Western Urban Area.

## RESULTS AND DISCUSSION

Table 3: ANOVA Results on the Impact of Tax Evasion on Government Revenue Generation

Source	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	27,010.000	4	6,752.500	158.882	0.000
Within Groups	850.000	20	42.500		
Total	27,860.000	24			

Source: Researchers’ computation, 2025, SPSS output

The ANOVA results presented in Table 3 show a calculated F-value of 158.882, which is substantially higher than the critical F-value of 2.78 at a 5% significance level with degrees of freedom 4 and 20. The associated p-value is less than 0.05, indicating a statistically significant difference between the groups.

This strong significance allows us to reject the null hypothesis, confirming that tax evasion has a profound and measurable negative effect on government revenue generation in the Western Urban Area of Sierra Leone.

Specifically, the respondents agree that: Tax evasion significantly reduces and erodes the revenue base available to government institutions; The loss of revenue due to evasion undermines the perceived legitimacy and authority of government; Tax evasion creates social tensions by fostering resentment among compliant taxpayers and contributes to inequalities in the community; Economic efficiency at the government level is distorted because of inconsistent and reduced fiscal capacity.

These findings emphasize that tax evasion is not merely a fiscal issue but also a governance and social challenge. Addressing tax evasion requires coordinated efforts to improve tax administration, enhance transparency, and strengthen public trust in government operations.

## Hypothesis Two

Null Hypothesis (Ho2): There is no effect of perceived corruption in government on tax evasion in the Western Urban Area of Sierra Leone.

Table 4: ANOVA on the Influence of Perceived Corruption on Tax Evasion

Source	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	17,896.400	4	4,474.100	54.377	0.000
Within Groups	1,645.600	20	82.280		
Total	19,542.000	24			

Source: Researchers' computation, 2025, SPSS output

The Analysis of Variance (ANOVA) results in Table 4 reveal a computed F-statistic of 54.377, which is significantly higher than the critical F-value at the 5% level of significance. The p-value is less than 0.05, indicating strong statistical evidence to reject the null hypothesis.

This result confirms that perceived corruption within government structures has a significant impact on tax evasion in the Western Urban Area of Sierra Leone. The respondents overwhelmingly agree that several factors related to corruption fuel tax evasion, including: High levels of corruption among tax officials, which create opportunities for evasion and weaken enforcement; Low transparency and accountability in public institutions, reducing public confidence in tax systems and encouraging non-compliance; Weak institutional capacity to detect and prosecute tax offenders; allowing evaders to operate with minimal risk.; Mismanagement of collected tax revenues, which undermines taxpayers' willingness to comply.

These findings highlight the critical need for strengthening governance, enhancing transparency, and building robust institutional frameworks to reduce corruption and improve tax compliance in the region.

Table 5: Analysis of Internally Generated Revenue (Le billions) and Estimated Tax Evasion in the Western Urban Area, 2011–2016

Year	Estimated Revenue (Le Bn)	Actual Collection (Le Bn)	Estimated Evasion (Le Bn)
2011	30.78	8.92	21.86
2012	34.13	14.60	19.53
2013	38.61	15.25	23.36
2014	48.86	16.31	32.55



2015	37.76	15.67	22.09
2016	76.70	18.88	57.82
Total	266.84	89.63	177.21
Percent	100%	33.6%	66.4%

Source: National Revenue Authority (NRA), Ministry of Finance, and Western Urban Area Council Reports (2011–2016)

## RESULTS AND DISCUSSION

Table 5 presents a six-year analysis (2011–2016) of internally generated revenue (IGR) versus estimated revenue losses due to tax evasion in the Western Urban Area of Sierra Leone. The data reveals a persistent gap between projected and actual revenue collections, indicating a systemic challenge in tax administration and compliance.

Over the period under review, the total estimated revenue was Le 266.84 billion, out of which only Le 89.63 billion was actually collected. This indicates a substantial revenue shortfall of Le 177.21 billion, translating to 66.4% of expected income lost to tax evasion. The highest revenue evasion occurred in 2016, with a staggering Le 57.82 billion unaccounted for despite the highest estimated revenue for the period.

This trend suggests that tax evasion significantly undermines the fiscal capacity of local governance structures to deliver essential public services. Several underlying causes were identified in earlier parts of the study, including: Ineffective monitoring systems within the revenue collection agencies; Inadequate enforcement and judicial follow-through on tax violations; Poor taxpayer education and lack of trust in public financial management; Widespread informal sector activities which escape formal tax nets.

The findings underscore the urgent need for comprehensive tax reforms in the Western Urban Area, particularly in strengthening institutional frameworks, digitizing tax systems, and ensuring accountability in the management of public funds.

### Model Specification

To further validate the findings from the primary data collected, a simple linear regression model was employed to analyse the relationship between tax evasion and government revenue generation using the secondary data presented in Table 5. In this model, tax evasion (TEV) serves as the dependent variable, while estimated revenue (ESR) acts as the independent variable.

Tax evasion was computed as the difference between the estimated internally generated revenue and the actual revenue collected for each year between 2011 and 2016.

The model is first expressed in its functional form as:

$$TEV = f(ESR) \dots\dots\dots \text{Eq 1}$$

This is then transformed into its stochastic linear form:

$$TEV = \beta_0 + \beta_1 ESR + \epsilon \dots\dots\dots \text{Eq 2}$$

Where:

TEV = Tax Evasion (Le billions)

ESR = Estimated Revenue (Le billions)

$\beta_0$  = Intercept (constant term)

$\beta_1$  = Coefficient of Estimated Revenue

$\varepsilon$  = Stochastic error term (captures the effect of other variables not included in the model)

This model aims to determine the extent to which changes in estimated government revenue are associated with variations in tax evasion levels. The expected sign of  $\beta_1$  is positive, indicating that higher estimated revenues, in the absence of efficient collection systems, may lead to increased tax evasion if administrative weaknesses persist.

Dependent Variable: Tax Evasion (TEV)

Independent Variable: Estimated Revenue (ESR)

Table 6: Pooled OLS Regression Results Western Urban Area, Sierra Leone

Variables	TEV	Pearson Correlation	Coefficient	t-Statistic	f-Statistic	R <sup>2</sup>	Adjusted R <sup>2</sup>	f-Sig.
Constant	1.000		-8.346	-2.802				
ESR (Le Billion)		0.989	0.852	13.461	181.202	0.978	0.973	0.000

Source: Author's computation using SPSS (v23)

The regression analysis above reveals a strong and statistically significant relationship between estimated government revenue and tax evasion in the Western Urban Area of Sierra Leone over the 2011 to 2016 period. The Pearson correlation coefficient of 0.989 indicates a near-perfect positive linear correlation between the variables, suggesting that increases in projected or estimated revenue are strongly associated with corresponding increases in the volume of tax evaded.

The t-statistic of 13.461 for the estimated revenue (ESR) variable, coupled with a p-value  $< 0.05$ , confirms the significance of this relationship at the 5% level. The positive beta coefficient (0.852) indicates that for every one billion leones increase in estimated revenue, tax evasion rises by approximately 852 million leones, assuming other factors remain constant.

The F-statistic value of 181.202, which is highly significant ( $p = 0.000$ ), further reinforces the overall model fit, demonstrating that the regression model effectively explains the variability in tax evasion levels within the study period.

Moreover, the model's  $R^2$  value of 0.978 implies that 97.8% of the variations in tax evasion within the Western Urban Area are explained by changes in estimated revenue. The adjusted  $R^2$  of 0.973 confirms the robustness of this model, even after adjusting for the degrees of freedom. This means that only 2.2% of the variations in tax evasion are attributable to other external factors not included in this regression model such as political instability, tax collection inefficiencies, or informal sector dynamics.

In essence, the findings suggest that as government sets increasingly ambitious revenue targets, often without commensurate strengthening of tax enforcement mechanisms or improvements in taxpayer trust and compliance systems, tax evasion tends to rise. This could be due to higher perceived tax burdens, lack of transparency in public fund utilization, and weak institutional capacities to detect and prosecute tax offenses all prevalent issues in the Western Urban Area of Sierra Leone.

These results underscore the need for strategic reforms in the country's tax administration system emphasizing taxpayer education, transparency, and institutional capacity building to effectively minimize revenue losses due to tax evasion.

## SUMMARY, CONCLUSION AND RECOMMENDATION

### Summary

This study is an empirical analysis of the incidence, determinants, and macroeconomic implications of tax evasion in the Western Urban Area of Sierra Leone. Drawing on both primary data from surveys and secondary data from official revenue statistics (2011–2016), the research employed descriptive and inferential statistical methods, including ANOVA and OLS regression analysis, to evaluate the impact of tax evasion and related factors especially perceived corruption on internally generated revenue (IGR).

Findings from the ANOVA tests confirmed that tax evasion significantly affects government revenue collection, undermining the state's financial capacity and public service delivery. Another key finding revealed that perceived corruption in public institutions, particularly among tax officials, is a strong predictor of tax evasion. Regression results further showed that estimated revenue and tax evasion are highly positively correlated ( $R = 0.989$ ), with 97.8% of the variation in tax evasion explained by changes in government revenue estimates. The consistent evasion of over 60% of projected revenue highlights the magnitude of fiscal loss in the study area.

### Conclusion

The study concludes that tax evasion poses a critical challenge to revenue generation efforts in the Western Urban Area of Sierra Leone. This challenge is exacerbated by factors such as weak enforcement mechanisms, high tax burdens, inadequate transparency, and a lack of taxpayer trust in how public funds are managed. These factors jointly erode the government's fiscal space and hinder its ability to provide essential public services and infrastructure.

The study also confirms that ambitious revenue targets set by the government, when not accompanied by improvements in administrative capacity and public accountability, can incentivize evasion rather than compliance. The high rate of tax evasion observed is not merely a matter of non-payment, but a reflection of deeper systemic issues in governance and policy execution.

### Recommendations

Based on the findings of this study, several key recommendations are proposed to address tax evasion in the Western Urban Area of Sierra Leone. First, it is crucial for the government to strengthen tax administration and enforcement mechanisms. This can be achieved by investing in digital tax tracking systems and enhancing the institutional capacity of the National Revenue Authority (NRA) to effectively detect and prosecute tax evaders. Providing adequate training and resources to tax officials is essential in ensuring that enforcement is not only efficient but also fair and consistent across different taxpayer groups.

Secondly, efforts must be made to enhance public trust and transparency in the use of tax revenues. Government agencies and revenue authorities should consistently publish detailed reports on how public funds, particularly tax revenues, are being utilized. The implementation of transparent budgeting processes and public audits can help build taxpayer confidence and foster a culture of voluntary compliance. When citizens see clear benefits from their contributions, they are more likely to participate in the tax system.

Thirdly, tax policies should be reformed to reduce the financial burden on small and medium-sized enterprises as well as low-income earners. Tax structures must be reviewed and adjusted to promote equity and manageability. Simplifying tax procedures and rolling out broad-based tax education campaigns will encourage more individuals and businesses to comply voluntarily. Making the process less complex and more accessible can reduce avoidance and improve overall revenue generation.

Fourth, tackling corruption within the tax system is paramount. A strict zero-tolerance policy must be enforced to curb corrupt practices in tax administration. The Anti-Corruption Commission should be given adequate authority and support to act swiftly and decisively against any tax officials found guilty of collusion, bribery, or other unethical behaviour. Curbing internal corruption is key to restoring integrity in tax administration and ensuring that all citizens are treated equally under the law.

Finally, expanding the tax base is essential to improve revenue mobilization. Given the size and significance of the informal sector in the Western Urban Area, strategic efforts should be made to integrate informal businesses into the formal tax net. This can be achieved through incentive schemes, targeted registration drives, and the introduction of simplified tax regimes tailored to informal sector realities. Furthermore, government and civil society organizations should collaborate on community-based outreach programs that educate the public on the importance of taxation and its role in national development. These combined efforts will support fiscal sustainability and equitable development outcomes in Sierra Leone.

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