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Business taxation under democratic decline: a literature review

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FOREWORD

This study is developed under the "Framework agreement for the provision of consultancy services to Norad's Governance and Public Finance Portfolio and economic governance engagement".[1] It responds to growing interest within Norad and the Norwegian Ministry of Foreign Affairs in understanding how democratic decline affects the institutions and relationships that underpin domestic revenue mobilization and sustainable development.

While substantial research has examined the consequences of democratic decline for political institutions and economic performance, less attention has been paid to its implications for taxation and the relationship between businesses and the state. Yet these interactions are central to fiscal capacity, private sector development, accountability, and the broader social contract. As democratic institutions weaken, tax systems may become more discretionary, less predictable, and more vulnerable to unequal treatment, with important consequences for both economic actors and public finances.

Drawing on international literature and recent empirical research from mainland Tanzania and Zanzibar, this review examines how democratic decline may affect business taxation, taxpayer behavior, state-business relations, and domestic revenue mobilization. By synthesizing existing knowledge and identifying implications for development policy and future research, the review aims to inform policy discussions within Norad and the Ministry of Foreign Affairs on taxation, governance, debt sustainability, and private sector development. More broadly, it seeks to contribute to a deeper understanding of the links between democratic governance, fiscal legitimacy, and long-term development outcomes.

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Chr. Michelsen Institute

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EXECUTIVE SUMMARY

Democratic decline has accelerated across sub-Saharan Africa over the past decade, raising important questions about its implications for governance, economic performance, and domestic revenue mobilization. While a growing body of research examines the consequences of autocratization for political and economic institutions, relatively little attention has been paid to how democratic decline affects business taxation and the relationship between firms and tax authorities. This review addresses that gap by synthesizing literature on taxation, state capacity, tax compliance, political economy, and democratic decline, with particular attention to evidence from mainland Tanzania and Zanzibar.

The review argues that democratic decline affects business taxation primarily through changes in tax administration rather than through changes in statutory tax rates. As democratic institutions weaken, tax systems may become more discretionary, less predictable, and less accountable. The consequences are often reflected in how businesses experience taxation: through uncertainty about enforcement, inconsistent application of rules, selective treatment of taxpayers, and declining confidence in the fairness and integrity of tax authorities. These changes can alter taxpayer behavior even when formal tax laws remain unchanged.

Research on tax compliance demonstrates that enforcement alone is insufficient to sustain effective tax systems. Trust, fairness, procedural justice, and perceptions of legitimacy are critical determinants of compliance. Businesses are more likely to comply when they perceive tax authorities as impartial, competent, and respectful, and when they believe that other firms are also meeting their obligations. Democratic decline may undermine these foundations by weakening administrative impartiality, increasing opportunities for discretionary enforcement, and eroding confidence that tax burdens are distributed fairly across taxpayers.

The review also highlights the political economy dimensions of business taxation. Firms are not merely taxpayers but political actors that interact strategically with the state. Under conditions of institutional weakening, taxation and regulation may increasingly operate through negotiated relationships and political connections rather than through transparent and uniformly applied rules. Politically connected firms may secure preferential treatment, exemptions, or softer enforcement, while smaller and less connected firms face higher compliance costs and greater uncertainty. Such dynamics can distort competition and encourage businesses to invest in political access rather than productive activities.

Evidence from Tanzania illustrates these broader patterns. Recent business surveys show that trust in tax authorities is shaped primarily by perceptions of fairness, service quality, transparency, and confidence that competitors are also complying. Firms frequently report concerns about administrative complexity, overlapping taxes and regulations, uncertainty regarding tax obligations, and inconsistent implementation of rules. These factors influence business decisions, including investment, compliance, and formalization, often more strongly than the level of taxation itself. The tourism sector in Zanzibar provides a particularly revealing example of how multiple taxes, fragmented administration, and regulatory uncertainty can increase compliance costs and create scope for discretionary enforcement.

A key conclusion of the review is that democratic decline can weaken fiscal capacity even when revenue collection remains stable in the short term. Tax systems may continue to generate revenue through stronger enforcement or administrative control, but the erosion of trust, fairness, and voluntary compliance can undermine the long-term sustainability of domestic revenue mobilization. Over time, these dynamics may contribute to greater informality, weaker compliance norms, reduced investment, and increased fiscal fragility.

The findings also carry implications for development partners engaged in domestic revenue mobilization (DRM), governance, and private sector development. They suggest that assessments of tax reform should look beyond revenue performance to consider taxpayer trust, perceptions of fairness, transparency, and the predictability of tax administration. Support for digitalization and tax administration reforms should be accompanied by attention to accountability and taxpayer rights, while debt sustainability assessments should recognize that the long-term reliability of domestic revenues depends on the legitimacy of the tax system as well as its collection capacity.

The review identifies several priorities for future research. These include improving understanding of how firms respond to democratic decline, examining differences across sectors and firm types, exploring the role of intermediary institutions such as business associations and religious organizations, and integrating research on taxation, governance, fiscal capacity, and development finance. Greater attention to these issues is essential for understanding how autocratization affects both business behavior and the long-term effectiveness of tax systems.

The review also highlights that there is no single relationship between democracy, governance and taxation. Different governance trajectories can shape fiscal capacity, administrative performance and state-business relations in different ways. Future research and development cooperation should therefore move beyond generic assumptions about democratic decline towards more differentiated analyses of how specific dimensions of governance, such as executive constraints, judicial independence, administrative impartiality and state capacity, affect taxation and domestic revenue mobilization in different political and economic contexts.

Overall, the review concludes that business taxation provides an important lens through which to understand the economic consequences of autocratization. Tax administration is not merely a technical function of government but a critical institutional arena where relationships between states and businesses are negotiated and where broader processes of institutional strengthening or erosion become visible. The quality of these interactions will play an increasingly important role in shaping fiscal capacity, domestic revenue mobilization, and development outcomes in countries experiencing democratic decline.

1. INTRODUCTION

Levels of democracy in sub-Saharan Africa have declined markedly in recent years following two decades of stagnation (Arriola, Rakner and Van de Walle, 2023). This trend reflects broader processes of autocratization and democratic backsliding documented by the Varieties of Democracy (V-Dem) project and other comparative datasets (see Box 1 for an explanation of the terminology used in this review). According to V-Dem, democracy in sub-Saharan Africa has regressed to levels last observed in the early 2000s.[2] Today, around two-thirds of the population in the region lives under autocratic rule, while most of the remainder – apart from Seychelles – resides in a "grey zone" between autocracy and democracy (Nord et al., 2026). While the implications of democratic decline for governance, economic performance, and development have attracted growing scholarly attention, much less is known about how these processes affect taxation and the relationship between businesses and the state.

This gap is important because taxation lies at the center of state-society relations. Tax systems finance public goods, shape incentives for investment and production, and provide a window into the character of state institutions. In democratic settings, taxation is often associated with representation, accountability, and state-building. In contexts marked by democratic decline or authoritarian drift, however, taxation may become less a mechanism of reciprocal fiscal exchange and more an instrument of discretion, coercion, and political control. Understanding how autocratization affects taxation is therefore essential for assessing its broader consequences for governance and development.

This review focuses specifically on business taxpayers. Businesses account for a large share of tax revenue in most developing countries and play a central role in domestic revenue mobilization, yet they remain underrepresented in empirical research (Moore, Prichard and Fjeldstad, 2018; Dom et al., 2022; Jensen and Weigel, 2026). Much of the literature on taxation and compliance examines individual or household taxpayers (e.g. Alm and Torgler, 2006; Torgler, 2007), while comparatively little attention has been devoted to how firms experience taxation, interact with tax authorities and make compliance decisions (Prichard et al., 2019: 27; Jensen and Weigel, 2026: 26). This is a significant omission because firms differ from individual taxpayers in important respects. They face more complex tax regulations, greater compliance burdens, and higher levels of uncertainty regarding tax obligations (Kamleitner, Korunka and Kirchler, 2012). Firms may also evaluate taxation differently because public expenditures on health, education, and social welfare do not necessarily generate direct benefits for their businesses (Sakurai and Braithwaite, 2003). At the same time, evidence suggests that trust, fairness, transparency, and meaningful engagement with taxpayers are particularly important determinants of business compliance (Gobena and Van Dijke, 2016; Bellon et al., 2022). As Joshi, Prichard and Heady (2014) argue, involving businesses more actively in the design and implementation of tax policies can strengthen both trust and compliance.

The relationship between business taxation and democratic decline does not constitute a single, well-defined field of research. Rather, it sits at the intersection of several literatures. The first examines taxation and state capacity, emphasizing the role of taxation in state-building and the development of fiscal contracts between states and taxpayers (Prichard, 2015; Moore et al., 2018; Besley, 2020; Albers, Jerven and Suesse, 2023; Jensen and Weigel, 2026). The second focuses on tax morale, trust, fairness, and compliance, demonstrating that enforcement alone is insufficient to sustain effective tax collection (Besley and Dray, 2024; Fjeldstad and Sjursen, 2024). The third explores business power, political connections, and the political economy of taxation (Gobena and Van Dijke, 2016; Wu et al., 2012; Pan and Wu, 2026). The fourth examines democratic decline, autocratization, institutional

2 V-Dem (Varieties of Democracy) is an independent research institute headquartered at the University of Gothenburg in Sweden. V-Dem seeks to measure and conceptualizes democracy. V-Dem is highly regarded for its multidimensional and historical approach to understanding political regimes. As part of its work, it publishes a dataset known as the V-Dem Democracy Indices, that provides a multidimensional and disaggregated dataset that reflects the complexity of the concept of democracy as a system of rule.

weakening, and the erosion of rule-of-law constraints (Boese, Lindberg and Lührmann, 2021; Arriola, Rakner and Van de Walle, 2023; Boese-Schlosser and Eberhardt, 2025; Nord et al., 2026).

Taken together, these literatures suggest that democratic decline affects business taxation less through changes in statutory tax rates than through changes in how tax systems are administered and experienced. The central argument of this review is that autocratization may alter the mode of taxation rather than simply its level. Its effects are transmitted primarily through changes in administrative discretion, predictability, accountability, enforcement practices, and the broader relationship between businesses and the state (von Soest, 2007; Boese-Schlosser and Eberhardt, 2025; Pan and Wu, 2026). As institutional constraints weaken, tax systems may become more selective, politicized, and unpredictable. Politically connected firms may benefit from preferential treatment or lower effective tax burdens, while smaller and less connected firms face greater compliance costs, uncertainty, and arbitrary enforcement. The result is often not a stronger fiscal state but a more uneven and less legitimate one.

These dynamics matter for at least three reasons. First, they influence business behavior, including compliance, investment, and formalization decisions. Second, they shape the incentives of private-sector actors to support, accommodate, or resist autocratization. Third, they affect fiscal capacity, domestic revenue mobilization, and ultimately the sustainability of public finances.

Against this backdrop, the review examines how political institutions shape business taxation under conditions of democratic decline, with particular attention to tax administration, taxpayer behavior and perceptions, state-business relations, and fiscal capacity. It combines insights from the broader international literature with evidence from recent studies of business taxation in mainland Tanzania and Zanzibar.

Box 1 clarifies the terminology used in this review by distinguishing between regime types and regime trajectories and explaining how the term *democratic decline* is used throughout the report.

Box 1: Regimes and regime change

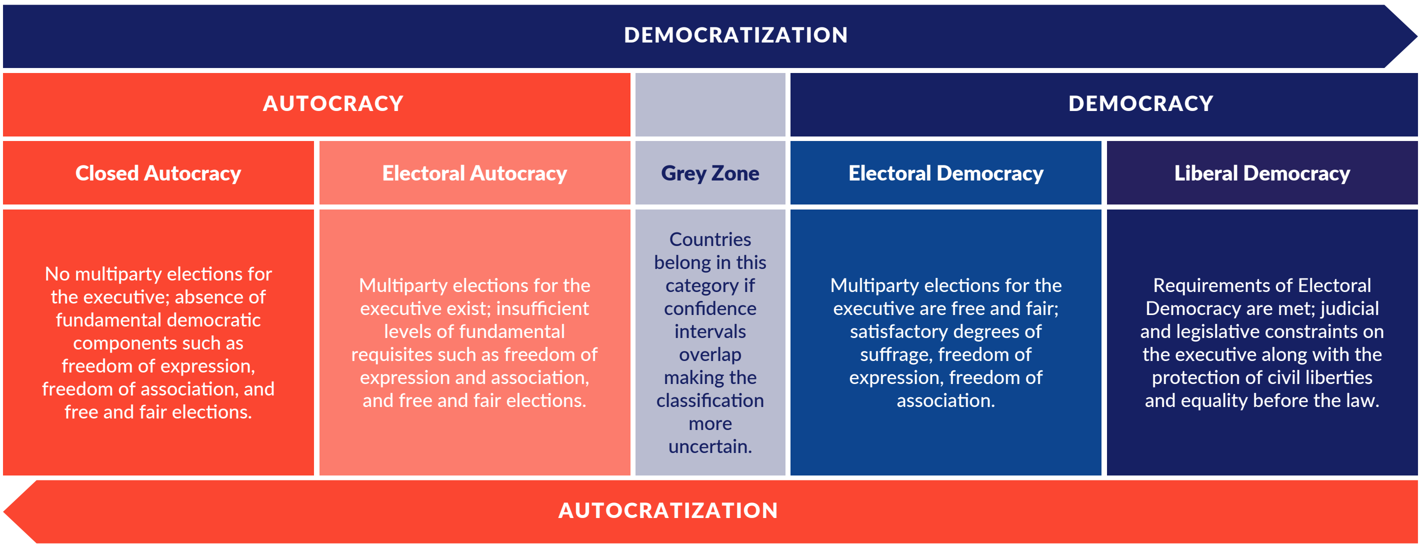
Following V-Dem (Nord et al., 2026), Figure 1 illustrates the continuum of four distinct regime types, from closed autocracy to liberal democracy, and the trajectories through which countries move along this continuum.

Democratization refers to movement towards more democratic forms of governance. It may involve liberalization within an autocratic regime, a transition from autocracy to democracy through democratic transition, or the *deepening and consolidation of democratic institutions and practices* within an existing democracy.

Autocratization refers to movement toward more authoritarian governance. It may involve movement within a democracy through *democratic backsliding*, movement from democracy to autocracy, or movement within an existing autocracy through *autocratic regression*.

Throughout this review, we use **democratic decline** as a broad umbrella term referring to the deterioration in the quality of democratic governance. This encompasses processes of autocratization – including democratic backsliding – as well as the institutional mechanisms through which these processes affect governance, including weaker judicial independence, reduced constraints on executive power, erosion of the rule of law, and declining impartiality of public institutions. These institutional changes provide the principal channels through which democratic decline influences tax administration, business behavior, and fiscal capacity.

Figure 1: *Regimes and regime change (Nord et al. 2026, p.14)*



As illustrated in Table 1, democratic decline does not affect taxation through a single channel. Electoral competition, executive constraints, judicial independence, administrative impartiality, civil liberties, corruption control, and state capacity may move in different directions. Some countries may experience declining political freedoms while strengthening bureaucratic or fiscal capacity; others may combine weak rule of law with active revenue mobilization. For business taxation, the most relevant dimensions are likely to be executive constraints, rule of law, administrative impartiality, corruption control, transparency, and space for collective business voice.

Table 1: Democratic decline is multidimensional: why governance dimensions matter for taxation

Governance/democracy component	**Why it matters for business taxation**
Executive constraints	Limits selective use of tax enforcement
Judicial independence	Affects dispute resolution and taxpayer rights
Administrative impartiality	Determines whether firms face equal treatment
Civil society/business voice	Shapes consultation and tax bargaining
Corruption control	Affects informal payments and negotiated liabilities
State capacity	Determines ability to enforce, audit and collect

Democratic decline should also be understood within a broader literature on governance trajectories rather than as a uniform process. Comparative research on the “third wave of autocratization” (Boese et al., 2021; Nord et al., 2026), together with work on state-building, post-conflict governance and development (e.g. Sen, 2013; Justino, 2022; Hickey and Sen, 2024), emphasize that countries often combine different elements of democratic and administrative performance over time. Some countries experience declining political competition while maintaining or even strengthening bureaucratic effectiveness and fiscal capacity. Others combine electoral competition with weak administrative capability or fragmented state authority. These mixed trajectories suggest that the consequences of democratic decline for taxation are likely to depend less on regime labels alone than on which institutional dimensions are changing and how these interact with tax administration, state capacity and state-business relations.

The remainder of the review is organized as follows. Section 2 examines taxation and fiscal capacity, focusing on the role of taxation in state-building and fiscal contract formation. Section 3 explores the relationship between trust, fairness, and tax compliance. Section 4 analyzes firms as political actors and examines the political economy of taxation under democratic decline. Section 5 argues that democratic decline affects taxation most directly through changes in tax administration, including growing administrative discretion and weakened rule-of-law constraints. Section 6 illustrates these dynamics through evidence from mainland Tanzania and Zanzibar. Section 7 discusses the broader implications for fiscal capacity, domestic revenue mobilization, and public finance. Section 8 identifies key knowledge gaps and future research priorities. Section 9 concludes. Annex 1 provides annotated references to the principal literature covered in the review.

2. TAXATION, FISCAL CAPACITY, AND THE SOCIAL CONTRACT

A central proposition in the literature is that taxation is a cornerstone of state capacity. Besley and Persson (2009) argue that revenue-raising capacity and rule enforcement are deeply intertwined with the development of legal and fiscal institutions. Tax systems are therefore not merely technical instruments for raising revenue; they are fundamental components of state infrastructure.

This perspective has traditionally informed theories of fiscal contracts, which view taxation as a mechanism through which citizens and businesses exchange resources for public goods, representation, and accountability. The literature identifies two main pathways for tax bargaining between taxpayers and the state (Prichard et al. 2025). First, taxpayers may feel a stronger sense of ownership over government revenues, increasing their political engagement and demands for reciprocity. Second, taxpayers may resist tax compliance when the government fail to provide adequate returns on their contributions. Consequently, effective taxation is often associated with stronger state institutions, greater government responsiveness, and improved governance outcomes (Baskaran, 2014).

Recent research, however, suggests that this relationship is neither automatic nor linear. Governments may strengthen tax collection and administrative capacity while simultaneously weakening mechanisms of accountability (Persson, Fjeldstad, and Sjursen, 2026). Under conditions of democratic decline, taxation may become less a basis for bargaining between taxpayers and the state and more an instrument of administrative control. Fiscal capacity may therefore increase even as opportunities for political participation and oversight decline, thereby constraining both the engagement and resistance pathways through which tax bargaining is expected to operate (Prichard, Jibao and Pillai, 2025; Blackmore and Fjeldstad, 2025).

These developments point to a more conditional understanding of fiscal contracts (Persson, Fjeldstad and Sjursen, 2026). Whether taxation contributes to accountability depends on the broader political context, the quality of institutions, and the extent to which taxpayers can influence public decision-making. As a result, improvements in revenue collection do not necessarily imply stronger fiscal contracts or greater political responsiveness.

This also suggests that fiscal contracts are likely to evolve differently across governance trajectories. In some contexts, governments may succeed in expanding tax capacity despite declining political accountability, while in others weak institutions undermine both taxation and governance simultaneously. Understanding these different trajectories is therefore important when interpreting links between democratic decline, fiscal capacity and development.

This perspective also highlights the importance of everyday interactions between taxpayers and the state. Legitimacy is shaped not only by formal institutions but also by how tax systems are administered and experienced in practice (Ulriksen, Msami and Katera, 2023). The quality of these interactions becomes particularly important in contexts of democratic decline, where trust in public institutions may be under increasing pressure.

3. TAX COMPLIANCE, TRUST, AND FAIRNESS

The tax compliance literature provides the strongest micro-level foundations for understanding how regime quality affects taxation. Early models explain compliance primarily through deterrence, emphasizing audits, penalties, and enforcement (Allingham and Sandmo, 1972). Subsequent research has shown that this perspective is incomplete, highlighting the importance of trust, fairness, procedural justice, and social norms in shaping taxpayer behavior (Ali, Fjeldstad and Sjursen, 2014; Besley and Dray, 2024; Fjeldstad and Sjursen, 2024).

Studies by Feld and Frey (2002), Tyler (2006), and Alm and McClellan (2012) demonstrate that taxpayers are more likely to comply when they perceive tax authorities as fair, respectful, and legitimate. Similarly, Kirchler, Hoelzl and Wahl (2008) propose the "slippery slope" framework, which argues that effective tax systems rely on a combination of coercive power and trust. Batrancea et al. (2019) show that durable compliance requires both. This is particularly relevant for firms that interact repeatedly with tax authorities under complex regulatory systems. Business compliance is shaped not only by tax liabilities but also by administrative burdens, regulatory uncertainty, and perceptions of how other firms behave.

Recent empirical research reinforces this perspective by showing that compliance depends not only on formal penalties but also on administrative practices and institutional credibility. Field experiments and quasi-experimental studies demonstrate that improvements in monitoring, third-party reporting, and audit strategies can significantly increase compliance, although their effectiveness depends heavily on taxpayer perceptions of legitimacy and fairness (e.g., Hallsworth et al., 2017; Pomeranz, 2015).

Complementary evidence shows that investments in tax administration - including improved data systems, enforcement capacity, and organizational effectiveness - can broaden the tax base and increase reported income, particularly among firms (Jensen, 2022; Jensen and Weigel, 2026). At the same time, firms often respond strategically to enforcement through underreporting, changes in formality status, or adjustments in economic activity (e.g., Carillo et al. 2017; Almunia et al., 2024). Compliance therefore emerges from the interaction between enforcement, administrative capacity, and taxpayer perceptions rather than from deterrence alone.

Evidence from Tanzania provides valuable firm-level insights into these dynamics (Asri et al., 2025a; Asri et al., 2025c). Drawing on surveys of businesspeople in Dar es Salaam, Arusha, and Zanzibar, these studies find generally low levels of trust in the tax authority. Trust is shaped primarily by perceptions of fairness, service quality, and confidence that other taxpayers are also complying. Experiences of enforcement are less important predictors of trust than the quality of interactions with tax officials and perceptions of integrity within the broader tax system. Evidence from Zanzibar (Asri et al., 2025b) reinforces these findings, showing that firms often perceive taxation as a barrier to business development, face substantial compliance burdens, and believe that tax evasion among competitors is widespread.

These perceptions appear to have important behavioral consequences. Taxation affects firms not only through its direct financial costs but also through uncertainty and administrative burdens. Many business owners report postponing investments or delaying business opportunities because of uncertainty regarding tax obligations and enforcement practices. Such uncertainty may be especially damaging where regulatory frameworks are unstable and administrative discretion is extensive.

The literature suggests several mechanisms through which democratic decline may affect compliance. By weakening administrative impartiality, increasing uncertainty, and normalizing selective enforcement, democratic decline can erode the institutional foundations of voluntary compliance. These same dynamics may also deter private investment and constrain business expansion, reducing the future tax base and, over time, limiting domestic revenue mobilization. The issue is not simply whether firms face higher or lower tax burdens, but whether taxation comes to be perceived as arbitrary, politically influenced, and unfairly distributed. These dynamics also interact with social norms. Firms respond not only to state actions but also to their perceptions of competitors' behavior. If businesses believe that others evade taxes with impunity, compliance increasingly appears to be a competitive disadvantage. Democratic decline may therefore weaken compliance both directly, through more discretionary administration, and indirectly, by undermining confidence that others are complying. The result can be a self-reinforcing cycle of mistrust, selective enforcement, and declining voluntary compliance.

4. FIRMS, POLITICAL POWER, AND DEMOCRATIC DECLINE

Firms are not only taxpayers but also political actors. Fairfield (2015) shows how business elites shape tax systems through lobbying, bargaining, coalition building, and resistance to redistribution. A large literature on political connections further demonstrates that ties between firms and political elites can influence tax burdens, regulatory treatment, and access to state resources. Under conditions of democratic decline, some segments of the private sector may support institutional erosion if it delivers rents, protection, or preferential treatment. The benefits often take the form of favourable effective treatment rather than lower statutory tax rates. Politically connected firms may obtain exemptions, delayed enforcement, selective waivers, or softer audits, while less connected firms bear a disproportionate share of compliance costs and administrative burdens.

The distinction between rules-based and deal-based governance systems is particularly useful for understanding these dynamics. In rules-based systems, firms generally operate under predictable regulations and relatively impartial enforcement. In deal-based systems, by contrast, business outcomes depend more heavily on personal relationships, political connections, and negotiated arrangements with public officials (Hallward-Driemeier and Pritchett, 2015; Wu et al., 2012; Dang, So and Yan, 2018; Alonso et al., 2022; Pan and Wu, 2026). As democratic institutions weaken, the balance may shift from rules toward deals. Governments can acquire greater discretion in granting exemptions, conducting audits, and enforcing regulations, creating incentives for firms to invest in political connections rather than productive activities.

This perspective is reinforced by a broader political economy literature that views firms as embedded in structured relationships with the state (Schneider, 2013; Hallward-Driemeier and Pritchett, 2015). Comparative research shows that firms adapt strategically to different institutional environments, including hybrid and authoritarian regimes where access, influence, and informal relationships may substitute for formal rule-based governance. Firm-level evidence further demonstrates that regulatory and fiscal outcomes are often shaped by negotiation, discretion, and informal arrangements, particularly where institutional constraints are weak.

The consequences of these dynamics are not distributed evenly across firms. Politically connected businesses may benefit from preferential treatment, while firms lacking such connections face greater uncertainty and higher compliance costs. Small and medium-sized enterprises are often especially vulnerable because they possess limited political influence and fewer resources to navigate complex regulatory environments (Ananyev, 2022; Ferguson, Krupa, and Laux, 2025). Evidence from China, Egypt, and post-communist states shows that political connections can significantly influence tax and regulatory outcomes (Wu et al., 2012; Dang, So and Yan, 2018; Gehlbach, 2008; Alonso et al., 2022; Pan and Wu, 2026). Although these contexts differ from contemporary Africa, they illustrate a broader mechanism: where institutional constraints are weak, taxation and regulation can be used both to reward allies and to discipline outsiders.

This perspective complicates any simple expectation that business actors will naturally defend democratic institutions. Some firms – particularly those dependent on legal predictability, contract enforcement, foreign investment, or international markets – may resist arbitrary rule because it increases uncertainty and transaction costs (Ananyev, 2022; Ferguson et al., 2025). Others may tolerate or even support autocratization if it secures economic advantages or shields them from competitors. Private-sector responses are therefore likely to be highly heterogeneous. Large domestic conglomerates, politically connected firms, multinational corporations, small and medium-sized enterprises, and informal businesses all face different incentives and constraints.

Evidence from mainland Tanzania and Zanzibar is consistent with this differentiated view (Asri et al., 2025a; Asri et al., 2025b). Although these studies do not directly examine business support for democratic decline, they show that firms are highly sensitive to uncertainty, fairness, and perceptions of how other firms are treated. They also demonstrate that compliance burdens are unevenly distributed and that perceptions of the tax system depend as much on institutional treatment as on tax liabilities themselves.[3] These findings suggest that as political systems become more discretionary, business responses are likely to vary according to firm size, sector, political connectedness, and exposure to administrative power. Smaller and less connected firms may become increasingly vulnerable to arbitrary enforcement, while better-connected firms may rely on influence and access to navigate the system.

More broadly, democratic decline may alter how firms engage with the state. As institutional weakening increases administrative discretion, firms may increasingly substitute relational strategies for compliance strategies, investing in political connections, influence, and negotiated arrangements rather than relying on predictable rules and formal procedures.

3 Vincent (2023) examines how multilevel tax systems shape tax compliance across 49 African and Latin American countries. Moving beyond the conventional view of a bilateral government-taxpayer relationship, the study highlights that taxpayers often face obligations to multiple levels of government. These vertical tax arrangements influence compliance through their effects on enforcement, compliance costs, and perceptions of trust, accountability, and public service provision. The findings show that greater taxing authority and administrative discretion for subnational governments are associated with lower tax compliance, underscoring the importance of coordination across levels of government. Consistent with this argument, evidence from Kampala, Uganda, shows that many firms that comply with national taxes fail to meet local tax obligations, highlighting the challenges of fragmented tax administration (Vincent et al., 2023).

5. DEMOCRATIC DECLINE AND TAX ADMINISTRATION

Democratic decline affects taxation most directly through tax administration rather than through changes in tax policy (von Soest, 2007; Boese-Schlosser and Eberhardt, 2025). Even in the absence of major statutory reforms, deteriorating regime quality can significantly alter how tax systems operate in practice. Formal rules may remain unchanged, while their interpretation, enforcement, and application become increasingly discretionary. As a result, changes in administrative practices, transparency, taxpayer treatment, and accountability mechanisms can reshape business perceptions of taxation even when tax rates remain constant.

Evidence from Tanzania illustrates these dynamics. Fjeldstad, Katera and Sjursen (2025) show how repeated shifts between centralized and decentralized approaches to property tax collection weakened implementation, reduced institutional coherence, and eroded trust among both public institutions and taxpayers. Reform outcomes depended less on technical design than on political and administrative dynamics. The case demonstrates how institutional instability can undermine fiscal systems even in the absence of dramatic regime change. Businesses face uncertainty not only about tax liabilities but also about procedures, administrative responsibilities, and mechanisms for dispute resolution. As tax administration becomes less coherent, the tax system may also become less predictable and less legitimate.

These dynamics are particularly relevant under conditions of democratic decline. When administrative systems become increasingly subordinated to short-term political objectives, fiscal institutions may lose stability and impartiality. Businesses face uncertainty not only about how much tax they owe but also about who is collecting it, how rules are interpreted, and whether enforcement will be applied consistently. Trust in tax authorities is closely linked to the quality of interactions between firms and revenue administrations. Improvements in taxpayer services, communication, and transparency can strengthen trust, while arbitrary enforcement and inconsistent treatment can undermine it.

The consequences extend beyond perceptions of legitimacy. Evidence from developing countries shows that firms often respond strategically when taxation becomes burdensome, unpredictable, or unevenly enforced. Responses may include partial compliance, underreporting, or movement into informality (Ulyssea, 2018). Research on informality emphasizes that operating outside the formal tax system is often a rational response to the costs and risks associated with taxation and regulation rather than simply a residual economic condition (Olken and Singhal, 2011). Where tax administration is perceived as arbitrary or inconsistent, these responses may become more pronounced, weakening the effective tax base even without changes in formal tax policy.

Evidence from mainland Tanzania and Zanzibar suggests that these concerns are not merely theoretical. Surveys consistently identify uncertainty, compliance costs, and administrative complexity as major challenges for businesses (Asri et al., 2025a; Asri et al., 2025b). Firms frequently report difficulties associated with multiple taxes, overlapping administrative responsibilities, and inconsistent implementation of regulations. These findings reinforce the broader argument that taxpayer behavior is shaped not only by tax obligations themselves but also by the quality and predictability of tax administration.

Administrative reforms – including digitization, simplification, and improved taxpayer services – can strengthen compliance and improve revenue collection. However, their effectiveness depends on the broader political environment. Where political incentives favour discretion, selective enforcement, or short-term extraction, administrative reforms are unlikely to generate durable gains. Digitalization illustrates this tension particularly well. While digital tools can improve monitoring, reduce opportunities for corruption, and simplify compliance, they can also expand state surveillance and strengthen executive control if not accompanied by adequate safeguards (see Box 2). Democratic decline may therefore undermine tax administration not by reducing state capacity, but by weakening the impartiality, predictability, and accountability with which that capacity is exercised.

More broadly, democratic decline may weaken the engagement and bargaining mechanisms through which taxation is often expected to generate accountability (Prichard et al., 2025; Persson, Fjeldstad and Sjursen, 2026). Tax systems can become more effective at extracting revenue while becoming less effective at fostering trust, representation, and reciprocal state-society relations. The result may be a fiscally stronger but politically weaker tax system.

Box 2: Digitalization and taxation

Digitalization can improve tax systems, increase economic efficiency, and promote equity in countries with good institutions, well-functioning democracies, enforcement of the rule of law, and strict protection of the privacy of citizens. However, more digitalization may well prove counterproductive in countries with bad institutions, greater corruption, more authoritarian regimes, little or no rule of law, and no protection of the privacy of its citizens. Indeed, greater use of information can also enable bad governments to better realize bad policy objectives.

Jacobs, B. (2017: 52). Digitalization and Taxation.

Much of the available evidence on discretionary enforcement comes from surveys, interviews and perception-based indicators. These are valuable because taxpayer behavior is shaped by perceptions of fairness and predictability, but they do not directly measure enforcement practices. A stronger empirical agenda would combine tax administration data, firm accounts, audit records, objection and appeal data, penalty assessments, VAT refund delays, arrears, and firm-level survey data. Table 2 outlines possible indicators for assessing discretionary tax enforcement.

Table 2: Illustrative indicators for assessing discretionary tax enforcement

Indicator	What it may reveal
Audit probability by firm size, sector, ownership or political exposure	Selective enforcement
Penalties and reassessments as share of declared tax	Intensity of enforcement
Frequency and duration of tax disputes	Predictability and taxpayer rights
VAT refund delays	Administrative discretion/cash-flow pressure
Variation between assessed and paid tax	Negotiation or weak enforcement
Tax arrears by firm category	Uneven enforcement
Effective tax rates by sector/firm size	Distribution of burden
Share of revenue from small vs large firms	Shifts in revenue extraction

While comparable cross-country administrative indicators remain scarce, several studies provide indirect evidence consistent with these mechanisms. World Bank Enterprise Surveys repeatedly identify tax administration, regulatory uncertainty and inconsistent implementation among the principal constraints reported by firms in many low- and middle-income countries (World Bank, 2025). Similarly, evidence from Tanzania (Asri et al., 2025a; 2025b), Uganda (Vincent, Dietrich and McNabb, 2023), and Sierra Leone (Jibao and Prichard, 2015; Prichard, Jibao and Pillai, 2025) documents substantial variation in tax administration, enforcement, compliance and implementation across firms, sectors and localities. Research on property taxation likewise demonstrates that political and administrative dynamics often shape implementation more than statutory tax policy itself (Jibao and Prichard, 2015; Fjeldstad, Katera and Sjursen, 2025; Prichard, Jibao and Pillai, 2025). These findings reinforce the need to complement perception-based evidence with administrative indicators such as audit rates, appeals, reassessments, VAT refund delays and effective tax burdens.

6. TANZANIA CASE: BUSINESS TAXATION UNDER INSTITUTIONAL WEAKENING

This section draws on recent empirical research by Chr. Michelsen Institute (CMI) to illustrate how the dynamics discussed in the preceding sections operate in practice. Tanzania provides a particularly relevant case because it combines a long history of tax reform with ongoing challenges related to the business environment, institutional trust, and domestic revenue mobilization. The Tanzania case demonstrates how gradual institutional weakening, administrative instability, and growing political discretion can affect the operation of tax systems.[4]

The evidence highlights that firms experience taxation not only as a legal and financial obligation but also as an institutional relationship shaped by perceptions of fairness, predictability, and administrative integrity. As such, the Tanzania case provides valuable insights into the mechanisms through which changes in governance can influence taxpayer behavior, state-business relations, and fiscal outcomes.

6.1 What firms report: perceptions of fairness, trust, and predictability

Survey evidence from businesspeople in mainland Tanzania and Zanzibar (Asri et al., 2025a; 2025b) provides valuable insight into how firms experience and evaluate the tax system. A consistent finding across these studies is that trust in the tax authority is relatively low and unevenly distributed. Importantly, trust appears to be shaped less by the intensity of enforcement than by perceptions of fairness, procedural integrity, and confidence that other taxpayers are also complying with their obligations. Evidence from nationally representative Afrobarometer surveys suggests that these concerns extend beyond the business community (Afrobarometer, 2022, 2023; Maslen et al., 2025). Many Tanzanians report difficulties obtaining information about tax obligations and the use of tax revenues, while perceptions of tax evasion and corruption among tax officials remain salient. Together, these findings indicate that transparency, accountability, and confidence in the integrity of tax administration may be more important than enforcement in shaping trust and tax compliance.

Several themes emerge repeatedly from the survey findings. Firms often perceive the tax system as unevenly applied, with differences in treatment across businesses. Fair and respectful treatment by tax officials is viewed as a critical factor influencing willingness to comply. At the same time, perceptions that other firms evade taxes weaken incentives for voluntary compliance, while uncertainty surrounding procedures, assessments, and enforcement creates significant obstacles to business activity.

Concerns about corruption and preferential treatment are also evident, even where they are not directly measured. Respondents frequently interpret inconsistent application of rules as evidence of administrative or political discretion. As a result, many firms perceive the tax system as only partially rules-based, with outcomes shaped not solely by formal regulations but also by how those regulations are implemented in practice.

These findings reinforce a central argument of this review: business compliance depends not only on formal tax obligations or enforcement capacity, but also on whether tax systems are perceived as fair, predictable, and consistently administered. More broadly, the evidence from Tanzania illustrates how taxation is experienced through everyday interactions between businesses and public institutions. These interactions provide an important window into the ways institutional quality – and its erosion – can shape state-business relations and taxpayer behavior.

4 Fjeldstad and Sjursen (2025) provide a comprehensive assessment of Tanzania's governance and public finance systems across four key areas: domestic resource mobilization, public financial management, statistical capacity, and anti-corruption. Their study highlights progress in each area, persistent weaknesses, opportunities for reform and areas where reform momentum is most at risk. Paget (2026) analyses Tanzania's authoritarian turn and the weakening of political accountability following the 2025 general election. The study offers important context for understanding how democratic decline may affect fiscal governance, state legitimacy, and the broader institutional environment within which taxation and economic policy are formulated and implemented.

6.2 The tourism sector as a lens on taxation under democratic decline

The tourism sector provides a useful context for examining business taxation under conditions of institutional weakness and democratic decline. Tourism businesses are highly visible, operate under multiple regulatory frameworks, and interact frequently with public authorities. As a result, they are particularly exposed to administrative fragmentation, regulatory complexity, and discretionary enforcement (Bramwell and Lane, 2012; Kinyondo and Pelizzo, 2015, 2020; Mahangila and Anderson, 2017).

The sector also highlights broader governance challenges associated with informality and uneven enforcement (Joshi et al., 2014; Ulyssea, 2018). Formal tourism businesses often express frustration that informal accommodation providers and international booking platforms remain partly outside the effective tax net. Such concerns raise broader questions about fairness, competitive neutrality, and the capacity of governments to regulate increasingly digitalized markets. At the same time, tourism operators frequently emphasize the importance of dialogue, consultation, and predictability in their interactions with tax authorities, reinforcing broader findings on the importance of fiscal legitimacy and taxpayer trust.

Evidence from Zanzibar illustrates how these dynamics operate in practice. Tourism businesses operate within a regulatory environment characterized by multiple taxes, levies, licensing requirements, and reporting obligations administered by different authorities at both central and local levels. Businesses frequently report uncertainty regarding their tax obligations and concern about abrupt policy or regulatory changes. Such uncertainty complicates long-term planning and may discourage investment.

Several features of the sector are particularly relevant. First, firms are subject to a wide range of taxes, fees, and regulatory requirements, which increase compliance costs and administrative burdens. Second, frequent interactions with tax officials and regulatory agencies create recurring opportunities for both cooperation and conflict. Third, overlapping mandates and complex rules allow considerable scope for administrative discretion, negotiation, and uneven enforcement. Finally, the seasonal nature of tourism, combined with the presence of foreign and informal operators perceived to face different tax treatment, may encourage underreporting and partial compliance, especially when businesses view enforcement as inconsistent.

In such an environment, the effective tax burden is shaped not only by formal tax rules but also by how those rules are administered. Firms may adjust reporting practices, negotiate obligations, or selectively comply in response to perceived risks and opportunities. Where institutional coordination and transparency are weak, taxation becomes increasingly dependent on interactions with authorities rather than on predictable and uniformly applied rules.

These dynamics are not unique to Zanzibar. Similar patterns have been observed in tourism-dependent economies where overlapping regulatory mandates, complex licensing systems, and frequent inspections create both high compliance costs and opportunities for discretionary enforcement (Sharma et al., 2026). The tourism sector therefore illustrates how weakening administrative coherence and increasing discretion can produce a more fragmented and less predictable tax environment, even in the absence of major changes in formal tax policy. More broadly, it demonstrates how democratic decline can affect business taxation primarily through governance and administrative mechanisms rather than through changes in statutory tax rates.

6.3 Taxation as an arena of political and administrative bargaining

The evidence from Tanzania and Zanzibar suggests that taxation is not simply a technical process of revenue collection but also an arena in which businesses and state actors interact, negotiate, and exercise influence. While the surveys do not directly measure political connections, widespread concerns about unequal treatment, inconsistent enforcement, and administrative discretion indicate that firms operate in an environment where outcomes are shaped by more than formal rules alone.

These patterns are consistent with broader theories of institutions and economic governance, which emphasize that as constraints on political power weaken, economic rules are more likely to be applied selectively and instrumentally (Acemoglu and Robinson, 2012). Under such conditions, taxation becomes one of several arenas through which political and administrative authority is exercised and contested rather than a purely rules-based function of the state.

In contexts of institutional weakening, taxation may become embedded in broader systems of political and administrative bargaining. This can take various forms, including preferential treatment for well-connected firms, selective enforcement, and informal negotiation over liabilities, penalties, or compliance requirements. Such dynamics do not necessarily reduce the state's ability to raise revenue. In the short term, they may even sustain or intensify revenue collection. However, they alter the basis of taxation by shifting it away from predictable and impartial administration toward more discretionary forms of interaction.

For firms, this creates incentives to invest not only in productive activities and compliance, but also in managing relationships with public authorities. For the tax system as a whole, it can contribute to uneven effective tax burdens, distorted competition, and declining perceptions of legitimacy. Taxation becomes less a matter of compliance with transparent rules and more a matter of navigating administrative and political relationships.

The Tanzania and Zanzibar studies suggest three broader implications. First, compliance becomes more fragile. Where firms perceive taxation as unfair or unpredictable, voluntary compliance is weakened, and decisions increasingly depend on expectations about enforcement and the behavior of other taxpayers. Second, the business environment becomes more uncertain. Administrative discretion and inconsistent implementation increase transaction costs and complicate planning, particularly for smaller firms and those lacking political influence. Third, fiscal capacity may become less sustainable over time. While revenue can be maintained through selective enforcement or coercive practices, the underlying tax base may be undermined by declining trust, greater informality, and weaker compliance norms.

More broadly, these dynamics are closely linked to wider patterns of governance. As administrative practices become more discretionary and less transparent, taxation both reflects and reinforces institutional weakening. Business taxation is therefore not only affected by democratic decline; it also serves as a channel through which the economic consequences of democratic decline are transmitted.

The Tanzania case studies make three contributions to the broader literature. First, they extend the compliance literature by placing firms rather than households at the center of analysis. Second, they demonstrate that trust, fairness, and predictability are not abstract principles but concrete features of everyday interactions between businesses and public institutions. Third, they show that tax administration cannot be understood in isolation from wider political and institutional dynamics. Together, these insights support the central argument of this review: democratic decline affects business taxation less through formal policy change than through shifts in how tax systems are administered and experienced. Greater discretion, weaker predictability, and more uneven treatment can have significant consequences for business behavior, investment decisions, and the long-term sustainability of domestic revenue mobilization.

7. BROADER IMPLICATIONS FOR FISCAL CAPACITY AND DEVELOPMENT FINANCE

The dynamics discussed in the preceding sections have implications that extend beyond tax compliance to broader questions of fiscal capacity and development finance. Domestic resource mobilization depends not only on tax policy design but also on the willingness and ability of taxpayers to comply under conditions perceived as legitimate, fair, and predictable. Where firms experience taxation as arbitrary, excessively burdensome, or unevenly enforced, the revenue base becomes more fragile. These dynamics affect not only revenue collection but also the state's longer-term capacity to finance development and maintain sustainable public finances.

A central implication of the literature is that fiscal capacity depends not only on a state's ability to collect revenue, but also on the quality of the institutions through which taxation is administered. Broad-based and legitimacy-enhancing taxation can strengthen fiscal capacity by encouraging voluntary compliance and expanding the tax base. By contrast, politicized and uneven taxation may generate revenue in the short term while undermining long-term capacity through greater informality, tax evasion, and taxpayer resistance. Democratic decline can therefore weaken fiscal capacity even where coercive extraction remains possible.

Cross-country evidence supports this perspective. Research by the International Monetary Fund and the World Bank highlights that weak governance, limited administrative capacity, and low taxpayer trust are associated with more volatile and less sustainable revenue systems (World Bank, 2018: 146; Benitez et al., 2023: 18). Similarly, firm-level evidence suggests that perceptions of corruption, unpredictability, and uneven enforcement are associated with lower compliance and higher levels of informality, reinforcing the link between institutional quality and domestic resource mobilization (World Bank, 2025).

Property taxation provides a useful illustration. Because it combines substantial revenue potential with strong links to local governance and accountability, its performance depends heavily on institutional credibility. In Tanzania, property tax reforms struggled not simply because property taxation is technically challenging, but because implementation was politically unstable and institutionally fragmented. The consequences included weak revenue performance, reduced local fiscal autonomy, and lower trust in tax administration. The broader lesson is that building fiscal capacity requires institutional stability, administrative coordination, and taxpayer trust, not merely legal authority to collect taxes.

These issues are particularly significant in low- and lower-middle-income countries, where domestic revenue mobilization is central to development strategies. Tanzania's relatively low tax-to-GDP ratio, for example, underscores the importance of strengthening compliance and expanding the tax base (Fjeldstad and Sjursen, 2025). Achieving this requires more than stronger enforcement. It also depends on improving taxpayer services, strengthening perceptions of fairness, and fostering cooperative relationships between taxpayers and revenue authorities. Existing evidence also suggests important structural changes in business taxation. World Bank analyses from Tanzania and other African countries emphasize that strengthening domestic revenue mobilization increasingly depends on broadening the tax base, improving compliance among small and medium-sized enterprises, and strengthening tax administration rather than relying exclusively on large taxpayers. Although these trends differ across countries, they underline the importance of understanding how administrative practices affect different categories of firms and the sustainability of future revenue growth (Onder, Mungunasi and Prasad, 2023; World Bank, 2023; World Bank, 2025).

The implications extend beyond revenue collection to debt sustainability. When domestic revenue systems are weak, volatile, or politically distorted, governments are more likely to rely on borrowing to finance public expenditures. The relationship is not automatic, but the underlying mechanism is straightforward. Erosion of tax legitimacy reduces the reliability of domestic revenue. Reduced revenue reliability narrows fiscal space and increases vulnerability to debt stress, particularly where governments face growing expenditure demands. A state may therefore appear fiscally strong in the short term through intensified extraction while becoming more fiscally fragile over time.

From this perspective, democratic decline contributes to fiscal fragility not only through its potential effects on revenue levels, but also through its effects on revenue reliability, taxpayer behavior, and institutional trust. Even where revenue collection is maintained in the short run, the erosion of compliance norms and confidence in public institutions can weaken the resilience of the fiscal system. Over time, this may increase reliance on borrowing and reduce the state's capacity to finance development on a sustainable basis.

7.1 Implications for development partners

These findings carry several implications for development partners engaged in domestic revenue mobilization (DRM), governance, and private sector development:

First, support for DRM should extend beyond revenue performance indicators to include measures of taxpayer trust, perceived fairness, transparency, and predictability in tax administration. Revenue gains achieved through increasingly discretionary or coercive practices may prove difficult to sustain over time.

Second, growing investments in digital tax administration should be accompanied by attention to accountability, oversight, transparency, and taxpayer rights. While digitalization can strengthen compliance and reduce opportunities for corruption, it may also expand opportunities for surveillance and selective enforcement where institutional safeguards are weak.

Third, private sector development programs should pay greater attention to how taxation and regulatory discretion affect different categories of firms. Small and medium-sized enterprises and politically unconnected businesses are often particularly vulnerable to administrative uncertainty and uneven enforcement, with implications for investment, formalization, and market competition.

Finally, debt sustainability assessments should recognize that the long-term reliability of domestic revenues depends not only on collection levels but also on the legitimacy of the tax system. Even where revenues remain stable in the short term, erosion of taxpayer trust and compliance norms may weaken fiscal resilience and increase future dependence on borrowing.

In short, DRM support should be calibrated to regime trajectory and governance profile, not only to revenue needs. In some contexts, the priority may be administrative capacity; in others, taxpayer rights, appeals mechanisms, transparency, or protection against selective enforcement may be more important. Table 3 suggests an operational typology for development partner approaches in different contexts.

Table 3: Development partner approaches under different governance contexts

Country context	Illustrative examples	Tax-governance problem	Development partner approach
Competitive democracy with weak capacity	Ghana, Malawi	Low enforcement, weak systems	Support core tax administration, simplification, taxpayer services
Hybrid regime with uneven rule of law	Kenya, Tanzania, Uganda	Discretion, informality, weak trust	Support transparency, appeals, taxpayer rights, business consultation
Autocratizing regime with strong enforcement	Rwanda, Ethiopia (at certain periods)	Revenue gains but rising coercion/selectivity	Avoid revenue-only metrics; focus on safeguards, oversight, risk monitoring
Post-conflict/fragile state	Sierra Leone, Liberia, Somalia	Fragmented authority, informal taxation	Build basic fiscal legitimacy, local accountability, gradual formalization
Resource/tourism-dependent economy	Mozambique, Tanzania (especially Zanzibar)	Sectoral bargaining, exemptions, volatility	Sector-specific tax analysis, transparency, predictable rules

8. KNOWLEDGE GAPS

Despite substantial research on taxation, state capacity, tax compliance, and democratic governance, direct work on business taxation under conditions of democratic decline remains limited. Much of the state-capacity literature operates at the macro level, while research on tax compliance often focuses on households or generic taxpayers rather than firms. Studies of business taxation frequently examine tax politics without explicitly linking them to democratic decline, and tax administration is rarely treated as a central institutional arena through which political change affects economic behavior.

Five major knowledge gaps emerge from this review.

1. **First, firm-level responses to democratic decline remain poorly understood**. More evidence is needed on how changes in governance affect business behavior, compliance decisions, perceptions of fairness, and interactions with tax authorities. Particular attention should be paid to the role of administrative discretion, selective enforcement, and the evolution of fiscal trust under conditions of autocratization.

2. **Second, variation across sectors and levels of formality requires greater attention**. Tourism, manufacturing, trade, digital-platform businesses, and informal enterprises may experience taxation in very different ways, yet comparative evidence remains limited. A better understanding of these differences is essential for identifying how democratic decline affects firms across the broader economy.

3. **Third, comparative research should examine different governance trajectories**, including post-conflict settings, resource-dependent economies and countries experiencing gradual autocratization. The review demonstrates that state-building, institutional development and fiscal capacity often evolve along diverse rather than linear trajectories. Better understanding of these differences would help identify which governance dimensions matter most for business taxation under changing political conditions.

4. **Fourth, the role of intermediary institutions in shaping fiscal legitimacy remains underexplored**. Business associations, religious organizations, traditional authorities, and other collective actors may influence taxpayer perceptions, compliance norms, and state-business relations, particularly where formal institutions are weak or losing legitimacy.

5. **Fifth, research remains fragmented across related fields**. Greater integration is needed between studies of taxation, democratic governance, domestic resource mobilization, fiscal capacity, and debt sustainability. Such integration would provide a more comprehensive understanding of how political change affects both taxpayer behavior and longer-term fiscal outcomes.

The evidence from Tanzania points to a promising research agenda. In particular, future studies should examine how institutional trust, perceived fairness, peer norms, and administrative burdens shape business behavior and compliance over time. Greater attention to these mechanisms would move the literature beyond broad claims about governance quality and allow for more precise identification of the channels through which democratic decline affects taxation, fiscal capacity, and development finance.

9. CONCLUDING REMARKS

Democratic decline tends to shift tax systems toward greater administrative discretion and weaker institutional constraints. As rule-of-law safeguards erode and administrative impartiality declines, firms face greater uncertainty, more selective enforcement, and reduced confidence in the fairness and predictability of the tax system. Politically connected firms may benefit from preferential treatment, while less connected firms bear disproportionate compliance costs and risks. Although revenue collection can be maintained in the short term, the longer-term consequences may include lower trust, weaker voluntary compliance, distorted competition, and reduced fiscal capacity.

The central argument of this review is that democratic decline affects business taxation less through changes in statutory tax rates than through changes in how tax systems are administered and experienced. Tax administration therefore emerges as a critical channel through which broader processes of institutional weakening influence taxpayer behavior, state-business relations, and fiscal outcomes. Whether taxation strengthens fiscal contracts or becomes increasingly associated with coercion, discretion, and selective enforcement depends largely on the quality of the institutions governing interactions between businesses and the state.

The evidence from mainland Tanzania and Zanzibar illustrates these dynamics in practice. Firms consistently emphasize the importance of trust, perceived fairness, transparency, taxpayer services, and administrative predictability in shaping compliance behavior and business decisions. The findings also highlight that tax reform is not merely a technical challenge of improving revenue collection, but a broader institutional and political challenge involving legitimacy, accountability, and the credibility of public institutions.

More broadly, the review suggests that the sustainability of domestic revenue mobilization depends not only on a state's capacity to collect taxes, but also on the legitimacy, predictability and impartiality of the tax system. For development partners, including Norad and the Ministry of Foreign Affairs, this underscores the importance of viewing taxation not simply as a revenue instrument, but as a governance institution that shapes accountability, state-business relations and the long-term resilience of public finances. In contexts of democratic decline, strengthening fiscal capacity therefore requires attention not only to enforcement and administrative efficiency, but equally to the institutional foundations of trust, fairness, transparency and accountability on which durable compliance depends.

The review also highlights that there is no single relationship between democracy, governance and taxation. Different governance trajectories can produce different combinations of fiscal capacity, administrative performance and state-business relations. Future research and development cooperation should therefore move beyond generic assumptions about democratic decline towards more differentiated analyses of how specific dimensions of governance, including executive constraints, judicial independence, administrative impartiality and state capacity, influence taxation and domestic revenue mobilization in different political and economic contexts.

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ANNEX: SELECTED ANNOTATED BIBLIOGRAPHY

This annex presents a selected and annotated bibliography of the principal works referenced in the review. The purpose is not to provide a comprehensive bibliography of all sources cited, but rather to guide readers to the literature most relevant for understanding how democratic decline affects taxation through changes in tax administration, institutional trust, business-state relations, and fiscal capacity. The references are grouped according to the main thematic strands that structure the review.

A. Democratic decline, autocratization, and institutional erosion

Theme	Citation	Geography	Main contribution for this review
Measuring regime change	Nord, M. et al. (2026). *Democracy Report 2026: Unraveling the democratic era?* V-Dem Institute (https://www.v-dem.net)	Global	Provides the empirical basis for the report's discussion of democratic decline and regime trajectories.
Autocratization trends	Lührmann, A. and Lindberg, S.I. (2019). *A third wave of autocratization is here: what is new about it?*	Global/ comparative	Useful background on contemporary democratic decline and how it differs from earlier waves.
Waves of autocratization	Boese, V.A., Lindberg, S.I. and Lührmann, A. (2021). *Waves of autocratization and democratization: a rejoinder.*	Global/comparative	Helps frame democratic decline as a gradual institutional process rather than a single event.
Economic implications of democratic collapse	Boese-Schlosser, V. and Eberhardt, M. (2025). *Democracy in decline: The economic implications of democratic collapse.*	Cross-country	Relevant for linking democratic decline to broader economic and institutional outcomes, including implications for taxation.
Democratic backsliding in Africa	Arriola, L., Rakner, L. and van de Walle, N. (eds.) (2023). *Democratic Backsliding in Africa?* Oxford University Press	Africa	Provides the regional political context within which taxation and governance must be understood.
Taxation and democratization	Baskaran, T. (2014). *Taxation and democratization.*	Cross-country/Global South	Useful for the reverse relationship: taxation may itself shape democratization.

B. Taxation, state capacity, and the fiscal social contract

Theme	Citation	Geography	Main contribution for this review
Institutions and long-run development	Acemoglu, D. and Robinson, J.A. (2012). Why Nations Fail: The Origins of Power, Prosperity, and Poverty.	Global/comparative	Foundational framework linking political institutions, elite control, and economic outcomes; useful for interpreting taxation under weakening constraints.
Origins of state capacity	Besley, T. and Persson, T. (2009). The origins of state capacity: Property rights, taxation, and politics.	General/theory	Foundational explanation of the relationship between taxation, legal institutions, and state-building.
State capacity and reciprocity	Besley, T. (2020). State capacity, reciprocity, and the social contract.	General/theory	Central for framing taxation as part of a reciprocal and legitimacy-based social contract.
Fiscal contracts and political context	Persson, A., Fjeldstad, O.-H. and Sjursen, I.H. (2026). Taxing for a social contract in Africa (CMI mimeo)	Africa	Highlights how political institutions condition the relationship between taxation and accountability.
Taxation and accountability	Prichard, W. (2015). Taxation, Responsiveness and Accountability in Sub-Saharan Africa: The Dynamics of Tax Bargaining.	Sub-Saharan Africa	Core reference on tax bargaining, responsiveness, and accountability.
Taxation, coercion, and reform	Moore, M., Prichard, W. and Fjeldstad, O.-H. (2018). Taxing Africa: Coercion, Reform and Development.	Africa	Major synthesis on taxation, reform, and state-building in African contexts.
Long-run African fiscal development	Albers, T., Jerven, M. and Suesse, M. (2023). The fiscal state in Africa: Evidence from one century of growth.	Africa	Long-run historical perspective on fiscal capacity and African state formation.
Firms as fiscal intermediaries	Kleven, H.J., Kreiner, C.T. and Saez, E. (2016). Why can modern governments tax so much?	General/theory	Explains how firms function as intermediaries in tax systems, highlighting the importance of administrative capacity and compliance structures.
Strategic taxation and accountability	Martin, L. (2023). Strategic Taxation: Fiscal Capacity and Accountability in African States.	Africa	Strong comparative account of how governments make strategic tax choices under varying accountability conditions.
Tax system development and enforcement	Jensen, A. (2022). Employment Structure and the Rise of the Modern Tax System.	Historical/ comparative	Shows how administrative capacity and firm structure shape tax collection, reinforcing the importance of institutions in revenue systems.
Tax and development policy context	OECD (2024). Tax and development at the OECD: A retrospective (2009–2024).	Global policy	Useful background on tax, development, and domestic resource mobilization debates.

C. Tax compliance, trust, fairness, and legitimacy

Theme	Citation	Geography	Main contribution for this review
Deterrence model	Allingham, M.G. and Sandmo, A. (1972). Income tax evasion: A theoretical analysis.	General/theory	Classic starting point for enforcement-based models of compliance.
Procedural treatment and trust	Feld, L.P. and Frey, B.S. (2002). Trust breeds trust: How taxpayers are treated.	General	Foundational argument that respectful treatment supports compliance.
Tax morale	Alm, J. and Torgler, B. (2006). Culture differences and tax morale in the United States and in Europe.	US/Europe	Canonical tax-morale reference for theoretical framing.
Corruption and compliance	Olken, B.A. and Pande, R. (2012). Corruption in Developing Countries.	Developing countries	Synthesizes evidence on corruption, monitoring, and enforcement, linking administrative integrity to compliance behavior.
Procedural justice	Tyler, T.R. (2006). Why People Obey the Law.	General	Strong basis for linking legitimacy, fairness, and compliance.
Trust and enforcement	Kirchler, E., Hoelzl, E. and Wahl, I. (2008). Enforced versus voluntary tax compliance: The “slippery slope” framework.	General	Integrates trust and enforcement as complementary drivers of compliance.
Firm perspective on tax morale	Alm, J. and McClellan, C. (2012). Tax morale and tax compliance from the firm’s perspective.	General/firms	Important evidence focusing specifically on businesses rather than households.
Trust and power across countries	Batrancea, L. et al. (2019). Trust and power as determinants of tax compliance across 44 nations.	44 countries	Strong comparative evidence for the joint importance of trust and power.
Trust and state effectiveness	Besley, T. and Dray, S. (2024). Trust and state effectiveness: The political economy of compliance.	General/theory	Connects trust directly to broader state effectiveness and compliance.
Trust and norms in Africa	Fjeldstad, O.-H. and Sjursen, I.H. (2024). The role of trust and norms in tax compliance in Africa.	Africa	Useful regional synthesis on norms, trust, and compliance.
Citizen attitudes to taxation	Ali, M., Fjeldstad, O.-H. and Sjursen, I.H. (2014). To pay or not to pay? Citizens’ attitudes toward taxation in Kenya, Tanzania, Uganda and South Africa.	Kenya, Tanzania, Uganda, South Africa	Evidence from SSA on fairness, accountability, and attitudes toward taxation.
Social norms and compliance messages	Hallsworth, M., List, J.A., Metcalfe, R.D. and Vlaev, I. (2017). The behavioralist as tax collector.	UK/field experiments	Shows that peer-behavior messages can affect compliance.
Corruption and tax morale	Jahnke, B. and Weisser, R.A. (2019). How does petty corruption affect tax morale in Sub-Saharan Africa?	Sub-Saharan Africa	Important link between corruption, trust erosion, and tax morale.
Multilevel taxation and compliance burden	Vincent, R.C. (2023). Vertical taxing rights and tax compliance norms.	Comparative	Examines how multilevel tax systems shape tax compliance.
Business justice and trust	Gobena, L.B. and Van Dijke, M. (2016). Power, justice, and trust: A moderated mediation analysis of tax compliance among Ethiopian business owners.	Ethiopia	Direct firm-level African evidence on justice, trust, and compliance.

D. Firms, business power, and political connections

Theme	**Citation**	**Geography**	**Main contribution for this review**
Business environment and taxation	World Bank (2020). *Enterprise Surveys: What Businesses Experience.*	Global	Provides firm-level data on taxation, corruption, and regulatory uncertainty, directly relevant for perceptions and compliance.
Business power and taxation	Fairfield, T. (2015). *Private Wealth and Public Revenue in Latin America: Business Power and Tax Politics.*	Latin America	Leading study on how business elites shape tax outcomes and resist or negotiate taxation.
Business-state relations	Schneider, B.R. (2013). *Hierarchical Capitalism in Latin America.*	Latin America	Provides a structured account of how firms interact with the state and shape policy outcomes under different institutional conditions.
Representation through taxation	Gehlbach, S. (2008). *Representation through Taxation: Revenue, Politics, and Development in Postcommunist States.*	Post-communist states	Useful for linking taxation to political bargaining and differentiated treatment of firms.
Political connections and tax benefits	Wu, W., Wu, C., Zhou, C. and Wu, J. (2012). *Political connections, tax benefits and firm performance.*	China	Shows how political ties can yield favorable tax treatment.
Deals versus rules	Hallward-Driemeier, M. and Pritchett, L. (2015). *How Business Is Done in the Developing World: Deals versus Rules.*	Developing countries	Distinguishes between rules-based and deals-based systems. Highly relevant for understanding discretionary taxation under democratic decline.
Political connections and rents	Dang, V.Q.T., So, E.P.K. and Yan, I.K.M. (2018). *The value of political connection: Evidence from the 2011 Egyptian revolution.*	Egypt	Illustrates what happens when politically connected firms lose regime protection.
Anti-corruption and political connected firms	Alonso, M., Palma, N. and Simon-Yarza, B. (2022). *The value of political connections: evidence from China's anti-corruption campaign.*	China	Shows how institutional tightening can reduce rents to connected firms.
Cross-border income shifting	Ananyev, M. (2022). *Political economy of cross-border income shifting: A protection racket approach.*	Comparative/ theory	Relevant for linking weak institutions, rent-seeking, and firm tax behavior.
Centralization and connections	Pan, Y. and Wu, X. (2025). *Tax centralization, political connections, and corporate tax avoidance.*	China	Useful for how administrative reform can alter politically connected firms' tax advantages.

E. Tax administration, informality and institutional quality

Theme	Citation	Geography	Main contribution for this review
Tax administration as state capacity	Jensen, A.D. and Weigel, J.L. (2026). No taxation without administration: Bringing the state back into the public finance of developing countries.	Developing countries/general	Useful for emphasizing administrative capacity, not just tax policy, as the foundation of revenue systems.
Participation dividend	Weigel, J.L. (2020). The participation dividend of taxation.	DRC	Shows how taxation can increase engagement with the state and claims-making.
Information and tax enforcement	Pomeranz, D. (2015). No Taxation without Information: Deterrence and Self-Enforcement in the Value Added Tax.	Chile	Strong causal evidence showing how third-party reporting and information systems improve compliance.
Tax administration quality and FDI	Ferguson, D., Krupa, T.J. and Laux, R.C. (2025). Tax administration quality and foreign investment in developing countries: Evidence from participation in tax inspectors without borders.	Developing countries	Important for connecting tax administration quality to investor behavior.
Informal taxation	Olken, B.A. and Singhal, M. (2011). Informal taxation.	Developing countries	Important for thinking about non-state or hybrid revenue systems where formal legitimacy is weak.
Informality and firm behavior	Ulyssea, G. (2018). Firms, Informality, and Development.	Brazil (generalizable)	Explains informality as a strategic response to taxation and regulation.
Taxing the informal economy	Joshi, A., Prichard, W. and Heady, C. (2014). Taxing the informal economy: The current state of knowledge and agendas for future research.	Developing countries	Important review of taxation and informality. Illustrates how firms may shift toward informality when formal taxation is seen as burdensome or illegitimate.
Neopatrimonialism and tax collection	von Soest, C. (2007). How does neopatrimonialism affect the African state's revenues? The case of tax collection in Zambia.	Zambia	Highly relevant bridge between political discretion, selective enforcement, and revenue performance.

F. Tanzania and Zanzibar-focused studies

Theme	Citation	Geography	Main contribution for this review
Democratic decline and governance	Paget, D. (2026). Tanzania will never be the same.	Tanzania	Analyses Tanzania's authoritarian turn following the 2025 election. Provides context for how democratic decline can affect fiscal governance, state legitimacy, and the institutional environment for business taxation.
Taxation, PFM and democratic decline	Fjeldstad, O.-H., and Sjursen, I.H. (2025). Tanzania: Governance and Public Finance Systems.	Tanzania	Assesses Tanzania's tax and public finance management systems amid growing authoritarianism and political uncertainty.
Why people pay taxes	Fjeldstad, O.-H. and Semboja, J. (2001). Why people pay taxes: The case of the development levy in Tanzania.	Tanzania	Classic study of compliance, coercion, and service delivery.
Local tax enforcement	Fjeldstad, O.-H. (2001). Taxation, coercion and donors: Local government tax enforcement in Tanzania.	Tanzania	Examines legitimacy and coercive local tax collection.
Revenue bargaining	Ulriksen, M., Katera, L. and Msami, J. (2023). Tax reforms in Tanzania: Where and how are compromises negotiated?	Tanzania	Demonstrates how tax reforms emerge through bargaining processes.
Business trust and taxation	Asri, V., Fjeldstad, O.-H., Katera, L. and Nassary, S. (2025a). To trust or not to trust? Taxation from the perspective of businesspeople in Tanzania.	Tanzania	Core firm-level evidence on fairness, information, services, peer trust, and tax authority trust.
Zanzibar business taxation	Asri, V., Fjeldstad, O.-H., Katera, L., Nassary, S. and Saadat, A. (2025b). Taxation and business development in Zanzibar: Insights from a business survey.	Zanzibar	Strong evidence on tax uncertainty, compliance burdens, perceived evasion, and legitimacy.
Trust in tax administration	Asri, V., Fjeldstad, O.-H., Katera, L. and Nassary, S. (2025c). Trust in tax administration: Why it matters for tax compliance.	Tanzania/policy	Useful policy-oriented synthesis reinforcing the fairness-service-trust argument.
Property tax reform politics	Fjeldstad, O.-H., Katera, L. and Sjursen, I.H. (2025). Why property tax reforms fail: Lessons from Tanzania.	Tanzania	Informative case on reform instability, central-local tensions, and fiscal trust.
Tourism, inequality, and development	Kinyondo, A., and Pelizzo, R. (2015). Tourism, development and inequality: The case of Tanzania.	Tanzania	Examines tourism's effects on economic growth and inequality. Highlights the equity challenges of tourism-led development.
Tourism and socioeconomic development	Kinyondo, A., and Pelizzo, R. (2020). Socioeconomic impact of tourism: The case of Tanzania.	Tanzania	Analyzes tourism's socioeconomic impacts in Tanzania, highlighting both economic benefits and challenges related to unequal distribution and inclusive development.
Tourism governance and taxation	Mahangila, D., and Anderson, W. (2017). Tax administrative burdens in the tourism sector in Zanzibar: Stakeholders' perspectives.	Zanzibar, Tanzania	Analyzes the effects of tax administration on tourism businesses, identifying compliance burdens and administrative inefficiencies as key challenges to sector performance.
Preferences for taxing mobile corporations	Kolstad, I., Wiig, A. and Fjeldstad, O.-H. (2021). Citizens' preferences for taxation of internationally mobile corporations.	Tanzania	Helpful for understanding public attitudes toward business taxation.

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