Asian Journal of Management Entrepreneurship and Social Science
ISSN: 2808 7399
https://ajmesc.com/index.php/ajmesc Volume 03 Issue 03

Effects Of Factors Impactıng Tax Revenues In The West Afrıcan Economıc And Monetary Unıon (Waemu)

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Abstract

The objective of this paper is to analyse the effects of the quality of good practices on tax revenues. To do so, we collected data from the World Bank (WB), the Central Bank of West African States (BCEAO) and the Worldwide Governance Indicators (WGI) websites. We conducted a descriptive analysis followed by an econometric analysis on panel data for the eight (08) countries of the West African Economic and Monetary Union (WAEMU) from 2002 to 2020. The results of the estimation of the long-run model using Eviews9 and STATA 15 software showed that imports of goods and services, civic voice and accountability, and control of corruption positively and significantly influence tax revenues in WAEMU countries. Operational recommendations have been made based on the results of our analysis to improve public financing to achieve sustainable development objectives in WAEMU countries.

Keywords: impacting factors, tax revenues, space, West African Economic and Monetary Union (WAEMU)

1. INTRODUCTION

To fight poverty, unemployment and underdevelopment, the West African Economic and Monetary Union (WAEMU) countries, including Benin, have set several objectives to ensure sustainable development. Achieving these objectives requires improving public financing, from official development assistance and public revenue, mainly from tax revenue. Improving public financing will therefore depend on the quality of tax revenue mobilisation in EU countries. However, these countries are generally marked by an under-mobilisation of

their revenue. This under-mobilisation is linked to several institutional, economic and demographic factors.(World Bank (2019), West Africa Tax Study). Moreover, in 2019, the tax burden in Benin was below the convergence threshold for WAEMU countries. This is the case for most of these countries, notably Burkina Faso, Senegal and Côte d'Ivoire(African Development Bank (2010) . The under-mobilisation of tax revenues is linked to the complexity of tax codes, the intensive use of tax expenditures and the insufficient integration of the informal economy into the tax system. On the other hand, studies conducted in the various WAEMU countries have revealed corruption, the degree of openness, and imports and exports as essential factors influencing tax revenues. The development of WAEMU countries will largely depend on the quality of public financing. This financing, which comes from tax revenues, is struggling to improve.

Measures have been taken to remedy this phenomenon. These include broadening the tax base, combating fraud and corruption, improving the organisational performance of the tax administration and accelerating the implementation of the action plan for the optimal mobilisation of tax revenues in the Member States, adopted by Decision N°02/2019/CM/UEMOA of 21 June 2019.

Good governance is fundamental and strategic in mobilising public resources for the development of any nation. Better resource mobilisation can also influence the quality of the governance system (Diop & Diaw, 2015; Ziadi, 2014). Thus, there is a causal relationship between institutional quality and prosperity. For example, countries with well-managed and accountable institutions are better able to deliver public services and create an enabling environment for job creation and growth. (African Development Bank (2012). For example, between 2011 and 2015, p. 50 million people in the world's poorest countries gained access to improved water services, while 413 million received essential health services. At the same time, 102,000 kilometres of roads were built or rehabilitated. It is worth noting that in 2017, thanks to favourable macroeconomic developments, a marked modernisation of tax administration and legislative reform, Burkina Faso saw an increase in public revenue mobilisation (17.3%) (World Bank (2019) . Mauritania, on the other hand, increased its collection level by almost 50% thanks to reforms in public resource management.

These public resources comprise non-tax revenues, other revenues and essentially tax revenues. Tax revenues are thus the primary source of financing for the state. The adoption of a tax policy that emphasises the legitimacy of taxes is therefore necessary for efficient tax collection since a tax that is considered legitimate is more readily accepted by taxpayers. The legitimacy of taxes is based on the efficient and transparent use of public resources and the

efficiency of government spending. An excellent practice is an essential determinant of taxpayers' willingness to pay taxes, i.e. good governance would increase the state's tax revenues (IN Niger (2008).

A study in Benin showed that the population recognises the legitimacy of taxes. However, many people find determining the taxes they must pay challenging. In addition, many citizens perceive tax collectors as corrupt and have a low level of trust in them(Horace Gninaton (2018) . Indeed, in Benin, between 2005 and 2017, the Afro barometer team led by the Institut de Recherche Empirique en Économie Politique (IREEP) conducted a series of surveys which revealed that "the majority of Beninese (52%) think that 'most' or 'all' tax officials are corrupt"; corruption is one of the indicators of the quality of governance. Furthermore, a study conducted on Benin, Burkina Faso, Côte d'Ivoire and Togo revealed that the under-mobilisation of tax revenues is due to the structure of the economy, the country's tax policy, the preponderance of the agricultural sector and the importance of the informal sector(World Bank (2019). Other studies (African Development Bank, 2012; INS Niger, 2008). Have shown that a stable macroeconomic framework with a strengthened tax policy could increase the tax revenue collected by the state. The rate of tax pressure depends on the quality of governance. Similar studies have also been conducted in other countries, such as South Africa, Mali and Côte d'Ivoire. However, no study has been carried out specifically on the case of WAEMU countries. These countries have a low tax burden and an unstable macroeconomic framework (Diop & Diaw, 2015).

Given the lack of studies and the importance of tax revenues in financing an economy, it is necessary to look at the factors affecting tax revenues in the WAEMU region. To do this, we formulated the following central question :

What is the effect of the quality of governance on tax revenues in the WAEMU region? In other words, what are the effects of good practices on tax revenues in the WAEMU region? In order to better answer this question, we have formulated two specific questions: What is the influence of controlling corruption on tax revenues in the WAEMU? How does citizen voice and accountability affect tax revenues in the WAEMU? What is the influence of imports of goods and services on tax revenues in the WAEMU?

This article is organised into three parts. The first part presents the literature review and formulation of the research hypotheses. The second part deals with methodological aspects. The third part is devoted to the analysis of empirical results and discussions.

2. LITERATURE REVIEW AND FORMULATION OF RESEARCH HYPOTHESES

Kaufmann et al., (2010), have proposed, following a study, six indicators that allow for reporting on aspects of the governance of organisations in response to the challenges of sustainable development. These are citizen voice and accountability, political stability and absence of violence, government effectiveness, the rule of law, control of corruption and regulatory quality. Based on this score, good practices best meet these six indicators. In order to achieve this, the government of each country mobilises its domestic resources to design and implement good development policies. These domestic resources can be fiscal or non-tax. According to the Organisation for Economic Co-operation and Development (OECD) (2020), tax resources or revenues include income and profit taxes, social security contributions, taxes on goods and services, payroll taxes, wealth and transfer taxes, and other taxes. They represent all the money paid to the state for the payment of taxes. Expressed as a percentage of GDP, total tax revenues indicate the share of a country's output collected by the state in taxes (tax burden). This research focuses on the WAEMU member countries of Benin, Mali, Senegal, Togo, Côte d'Ivoire, Guinea-Bissau, Niger and Burkina Faso. (Ziadi, 2014) A team of experts from the UEMOA on the effects of governance indicators on economic growth in the UEMOA region carried out a study. The panel data was modelled using a fixed effects model. The results of this study show that corruption and political law are significant and harm economic growth. These results corroborate the reality in these EU countries. Indeed, as corruption is one of the indicators of the quality of governance, it is often accompanied by institutional dysfunction, such as bureaucracy, the inefficiency of the legal system and political instability.

Good practice means managing state resources efficiently and legitimately. State tax revenues are the primary source of financing for a country to boost economic activity in times of financial crisis. In most WAEMU countries, the tax effort varies over time. It is linked to several factors, such as the tax policy in force, ongoing reforms, organisational performance and the tax system (Kobyagda & Binin, 2021).

Since 2010, the EU tax ratio has been below the set average (20% of GDP). Studies have been carried out on the factors influencing these countries' under-mobilisation of tax revenues. The results show that this under-raising is a result of both the economy's structure and the countries' tax policy.(World Bank (2019, opt. cit)) .

Diarra, (2012), analysing the effects of shocks and tax revenue mobilisation in developing countries shows that imports of goods and services significantly influence government revenue in WAEMU countries. Furthermore, there is a relationship between the

degree of openness and the tax burden in WAEMU countries. Thus, a study using the stochastic frontier panel model for econometric analysis in order to highlight the evaluation of fiscal potential and the role played by structural factors in these countries revealed that the level of development, the degree of openness, the share of industrial value added in GDP have a weak impact on fiscal pressure (Kobyagda & Binin, 2021). On the other hand, the quality of the institutional framework has a positive effect on tax revenues. Indeed, a regulated institutional framework, free of corruption, positively affects tax revenues. Therefore, good governance in these low-income countries will increase tax revenues and improve public financing.

(Baskaran & Bigsten, 2013) sought to model the effects of fiscal capacity on the quality of governance in Sub-Saharan Africa. Empirical analysis through cross-sectional instrumental variable regressions using national averages was done. The results show that in Sub-Saharan Africa, fiscal pressure reduces corruption and increases democracy. We thus note a dual relationship between the quality of governance and tax revenue.

These results lead us to verify the following hypotheses :

Hypothesis 1: Controlling corruption positively influences tax revenues in the WAEMU;

Hypothesis 2: Citizen voice and accountability has a positive effect on tax revenues in the WAEMU ;

Hypothesis 3: Imports of goods and services positively influence tax revenues in the WAEMU.

3. RESEARCH METHODOLOGY

3.1 Data source

We used data from the World Bank databases (2002-2020, www.govindicators.org) and the Organisation for Economic Co-operation and Development (OECD) national accounts files. The data available on these various platforms allowed us to establish a database we used for our study's various analyses. The data collected are annual series from 2002 to 2020 concerning all eight WAEMU countries. The analysis of the variables as well as the estimation of the long-term model, were carried out using Eviews9 and STATA 15 software.

3.2 Choice and description of variables

Given the problem presented in our research work, our estimates focus on approximating the tax revenue equation.

The dependent variable in our model is the variable Res_Fis, which stands for tax revenues. We will use the tax revenues of all EU countries. The explanatory variables are all quantitative. They are the active population (Pop_active), import of goods and services (Import), export of goods and services (Export), Gross Domestic Product (GDP) and some governance indicators (Voice and Accountability and Control of Corruption).

3.2.1 Tax revenue (Res_Fis) in CFAF billion

They include revenues from income and profit taxes, social security contributions, taxes on goods and services, payroll taxes, wealth taxes and transfer taxes, and other taxes.

3.2.2 The active population (Pop_active)

The working population includes the employed (working population with a job) and the unemployed (people who have reached working age but are still looking for work). The population is, in this study, the total number of inhabitants living in each of the countries considered.

3.2.3 Imports of goods and services (Imports) in CFAF billion

Imports of goods and services represent the value of all goods and services from the rest of the world. They include the value of goods, freight, insurance, transportation, royalties, licensing fees, and other services such as communications, construction, financial, business and personal, and government services.

3.2.3 Exports of goods and services (Exports) in CFAF billion

Exports of goods and services represent the value of all goods and other services offered to the rest of the world. They include the value of goods, freight, insurance, transportation, royalties, licensing fees, and other services such as communications, construction, financial, business and personal, and government services.

3.2.4 Citizens' Voice and Responsibility (Voices_Respons)

This indicator measures how a country's citizens select their governments and the freedom of expression, association and press. In this study, we have considered this indicator's value in all WAEMU countries.

3.2.5 Controlling corruption (Mait_Corrup)

This variable measures the use of public power for personal enrichment, including grand and petty corruption and the 'hijacking' of the state by elites and private interests.

4. ANALYSIS OF EMPIRICAL RESULTS AND DISCUSSION

4.1 Univariate descriptive analysis

The univariate descriptive analysis presents the graph showing the average evolution of certain variables in the WAEMU countries.

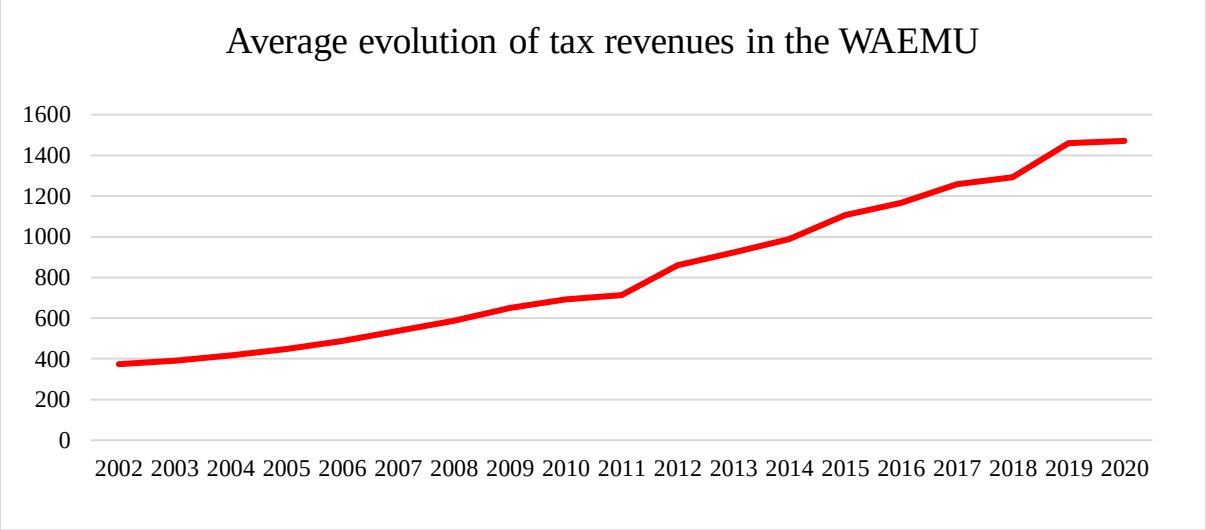

Figure 1 Average evolution of tax revenues in WAEMU countries.

Source: Compiled by the author, BCEAO statistical data.

The analysis of Figure 1 above shows that average tax revenues in WAEMU countries increased from CFAF 373.7375 billion to CFAF 1293.13188 billion between 2002 and 2020. It should be noted that in 2011, these revenues declined before resuming the trend in 2012.

In 2020, average revenues in these WAEMU countries have increased compared to 2019. The maximum value of average tax revenue collected was achieved in 2020.

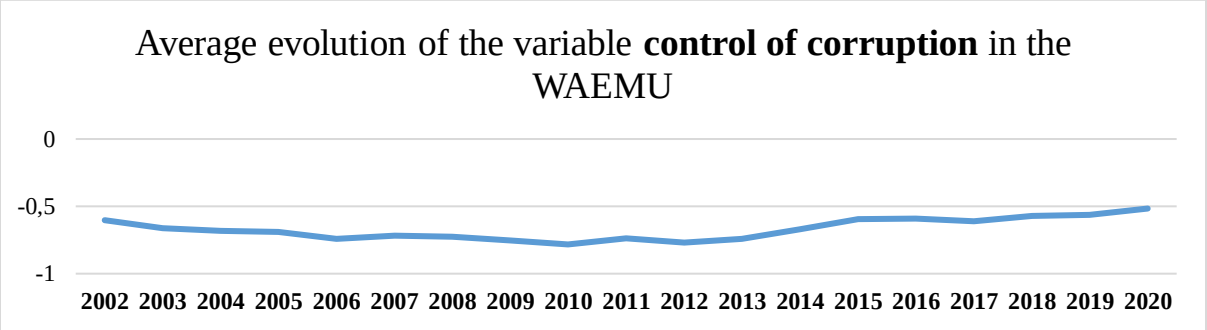

Figure 2Average evolution of the variable control of corruption in WAEMU countries
Source: Compiled by the author/ WGI statistical data.

The analysis of Figure 2 above allows us to distinguish two periods: the period from 2002 to 2011 and the period from 2011 to 2020. From 2002 to 2011, there was a significant decrease in the control of corruption in these countries. In other words, during this period, corruption in this area increased. This indicator reached its minimum value in 2011. From 2011 to 2020, this indicator shows a progressive and almost linear evolution and reaches its maximum value in 2020. However, it should be noted that the values of this variable are always negative.

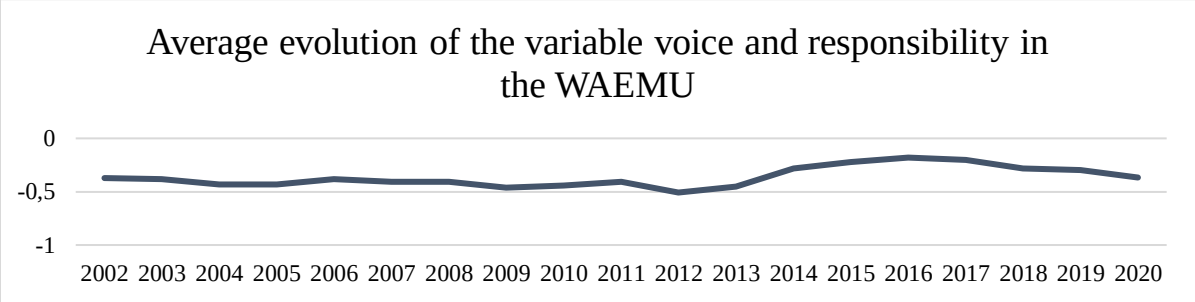

Figure 3: Average evolution of the citizen voice and responsibility variable in the WAEMU countries
Source: Compiled by the author/ WGI statistical data.

The analysis of Figure 3 above shows that there needs to be more stability in the civic voice and accountability variable. It decreased over the period from 2002 to 2012. The minimum value of this indicator was obtained in 2012. From 2012 to 2020, it experienced two periods: from 2012 to 2016, when it increased and reached its maximum value and from 2016 to 2020 when it started to decrease and reached a level more or less equal to 2002.

Table 1*:* Descriptive statistics of the study variables

Variable	Observation	Average	Standard deviation	Minimum	Maximum
Voice_Respons	152	-0.3645762	0.4820859	-1.383553	0.4098547
Pop_active	152	4489743	2252192	498245	8749634
Res_fis	152	832.7124	807.1223	11.8	4149.209
Import	152	32.53789	8.625677	18.91558	66.28498
Export	152	23.19529	7.578375	8.865366	46.47602
Mait_Corrup	152	-0.6696602	0.3818142	-1.558522	0.176479

Source: Compiled by the author, WGI statistical data, BCEAO, OECD, World Bank

The analysis of table 1 above shows that from 2002 to 2020, within the WAEMU region, the voice of the citizen and responsibility varies between -1.38 and 0.409 points with an average value of -0.3645 points. The control of corruption ranges from -1.558 to 0.1764 points with an average value of -0.66966 points. Tax revenues vary between 11.8 and 4149.209 billion CFA francs, with an average value of 832.7124 billion CFA francs in the countries of this area. It should be noted that the average working population in these countries was 4489743 persons during this period and varies between 498245 and 8749634 persons. It should be noted that imports and exports of goods and services vary from 18,91558 to 66,28498 billion CFA francs and 8,86536 to 46,47602 billion CFA francs, with an average of 32,53789 and 23,19529 billion CFA francs respectively during this period.

4.1.1 Econometric analysis

In this section, we present the econometric analyses of our study.

4.2.1 Unit root testing

The stationarity test is necessary for studying time series or panel data. The results obtained are presented in the following table :

Table 2: Stationarity test on level variables

Variables	Stationarity tests	Associated P-value	Statistics
Voice_Respons	Im, Pesaran and Shin	0,0047	-2,59737
	ADF - Fisher Chi-square	0,0134	31,0236
	PP - Fisher Chi-square	0,7063	12,5365
Pop_active	Im, Pesaran and Shin	0,2255	-0,75371
	ADF - Fisher Chi-square	0,3922	16,8985
	PP - Fisher Chi-square	0,997	4,71657
Res_fis	Im, Pesaran and Shin	0,4813	-0,04698
	ADF - Fisher Chi-square	0,2163	20,0873
	PP - Fisher Chi-square	0,7729	11,5721
Import	Im, Pesaran and Shin	0,4965	-0,00869
	ADF - Fisher Chi-square	0,3369	17,78
	PP - Fisher Chi-square	0,3875	16,9704
Export	Im, Pesaran and Shin	0,6601	0,41286
	ADF - Fisher Chi-square	0,3677	17,2807
	PP - Fisher Chi-square	0,4464	16,0943
Mait_corrup	Im, Pesaran and Shin	0,562	0,15603
	ADF - Fisher Chi-square	0,6241	13,6595
	PP - Fisher Chi-square	0,645	13,3778

Source: Eviews output formatted by the author in Excel

From the analysis of Table 2 above, we can see that the civic voice and responsibility variable is stationary at the level. The p-value associated with most of the statistics for this variable is below the five per cent (5%) threshold used in our study. The other variables being non-stationary, we proceed to the stationarity test on the variables in the first difference.

The results obtained are presented in the following table :

Table 3: Stationarity test on first difference variables

Variables	Stationarity tests	Associated P-value	Statistics
Voice_Respons	Im, Pesaran and Shin	0.0002	-3,52885
	ADF - Fisher Chi-square	0.0002	44,2493
	PP - Fisher Chi-square	0.0000	60,9899
Pop_active	Im, Pesaran and Shin	0,6069	0,27129
	ADF - Fisher Chi-square	0,045	26,6966
	PP - Fisher Chi-square	0,041	27,0399
Res_fis	Im, Pesaran and Shin	0.0000	-7,95774
	ADF - Fisher Chi-square	0.0000	77,73
	PP - Fisher Chi-square	0.0000	78,5609
Import	Im, Pesaran and Shin	0.0000	-8,13033
	ADF - Fisher Chi-square	0.0000	78,6782
	PP - Fisher Chi-square	0.0000	84,7026
Export	Im, Pesaran and Shin	0.0000	-5,72083
	ADF - Fisher Chi-square	0.0000	61,1947
	PP - Fisher Chi-square	0.0000	77,4145
Mait_corrup	Levin, Lin & Chu t*	0.0000	-5,58765
	ADF - Fisher Chi-square	0.0000	56,8394
	PP - Fisher Chi-square	0.0000	71,1629

Source: Eviews output formatted by the author in Excel

The analysis of the table3 above shows us that all the variables are stationary in the first difference. We, therefore, stop the stationarity test.

4.2.2 Cointegration test

Five of the six variables of our study, including the dependent variable, are stationary in the first difference. Therefore, it is necessary to carry out a cointegration test on the variables integrated in the same order to see if there is a long-term relationship between these variables.

Note that for the cointegration test, Pedroni's test was used in our study. The results of this test are summarised in the following table :

Table 4: Results of the Pedroni cointegration test

Alternative hypothesis: common AR coefs. (Within-dimension)					
				Weighted	
		Statistic	Probably.	Statistic	Probably.
Panel v-Statistic		-2.063300	0.9805	-1.808754	0.9648
rho-Statistic Panel		2.428817	0.9924	2.736626	0.9969
Panel PP-Statistic		-3.406876	0.0003	-1.694894	0.0450
ADF-Statistic Panel		-3.540080	0.0002	-2.282659	0.0112
Alternative hypothesis: individual AR coefs. (Between-dimension)					
		Statistic	Probably.		
Group rho-Statistic		4.037890	1.0000		
Group PP-Statistic		-3.788357	0.0001		
Group ADF-Statistic		-3.113687	0.0009		

Source: Eviews output formatted by the author in Excel.

The Pedroni cointegration test is based on seven tests, four based on the within the dimension and three based on the between dimensions. The analysis of the results obtained from the table reveals a long-term relationship between the variables. Two of the tests based on the within dimension confirmed this result. This is also the case for the PP-statistic and Group ADF-statistic tests based on the between dimensions.

4.2.3 Presentation of the analysis model

Table 5: Estimation results of the Modified Least Squares (FM-OLS) model

Variables	Coefficient	Std. Error	t-Statistic	Probably.
MAIT_CORRUP	0.242343	0.077949	3.108998	0.0023
LPOP	0.267784	0.827106	0.323761	0.7467
VOICES_RESPONSES	0.231774	0.043306	5.352030	0.0000
LIMPORT	0.259654	0.078274	3.317239	0.0012
LEXPORT	0.092516	0.077460	1.194361	0.2346

Source: Author based on estimation results in EVIEWS

The analysis of Table 5 above shows that the variables control of corruption, voice and accountability and imports of goods and services significantly influence tax revenues in the WAEMU.

4.3 Interpretation of estimation results

Three of the five explanatory variables in our study are likely to influence tax revenues. These are control of corruption, civic voice and accountability, and imports of goods and services.

4.3.1 Controlling corruption

Our estimation results show that the control of the corruption variable is statistically significant at the 5% level (0.0023) with a positive coefficient (0.242343). Thus, an improvement (or decrease) of one point in controlling corruption will lead to an improvement (or decrease) in tax revenue of 24.2343% in the WAEMU countries.

4.3.2 Civic voice and responsibility

According to our estimation results, the citizen voice and accountability variable is statistically likely to influence tax revenues in WAEMU countries. It is significant at 5% (0.0000) with a positive coefficient (0.231774). Thus, a one-point improvement (or

decrease) in civic voice and accountability will lead to a 23.1774% improvement (or decrease) in tax revenue in WAEMU countries.

4.3.3 Import of goods and services

The results of our estimations show that imports of goods and services have a positive influence on tax revenues in WAEMU countries. Indeed, a variation of one percent (1%) in imports of goods and services will lead to a similar variation of 25.9654% in tax revenues in WAEMU countries.

4.3.4 Discussions: Synthesis of results and validation of hypotheses

The results show that, within the WAEMU, the quality of governance in the various countries needed to be better from 2002 to 2020. This is reflected in the negative sign of the average values of our study's two governance quality indicators. During this period, some countries in the Union experienced political, economic and financial crises. These different problems are the source of corruption. In an environment where people cannot eat their fill, they will be forced to resort to corruption to pay their taxes. It is also important to note that those in power do not give citizens a choice to speak out in this environment. In other words, the government puts people not qualified for such positions at the head of the directorates instead of leaving the choice to the agents of the sectors concerned.

The estimation results show that only some of the explanatory variables introduced in our model will likely explain tax revenues in WAEMU countries. Indeed, the control of corruption, the voice of citizens and responsibility, and imports of goods and services are the three explanatory variables of our model that are likely to influence tax revenues in this area. Furthermore, controlling corruption positively influences tax revenue mobilisation in the WAEMU area. In other words, the fight against corruption will increase tax revenue mobilisation in WAEMU countries in the long run. This confirms our first hypothesis that controlling corruption positively influences tax revenues in the WAEMU region.

As for the citizen voice and responsibility, it positively influences tax revenues in the WAEMU region. Thus, our hypothesis that citizen voice and accountability positively influence tax revenues in the WAEMU region is confirmed. Indeed, giving citizens a free choice in selecting their leader will establish a climate of trust between them and their rulers. This will result in transparency in governance, effective citizen participation and stability. In such an environment, agents will be obliged to fulfil their obligations. Thus, transparency

and trust will be possible in an environment where citizens can express their voices and choose their leader. Citizens' trust in their leaders will lead them to pay their taxes.

Moreover, imports of goods and services positively influence tax revenues in the WAEMU. This positive sign is due, on the one hand, to the depreciation of the exchange rate. This depreciation leads to an increase in the value of imports of goods and services expressed in CFAF. The increase in this value positively affects tariff revenues and VAT. All other things being equal, this leads to an increase in tax revenue.

On the other hand, most of these countries are food-importing countries. The consumption of these products is evident in these countries, and therefore there is an increase in the consumption of foodstuffs. This increase has the same effect on tariffs and VATs, and therefore tax revenues increase.

As for exports of goods and services and the working population, they are not statistically significant. Nevertheless, it should be noted that they have a positive effect on long-term tax revenues in the WAEMU.

From all previous results, our initial hypotheses are validated.

Table 6: Presentation of hypotheses

hypotheses	Statement	Decision
Assumption 1	Controlling corruption positively influences tax revenues in the WAEMU	Confirmed
Hypothesis 2	Citizen voice and responsibility positively affect tax revenues in the WAEMU.	Confirmed
Hypothesis 3	Imports of goods and services positively influence tax revenues in the WAEMU.	Confirmed

Source: **the** author, 2022

4.4 Operational recommendations / Managerial implications

The authorities could consider the following precautions To improve tax revenue collection in all WAEMU countries:

- Implement awareness campaigns on the importance of tax revenues and how they are used ;
- Raise awareness of the importance of people's voices in the choice of government ;
- Digitalising the majority of administrative procedures to reduce corruption-prone bureaucracy.

5. CONCLUSION

Given the low level of tax collection in WAEMU member countries and the state of governance in these countries, our study has endeavoured to analyse the effects of good governance practices on tax revenues within the Union.

To this end, we conducted a descriptive analysis followed by an econometric analysis of panel data for the eight (08) WAEMU countries from 2002 to 2020. The specification of the long-run model using the FMOLS method reveals that the explanatory variables: imports of goods and services, and governance indicators (citizen voice and accountability and control of corruption) significantly influence the level of tax collection in the WAEMU. More specifically, more efficient control of corruption and the effective inclusion of the voice of citizens and accountability in national decision-making will, in the long run, increase the level of tax collection. This has allowed us to validate our hypotheses and propose specific actions to increase the tax burden in the Union.

It should be noted that this research only focused on two governance indicators. One could then ask about the specific effect of the other indicators (political stability and absence of violence, government effectiveness, the rule of law and regulatory quality) on tax revenues in the WAEMU.

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