The Effect of Indirect Tax on Economic Development of West African Monetary Zone

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Abstract

This study investigates the effect of indirect tax on economic development of West African Monetary Zone (WAMZ) for the period of 1986 to 2022. Country-specific annual time-series data employed in this study were sourced from the official websites of the World Bank, Federal Inland Revenue Services of Nigeria and International Monetary Fund through the International Center for Tax and Development, guided by the tax reforms and structural adjustments within the WAMZ. A combination of the fixed and random effect panel approaches discriminated by the Haussmann test and the Pedroni panel cointegration test were adopted as the main analytical techniques.The findings of the study revealed that indirect taxes (proxied by Value Added Tax) negatively impact economic development (Human Development Index). This relationship was also found to be statistically significant. Furthermore, the study's findings indicatedthat import duties affected development positively and significantly, while excise duties and export duties were detrimental to development. Finally, the results of the Pedroni cointegration test revealed a long-run cointegrating relationship among the variables. Based on these findings, the study recommended that governments should make value-added tax pro-poor, increase import duties to discourage import and encourage domestic production and consumption by reducing excise duties. Export duties should also be reviewed to boost exports across the zone.

Keywords: Indirect taxes, Economic Development, Human Development Index, Panel data, ARDL

1. Introduction

Across the globe, most nations are bestowed with the obligation of providing essential services to their citizens such as development of infrastructure, education, health, agriculture, information and communication technology, and protection through the army and police (Adeusi*et al.,* 2020). However, the governments of these nations cannot fulfill these obligations without revenue. Over the years, tax has been the major source of revenue for some governments while others have heavily relied on mineral resources such as oil to provide basic amenities to their citizenry. West African zone being the focus of this study has been largely depending on oil as its major source of revenue, however, with the global fluctuation in oil prices and the gradual migration to clean energy, the government has since started to focus on agriculture and taxes as its source of revenue (Ibadin and Oladipupo, 2015).

Meanwhile, the responsibility shouldered by the government of any nation, particularly the West African nations, is enormous. The need to fulfill these responsibilities largely depends on the amount of revenue generated by the government through various means. Taxation remains the means through which the cost of providing essential services for the generality of persons living in a given geographical area is funded. Globally, governments are saddled with the responsibility of providing some basic infrastructure for their citizens. Functions or obligations the government may owe its citizens include but are not restricted to: stabilization of the economy, redistribution of income and provision of services in the form of public goods (Abiola &Asiweh, 2019).

By definition, tax is a compulsory levy paid to the government by the citizens which attracts no direct compensation from the government but is paid rather to adhere to the relevant laws of the land. Ihendinihu, Alpheaus and Onyekachi (2018) defined tax as a compulsory contribution levied on 'persons', property, income and transactions in the support of government. Tax is a major source of government revenue all over the world and governments use tax proceeds to render their traditional functions, such as: the provision of goods, maintenance of law and order, defence against external aggression, regulation of trade and business to ensure social and economic maintenance (Edame&Okoi, 2018). A system of tax avails itself as a veritable tool that mobilizes a nation's internal resources and it lends itself to creating an environment that is conducive to the promotion of economic growth (Ayuba, 2020). Therefore, tax plays a major role in assisting a country to meet its needs and promote self-reliance.Taxation as obtained from the word 'tax' is the process of administering the tax laws with the objective of actualizing the main aims of the administering government with respect to taxes. Aguolu (2019) defined taxation as the compulsory levy by the government through its various agencies on the income, capital or consumption of its subjects. He identified such taxable incomes to include personal incomes such as salaries, business profits, interests, dividends, commissions, royalties, rents, etc; capital gains, petroleum profits and value added to products and services. These taxable incomes serve as revenue to the government.

Globally, there is a paradigm shift to taxation revenue as an alternative source of revenue. West Africa is not an exception. The machinery and procedures for implementing a good tax system in Africa are inadequate; hence tax evasion and avoidance of the self-employed individuals and organizations whose database is not captured in the relevant tax authority's data system (Fasoranti, 2018). The need for the government to generate adequate revenue from internal sources has therefore become a matter of extreme

urgency and importance (Afuberoh& Okoye, 2021).Thedesire of any government to maximize revenue from taxes collected from taxpayers cannot be overemphasized. This is because, as it is well-known, the importance of tax lies in its ability to generate revenue for the government, influence consumption trends and grow and regulate the economy through its influence on vital aggregate economic variables (Fasoranti, 2018).

In West Africa, indirect tax revenue has accounted for a small proportion of total government revenue over the years compared with the bulk of revenue needed for development purposes that is derived from oil (Otu&Adejumo, 2021). The serious decline in the prices of oil in recent times has led to a decrease in the funds available for distribution to the federal, state and local governments (Afuberoh& Okoye, 2022). Consequently, dependence on oil as a particular or main source of revenue in West Africa has become risky and not beneficial for sustainable economic growth. It is worse for Nigeria and some other countries like Burkina Faso, Cape Verde, Gambia, Ghana, Guinea, Guinea-Bissau, and Ivory Coast where there are fluctuations in prices in the oil market; thereby creating concerns amongst individuals and indeed the government on the need to diversify the economy.

The governmental systems of Ghana, Nigeria, Sierra Leone and the Gambia are alike on an assortment of grounds which include legal, social and economic aspects. This is because these four countries were colonized by Britain and their affairs were overseen by the government of the United Kingdom for nearly a century thus, they are regarded as members of the Commonwealth of Nations. Though these countries differ in their political structures, the foundations of their economic structure which includes sourcing of government revenue and responsible spending were laid by various English leaders who administered the affairs of these countries with the approval of the Queen of England. The legal structures including tax laws in West African Commonwealth countries, some of which are still in use were introduced by these English administrators and the changes made to them have mostly been in terms of reflecting current realities rather than changing them entirely (Onyekachi, &Anaeme, 2021).

For decades now, globally,many West African Zone since the 2000s have undergone several tax reforms among which include: "The Value Added Tax Act (VAT) in 2004; Petroleum Profit Tax Act (PPTA) in 2004; Capital Gain Tax Act (CGTA) in 2004; Education Tax Act (ETA) in 2004; Company Income Tax Act, (CITA) in 2004; Personal Income Tax Act (PITA) in 2004; the Federal Inland Revenue Service Establishment Act (FIRS) in 2007; Personal Income Tax (Consolidated) Act (PITA) in 2011; Transfer Pricing Tax Act (TPTA) in 2012; and Income Tax Reform Act (ITA) in 2014" (Herbert, Nwarogu and Nwabueze, 2018).The current running West African national development plan is Vision 2020 and this plan has not materialized in terms of achieving its objective as a result of over-dependence on crude oil and its inherent price and demand instability. Vision 2020 aims to place West Africa among the top 20 ranking economies in the world by the year 2020, by attaining a GDP of about $900 billion and ensuring that the GDP of West Africa grows by at least 10% every year till the year 2020 (Adeleke; 2012). So far, this has remained utopian, as the GDP of West Africa has not been able to attain such a growth rate nor is it close to the required GDP figure. There is also the problem of falsification of ages and the number of children and dependents one has to reduce the amount of tax payable. Emanating from these factors, the sub-national governments (state and local governments) contend that their currently assigned taxes are poor in terms of their bases and, therefore, accruable revenues are not enough to meet their expenditure targets. Also, the statutory allocation from the federation account has been grossly inadequate as a result

of a fall in gross domestic product. This invariably reduces their overall performance, considering their expenditure profiles.

The historical account of taxation in the history of man tends to portray tax as an agent of economic development by all standards. Economic development in this regard includes social and political improvement in the well-being of people living in a country. Romer (2016) defines economic development as the improvement in the economic well-being and quality of life of a country by accumulating wealth and diversifying the economy. There are various measures of economic development such as the per capita income (GDP per capita) or simply the overall GDP, however, most empirical studies have identified that the Human Development Index (HDI) best captures the concept of economic development. It is equally important to appreciate that economic development sufficiently captured by the human development index is a broader perspective of positive tendency in the economic power of any country than gross domestic product because it cuts across certain important indicators of human progress which includes life expectancy, rate of poverty and education to measure the extent of development which has been witnessed by a particular group of people over the years (United Nations Development Programme [UNDP], 2018). Bhartia (2019) and Ola (2017); in addition to many other scholars believe that taxation's major role in the hands of the administering government is to enable the financingof projects targeted towards the improvement of the citizens' welfare and ultimately leads to the economic development of the country (Onyekachi, &Anaeme, 2021).

While there are inconsistencies as to the relationship between indirect taxation and economic development in the developed countries, the same cannot be said of the West African Monetary Zone and other developing countries. The WAMZ is a group of six countries within ECOWAS that plan to introduce a common currency called the Euro. The six-member states of WAMZ ARE The Gambia, Ghana, Nigeria, Sierra Leone and Liberia later joined in 2010. To the best of our knowledge, in West Africa and other developing countries, there is a dearth of substantial indigenous empirical literature that addresses the relationship between indirect tax and economic development. This study is motivated by two developments. First by the inconsistency in existing empirics in developed economies which are often generalized to developing economies and secondly by the wide knowledge gap occasioned by the paucity of empirical literature in developing economies. Therefore, this study attempts to reconcile the different positions and also close the knowledge gap. Based on the above assertion, this study intends to examine the effect of indirect tax on the economic development of the West African Monetary Zone. Specifically, this study aims to:

i. Examine the effect of value added tax on economic development proxied by human development index of West African Monetary Zone.
ii. Ascertain the effect of import duties on economic development proxied by human development index of West African Monetary Zone.
iii. Determine the effect of export duties on economic development proxied by human development index of West African Monetary Zone.
iv. Assess the effect of excise duties on economic development proxied by human development index of West African Monetary Zone.
v. Examine the long run effect of indirect tax on economic development proxied by human development index of West African Monetary Zone.

2.Literature Review

Literatures abound on the subject of tax interrelation with various economic development indicators and human development index specifically. The following paragraphs reviewed some of these related literatures prior to the establishment of some gaps which form the focus of the study.

Owolabi and Okwu (2021) examined the contribution of Value Added Tax (VAT) to development of Lagos State Economy from 2001 to 2005. The study examined each development indicator (infrastructural, environmental management, education sector, youth and social welfare, agricultural, healthcare, and transportation) on VAT revenue proceeds generated by Lagos State during the study period. Their finding was that revenue generated from VAT positively contributed to the development of the respective sectors of Lagos State economy during the period studied.Onwuchekwa and Aruwa (2019) carried out a related study. The study investigated the impact of value added tax on the economic growth of Nigeria. Ordinary Least Square technique was employed to test the hypotheses formulated. The result shows that VAT (which is a form of Indirect tax) contributes significantly to the total tax revenue of government and by extension the economic growth of Nigeria. VAT revenue growth had a consistent increase, though it was not that explosive.Okubor and Izedonmi (2019) examined the contribution of VAT to the development of the Nigerian Economy, employing time series data on the GDP, VAT revenue and total tax revenue from 1994 to 2010. The findings revealed that VAT revenue and total revenue account as much as 92% significant variations in GDP in Nigeria.

An empirical finding of Basila (2020) while examining the connection between VAT and GDP with product moment correlation, showed that between 1994 and 2008, VAT has strong and positive relationship OF ABOUT 96% strength with GDP. In a different study, Owolabi and Okwu (2021) examined the contribution of Value Added Tax to Development of Lagos State Economy, using simple regression models as abstractions of the respective sectors considered in the study. The study considered a vector of development indicators as dependent variables and regressed each on VAT revenue proceeds to Lagos State for the study period and the results showed that VAT revenue contributed positively to the development of the respective sectors. However, the positive contribution was statistically significant only in agricultural sector development. On the aggregate, the analysis showed that VAT revenue had a considerable contribution to development of the economy during the study period.

In addition, Unegbu and Irefin (2020) examine the impact of value added tax (VAT) on economic and human developments of emerging Nations from 2001 to 2009, using regression, discriminate analysis and ANOVA, found out that VAT allocations have a very significant impact on expenditure pattern of the state during the same period. The findings also revealed that the perceptions of citizens across the administrative areas of the state suggest that VAT has minimum impact level on the economic and human developments of Adamawa State from 2001 to 2009.Similarly, Enokela (2019) conducted a study to explore the relationship between Value Added Tax and economic growth of Nigeria using secondary data and multiple regressions. The findings revealed that Gross Domestic Product (GDP) is positive and statistically significant to Value Added Tax, Government Capital Expenditure (GCE) is positive but insignificant to Value Added Tax, and Gross Domestic Product per Capita (GDPPC) is negative and statistically significant to Value Added Tax.

Obaretin, and Uwaifo (2020) examined value added tax and economic development in Nigeriafor the period 1994 to 2018. The study employed a longitudinal research design. The data used in the study were generated from the office of the Federal Inland Revenue Service, and United Nation Data bank and the data generated were analysed using the Auto-Regressive Distribution (ARDL) regression estimation

technique. The result from the finding unveils that VAT has a positive and significant impact on economic development in Nigeria.

Furthermore, Saeed, Ahmand and Zaman (2021) studies the validity of VAT in the South Asia Association for Regional Co-operation (SAARC) Region using panel data of SAARC countries from 1995 to 2010. The results indicate a prosperous set of determinants of VAT adoption as it proves to be a vital instrument to collect tax and enhance revenue ratio. Estimates show that most of the SAARC countries have adopted VAT have gained a more effective tax instrument to upgrade their GDP to revenue ratio. Rostami, Fariba and Akbarian (2019) examined the effect of VAT on GDP as economic growth in Iran from 1979 –2009. Using time series data and autoregressive distributed Lags (ARDL), results showed that VAT has a positive and significant effect in real output for Iran and this means VAT as a fiscal tool have useful performance in this country.In another study, Eneje (2021) obtained data from Central Bank of Nigeria Statistical Bulletin within the period 1981 to 2009 to analyze the impact of VAT on economic growth. The findings revealed that VAT has positive and significant impact on Nigeria's economic growth.

Onoh (2019) analyzed the impact of VAT on economic growth in Nigeria from 1994-2010. Data was collected from Central Bank of Nigeria (CBN) statistical bulletin, ordinary least square technique was used to estimate the model and empirical findings show that VAT has a significant positive impact on Nigeria's economic growth.Furthermore, Omondi (2019) on the effect of custom and excise duties on economic growth in Kenya for the period 1973-2010 used a correlation research design based on its ability to determine the relationships between the independent variable and the dependent variables. The findings revealed that custom and excise duties is positively correlated with economic growth in Kenya.

Dritsaki and Katerina (2022) examined the relationship between tax revenues and three economic indicators namely change in gross domestic product, savings and investment in Greece during the period 1965-2002. They applied the seemingly unrelated regression (SURE) approach in order to determine the relationship between tax categories and economic indicators. Their results showed that a long run relationship exist between tax categories and economic indicators and are significant. Particularly, they found a robust negative relationship between customs duty and gross domestic product.

Sameti and Rafie (2020) analyzed the relationship between income distribution effects of tax and economic growth in Iran and some selected East Asian countries. They used panel data regression in the period 1990-2006. Their results denoted that the impact of customs duty on economic growth is negative and significant, but the ratios of tax on income, profits and capital gains have positive and significant effects on economic growth. Anyanwu (2019) used the simple linear regression technique to examine the effects of taxes on Economic Growth in Nigeria. The study was conducted between 1981 and 1996. The results revealed that customs duty positively and significantly affect GDP just like companies' income tax. But petroleum profit tax negatively and significantly affects Nigeria's GDP.

In relation to Kenya, Kinyua (2022) applied the concepts of elasticity and buoyancy to examine the relationship between tax revenue and economic growth in Kenya for the period 2002 to 2012. The study found a significant relationship between total tax revenue and economic growth in Kenya in the period 2002 to 2012. Import duties were not responsive to changes in national income while discretionary tax measures implemented during the period failed to increase total tax revenue.Onduru (2021) analyzed the impact of indirect taxes on economic growth in Kenya for a period of thirty-one years (1972-2002). By

interacting indirect taxes with certain key macroeconomic variables namely; population size, investment, volume of trade and external debt, the study found that custom duties cause distortions in the market decisions and consequently impact negatively on economic growth. Appah (2019) investigated the impact of tax reforms on economic growth of Nigeria for the period 1994 – 2009. The Augmented Dickey-Fuller was used to examine the unit root test and the Johansen's Co-integration test and Error correction technique was also adopted to run the regression analysis. It was discovered that there is a positive relationship between tax revenue and economic growth of Nigeria. They argued that 54% variation in the dependent variable (GDP) is as a result of change in tax revenue and that there exists long run equilibrium relationship between GDP and the independent variables.

Gacanja (2021) explored the relationship between economic growth and tax revenues in Kenya for the period 1991-2011.Using co integration and Granger causality test, the results of the study revealed a positive relationship between economic growth and tax revenues; with import duties showing a positive effect on GDP.In assessing the impact of taxation on economic growth for Nigeria during the period 1980- 2006, Okpara (2019) employed the two-stage least squares methods (2SLS) on a set of simultaneous equations. Their empirical analysis reveals that though the excise tax seems promising, the general tax system is inflexible and may not produce the desired objectives. It is also found that higher excise taxes discourage growth in capital stock which by itself is a positive function of economic growth. Excise taxes attenuate labour supply growth which exerts a positive and significant impact on economic growth.

Scarlet (2021) examined the impact of taxation on economic growth in Japan, using quarterly data from 1990 to 2010 in an autoregressive distributed lag framework. The results indicate that any policy action aimed at increasing the P.A.Y.E. tax would have a negative and significant impact on GDP per capita over time.Ihenyen and Mieseigha (2014) did a study on the impact of tax as a tool for economic growth in Nigeria for the year 1980 to 2013. In the study time series data were obtained from the Central Bank of Nigeria. The data generated were analysed using Ordinary Least Square (OLS) regression estimation technique, the result from the analysis revealed that the VAT has a significant and a positive impact on the GDP of the country.

Ebiringa (2019) examined the empirical forms of tax on the economic growth in Nigeria for the period 1985-2011, using the simple linear regression technique. The results of the study revealed a negative and significant relationship between custom duties, excise duties and GDP. Company income tax and value added tax had a direct and significant relationship with GDP. The Granger investigation of what form of tax system can influence growth in Nigeria, Custom and excise duties among all other forms of tax can influence GDP in the short term.

More recently, Acti and Abigail (2022) investigated the impact of taxation on economic growth of Nigeria using data from 1994 to 2012. The regression result shows a linear growth relationship between tax revenue and economic growth, while there is no significant relationship between Company Income Tax, Value Added Tax and Gross Domestic Product. But there is a significant relationship between Petroleum Profit Tax, Custom, Excise Duties and Gross Domestic Product.

Widmalm (2021) using Leamer extreme bond analysis, showed data from 23 countries over the period 1965-1990 that the tax on personal income has a negative impact on growth Unlike the consumption tax. Kneller Bleaney and Gemmell (2019) estimate effects of different taxes on a panel of 22 OECD countries

between 1970 and 1995. Their pooling and fixed effects estimates suggest that a higher level of distorting taxes (as a ratio of total GDP) reduces per capita income. Nevertheless, the baseline results are not robust when the authors use the instrumental variable estimation to address the potential endogeneity of the tax variables.

Santiago and Yoo (2019) analyzed 69 countries ranked among high-income, middle-income and low-income countries over the period 1970-2009 using an error correction model. First, they find that income taxes, social security contributions and personal income taxes have a strong negative association with growth as corporate income taxes. Then they find that the property tax has a strong positive association with growth. Finally, a reduction in income taxes and an increase in value added taxes on sales are also associated with faster growth. However, they report that their results are applicable to high-income and middle-income countries, but not to low-income countries.

Mehrara, Masoumib, and Barkhi (2020) looking at the effect of fiscal policy on economic growth and inflation, find that using the PVAR approach a shock in tax revenues in the short term Long-term economic growth has no effect on growth. They also find that indirect taxes have more effect than other types of taxes at the macroeconomic level. Their analysis is based on a sample of 14 developing countries over the period 1990-2011. Hakim, Karia and Bujang (2019) examined the impact of indirect taxes, especially VAT, on economic growth in developing and developed countries using the Arellano-Bond GMM estimator. They find that indirect taxes are negatively correlated with economic growth in developing countries, and significantly and positively correlated with economic growth in developed countries.

Okafor (2020) examined the relationship between federally generated revenue and economic development in Nigeria using Gross Domestic Product (GDP) for the period 1981 to 2007. The result of the study showed a positive and significant relationship between Income Tax Revenue and Economic Development of Nigeria. Kneller, Bleaney, and Gemmell (2019) employed a panel of 22 OECD countries between 1970–1995 and discovered a depressing effect of distortionary taxes, which consist of taxes on income and property. Shaver & Flyer (2018) carried out research on the effect of taxes on economic growth in the United Kingdom between the period of 1950 to 1998, applying exogenous and endogenous growth models and found that the relationship between tax and economic growth is extremely weak and in practice, taxes do not have a positive effect on the rate of growth.

Aamir, Qayyuum, Nasir, Hussain, Khan and Butt (2021) using panel data of direct and indirect taxes in Pakistan and India from 2000 to 2009 discovered that in Pakistan, indirect taxes have a statistically significant positive impact on total revenue and by extension economic growth. The study found that if total indirect taxes increase by Rs., the increase in total tax revenue would amount to Rs.

Mustapha (2020) examined an empirical study on the impact of indirect taxes on the economic growth of Nigeria (1970-2020) using secondary data was retrieved from the annual reports of CBN, NBS, and FIRS. The results of the OLS regression model employed in the study indicated that VAT has a positive impact on economic growth. Okonkwo and Chukwu (2019) carried out a study on Government Tax Revenue and economic development in Nigeria from 1996 and 2017 using Vector Autoregressive Estimates. The result showed that PPT and TTR had a positive relationship with HDI whereas EDT and CIT had a negative relationship with HDI. Scarlet (2018) used the standard growth functions within the autoregressive distributed lag to investigate the relationship between taxation and economic growth in Jamaica. The

study employed qua1terly time series data from 1990 - 2010. The study found a significant and positive relationship between indirect tax and economic growth in the long run.

Egbuhuzor and Adokiye (2021) studied the effect of indirect taxes on economic growth in Nigeria from 2003-2018. The ex-post facto research design was adopted for this study while secondary data were extracted from the central bank of Nigeria Statistical bulletin. The descriptive statistics and multiple regression were used to test the postulated null hypotheses. Value-added tax and custom and excise duties were measures of Indirect taxes while gross domestic product and human development index were the measures for economic growth. The study revealed a negative and insignificant effect of value-added tax on gross domestic product. It also revealed a positive and significant effect of value-added tax on human development index.

Eneche and Ademu (2020) Furthermore, a study investigated the relationship between tax revenue and the economic growth of Nigeria. Tax Revenue was proxied by Petroleum Profit Tax, Value Added Tax and Companies Income Tax, while Economic Growth was proxied by Gross Domestic Product. The study revealed that value added tax has a significant relationship with Nigeria Economic Growth. In addition, an analysis was done on the impact of value added tax on economic growth of Nigeria (2009- 2018). Bingilar and Preye (2020) adopted a longitudinal research design and found that both input tax and output tax have positive and significant impact on economic growth. The study also shows that VAT contributes significantly to the total tax revenue of government and subsequently the economic growth of Nigeria.

Similarly,Onyinyechi (2020)tested the consequences of Nigeria's indirect tax on consumption for the period of 2005-2019using trend analysis, pairwise Granger causality tests, unrestricted co-integration rank test, and least squares technique. The outcome revealed that VAT insignificantly but positively influences consumption. This result shows that VAT imposition on merchandises and services is discouraging the absorption of specific foodstuffs and services and allowing the operation of informal economic activities to thrive in Nigeria.Agunbiade and Idebi (2020) in the same way, an investigation was done on the relationship between tax revenue and economic growth in Nigeria (1981–2019). The study employed the "Vector Error Correction Model (VECM)" to establish the nature and strength of the relationship between taxation and economic growth. The study found that there is a causal relationship between Real GDP and the different tax components. The impulse response functions and the variance decomposition analysis uphold the findings that the impact of the shock in the indirect tax (VAT) and direct tax (CIT and PPT) on GDP growth does not die out over the specified period under consideration.

Ezejiofor, Oranefo and Ndum (2021) conducted a study on the impact of tax revenue on per capita income of Nigeria. Ex-post Facto research design was adopted. The population constituted the Nigerian economy, and data for this study were sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin, and Federal Inland Revenue Service (FIRS). The analysis of the data was done using correlation and Ordinary Least Square (OLS) regressions. The finding indicated that custom and excise duties have a non-significant positive effect on per capita income of Nigeria.

Fakunmoju (2022) studied effect of indirect taxes on macroeconomic stability in Nigeria within the period of 1995-2020. Autoregressive Distributed Lag (ARDL) method of analysis was employed and the findings revealed that the short-run model indicated that CED, INT and EXR were major short-run determinants of Nigeria economic growth while VAT was not short-run determinants of economic growth. Also, finding established that long run estimates established that, VAT, CED and INT show

positive signs, indicating they influence macroeconomic stability measure with RGDP positively while EXR has negative effect on macroeconomic stability via RGDP.

Furthermore, Ukpabi (2019) used the OLS method of analysis and found that of the two indirect tax sources, Value Added Tax and Customs and excise duties, Value Added Tax that had a positive significant relationship with economic growth. Customs and excise duties on the other hand had a negative relationship but was tested and found to be insignificant. But overall, the relationship between the indirect tax sources and economic growth was found to be significant.Similarly,Akhor, Atu and Olugbenga (2021) studied the impact of indirect tax revenue on economic growth in Nigeria using secondary data collected from Central Bank of Nigeria statistical bulletin for the period covering 1993 to 2013. The result revealed that value added tax had a negative and significant impact on real gross domestic product. In the same vein, past custom and excise duty had a negative and weakly significant impact on real gross domestic product.

Obayori, Bidemi and Omiekuma (2019) examined indirect tax and economic growth in Nigeria. This paper empirically investigated the impact of value added tax (VAT) on economic growth in Nigeria from 1994–2018 using the Autoregressive Distributed Lag Model. The result indicated that VAT has a positive relationship with economic growth in Nigeria in the short run. Also, custom and excise duties revenue positively impacted on economic growth in Nigeria. Hence, it was concluded that Value Added Tax (VAT) as an indirect tax system in Nigeria has direct relationship with economic growth in Nigeria since its inception in 1994.

Ihenetu (2022) empirically conducted a comparative analysis of the effect of direct and indirect tax on Nigeria's economy using time series data collected from CBN annual report 2020. The statistical tool applied was ordinary least square multiple regression analysis. The findingsrevealed that both direct and indirect taxes have positive and significant effect on gross domestic product in Nigeria.Mourfou and Ouedraogo (2021) investigated effect of tax revenue mobilization on income inequalities in West African Economic and Monetary Union Countries (WAEMU)over the period 1996. The results show that an increase in direct tax revenues leads to a reduction in income inequality. On the other hand, indirect domestic tax revenues and commercial tax revenues are found to be neutral in income distribution. Ezu and Jeff-Anyeneh (2021) investigated effect of indirect taxation on economic development of Nigeria. The study adopted ex-post facto research design using secondary data obtained from the Central Bank of Nigeria Statistical Bulletins and the granger causality statistical tool. The following findings were made for this study: Petroleum profit tax has no significant effect on the gross domestic product of Nigeria. Company income tax has significant effect on the gross domestic product of Nigeria and value added tax have significant effect on the gross domestic product of Nigeria.

Myles (2021) considered the endogenous growth theory as proposing the interrelations between taxation and economic growth of nations while studying to reconcile this theoretical stance with empirical results in the United Kingdom. He concluded that theoretical models have shown that the association of taxation with economic growth can be substantial although empirical evidences tend to remain unresolved. The results on the influence of tax revenue on the macroeconomic indicators of nations have continued to vary among nations and regional groupings and even in time thus making its conclusion a difficult one.Egbulonu and Amadi (2019) measured economic performance by studying the responsiveness of unemployment rate to tax revenue and found that increase in tax rate will decrease the rate of employment in Nigeria. Findings found a positive association to flow from tax revenue to unemployment in Nigeria

thus the study argued that government administrators ought to distribute state wealth towards combating unemployment in the nation. The contradiction in the two studies is a good example of the changing nature of the influence of taxation on economic performance over time.

Imide and Imoughele (2019) researched on the impact of fiscal policy on the human development index of Nigeria using unit root analysis, co-integration and error correction model as their analytical techniques. Their findings suggest that fiscal policy toolsare very relevant to economic performance and development. This is due to the fact that the study found that tax revenue and domestic debt have direct and significant effects on the human development index of Nigeria. development of African countries with specific reference to Nigeria and South Africa.

3. Materials and Method

3.1 Data

The secondary data of this study was sourced electronically from the official websites of the World Bank, Federal Inland Revenue Services of Nigeria and International Monetary Fund through International Center for Tax and Development. Spanning a period 1986–2022. The choice of this period is guided by the tax reforms and structural adjustments in the Zone within the 1980s and the endpoint is to ensure that most recent datasets are used.In terms of nature, this study adopts country-specific time series data covering the period under review. The study used country-specific estimation as opposed to the panel estimation approach which is prone to aggregation biases and pooling effect.

3.2 Model Specification

The major theoretical anchor for this study is the expediency theory which was propounded by Bhartia (2009). The theory in its practicality evaluates how economic and social goals become outcomes of an efficient tax system and structures. This is captured functionally as

$$Socio-economic\ Goals = f(Tax)$$

Benchmarking and modifying the studies by Okapi, 2019; Ezejiofor*et al.,* 2021; socioeconomic goal in this study is represented by economic development proxies by Human Development Index (HDI) and taxes represented by the key types of indirect tax (Value added tax, Export duties, Excise Duties and Import duties). The model for this study in estimable Auto Regressive Distributed Lag Model (ARDL) model form appears thus:

$$\begin{aligned}\Delta HDI_{it} = \pi_p + \sum_{t=1}^{k} \delta_{ip}\Delta HDI_{it-i} + \sum_{i=1}^{k1} \tau_{ip}\Delta VAT_{it-i} + \sum_{i=1}^{k2} \theta_{ip}\Delta EXPDUTIES_{it-i} \\ + \sum_{i=1}^{k3} \sigma_{ip}\Delta \mathrm{IMPDUTIES}_{it-i} \sum_{i=1}^{k3} \alpha_{ip}\Delta \mathrm{EXCDUTIES}_{it-i} + \varpi_{1p}VAT_{it-1} \\ + \varpi_{2p}EXPDUTIES_{it-1} + \varpi_{3p}IMPDUTIES_{it-1} + \varpi_{4p}EXCDUTIES_{it-1} \\ + \varepsilon_{1t} \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots (1)\end{aligned}$$

Where HDI= Human Development Index
VAT = Value Added Tax
EXPDUTIES = Export Duties
IMPDUTIES = Import Duties
EXCDUTIES = Excise Duties

π_p = slope

$\delta_{ip}, \tau_{ip}, \theta_{ip}, \sigma_{ip}$, α_{ip} = coefficient of the variables (short-run)

$\varpi_{1p} - \varpi_{4p}$ = coefficient of the variable (long-run)

ξ_{1t} = error term

Δ = First difference operator

$_{t-1,t-2}$ ….t-n = lag operators

i=cross sectional identifier (Ghana, Nigeria, Liberia, Sierra Leone and the Gambia)

t=time dimension (1986–2022.)

The hypotheses are to be tested using the coefficients and the magnitude of the coefficients in the model with an apriori expectation that $\varpi_{1p} - \varpi_{4p} > 0$.

3.3 Techniques of Analyses

The study will use the panel ARDL regression analysis method. However, it will incorporate a bound testing co-integration test to undertake a thorough examination of the characteristics of cross-sectional economic data. The analytical procedures involved are as follows:

First, the basic descriptive statistics of the series are carried out to determine the distributional properties of the series. This test includes the normality distribution of the variables using Jacque–Bear normality of skewness and kurtosis tending towards 0 and 3 respectively.

Second the study uses the fixed effect estimators and the random effect estimators and the Haussmann test will be used to select the more efficient of the two models.

Lastly, inferences for the study shall be on 0.05 level of significance, that is, at 95% confidence level. The statistical estimates shall be obtained using the EViews 10 estimation software.

4. Results

The description of the properties of the data set is presented inTable 4.1 below.

Table 4.1 Summary of Panel Descriptive Statistics

Variables	Mean	Median	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis	Jarque-Bera
VAT	2162.04	1769.52	7474.51	639.27	1313.50	1.45	4.73	234.53
EXPDUTIES	22.06	20.61	62.02	0.16	11.01	1.13	4.37	39.14
IMPDUTIES	20.43	15.94	58.33	0.10	12.18	0.97	2.97	19.62
EXCSDUTIES	5.88	0.91	51.68	0.00	9.35	2.38	9.95	324.91
HDI	7.10E+10	3.07E+08	6.02E+11	0.00	1.52E+11	2.21	6.95	166.54

Source: Authors' Computation (2024)

The distributional characteristics of the panel series are shown in table 4.1 pointing clearly to the measures of central tendency, dispersion as well as the normality of the series. The results shows the series behaviour are in agreement with those of economic and financial series as they are all highly peaked and fat tailed. This is shown by their leptokurtosis and positive skewness. The standard deviations

are all less than the mean which shows that the series are not highly dispersed around their respective means. This presents the panel series as having good fit for meaningful analyses and inferences.

The linear association of the panel datasets are shown by panel correlational matrix of the form presented in table 4.2 below:

Table 4.2 – Panel Correlational Matrix

Series	VAT	IMPDUTIES	EXSDUTIES	EXPDUTIES	HDI
VAT	1	-0.17	0.18	-0.24	-0.19
IMPDUTIES	-0.17	1	0.32	0.67	0.17
EXCSDUTIES	0.18	0.32	1	0.56	0.40
EXPDUTIES	-0.24	0.67	0.56	1	0.75
HDI	-0.19	0.17	0.40	0.75	1

Source: Authors' Computation (2024)

The result of the panel test of linear association shows that the variables share varied directions of correlation. It is important to note that correlation coefficients are not too high to trigger a suspicion of multicollinearity. While value-added tax is found to adversely correlate with human development index at -19%, the other forms of tax are found to positively correlate with human development index. In addition, the correlation of the forms of taxes with each other are all respectively reported.

4.3 Panel Regression Estimates

To satisfy the aforementioned objectives of this study, a summary of the fixed and random effect panel estimation results is presented in Table 4.3 and the choice for the more efficient of the two panel models is done using the Haussman test presented in the middle of the table.

Table 4.3 – Summary of the Panel Regression Estimates

		Random effect		**Hausmann's test**				**Fixed effects**
	Coefficient	Std. Error	t-statistics	4.93 (0.5467)	Coefficient	Std. Error	t-stati	Prob.
C	4146.49	705.96	4146.485		4809.71	566.60	8.488	0.00
VAT	-60.35	23.96	-2.519		25.05	2.501	0.081	0.99
IMPDUTIES	0.210	0.003	70.253		5.41E	1.31E	0.041	0.97
EXCSDUTIES	-59.60	1.401	-42..54		-59.95	22.26	-2.693	0.01

EXPDUTIES	-48.27	1.007	-47.264		-69.26	38.48	-1.799	0.008

Source: Authors' Computation- Full Result in Appendix Two (2024)

Following the Haussmann Test results, the more efficient model is the random effect model. The non-significant nature of the result shown in the middle of Table 4.3 is evidence in favour of the random effect model over the fixed effect estimator. The inferences and test of hypotheses made in this study follow the results of the cross-sectional random estimators.

The result shows that a unit change in VAT led to a 60-unit negative change in economic development. This is not unconnected with the fact that VAT is a consumption tax and reduces the incentive to consume and can limit production given that production is incentivized by consumption. This change is found to be statistically significant given that the t-stat is greater than 2.5 (rule of thumb) and the p-value is less than 0.05. Though the coefficient is negatively signed contrary to the apriori expectation, the change is found to be significant which affirms that VAT is a significant impacting variable to the economic development of the investigated economic region. This is not unconnected with the fact that VAT is a consumption tax and reduces the incentive to consume and can limit production given that production is incentivized by consumption. This is consistent with the disincentive to consumption, growth and development effect of taxes and this argument agrees with the studies of Ihenetu (2022) and Ihenyen and Mieseigha (2014).

Furthermore, from Table 4.3, the result shows that a one percent change in import duties led to a 21% positive change in economic development. This implies that import duties are a major source of revenue for the government which helps in funding developmental projects. This explains the positive impact of import duties to economic development. This change is found to be statistically significant given that the t-stat (70.253) is greater than 2.5 (rule of thumb) and the p-value (0.0000) is less than 0.05. The West African subregion is an import-dependent economy like most developing subregions of the world, and it is likely that the governments of the countries in the subregion will be funding developmental projects through a heavy reliance on revenue from import duties. Also, import duties can be used for trade restrictions and can be highly prohibitive, making a revenue source that can accentuate development in the region. In agreement with this finding, Anyanwu (2019) in a study of the effects of taxes on economic growth revealed that import duties positively and significantly affect GDP just like companies' income tax.

From Table 4.3, a unit change in excise duties led to a 60-unit negative change in economic development. This result shows that excise duties affect economic development. This explains that excise duties can discourage local production thereby acting as a limiting factor to economic development. This change is found to be statistically significant given that the t-stat (42.54) is greater than 2.5 (rule of thumb) and the p-value (0.0000) is less than 0.05. In separate studies, Okpara (2019) and Ebiringa (2019) both agree with the findings from this study that excise taxes can be prejudicial to development through the retardation of local production of goods and services. These results revealed a negative and significant relationship between custom excise duties and economic development.

Finally, Table 4.3 above further indicates that a unit change in export duties led to a 48-unit negative change in economic development. This result shows that export duties retard economic development. This explains that export duties can discourage exportation and reduces the incentive to export which can be a

limiting factor to economic development. This change is found to be statistically significant given that the t-stat (47.93) is greater than 2.5 (rule of thumb) and the p-value (0.0000) is less than 0.05. The countries in the subregion are making policies to incentivize exportation to improve on their perennially adverse balance of payment position and increase local production. Export duties have been found to be distortionary to local production and can even stifle infant industries. Kneller, Bleaney, & Gemmell (2019) in a panel study of 22 OECD countries agrees with our findings that export duties can exert a depressing and distortionary effect on development.

Table 4.4 Pedroni Residual Cointegration Test

Alternative hypothesis: common AR coefs. (within-dimension)				
	Statistic	Prob.	Weighted Statistic	Prob.
Panel rho-Statistic	-8.566533	0.0000	-8.340067	0.0000
Panel PP-Statistic	-18.84133	0.0000	-18.25319	0.0000
Panel ADF-Statistic	-8.259083	0.0000	-7.627461	0.0000
Alternative hypothesis: individual AR coefs. (between-dimension)				

Source: Authors' Computation- Full Result in Appendix Three (2024)

The results from the panel rho-statistic, panel Philip Peron (PP-statistic) and the panel ADF-statistic are consistent in showing that the null hypothesis of no long-run relationship should be rejected. In all the tests, the test statistic and the associated p-values are all significant. Specifically, the p-values are less than the 0.05 level of significance. This explains that all the investigated forms of indirect tax jointly share a long-run cointegrating relationship with economic development in the investigated countries. This further implies that these taxes are influencers of economic development both individually and collectively. Hence, the final objective of this study is satisfied.Ukpabi (2019) made a finding that is consistent with the one arising from this study that the overall relationship between the indirect tax sources and economic development is of a long-run nature and also found to be significant.

5.Discussion

This study set out to investigate the contributory impact of taxation of an indirect nature on the overall development of the West African Monetary Zone. The choice of the zone was because it is a developing zone in need of funding for growth and development. With challenging debt burden, high level of poverty, unemployment and other worsening economic indicators, it was found necessary to evaluate the alleviating impact of indirect taxes**.**Relevant objectives, questions and hypotheses were set for this purpose and appropriate estimation methods were deployed after having established the gap in the literature through robust literature review. The methodology was a panel approach given the combination of cross-sections and time dimensions in the study. A combination of the fixed and random effect panel approach discriminated by the Haussmann test was used while the long-run cointegrating relationship was tested using the Pedroni panel cointegration test.

The study found that indirect taxes affect economic development based on its form and type. While import duties affected development positively and significantly, excise duties, VAT and export duties were found to be prejudicial to development. Collectively, the investigated tax forms showed to share a long-run cointegrating relationship with economic development.

6. Policy Recommendation

Based on the findings arising from this study, it is recommended as follows:

- Value added tax should be made pro-poor given that it affects the human development index adversely. More of the VAT should be imposed on ostentatious consumption to make it progressive instead of overly taxing goods that are consumed by the poor and middle class.
- Since it was found that import duties positively and significantly drive economic development, it is recommended that the government should use it to restrict trade by making it high and prohibitive. This will refocus the citizens on homemade goods which will boost domestic production, create jobs and enhance growth and development. In addition, producer goods especially agricultural inputs can be made duty-free to boost agricultural productivity.
- Excise duties were found to retard development. This leads to a recommendation that duty on locally made goods should be scrapped as it kills infant industries. The subregional governments that are trying to boost local production should not take excise duties high as it will constitute a limiting factor to domestic production.
- Export duties discourage exportation and should be reviewed. It is better for the zone if export rises above imports. This can be enhanced through friendly export duties. This will help to stem the adverse relationship between export duties and economic development.

Conclusion

The study represents one of the few that have looked at an economic bloc such as the WAMZ in the investigation of the developmental impact of indirect taxes. By this, it has extended the literature in this knowledge area for future reference.The methodological approach of this study is further considered as a useful value addition to knowledge. The combination of basic panel and panel cointegration tests aided the determination of the several and collective impacts of indirect tax on the development of the WAMZ.This study represents a contribution to the need for managers of the economies of the West African monetary zone to diversify their revenue base to meet the revenue needs of the subregion for the imperatives of economic development. It is also a call to check the revenue sources that impede development and refocus on the development-enhancing ones.

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