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REVENUE ADMINISTRATION IMPLICATIONS OF THE AFRICAN CONTINENTAL FREE TRADE AGREEMENT IN WEST AFRICA

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WEST AFRICAN TAX ADMINISTRATION FORUM

WATAF DISCUSSION PAPER

REVENUE ADMINISTRATION IMPLICATIONS OF THE AFRICAN CONTINENTAL FREE TRADE AGREEMENT IN WEST AFRICA

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About WATAF

The West African Tax Administration Forum (WATAF) comprises Tax Administrations of all of the 15 West African countries: Benin, Burkina Faso, Cabo Verde, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo, that are members of the Economic Community of West African States (ECOWAS). WATAF was created to lead tax policy coordination and concerted tax administration capacities in the region. WATAF promotes tax transparency, harmonises regional tax laws and policies, promotes regional integration, and facilitates regional knowledge sharing, including dialogues to improve the quality of tax administration in Member States in order to increase the mobilisation of domestic revenue.

The inaugural meeting of WATAF was held at the Forum of Heads of Tax Administration in West Africa at the Rockview Hotel, Abuja, Nigeria on 12 September 2011. The original signatories to WATAF's formation were representatives of Tax Administrations from five West African Countries, namely, Benin, Ghana, The Gambia, Liberia, and Nigeria.

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REVENUE ADMINISTRATION IMPLICATIONS OF THE AFRICAN CONTINENTAL FREE TRADE AGREEMENT IN WEST AFRICA

ABSTRACT

Regional trade integration could benefit economies, but dominant or consensual evidence is scarce on its impacts on tax revenue in developing countries. The establishment of the African Continental Free Trade Area (AfCFTA) comes with the challenge of tax mobilisation among African countries. This study tests the effects of trade on tax revenue on the one hand and qualitatively examines the potential implications of trade liberalisation on revenue administration in West Africa on the other, with a view to identifying critical strategies for tax system design and reform in West Administration Tax Administration Forum (WATAF) member countries. Among others, the results indicate the necessity of a combination of both economic and political measures to optimise any revenue gains in AfCFTA era.

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ABBREVIATIONS AND ACRONYM

AfCFTA	African Continental Free Trade Agreement
ECOWAS	Economic Community of West African States
EFD	Electronic Fiscal Device
ETR	Electronic Tax Register
FE	Fixed Effect
GDP	Gross Domestic Product
GST	Goods and Services Tax
IMF	International Monetary Fund
OECD	Organisation for Economic Cooperation and Development
REC	Regional Economic Community
RGDP	Real Gross Domestic Product
URBAN	Degree of Urbanisation
VAT	Valued Added Tax
WAEMU	West African Economic and Monetary Union
WATAF	West African Tax Administration Forum

Africans have long been promised that trade liberalisation would accelerate growth and structural transformation. Instead, it has cut its modest production capacities, industry and food security. *(...)* most African governments cannot easily substitute lost tariff revenue with other new or higher taxes. - Sundaram, J. K. (2024)[1]

… The drop (in revenue) is highest in poor countries that don't have the capacity to compensate for lost tariff revenues with domestic taxes. - Cage and Gene (2024).

1. INTRODUCTION

1.1. MOTIVATION

Taxation and trade are inextricably related, and the nexus has remained an important topic in both academic and policy debates. However, the free trade regime[2] poses more complications to the analysis of the taxation-trade nexus, particularly in the context of today's developing countries.

The evidence that exists based on the experience of the European countries, particularly after World War II, points to the need for the tax systems to constantly rejig their tools to respond to changes in the trade mechanism, be it policy or law. Specifically, trade liberalisation agreements led to the reduction or outright elimination of tariffs, which were the major revenue sources during a trade protectionism regime. The unfavourable effects did not only propel the European countries to increase their dependence on domestic taxes,[3] such as income taxes and value added taxes (VAT) as sources of revenue but also contributed to the development of their tax systems as a whole to adapt

[1] Sundaram, J. K. (2024). Trade liberalisation kicked away African development ladder. A commentary hosted on https://www.networkideas.org/news-analysis/2024/05/trade-liberalisation-kicked-away-african-development-ladder/. The original article was first published with Inter Press Service news on May 8, 2024. The authors reflected and made a viewpoint on the damages of the structural adjustment programmes in Africa and a number of other developing countries.

[2] The free trade, and the likes of customs union, common market, and economic union are forms of economic integration among countries. The specific forms depend on several factors, including the extent of the interdependence and cooperation among the parties. Economic integration serves as a tool to remove trade barriers, promote member participants' economic development, and minimise the cost of trade among them. Each form of economic integration, in theory or practice, creates opportunities and challenges for domestic revenue mobilisation, including taxation. On the positive side, economic integration can facilitate expansion in tax bases, growth in personal and corporate tax revenue. However, integration necessitates fiscal coordination and harmonisation among countries in order to prevent unhealthy tax competition.

[3] Of the various types of domestic tax, the VAT has remained one of the most resilient taxes, contributing a substantial part of public revenue in at least 187 countries that implement it.

to the realities of modern society (Arezki, Rota-Graziosi and Dama, 2021)[4]. On the other hand, poorly designed corporate taxation could stifle the growth of trade through low foreign and/or domestic investment, as well as disincentivise the entrepreneurial acumen of citizens. This assertion clearly represents the situation in most countries with efficient and effective tax systems: the growth of business enterprises tends to serve as a driver of tax revenue growth.

Prior to the launch of the African Continental Free Trade Agreements (AfCFTA) in May 2019, there were at least eight regional economic communities (RECs), including the Economic Community of West African States (ECOWAS)[5]. The AfCFTA is conceived to serve as one of the instruments for realising the Africa Union's Agenda 2063 captioned as "Africa We Want." Among Africa's RECs, the ECOWAS has consistently been rated as a leader in free movement of persons (African Union, 2021). Free trade areas are known to provide many advantages for countries situated in the same region (Mlambo, Thusi, and Zubane, 2022). Despite several contentions about the benefits of regional integrations in Africa, particularly in the context of ECOWAS, the United Nations Economic Commission of Africa[6] states the potential benefits for West Africa as follows:

> *"Enlarged regional markets provide incentives for FDI and private cross-border investment; regional integration is likely to improve efficiency by heightening competitive pressure among rival firms; potential terms-of-trade effects of possible trade diversion from a regional free trade area may lead to welfare improvements in the REC; (and lastly) as production structures diversify from primary products, West Africa has the chance to wean itself from dependence on developed market economies for manufacturing."*

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[4] The study categorises the short and medium term effects of trade liberalisation on tax revenue using a worldwide panel dataset. At best the effects are negative and neutral respectively but found that VAT adoption, well ahead of liberalisation, can mitigate the revenue-eroding effects of trade.

[5] These economic communities, specifically with free trade agreements in Africa, are the East African Community (EAC), the Economic and Monetary Union of Central Africa (CEMAC), the Economic Community of West African States (ECOWAS), the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC), and now the African Continental Free Trade Area (African Development Bank, 2019).

[6] Refer to the study report by UNECA titled, 'ECOWAS at 40: An Assessment of Progress Towards Regional Integration in West Africa

Nevertheless, Mambo *et. al.* (2022) argued that for free trade agreements to be effective, a supportive political and socioeconomic framework would also be necessary. In this regard, RECs are essentially formed in the world to promote unrestricted trade among member countries (Wannacot, 1996), and the emergence of AfCFTA is not an exemption, and according to its designers, the existing regional economic communities would serve as a lever. The necessity for the RECs was due to Africa's heavy reliance on imports and agrarian exports, which caused unfavourable terms of trade, as Africa's share was just 2.8% of global trade volume in 2019 (UNCTAD, 2021). The AfCFTA is a free trade area that comprises the Eastern, Central, Northern, Southern, and Western zones across 55 countries in Africa. It was an agreement that was formed and endorsed in Kigali, Rwanda, on March 21, 2018 by the African Union (AU), and as of March 2024, a total of 54 countries had signed it, of which 47 ratified it and have presented their instruments of agreement to the AU Commission (Crabtree, 2018; AfCFTA Secretariat, 2024[7]).

Moreover, the expected bigger market in Africa due to AfCFTA would engender deeper dynamics in trade, investment, and other economic variables, all of which would have implications for tax bases, tax collection, tax revenue, tax rates, and other key aspects of the tax system. Following the experience of countries in trade integration such as the North American Free Trade Agreement (NAFTA) and the European Union (EU), the revenue from import duties tends to reduce. In nearly all countries in Africa, the proportion of import taxes to total tax revenue averages one quarter (see African Tax Outlook, 2022; and OECD Revenue Statistics in Africa, 2022) . The resultant outcomes of trade liberalisation of China and India provide vivid examples of the indirect positive effect of trade on tax revenue[8]. The AfCFTA signifies a step forward in Africa's pursuit of economic integration, particularly for West African countries. The study places a search light on how to understand the implication of the trade liberalisation agreements on tax revenue administration.

[7] AfCFTA Secretariat sits in Accra, Ghana, from where it coordinates all activities that pertain to the agreement. The secretariat website contains up-to-date information on the history and state of play of the agreement. Other relevant items of information are also featured on the webpage. The AfCFTA oversees the negotiations and implementation of the agreement.

[8] When a country cuts a right set of domestic policies trade liberalisation would engender economic growth and in turn rub positively on the growth of tax revenue. Expanded trade can create more incomes, increase consumption and grow business investment and profit. In essence, the narrow tax base in most African countries could expand with more growing international trade within the continent, giving room for the domestic taxes such as the VAT, PIT and CIT to increase. Aside revenue collection trade agreements possess the capability to induce tax harmony and healthy investment drive among member states.

Basically, trade liberalisation would impact trade volumes and the use of a country's productive resources. Thus, the emphasis is on the importance of tackling challenges that could prevent effective leverage of the potential benefits of economic integration. Given the emergence of the agreement, the customs' contribution to total revenue might dwindle both in the short and medium runs, and countries must prepare their revenue administration systems to confront the new realities the AfCFTA may provide. The current study therefore seeks to identify the main, crucial and probable tax revenue administration challenges of the agreement and use such knowledge to provide strategic plans for tax authorities to deliver superior tax revenue performance in an AfCFTA era. Section two of this report provides a synopsis of the AfCFTA and other forms of economic integrations.

1.2 THE RESEARCH PUZZLE

Africa remains a net importer[9], relative to the rest of the world, and the AfCFTA may constitute a game-changer if its implementation strategies, for example, suit the peculiarities of the continent. Without a doubt, both academics and policymakers are intrigued by the potential benefits of AfCFTA but also concerned about how to optimise gains from the larger continental market that the AfCTFA engenders. However, the effects of trade liberalisations in an economy can be complex and vary across different economic metrics. In the context of developing countries, many of which have sub-optimal tax systems, as shown by high noncompliance and concentration on indirect taxes as opposed to direct taxes (see OECD Revenue Statistics, 2023), the challenges and opportunities of regional integrations, such as the AfCFTA, remain crucial for tax administrations on various grounds. The tax administrations in West Africa have all been relatively performing sub-optimally compared to the OECD countries[10]. Among others, trade taxes contribute in no small measure to the total tax revenue in all these countries. The design of any trade liberalisation regime usually cuts tariff revenue; consequently, it is essential to identify steps for ECOWAS tax administrations to prepare for effective revenue collection in the AfCFTA era.

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[9] The importation of a wide range of goods and services characterises the pattern of trade in Africa. Despite the large volume of crude oil in the continent, only two to three countries produce sufficient refined petroleum products for its use. The launch of the Dangote Refinery in Nigeria is arguably a potential game changer. The management of the refinery envisages product supply to the entire West African market in the medium or long term, and trusts that the AfCFTA provides mechanisms that could be leveraged to realise these ambitious goals.

[10] In a WATAF Discussion Paper 2023/002 there are information items on the systemic needs of tax administration in West Africa in relation to data infrastructure. The paper specifically puts the tax-to-GDP ratio at 11.6 per cent in West Africa as at 2022.

African countries are highly exposed to international trade[11] and its implications for (trade) tax revenue. The literature is replete with diverse findings on the effect of trade liberalisation on tax revenue, although the negative effects have more often than not been underplayed by trade liberalists. Cage and Gadenne (2018) provides a detailed historical account of the impact of trade liberalisation using international evidence. The authors claim that since the 1970s, trade liberalisation has persistently contributed negatively to tax revenue. Conversely, emerging evidence from Kassim (2024) supports the positive contributions of unrestricted trade to tax revenue. This empirical literature remains inconclusive and unclear to this day.

How tax authorities should conduct their business given the context of the AfCFTA begs for explanations. The direction of the effects of trade liberalisation in developing countries remains puzzling. In other words, given the uncertain effects of trade liberalisation in developing countries, it is imperative to explore how West African tax authorities should adapt in the context of AfCFTA. The extant empirical evidence varies by data sources, scope in time and space, as well as in their methods of analysis. That is, the evidence has been changing with the vagaries of the empirical strategies adopted in the literature. While it is rare to find or claim neutrality in the relationship between tax revenue and trade liberalisation, tax authorities would therefore have to accept responsibilities to engineer strategies to redesign their policies and recalibrate their tools to version a tax system fit-for-purpose in an AfCFTA-era.

The study sets out to provide insights to support the design of relevant tax reforms in West Africa. A proper understanding of the revenue administration implications of a new trade regime is crucial to designing both capacity development training and tax administrative reforms in West Africa. This study entails the identification of relevant policy-oriented insights to help support tax administration in member countries of WATAF, all of whom generate substantial tax revenue from international trade transactions.

As Joseph Schumpeter argued in 1911, *" tax systems have to suit the societies that create them ."* The AfCFTA is a creation of the African society, and therefore should not jeopardise the aspirations of the continent - 'The Africa we want'. Thus, tax authorities are expected to identify strategies that

[11] For example, West Africa's trade as a percentage of GDP amounted to a mean estimate of 66.4%, whereas its range was between 35% and 115% (computation based on the World Bank's Development Indicators, 2023).

could help African countries to fashion out tax systems that suits the AfCFTA-era. In other words, what can and should tax authorities and governments in West Africa do to prevent a decline in their overall tax revenue-to-GDP in the face of AfCFTA?[12] Or, better still, how should the tax authorities respond to Africa's economic integration?

1.3 STRUCTURE OF SUBSEQUENT SECTIONS

Subsequent sections of this study are organised as follows: Section two contains an overview of the AfCFTA while Section three presents a summary of related literature. Section four centres on data and methodology; Section five deals with results and discussion of findings and Section six concludes and highlights the main policy implications and recommendations of the study.

[12] While there are benefits derivable from taxation, it however possesses the capability to discourage investment and entrepreneurship, stiffen output growth and prevent labour supply. Tax policymakers are aware of these tendencies and seek evidence to guide policy designs

2. AFRICAN CONTINENTAL FREE TRADE AGREEMENTS: AN OVERVIEW

The AfCFTA has the reputation as the largest free trade area in the world, given the number of countries at fifty-four (54), as at May 2024. It was established to form a free trade area of goods and services for 1.4 billion Africans with an estimated combined gross domestic product (GDP) of USD 3.4 billion (World Bank, 2020 and AfCFTA Report, 2024).

The primary goal of AfCFTA's formation is to facilitate economic integration in Africa (Constitutive Act of the African Union 2019). Although the agreement that established the African Continental Free Trade Area was signed on March 18, 2018 in Kigali, Rwanda, its implementation was effected on May 30, 2019 as operational instruments were put in place to facilitate intra-African trade. In July 2019, these operational instruments were introduced in Niger to regulate trade under the terms of the agreement (AfCFTA Report, 2019). Nonetheless, the import and export of goods and services under the agreement of the AfCFTA commenced in January 2021 (AfCFTA Secretariat website, 2022).

In 2022, the AfCFTA's Guided Trade Initiative (GTI) was established to promote trade between interested parties who had complied with the minimal standards of AfCFTA for trade. Eight nations, which had completed their legal agreements and posted product proposals, were qualified to take part: Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda, Tanzania, and Tunisia (Turksen, 2023). Approximately 96 commodities, such as dried fruit, cotton, fibre, tea, coffee, meat-related processed products, maize flour, sugar, spaghetti, and glucose syrup, were authorised for sale in the pilot programme.

Moreover, Ghana received its first ever shipments of batteries and coffee from Kenya and Rwanda in December under the GTI to get the AfCFTA Certificate of Origin in accordance with the terms of the agreements. As a means of certifying that a product has been made using resources supplied from Africa and qualifying it for reduced customs duties, the AfCFTA rules of origin certificate was utilised for the first time by the participating nations. However, 88% of the rules of origin had been completed for only the automotive and textile sectors (Salami, 2022). In January 2023, South Africa joined the certified exporters group and began shipping refrigerators, household appliances, and mining equipment to neighbouring countries.

In the agreement on trade in goods and services, state parties were obliged to accord the same level of importance to imported goods from member states as they accorded to goods from their own states. The process of coordinating and implementing the agreement is appropriated by the AfCFTA secretariat.[13]. Also, the secretariat is responsible for supporting the countries involved in the GTI and other initiatives that may be introduced in the future to increase trading in regards to consignment and customs clearing, as well as monitoring the impact of trade documents to ensure that tariffs are reduced in line with the agreement (Echendi, 2022).

On July 25, 2022, the AfCFTA Secretariat signed a protocol to receive USD 11.24 million to facilitate the secretariat's effectiveness (Kayaalp, 2023). In a similar manner, Experti se France [14] has an ongoing EUR 24.5 million support package for this continental trade agreement, all in a bid to improve sustainable intra-African trade through harmonised investment principles and procedures. This was essential to encourage the AfCFTA Secretariat, which is presently in phase two of its implementation phase. The money was also meant to further the objective of African commercial unification. The responsibility of the secretariat is to convey meetings and monitor and evaluate execution processes (Olafuyi, 2019). In light of this, African countries operationalise strategies to effectively implement and monitor their agreements in their advocacy for AfCFTA's ratification through the Economic Commission for Africa (Gerhard, 2018). Countries in Africa implement and facilitate their agreements in AfCFTA through policy advocacy, national strategy development, and a national AfCFTA implementation strategy with the help of UNECA.

As of May 2024, the 54 African Union (AU) Member Countries had signed into the agreement under AfCFTA, and its state parties had increased to 47 members with the aim of generating USD 450 billion by 2035 and lifting 30 million Africans out of abject poverty (AfCFTA Secretariat, 2024). It also aims to generate USD 76 billion for the income of the rest of the world. The African Union conference on continental integration in 2023 acknowledged that other measures, like African passports and free movement of persons, needed to be implemented in addition to AfCFTA. On January 31st, 2024, South Africa decided to launch the start of its preferential trade under AfCFTA in Durban (AfCFTA Factsheet, 2024). Mozambique has accepted the agreement but yet to submit the ratification documents to the African Union Commission. More so, Somalia, Libya, South Sudan, Madagascar, Benin, and Liberia have not ratified the agreements.

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[13] Refer to the AfCFTA website's homepage on the internet for comprehensive note on the agreement.

[14] Expertise France is an agency of the French Government, and it provides technical cooperation with others countries all for international development. For more information on the mission and activities of the body visit https://www.expertisefrance.fr/en/web/guest/notre-agence.

Similarly, Eritrea is yet to sign the agreement (AfCFTA Factsheet, 2024). As of May 20, 2024 29 countries had indicated their interest in being involved in the second phase of the guided trade initiative under AfCFTA. The West African countries of Gabon, Ivory Coast, Nigeria, Senegal and Togo have expressed interest in the second phase of the AfCFTA-guided trade initiative[15]. Ivory Coast has set up some mechanisms to implement AfCTFA, whereas Ghana and Kenya have already commenced trading with each other under the initiatives. The growth in the state parties to the AfCFTA was not all rosy. For example, Nigeria was suspicious of the agreement, leading to delay in signing the agreement until July 7, 2019, becoming the 34th member country of the agreement. Among others, areas of initial fears included unfavourable effects on local entrepreneurships and local industries.

The protocols in AfCFTA are based on the implementation of different commitments to eliminate trade barriers aimed at 97% removal of tariffs. The agreement entails anti-dumping agreements, customs duty agreements, harmonised system agreements, preferential trade agreements, safeguard agreements, non-tariff barriers, technical barriers to trade (TBT) agreements, and a schedule of tariff concessions. These agreements cover trade in goods, services, investment, intellectual property rights, and competition policy. Based on these agreements signed in AfCFTA, member nations are obliged to eliminate restrictions on trade for a period of 5 to 13 years (Addo, 2020). Hence, the long-term objectives of AfCFTA are to: create a single liberalised market; improve investment in Africa; develop infrastructural facilities in Africa; establish a customs union; hasten socio-economic development; facilitate free movement of capital and people; increase Africa's competitiveness in the global market; and reduce extreme poverty in Africa. In order to implement these agreements, protocols were put in place to establish the goal of AfCFTA. These protocols are: the protocol on trade in goods; the protocol on trade in services; the protocol on rules and procedures for the settlement of disputes; the protocol on investment; the protocol on intellectual property rights; and the protocol on competition policy (African Union, 2019)[16].

These protocols also made up the scope of AfCFTA's agreement, which is in two phases. The first phase of the agreement is centred on trade in goods and services, while the second phase is focused on the settlement of disputes, investments, intellectual property rights, competition policies, digital

[15] On July 16, 2024 Nigeria launching the first shipment of goods under the AfCFTA from Lagos, Nigeria to Cameroon.

[16] Lunenborg (2019) presents a description of basic contents of the AfCFTA and the procedures for effective trade negotiations.

trade, and women and youth in trade (African Union, 2018). In order to fulfil the objectives of the AfCFTA, member states are obligated to enter Phase II of the agreements. The second phase of AfCFTA was approved by the 36th Ordinary Session of the Assembly of States and Governments of the African Union, whose elected first SecretaryGeneral was Mr Wamkele Mene (AfCFTA Factsheet, 2023). Both the first and second phases require the use of operational instruments including the office of the Secretary-General.

Imports from within Africa are 6.1% more expensive than imports from outside the continent due to intra-continental trade taxes. Countries hardly trade with one another as a result of that overcharge; intra-African trade in goods makes up only 14% of all African commerce, as opposed to 55% in Asia, 49% in North America, and 63% in the EU (UNCTAD, 2021). China, the single largest trading partner in the region, receives one-fifth of all raw resources exported from sub-Saharan Africa, including crude oil, metal, and copper. One of the major reasons for this trade imbalance is the heavy dependence of African countries on finished products from advanced nations (Dushime, 2021). Also, the cost of visas from African countries is high, which obstructs the free movement of people (Haruna, 2022). Several African countries require visas, which take a long time to obtain. While Benin, The Gambia, and Rwanda offer free visas to all African countries, Eritrea, Equatorial Guinea and Libya are not easily accessible to other African countries.

Moreover, firms and traders in many African countries lack value and supply chains within the region. The cost of the movement of goods within the African region is so expensive that some traders find it difficult to afford. Thus, supplying goods to other countries in Africa becomes constrained by a lack of capital to finance the smooth movement of goods. This leads to traders sourcing the goods elsewhere. This is because most enterprises in Africa are still small-scale. Africa's regional trade is mostly operated with informalities across proliferous and porous borders that are inappropriately maintained (Mlambo et al., 2022). Among the countries in Table 2, 13 of them have ratified the AfCFTA agreement[17] and have completed (or working on) the tariff schedules for both trade in goods and trade in services (PwC, 2021)[18].

[17] Benin and Liberia are yet to ratify AfCFTA (https://e,wikipedia.org/wiki/African_Continental_Free_Trade_Area)

[18] AfCFTA has implications for VAT revenue mobilisation. Import tax removal is one among several implications of free trade agreements.

Table 1: Stages/Dimensions of Regional Integration

Type of arrangement	Free trade among Members	Common trade policy	Free factor mobility	Common monetary and fiscal policies	One government
Preferential trade area	No	No	No	No	No
Free trade area	Yes	No	No	No	No
Customs union	Yes	Yes	No	No	No
Common market	Yes	Yes	Yes	No	No
Economic union	Yes	Yes	Yes	Yes and No	No
Political union	Yes	Yes	Yes	Yes	Yes

Source: Economic Commission of African (2004) and ECOWAS @ 40 Report (2015)

3. REVIEW OF RELATED LITERATURE

The literature on the effect of trade liberalisation on tax revenue is extensive but mixed. There is no consensus on the best path to reform tax systems to ensure that West African countries emerge as net gainers in an AfCFTA era. A strand of literature claims that regional integration can boost economic growth and development under certain conditions[19]. The accelerating pace of international trade, open markets, monetary integration, regional infrastructure, and free movement of people are some of the possible avenues through which integration influences economic welfare. Most empirical evidence on regional integration in Africa present outcomes and recommendations that mainly support the viewpoints of classical trade and regional integration theories that free trade comes with economic benefits such as an increase in welfare through comparative advantage and economic efficiency which in turn foster economic growth.

Safaeimenesh and Jenkins (2020) stressed that regional trade integration facilitates sustainable development, giving rise to increased economic welfare through reduced trade costs and annual economic gains from trade facilitation. This welfare impact could also stem from financial and trade integrations. In relation to ECOWAS, Orji, Chekwube, Okafor and Ukeje (2022) and Adeboje, Folawewo & Adedokun (2022) submit that trade and financial integration has improved investment, employment opportunities, economic transformation and diversification in the region, and has increased economic growth in the member states. This alludes to the fact that ECOWAS members are better off with integration in trade and finance. These studies recommended that trade integration should be improved and the implementation of AfCFTA should be encouraged amongst member states to hasten inclusive growth and sustainable development. In ascertaining the welfare impact of regional integration on the Common Market for Eastern and Southern Africa (COMESA), Gastone (2013) argue that COMESA countries prioritise intra-regional trade over global trade diversion, improving welfare through trade creation. Otieno (2013) added that trade creation enhances income distribution within COMESA, advocating active participation in regional integration to reduce poverty. These studies affirm the theoretical construct of regional integration theory which postulates that trade creation improves the welfare of member nations.

[19] A line of international evidence submits that trade liberalisation drives an increase in both incomes and inequality, and that the growth in inequality does not prevent the increase in overall social welfare.

Studies on the effect of regional integration on tax revenues in Africa present conflicting views (Houndjo, Fiergbor, & Owiredu, 2023; Nnyanzi et . al . , 2016; Babyenda, 2014). Economic integration is known to play a key role in improving tax revenues in West Africa. According to Houndjo, Fiergbor, & Owiredu (2023), tax revenues that aid economic growth in the West African Economic and Monetary Union (WAEMU) have greatly improved by the importation of goods and services, as a result of economic integration that stimulates economic growth. Babyenda (2014) confirms that for 21 years, regional integration has had a negative impact on tax revenue in East African Community countries (EAC). The key findings of both studies affirmed that revenue losses are minimised in the short run. However, Houndjo et al. (2023) recommended that the government of each member state in WAEMU should reduce corruption and bureaucracy as this would strengthen tax revenues. Also, in evaluating the impact of financial integration on economic growth, Onah (2022) revealed that financial integration boosts economic growth in ECOWAS but hinders it in SADC due to weak financial systems. The study emphasised that the benefits of financial integration depend on strong financial systems and effective institutional quality.

According to the literature, certain advantages are accrued to economic integration as it reduces trade limitation, provides an avenue for economies to develop and increases overall wealth. For SADC (Nguyen, Bui and Vo 2019; Phutkaradze, Tsintsadze, and Phutkaradze, (2019); Park and Cleveria, 2018; Bong and Premaratne, 2018; Degiovanni, Florensa, and Recalde, 2017) argue that economic integration could enhance economic growth. In contrast, Ezzeddine and Hammami (2019) states that regional integration has failed to improve the economy of the SADC and Tunisia in the short run, as integration policies were only effective in the long run to boost economic activities. One of the fundamental challenges in Africa that impelled the establishment of the AfCFTA is growth and development, and by extension tax revenue generation. The provisions in AfCFTA can influence tax revenues in African member states depending on their export drives. To confirm this, Bate and Guedikouma (2023) discovered that AfCFTA would improve international trade in Togo but might reduce tax revenues in the short run. The author suggests that Togo should improve the quality of goods and services exported to other countries in a bid to increase tax revenues.

Tax efficiency is an important part of institutional quality that affects trade relationships between countries. Due to the importance of tax efficiency, Calixe, Bidossessi, Alakonon, Alasire and Alisanato (2023) studied the effect of trade on tax efficiency in the WAEMU. The authors analysed the tax systems in WAEMU on the nexus between trade openness and tariff liberalisation and realised that free trade, inequitable distribution and tax administration abridged tax efficiency among the countries in the Union for 29 years. This will improve the benefits that WAEMU countries may derive from AfCFTA, Aren (2023) disclosed that AfCFTA was established to facilitate intra-African trade through protocols that include dispute settlement mechanisms which are embedded in trade agreements but projected that intra-African trade performance may increase from 16 to 40 per cent by 2040.

The EU is known to be one of the most developed regional economic communities that has attained a high level of integration in the world. However, few studies have questioned whether institutional and regulatory quality contributes to the success of economic growth with respect to regional integration agreements in the EU. To evaluate the effect of regional integration in five regions, Samsudin, Khatijah, Sofian & Saiful (2021) attempted to determine if regional integration increases export commonalities to enhance economic growth. The study discovered that regional trading retrogressed economic growth in most cases, especially in the EU, North NAFTA, COMESA, Mercado Comun del Sur (MERCOSUR) and Association of South East Asian Nations (ASEAN). The authors suggested that trade agreements should go beyond intra-regional integration to inter-regional integration. This suggestion was put forth based on the fact that most regions produce homogenous goods because of similarities in factor endowments which may not propel economic growth in the long run.

With respect to the EU, Banova, Kostov, Ovchinnikov, Pavlovd, Aleksandrovae and Stoyanova (2022) noted that one of the key factors that determine the effect of integration on a country is financial integration. In the same vein, the effect of trade creation and trade diversion on the EU, MERCOSUR, and NAFTA was investigated by Carmago and Carvajal (2020) to determine the impact of trade and regional agreements on South America, North America and Europe. The authors observed that trade creation and trade diversion are affected by exogenous factors and not trade agreements. It was affirmed that developing countries are more prone to trade creation or trade diversion than advanced economies.

Benguria (2023) realised that tariff cuts reduced the percentage of the working-age population in high-paying industries to low-paying industries in the United States of America. According to the author, trade liberalisation decreased employment and increased abstract occupation in the South and Midwest areas of the United States. On the other hand, Mexico experienced an increase in employment rate with a population of people that had higher educational qualifications. Oğultürk (2024) confirmed that NAFTA contributes to the socio-economic development of North American countries, such as the United States of America, Canada and Mexico. This was achieved because NAFTA fosters trade relationships by increasing regional trade integration between member states in North America. Oğultürk (2024) also recounted that NAFTA improved the political relationships of North American countries while Madanchian (2024) extended the NAFTA effect to include that Canada, and the United States have the most developed financial systems which has increased investments in North America.

Notwithstanding the diversity of the empirical findings on the effectiveness of trade liberalisation in an economy, there remains a critical gap in knowledge in Africa regarding the necessary administrative measures to implement to mitigate revenue loss(es) on the one hand and enhance tax administrative effectiveness on the other hand. The current study incorporates the use of secondary and primary data to identify suitable policy-relevant measures for West Africa.

4. DATA AND METHODS

This section presents the approaches to the study with particular reference to data sources, measurement of variables, and techniques of analysis both for the primary and secondary data, which form the two sources of data utilised for the purpose of the research objectives.

4.1 DATA SOURCES AND MEASUREMENT OF VARIABLES

The cross-country information on the countries of West Africa was sourced from publicly available databases such as the African Tax Administration's African Tax Outlook (2022 Edition), United Nations' World Institute for Development Economic Research (UNIWIDER)'s Government Revenue Dataset and the World Bank's World Development Indicators (2022 Edition). At the time of compiling and conducting the data analysis of this study, a total of twelve countries had the required user information for the objective of the study. We dropped Guinea, Guinea Bissau, and Liberia because of incomplete information on some key variables for analysis. The source of data for each variable is presented in Appendix A. The study used data on total tax revenue, inflation rate, trade openness, nominal gross domestic product, and trade openness. Others are the degree of urbanisation, gross capital formation, regional openness dummy, and extent of democratic practice as a measure of institutional quality, and the share of industry's value added to the economy. The description of the variables in the quantitative analysis is as follows:

Total tax revenue: The sum of all revenue collected by tax authorities in a given country over a fiscal year, usually within twelve months accounting period.

Inflation Rate: The rate of the annual percentages of average consumer prices on a year-onyear change. It measures the overall change in the monetary value of goods and services in an economy in a given period relative to the previous one. Commonly, it is derived as a percentage change in the consumer price index at the current period with respect to the previous. The net effects of inflation on nominal tax revenue tends to be positive (+).

Trade openness (TOPEN): The variable that measures the extent to which an economy participates in international trade. It remains an important explanatory variable in the tax literature (McNabb et al. 2021) and is theoretically a proxy from regional economic integration. Trade openness combines imports and exports and is divided by GDP (in percentage). Import values are a significant revenue base for trade taxes, particularly in developing countries including those in West Africa, that are consumption-based and importdependent. With a large-scale free trade agreement, such as in AfCFTA, revenue from tariff would significantly reduce with the level of openness in an economy. That is, the higher the value of trade openness in a net-importing country the lower the amount of trade taxes, and in turn the total tax revenue, ceteris paribus. Thus, we expect a negative effect (-).

Share of industrial value added (INVA): In most developing region including West Africa, the industrial sector provides means of livelihood and employment for most formal job owners. *It comprises value added in mining, manufacturing (also reported as a separate subgroup), construction, electricity, water, and gas. Value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs. It is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources. The origin of value added is determined by the International Standard Industrial Classificat ion (ISIC), revision 3 or 4*[20] . The INVA is measured as a percentage of GDP, and we expect a positive effect on total tax revenue (+).

Real gross domestic product per capita (RGDP): This is a measure of prosperity in an economy at least per head, and it also signifies the extent of consumption that is available in an economy. Tax revenue increases with higher per capita income (+).

Urbanisation (URBAN): The number of people living in areas described as urban in each country matters for tax collection, and their proportion to the total population (in %) of the entire country is used to determine the degree of urbanisation. It indicates the possibility of reaching taxpayers and ease of access to tax authorities. The more urbanised an economy, the less the cost of complying with the tax obligations (+).

[20] Refer to the World Development Indicator database. It is publicly available on the World Wide Web.

Gross Fixed Capital Formation (GCF): The amount of total spending in an economy that contributes to the net increase in the productive capacity of a country. Basically, it results from spending on capital budget items from one calendar year to another. The previous year investment spending is assumed to constitute the current year gross capital stock, the components of which are replacement investment and net investment. A priori, a higher GCF would contribute to output growth, leading to tax base expansion and in turn increase in total tax revenue (+).

Control of Corruption (GOV - COR): The quality of institutions is a crucial factor that determines the efficiency and effectiveness of public policy in each economy. Tax policy and practice are not an exemption when it comes to having a strong institution to drive it. Among several measures, the control of corruption, as provided by the World Bank's Governance Indicators, captures the extent of corruption in the public sector. A full democratic and less corrupt regime may collect taxes with ease and at a lower cost than a notoriously, weak and wasteful government. It would be difficult and costlier to administer taxes in the latter. This measure basically alters the institutional environment of every tax system, and we would expect a positive effect on tax revenue (+). The index uses estimates between -2.5 and +2.5.

Regional Trade Openness: Proportion of the total interregional trade in relation to the Gross Domestic Product. It serves as an alternative proximate determinant of economic integration at the regional level. Using regional trade openness value is another way of representing trade liberalisation policy in an economy, and its attributes make it revenue-reducing (-).

In addition to the quantitative analysis, the study utilised primary data collected from key stakeholders in the tax systems of West Africa. However, the use of a single-country case study does limit the generalisable potential of the findings that emanate from the textual analysis. The selected critical respondents during the interview included tax and customs officials in the Ghana Revenue Authority, specialists at the tax policy unit of Ghana's Ministry of Finance, and technical experts of the Ghana Chamber of Commerce and Industry. Other respondents were the technical lead, trade facilitation unit in Ghana's Ministry of Trade and Commerce, and Transportation.

4.2 ESTIMATION MODEL AND METHODS

A battery of econometric techniques was utilised to fit a set of secondary, quantitative panel data obtained for the study. The modelling strategy involves the use of total tax revenue as the dependent variable while trade liberalisation indicators were the primary explanations for its change. Other variables were incorporated to control for possible confounding effects. However, we suspect there may be an alternative explanation to tax revenue behaviour and have included inflation differentials and inflation to capture its effects.

The data were fitted within a panel data framework with a small cross-section (12) and a moderate period (12). The estimated model is as follows:

$$Y_{it} = c_i + bZ_{i,t} + e_{i,t}$$

Where i = the number of countries in the study (=12) and t = length of time (that is 2010 - 2022 =13 periods). Y is the total tax revenue. For certain estimators, the dependent variable can be transformed by the logarithm of their odds. The model parameters 'c', 'b', and 'u' have some attributes that are consistent with the estimators. In all estimations, 'c' represents the intercept term for each country, while 'b' is the parameter coefficient of the explanatory variables. It can be described as an intra-country *error term* and has the tendency to be absorbed by the intercept term 'c' in any given framework, depending on the underlying assumptions. The 'b' is constructed to hold values for all the cross sections, but the 'c' vector varies with the choice of estimators. The estimators included the variants of panel ARDL such as mean group (MG), pooled mean group (PMG), and dynamic fixed effect (DFE). We further examine the reliability and sensitivity of the model parameters with the use of additional estimators. This is necessitated to avoid omitted variable bias, thus ensuring the results are robust

Moreover. Z is the vector of explanatory variables (trade openness, industrial value added, degree of urbanisation, control of corruption, inflation, and real GDP per capita), and 'e' depicts the error term capturing the idiosyncratic shocks that are due to randomness in the variables of interest. Ideally, institutional variables have a slow rate of change, thus, shocks from a measure of institutions are usually small and negligible in the short run. In contrast, the hyper-parameters of the model's error term may fluctuate more with variations in other variables, particularly trade liberalisation.

Several estimators could be applied to panel data of the type we have in this study, but we recognise that econometric analysis and inference may create bias in policy inference when estimations are forced to work in a particular direction. Against this backdrop, we provide a robustness check for estimation by employing more than one estimator. Furthermore, the Hausman test, which verifies the existence of endogeneity property of a panel regression model, was utilised to choose between the estimators with more reliable results. Specifically, the DOLS and FMOLS regressions are considered suitable in addition to basic statistical tools such as variance inflation factor (VIF), correlation tests, cross-sectional dependency and panel unit root tests which were employed to assess the properties of the panel data. These later would enable us to fit the series and make sound econometric inferences.

5. RESULTS AND DISCUSSIONS OF FINDINGS[21]

The pre-estimation results, except the summary statistics, are available upon request as supplementary materials. The preliminary analyses points to the fact that the estimate could be efficient and utilised for inference, as shown in Tables 2 and 3 The slope heterogeneity test also shows that common coefficients might serve the purpose of the estimations of the panel model. The correlation analyses were done to check the possibility of multicollinearity among the variables used (see Table 3). The table provides no evidence of multicollinearity among the variables of interest employed in the model. Despite this, trade openness is positively associated with tax revenue mobilisation, as shown in Table 2. This finding is not surprising, as it aligns with economic theories suggesting that international trade participation generates revenue externalities. This occurs because tax administrations may find it easier to collect trade tax revenue than revenue from taxing domestic goods (McCulloch et al., 2001)

Table 2: Summary Statistics

Variables	Obs	Mean	SD .	Min	Max	p1	p99	Skew.	Kurt.
Revenue	242	14.64	3.763	7.571	46.19	9.536	23.287	3.013	23.89
Trade	242	60.12	17.98	30.368	117.8	31.31	110.04	0.854	3.476
Inflation	241	60.67	3.439	55.844	66.85	55.84	66.85	0.15	1.612
Urban	242	5.644	11.04	-7.901	84.68	-6.333	71.35	4.47	28.09
GCF	242	3.91	0.997	1.576	6.874	1.717	6.867	0.738	4.268
GDP	242	20.81	7.811	1.097	47.27	7.224	44.95	0.693	3.763
Regional	242	4.441	4.316	-20.80	26.52	-6.345	15.37	-0.827	14.82
Industry	242	19.17	5.464	4.429	34.09	5.243	31.17	-0.225	3.242

Source: Author's computation (2024)
Note: Obs, SD, Min, Max, p1, p99, Skew and Kurt represent number of observations, standard deviation, minimum value, maximum value, first percentile, last percentile, skewness and kurtosis respectively.

[21] There is a supplementary material that contains detail information items on the results of the analyses conducted for this research. A separate file that contains the information is available upon request.

Pearson correlation indicates low or moderate correlation among the variables. The results strongly rejected the risk of multicollinearity in the tax revenue model, as indicated by the mean VIF score[22], which is below the threshold of 10.00 (Hair et al., 2010). Furthermore, the Breusch-Pagan cross-sectional dependence test rejected the null hypothesis of independence in the error terms of the panel, indicating that the first-generation panel unit root tests are no longer valid. However, secondgeneration panel unit tests produce valid and robust results by accounting for cross-sectional dependency. Consequently, (M. H. Pesaran, 2004, 2007) panel unit root tests in presence of cross-sectional dependence and heterogeneity were performed. The unit root tests performed with trends indicated that tax, trade, urban population, inflation and GDP are stationary at levels, while industrial output and capital formation became stationary at first difference. For the cross-sectional dependency, we performed the Westerlund co-integration test using bootstrap resampling procedures with 500 re-estimations.

[22] Despite the limited nature of the panel data in this study, many econometric estimations were executed, amounting to over forty tables of estimates. Although some results did not satisfy the rule of basic econometric inferences, several others – including the outputs on robustness checks - were presented in the supplementary material to this study in order to key the report concise.

Table 3: Pairwise Pearson Correlation

Variables	Revenue	Trade	Inflation	Urban	GCF	GDP	Industry
Revenue	1.000						
Trade	0.149	1.000					
	(0.035)						
Inflation	-0.012	0.102	1.000				
	(0.862)	(0.116)					
Urban	-0.245	-0.415	0.032	1.000			
	(0.000)	(0.000)	(0.617)				
GCF	0.230	0.414	-0.053	-0.220	1.000		
	(0.001)	(0.000)	(0.417)	(0.001)			
GDP	0.097	0.057	-0.048	0.161	0.073	1.000	
	(0.169)	(0.381)	(0.455)	(0.012)	(0.263)		
Industry	-0.117	0.036	0.003	0.279	0.227	0.176	1.000
	(0.099)	(0.583)	(0.963)	(0.000)	(0.000)	(0.006)	

Note: values in parentheses are p-values. GCF and GDP represent gross capital formal and gross domestic products respectively, while Urban stands for the urban population.

Source: Author's Computation (2024)

This strategy allows for robust p-values (Persyn & Westerlund, 2008). The results of the panel co-integration tests showed that there is enough evidence to reject the null hypothesis of the absence of a long-run relationship among the variables. The co-integration analysis allows for the estimation of the effect of trade openness, regional inflation differentials, gross capital formation, gross domestic product, and urban population on tax revenue in West Africa. Considering the various levels of integration of the variables, i.e., I(0) and I(1), the ARDL model should be estimated.

Consequently, we interpreted the results of the DFE model as outlined in the table[23]. The results of the DFE model are valid since the error correction term is negative and significant. Notably, a shock that deviates the model from its long-run trend returns to equilibrium at a speed of 0.88. Thus, the results show that trade significantly improves the mobilisation of tax revenue in the long run, but its short run effects remain non-significant.

This finding supports our expectations and is in line with Winters *et . al.* (2001). Indeed, the positive effect of trade on tax revenue could be explained by many mechanisms in the context of (West) African countries. Firstly, assuming that trade openness attracts more foreign direct investment, FDI (and in turn net gross capital formation, GCF), Lipsey (2013) demonstrated that FDI comes with technology transfer, job creation, and higher productivity. These factors can contribute to increased tax revenue through corporate taxes and income taxes. Secondly, Rodrik (1998) also supported the tax revenue effect of trade openness through an expansion of the tax base as income and consumption of goods and services increase. Lastly, trade openness may also improve tax revenue mobilisation by increasing tax compliance (Schneider & Enste, 2000). Indeed, trade openness creates greater formalisation of the economy and reduces the size of the informal sector. Our results are consistent with recent empirical findings, confirming the positive effect of trade on tax revenue in the long run. Thus, the AfCFTA could be a lever for improved tax revenue mobilisation in West Africa.

In contrast to total trade openness, the results revealed that regional trade, measured by intraECOWAS trade, was statistically insignificant. Though contrary to our expectation, this result could be explained by the particular characteristics of (West) African countries. Indeed, intraAfrica trade remains the lowest amongst the major world regions, at 14% in 2022, while it was about 65% for European countries (World Trade Organisation, 2023). Furthermore, the analysis confirmed the revenue effect of output growth. Indeed, a 1% increase in GDP improves tax revenue by 0.06%, ceteris paribus. However, the effect of regional inflation differential was not significant, though the negative coefficient supports the Olivera-Tanzi effect (Olivera & Julio, 1967). This argument posits that higher inflation erodes the value of tax revenues.[24]

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[23] The results of the MG and PMG models were reported in the supplementary materials.

[24] The nexus between inflation and taxation is dynamic, complex and multipronged. Inflation could nominal increase an economic agent's income, and move them to higher income bracket for tax purposes without any real increase.

How important is the impact of institutional quality measure on the relationship between tax and trade in West Africa? The alternative models to establish the robustness of the previous on the tax revenue effect of trade openness contains namely, the inclusion of a proxy of the quality of public institutions, use of other models that account for post estimation diagnostics etc[25]. To account for all these issues, we estimated the Augmented Mean Group (AMG), Dynamic Ordinary Least Squares (DOLS) proposed by Pedroni (2000), Fully Modified Ordinary Least Squares (FMOLS), and Canonical Co-integration Regression (CCR) models[26]. The results of the AMG model confirmed the positive effect of trade on tax revenue, although this effect was non-significant. In contrast, the FMOLS, DOLS, and CCR revealed a negative and significant effect of trade openness on tax revenue.

Table 4: Dynamic Fixed Effects Estimates

	Coef.	Std. Err.	Z	P>z	[95% Conf.	Interval]
Long Run						
Trade	0.0689	0.0259	2.66	0.008	0.0181	0.1198
Region	0.3164	0.0693	4.57	0	0.1805	0.4522
Inflation	-0.0331	0.0482	-0.69	0.492	-0.1276	0.0614

[25] When estimating the ARDL model, the assumption is that there are neither heteroscedastic issues, autocorrelation phenomena of the residues, nor endogeneity issues. However, we performed Pesaran & Yamagata's (2008) test for slope heterogeneity, the results of which, strongly rejected the null hypothesis that the slope coefficients were homogeneous. More importantly, the test for autocorrelation in the panel (Wooldridge, 2002) further rejected the null hypothesis of the absence of first-order autocorrelation. Furthermore, our model may suffer from endogeneity issues, notably in the growth variable.

[26] Besides, proposed by (M. Pesaran & Smith, 1995), the Augmented Mean Group (AMG) produces efficient estimates by taking into account the heterogeneity and cross-sectional dependence among the countries (Bayar, 2016). The DOLS and FMOLS estimators correct endogeneity bias while taking into account autocorrelation and heteroscedasticity issues in the error terms (Dreger & Reimers, 2005). Besides, these models eliminate small sample bias such as in the case of our panel characterized by a small N. We also estimated the Canonical Co-integration Regression (CCR) because (Montalvo, 1995) indicated that this estimator is more robust than FMOLS and DOLS

GDP	0.0062	0.0837	0.07	0.941	-0.1578	0.1702
Urban	-0.4219	0.5626	-0.75	0.453	-1.5248	0.6807
GCF	0.0491	0.0523	0.94	0.348	-0.0534	0.1515
Indus try	-0.0422	0.0870	-0.48	0.628	-0.2126	0.1283
Short Run						
ECT	-0.7739	0.0692	-11.19	0	-0.9095	-0.6383
Trade_D1	-0.0438	0.0308	-1.42	0.156	-0.1040	0.0166
Region _D1.	0.1149	0.0463	2.48	0.013	0.0242	0.2057
Inflation_D1	-0.0046	0.0198	-0.23	0.815	-0.0433	0.0341
GDP _D1	0.0246	0.0440	0.56	0.576	-0.0616	0.1108
Urban_D1.	-0.1581	0.7546	-0.21	0.834	-1.6371	1.3208
GCF_D1.	0.0552	0.0541	1.02	0.307	-0.0507	0.1612
Industry_D1	-0.1689	0.0929	-1.82	0.069	-0.35087	0.0131
_Constant	9.8682	2.8406	3.47	0.001	4.3008	15.4357

Source: Author's computation (2024)

Table 5: Comparing Long Term Estimates with Least Squares

	DOLS		FMOLS		CCR	
	beta	**t-stat**	**beta**	**t-stat**	**Beta**	**t-stat**
Trade	-0.04	1.56	0.02	11.96	0.02	5.05
Region	-0.07	1.23	0.17	38.31	0.16	19.39
Inflation	-0.25	-5.27	-0.04	-7.31	-0.03	2.23

GDP	0.24	-8.86	0.04	5.12	0.03	1.92
Urban	.	.	0	-5.29	-0.07	-3.58
GCF	.	.	0.06	9.23	0.06	5.3
Industry	.	.	-0.04	-9.22	-0.03	-10.38

Source: Author's Computation (2024)

The country-specific regression27 results (in Table 5) revealed that the significant effect of trade openness was confirmed for 91% of the countries in the FMOLS, for 82% of the countries in the CCR model, for 73% and 9% of the countries in respectively DOLS and AMG models. Furthermore, the FMOLS and CCR models strongly further confirmed the negative effect of inflation on tax revenue mobilisation in the region, as well as the positive effect of growth on tax revenue.

Another issue that may lead to biased estimates in the previous models is the presence of outliers. Indeed, our summary statistics outlined in Table 2 show that some variables were skewed, notably regional inflation differential, tax revenue, and trade openness. In such a situation, we employed alternative estimators that take into consideration the presence of outliers, notably the panel threshold regression and the panel quantile regression28. Both models are complementary because the former addresses outliers in explanatory variables, while the latter focuses on the dependent variable. The results of both fixed-effect panel threshold regression (Hansen, 1999) and dynamic panel threshold regression (Seo et . al ., 2019; Seo & Shin, 2016) strongly rejected the null hypothesis of a linear relationship between tax revenue and trade openness, as indicated by a trade threshold of 54% and 68%, respectively (Table 6-7). More importantly, the results of the panel dynamic threshold model outlined in the Table showed that for low levels of trade, trade openness does not significantly affect tax revenue, but the effect is positive and statistically significant for higher levels of trade openness, i.e., greater than 68% of GDP. However, contrary conclusions were drawn from the fixed panel threshold estimates, which indicated that trade openness hurts tax

[27] The results are available upon request from the author or WATAF Secretariat at info@wataf-tax.org

[28] Comprehensive results are listed in the supplementary materials to this paper.

Table 6: Dynamic Threshold Regression without Institution al Quality Variable

Ltax	Coef.	Std. Err.	Z	P>z	[95% Conf.]	Interval]
Lag_y_b	-1.5711	7.9361	-0.2	0.843	-17.1255	13.9834
trade_b	-0.0337	0.2497	-0.13	0.893	-0.5230	0.4558
gdp_b	0.0008	0.1643	0	0.996	-0.3212	0.3228
cons_d	0.1185	45.6103	0	0.998	-89.276	89.513
Lag_y_d	-0.0641	7.3861	-0.01	0.993	-14.5406	14.4124
trade_d	0.0189	0.4108	0.05	0.963	-0.7861	0.8241
gdp_d	0.0180	0.1686	0.11	0.915	-0.3124	0.3484
R	67.0114	262.7931	0.25	0.799	-448.0536	582.0763

Note: The analysis is based on Seo & Shin (2016).

Table 7: Dynamic Threshold Regression with Institution Quality Variable

Tax	Coef.	SE.	Z	P>z	[95% Conf.]	Interval]
Lag_y_b	-2.1856	6.5889	-0.33	0.74	-15.0996	10.7284
trade_b	-0.3581	0.5681	-0.63	0.528	-1.4715	0.7553
gov_ccr_b	0.0936	0.4739	0.2	0.844	-0.8352	1.0223
gdp_b	-0.4640	0.4616	-1.01	0.315	-1.3687	0.4407
cons_d	-23.9166	147.0171	-0.16	0.871	-312.065	264.2316
Lag_y_d	3.3422	51.3162	0.07	0.948	-97.2356	103.9201
trade_d	0.3717	0.5913	0.63	0.53	-0.7873	1.5307
gov_ccr_d	-0.0543	0.6116	-0.09	0.929	-1.2529	1.1445
gdp_d	0.4739	0.7429	0.64	0.523	-0.9820	1.9299
R	44.8451	29.4736	1.52	0.128	-12.9221	102.6123

Note: The analysis is based on Seo & Shin (2016).

revenue mobilisation for higher levels, i.e., greater than 54% of GDP. These opposing results could be explained by the endogeneity bias correction in the dynamic model, an issue that was not addressed in the panel fixed threshold model.

Lastly, we addressed the potential bias issue that could arise from the outliers in our explanatory variable by performing fixed-effect panel quantile regression (Machado & Santos Silva, 2019). The results indicated that the effect of trade openness depends on the tax performance of countries. Notably, the effect of trade on tax revenue decreases with the tax revenue performance. For instance, a 1% increase in trade openness improves tax revenue mobilisation by 0.12% and 0.07% in the 10% lowest and median tax revenue mobilisation countries, respectively, while the effect was about 0.14% for the 10% highest tax revenue mobilisation countries[29]. The results showed that the empirical strategies matter in identifying the effect of trade liberalisation on tax. These results highlight the role of governance, notably the control of corruption, in understanding tax-trade nexus.

[29] The quantitative results are available in the supplementary materials and can be accessed on demand.

6. AFCFTA AND ITS IMPLICATIONS FOR REVENUE ADMINISTRATION IN WEST AFRICA[30]

The qualitative data utilised in preparing this section were collected from five groups of stakeholders in trade and taxation ecosystem. These organisations are either in tax sector or trade facilitation in the selected countries. Among the interviewees, were representatives from the Ministry of Trade, Ghana; Ghana Chamber of Commerce; Customs departments; Ministry of Finance, Ghana; and representatives from the tax authorities of Guinea Bissau and Senegal. The rationale behind the selection of these representatives is premised on the diverse spectrum of experiences and backgrounds. Representatives from the Ministry of Trade bring expertise in economic policies and trade dynamics, often with experience in government. Delegates from the Ghana Chamber of Commerce offer insights from the private sector facilitation, spanning business ownership, entrepreneurship, and industry leadership across various sectors. On the other hand, customs departments contribute expertise in tariff law enforcement, customs regulations, and international trade protocols, ensuring smooth imports and exports procedures and compliance. Representatives from the Ministry of Finance provide information on tax and fiscal policy designs, evaluation and revenue management while others offered contributions from both tax administration and international cooperation perspectives.

6.1 LESSONS FROM EXTANT INTEGRATIONS AND AGREEMENTS: ANY IMPACTS?

Economic integration conventionally stands as a significant mechanism for nurturing intraWest African trade, fostering economic cooperation, and advancing development. Undoubtedly, the pivotal role of existing regional frameworks (RECs), such as ECOWAS, in facilitating the unimpeded movement of people, goods, and services, and serving as foundations for realising the potential of AfCFTA.

The trajectory of trade agreements in West Africa can be traced back to the inception of the ECOWAS Trade Liberalisation Scheme (ETLS) in 1979. Initially concentrating on agricultural produce, handicrafts, and primary commodities, the scheme has progressively broadened its scope, reflecting a gradual evolution towards deeper economic integration. Moreover, the integration

[30] This section utilises the dominants results from the previous findings and draws insights for strategic tax administration with the use of primary data collected from WATAF member countries.

efforts fostered by ECOWAS have conferred upon enterprises (in Ghana and possibly other West African countries) expanded access to markets, thereby catalysing economic expansion and bolstering competitiveness. This can be summarised as follows:

> *...Ghana traders are benefiting from free trade across the region, specifically the landlocked countries. For example, raw agricultural products such as tomatoes, onions... are easily imported from Sahelian countries (Burkina Faso, Niger, Mali) in Ghana while manufactured products are e xported to these countries. There are also intangible products such as electricity that Ghana sells to neighbouring countries.* - Representative of Ministry of Trade.
>
> *...Outside ECOWAS, I wouldn't say we have that many transactions with other countries apart from South Africa, Egypt, Morocco an d recently Kenya* - Representative of Customs.
>
> *...there are various forms of integrations such as ECOWAS ETLS for the free movement of goods and services along with the free movement of people across the region. All those a spects show how far integration has gone.* - Representative of Ministry of Finance.

These evidence all show the palpable dividends of economic integration, particularly in facilitating cross-border trade. Although, intra-ECOWAS trade volumes are relatively low, trade liberalisation as found in previous sections is significant and has continued to impact the economy of West Africa. Ghanaian merchants capitalise on integration to procure raw agricultural commodities from Sahelian countries such as Burkina Faso, Niger, and Mali, while concurrently exporting manufactured goods to these nations and others outside West Africa.

Implication: *Tax authorities must recognise that enterprises and individuals in West Africa would support policies that create larger markets for goods and services. Therefore, taxes that focus on business income, consumption, transport services etc., must be redesigned to meet the current realities. Business registration, access to public services such as health and education etc. and other avenues to overcome the challenges of informality should be prioritised.*

In recent times, AfCFTA has garnered significant attention, aiming to facilitate trade, enhance market access, and spur economic growth across the continent. For instance, the Integrated

Customs Management and Processing System (ICUMPS) was outlined as a pivotal tool in simplifying, modernising, and harmonising import, export, and transit procedures across borders. This aligns with the overarching goal of enhancing trade efficiency and leveraging tax revenue from increased transactions. It is imperative to acknowledge that the economic impetus driving regional trade accords lies in expanding market access and stimulating economic activity. Consequently, by furnishing an expansive market for goods and services, the AfCFTA engenders tangible economic advantages, including revenue mobilisation that transcend mere political considerations.

Despite the progress made in regional integration, challenges persist, hindering the full realisation of its potential. As member nations embark on this transformative journey, the probable impact of economic integration within the AfCFTA region resonates profoundly. The probable effects on various economic agents could vary in no small measure. For example, AfCFTA's effects on producers, employees, and industrial development are described as follows:

Primary data show that regional integration has engendered a shift in the dynamics of trade and commerce among member nations. As stated by the Ministry of Trade, the utilisation of the ECOWAS integration framework between Burkina Faso and Ghana has yielded substantial benefits for the latter, particularly in the domain of tomato trade. Similarly, the Chamber of Commerce sheds light on a bilateral agreement between Ghana and Kenya, wherein products tested in Ghana are exempted from redundant testing procedures upon entry into Kenyan markets. This bilateral accord signifies a concerted endeavour to standardise norms and regulations, thereby mitigating redundant testing protocols and bureaucratic impediments for producers. Such initiatives not only diminish transaction costs but also bolster operational efficiency and competitiveness within the AfCFTA milieu.

> *There is an agreement between Ghana and Kenya that products tested in Ghana shouldn't be tested again in Kenya.* – Representative of Ghana Chamber of Commerce.

The existence of this agreement emphasises a tangible manifestation of cooperative efforts aimed at streamlining trade protocols within the AfCFTA framework. Furthermore, by capitalising on extant integration accords and bilateral arrangements, it was revealed that producers can exploit expanded market access, streamlined regulatory frameworks, and augmented cooperation across borders. The harmonisation of standards and the reciprocal recognition of testing procedures serve to facilitate uninterrupted trade flows, empowering producers to concentrate on value addition and market expansion initiatives. In essence, the transformative potential of the AfCFTA is reshaping the landscape for producers across Africa, and thus implies as follows:

The analysis revealed the major role of existing regional frameworks, such as the ECOWAS, in laying the groundwork for broader continental agreements like AfCFTA. This finding aligns with empirical research on the evolution of regional integration in Africa. Scholars like Ezugwu and Duruji (2023) have emphasised the importance of regional economic communities in promoting intra-regional trade and fostering economic cooperation. The gradual expansion of trade liberalisation schemes within ECOWAS, as highlighted in the analysis, reflects a trajectory towards deeper economic integration, echoing the findings of studies by Oloruntoba (2018) and Anami (2023) on the progressive nature of regional integration efforts in Africa. Furthermore, leveraging existing integration agreements and bilateral arrangements contributes to access to wider markets, reduces regulatory burdens, and enhances healthy competitiveness. These findings are in line with conclusions drawn by Eris and Ulasan (2013), who demonstrated a positive correlation between trade openness, small and medium-sized enterprise (SME) growth, and employment generation. Additionally, the significance of visa waivers and simplified travel regulations in facilitating labour mobility and fostering cross-border business activities is underscored, aligning with the broader literature on the facilitation of movement within integrated economic spaces.

Implication: *As a matter of urgent priority, tax authorities in West Africa need to (re)evaluate the connection that exists among tax, t rade and investment agreements in t heir jurisdictions. They should establish areas which compare and disagree in order to redesign or reform their tax laws . In essence, tax harmonisation would be crucial to having high rate tax compliance by corporations in the AfCFTA market environment . Regional trade relations which grow would put pressure on tax systems, therefore, tax authorities must prepare their tax systems to respond favourably, without missing its primary objectives.*

As elucidated by the Ministry of Trade, Ghanaian citizens are no longer encumbered by visa requirements when journeying to Eastern and Southern Africa. This key alteration in visa regulations not only streamlines the travel process but also symbolises a progressive stride towards bolstering regional integration and expediting seamless business operations within the ambit of AfCFTA. Furthermore, the reverberations of this visa waiver transcend mere convenience; they hold significant ramifications for employees actively involved in crossborder trade and investment endeavours. With enhanced access to Eastern and Southern African territories, Ghanaian employees can now explore novel opportunities, cultivate business relationships, and contribute more effectively to regional economic advancement.

> *No need for a visa for Ghanaians while travelling to Eastern and South Africa.* – Representative of Ministry of Trade .

Moreover, the account from customs corroborates this trend, explicitly noting the exemption of visa prerequisites between Ghana and Kenya. This bilateral accord between the two nations not only shows the commitment to nurturing stronger economic bonds but also strengthens and facilitates the unhindered movement of individuals across borders. Parallels can be drawn between these developments and the overarching objectives of the AfCFTA, which strive to forge a unified market for goods and services, stimulate intra-African trade, and ultimately propel sustainable economic progress throughout the continent.

Implications: *In particular, personal income tax administrators would have much work to do in this regard. As visa restrictions are eased, inter - Africa migrations would increase, therefore, tax provisions that address foreign income (including passive income) may require some redesigns. For instance, a blanket exemption of foreign passive income may be too generous. Rather, a percentage of it may be tax where double taxation agreement does not apply. Moreover, and more importantly, West African tax authorities would require strong bilateral tax agreements with other African countries on exchange of information for financial purposes. Thus, there must be consistent investments in mod ern tax data infrastructure and ICT support. Similarly, critical skills development in ICT and PIT tax administration must be prioritised.*

6.2 WHAT DOES THE INDUSTRIAL DEVELOPMENT AND COMPETITIVENESS ENGENDERED BY AFCFTA MEAN FOR TAX ADMINISTRATION?

Another significant impact of economic integration can be observed in industries, and this also received the attention of most of the respondents. Insights gleaned from the Ghana Chamber of Commerce revealed the transformative impact of the AfCFTA on business competition. Notably, the agreement is anticipated to catalyse heightened competition among enterprises operating within the region. This intensified competitive milieu is poised to spur innovation, enhance operational efficiency, and ultimately engender superior consumer choices and heightened product quality. Furthermore, the Ministry of Trade provides additional elucidation regarding Ghana's industrial policies and developmental trajectory.

The interest rates are high. Moreover, it is very difficult to even get the loans. In fact, the big companies can easily outrun the SMEs because the latter have limited resources for competition. There is a need for a good competition policy in order to help them produce high - quality products. Strong and healthy compe tition policies are essential to meaningful trade. The approach of the CCC is to educate its members and select some specific sectors by standing as a guarantee for SMEs. It is also vital to have more free trade zone areas to support the SMEs by providing them with machines, tools for production, and capacity building. - Representative of Ghana Chamber of Commerce.

By transitioning from reliance on imports to domestic industrialisation and subsequently exporting finished goods, Ghana endeavours to fortify its economic resilience and foster sustainable development. Notwithstanding the opportunities presented by economic integration, the data elucidates potential challenges confronting small and medium-sized enterprises (SMEs) within the competitive milieu. SMEs often grapple with competitiveness vis-à-vis larger corporations owing to resource constraints. Elevated interest rates and restricted access to financing represent formidable hurdles for enterprises, particularly SMEs. The Ghana Chamber of Commerce outlined the imperative of addressing these impediments through bolstered private sector investment, interest rate mitigation measures, and the expansion of finance access and free trade zones.

Implication: *Research by Vrolijk (2021) highlights the importance of targeted industrial policies in driving structural transformation and inclusive growth. However, the challenges faced by SMEs, as outlined in the analysis, underscore the necessity of competition policies and improved access to finance, among others. Moreover, administrative capacity and taxation policies emerge as critical factors in facilitating the successful implementation of AfCFTA. Tax incentives that promote start - ups, innovations, and enterprise developments should be strengthen ed to achieve more. It becomes imperative for tax authorities to develop the scientific structure of tax administration in their countries. Evaluation of previous tax expenditure and other tax policies measures should be accorded a priority. AfCFTA would give rise to more SMEs but taxation must support their growth .*

The importance of fostering innovative measures, notably the digitalisation of the informal sector, emerges as a cornerstone for bolstering tax administration capacity. Embracing digital technologies empowers tax authorities to refine data collection, analysis, and enforcement mechanisms, which was highlighted to foster transparency and efficiency in revenue administration. Moreover, initiatives aimed at capacity building assume paramount significance, encompassing domains such as computer literacy, digitisation, and data analytics. These endeavours equip tax officials with the requisite skills and tools to navigate the dynamic tax landscape adeptly. Integral to this paradigm is the cultivation of specialised expertise tailored to assess distinct sectors such as telecommunications, banking, and mining. A profound comprehension of the operational intricacies and revenue dynamics within these sectors proves indispensable for effective taxation and regulatory compliance. By fortifying sector-specific proficiency, tax authorities can optimise revenue collection and boost equitable taxation practices across heterogeneous economic domains.

> *Technical capacity building to strengthen policy to stop leakages; trade facilitations; enabling infrastructure; trade agreements; etc.* – Official of Ministry of Finance.

Furthermore, strengthening technical capabilities to prevent revenue losses and improve policy frameworks becomes really important. From the response from government representatives the need to align domestic tax laws with the provisions delineated in the AfCFTA is crucial and be treated as a matter of urgency The incorporation of AfCFTA stipulations into tax legislation augments the regulatory framework, fostering a conducive environment for intra-regional trade. This alignment enables businesses to harness emerging opportunities within the ambit of AfCFTA, thereby nurturing economic integration and prosperity. Accordingly, The Ministry of Finance stresses the importance of working together to strengthen policy frameworks and reduce revenue losses. They are teaming up with trade authorities to put tax stamps on products, which helps fight revenue losses and make sure people follow the rules. These stamps are a practical way to aid the protection of government revenue and keep the financial system at the apex.

The Ministry of Trade emphasises the intrinsic interplay between trade policies and tax revenue policies, stressing the imperative of coherence and coordination to prevent discord or conflicting interests. While trade policies aspire to facilitate seamless trade transactions and foster economic expansion, imposing high taxes can serve as a deterrent, hampering trade activities. ICUMPS as stated earlier emerges as a key tool in trade facilitation, streamlining customs procedures and bolstering revenue collection through increased transactions.

> *Trade policies and tax revenue policies are mutually complementary. The mutual aspect is that we're trying to facilitate trade, to make sure that there is free movement of goods and services to increase transactions on which tax can be leveraged . Instruments like the Integrated Customs Management and Processing System (ICUMPS) play a crucial role.* – Official of Ministry of Trade.

Like the Ministry of Trade, customs authorities highlight the revenue implications of trade endeavours, particularly within the ECOWAS region. Although Ghana engages extensively in trade within ECOWAS, its relations with nations outside the region, such as Egypt, Morocco, South Africa, and Kenya, also hold significant importance. Notably, Ghana largely exempts export duties, with targeted exceptions like cocoa products and refined aviation fuel, reflecting strategic revenue generation measures.

> *The AfCFTA agreements must be factored into the national tax laws. Also, there is a need to set a moderate revenue target during the first phase of AfCFTA implementation . Finally, reductions in tax incentives in specific sectors such as mining.* – Official of Tax Administration in Senegal, (DGID, Senegal).

In a similar manner, Senegal highlights the need not just to align national tax laws with AfCFTA to ensure consistency and facilitate implementation. However, moderate revenue targets are advocated during the initial phases of AfCFTA implementation, accompanied by reductions in tax incentives in specific sectors such as mining. This pragmatic approach seeks to strike a balance between revenue generation and trade facilitation, promoting sustainable economic growth and development. Such a balanced approach aims to foster sustainable economic growth and development by harmonising revenue generation with trade facilitation. In essence, revenue generation and taxation policies wield considerable influence in shaping trade dynamics and fostering economic integration within the AfCFTA framework. While trade policies strive to stimulate economic growth and facilitate trade exchanges, taxation policies must delicately balance revenue generation without impeding trade activities.

The collection of value added tax (VAT) and goods and services tax (GST) attract interest from most representatives, who draw a connection to governmental revenue generation, underpinning the sustainability of public finances. Within AfCFTA, optimising the collection of VAT/GST emerges as imperative for promoting economic growth and reaping the rewards of regional trade integration. Respondents revealed the criticality of harnessing technological advancements to streamline VAT collection processes, particularly within the domain of ecommerce. As online transactions proliferate, VAT collection mechanisms must evolve to encompass digital platforms. Leveraging technology-driven solutions, such as e-VAT payment systems, enhances the efficacy and transparency of VAT collection, ensuring adherence to regulations and mitigating revenue losses. By embracing digital innovations, governments can skilfully capture VAT revenue from e-commerce transactions, thereby contributing to overall fiscal resilience.

> *VAT is raised on e-commerce. In practice, there is the use of technology to pay e-vat*
> – Representative of Ministry of Finance.

Additionally, other representatives advocate for a strategic evaluation of the VAT system to gauge its efficacy and efficiency. Through systematic scrutiny of the VAT framework, governments can pinpoint areas necessitating improvement and fortify VAT administration to align with the intricacies of regional trade integration. Strategic assessments empower policymakers to grasp the degree of VAT collection, paving the way for targeted reforms and initiatives aimed at expanding revenue mobilisation and supporting economic development goals. In essence, optimising the collection of VAT/GST is indispensable for maximising the dividends of regional trade integration under AfCFTA.

A consensus exists regarding the potential benefits of Harmonisation of Tax Systems (HTS) in promoting trade across the continent. However, differing perspectives emerge concerning the most suitable approach to achieve this harmonisation. Some advocate for the reduction of Corporate Income Tax (CIT) rates to stimulate trade flows, while others emphasise the necessity of balancing this with the maintenance of national revenue streams. This divergence shows the acknowledgement of a potential trade-off between short-term trade expansion and long-term fiscal stability, necessitating careful consideration and deliberation.

> *We should get to the point where we are doing well - and move forward*
> - Representative of Ministry of Finance.

Strategic exploration of tax treaties emerges as a potential avenue to address these challenges. By leveraging existing agreements such as the ECOWAS Double Taxation Agreement (DTA) and potentially establishing a continent-wide DTA, AfCFTA members could mitigate revenue concerns while optimising the advantages of tax harmonisation. Despite a clear aspiration for HTS within the AfCFTA, achieving this goal requires meticulous attention. Finding an equilibrium between promoting trade and safeguarding national revenue is paramount and the effort to identify strategies to deploy would remain a regular endeavour.

6.3 USING CUSTOMS MEASURES TO FACILITATE TRADE

In the pursuit of advancing intra-African trade and fostering economic growth, a range of customs measures has been outlined in response to facilitate trade processes and ensure the unhindered flow of goods and services across borders. A prominent initiative among these measures is the significance of collaborative actions and knowledge exchange in enhancing customs operations. Amicable interactions and engagements among customs authorities facilitate the sharing of best practices and insights. Moreover, digital platforms like SIGMAT enable seamless information exchange among customs authorities, facilitating effective monitoring and enforcement measures. Additionally, support from regional bodies provides vital technical and administrative assistance in aiding revenue mobilisation efforts. Also, the automation of procedures, such as the issuance of certificates of origin, aims to improve efficiency and prevent document duplication. It also empowers customs authorities to anticipate and expedite clearance procedures, thereby reducing trade bottlenecks.

> *Customs authorities of West African countries have very cordial interactions and peer learning engagements. Also, technical and administrative assistance from ECOWAS has helped in our revenue mobilisation work... Furthermore, automation of the process of certificate of origin in a system to avoid duplication of documents...good exchange of information through SIGMAT with the support of ECOWAS e.g. an importation of fish from Côte d'Ivoire under declared quantity can easily be retrieved through the system.* - Representative of Customs, Ghana.

The customs division emphasises the importance of adherence to trade regulations and rules, highlighting the role of education and stakeholder engagement in promoting compliance. In other words, despite the aspiration for free trade, adherence to established regulations remains paramount to prevent disruptions and ensure equitable trade practices. Similarly, public awareness campaigns, particularly targeting traders through chambers of commerce and relevant stakeholders, are deemed essential. Their insight further pinpoints the adverse effects of non-tariff barriers on trade, emphasising the necessity of addressing regulatory challenges to facilitate smoother trade operations.

6.4 INFORMAL TRADE AND INFORMAL TAXATION STRATEGIES

The data concerning informal trading provides insights into the diverse surroundings of commerce and the efforts made to regulate and manage informal trade activities. According to the Ghana Chamber of Commerce, informal trade is perceived to have minimal effects within the AfCFTA framework. It is suggested that informal trade primarily involves lowvalue-added products, such as agricultural goods, which are exchanged between neighbouring countries without the need for certificates of origin. Consequently, these informal trading activities are deemed to have a limited impact on the broader AfCFTA objectives. However, the data also highlights the challenges associated with regulating informal trade. As mentioned in the customs report, it acknowledges that not all informal trade activities can be effectively captured by customs authorities. There exists a significant number of smuggling activities that pose challenges for enforcement efforts of customs, thereby complicating the regulation of informal trade within the AfCFTA context.

> *Informal trade has not much effect. Also, they are mostly low - value - added products such as agricultural products which are traded among neighbouring countries, and which don't need any certificate of origin. So, they do not im pact too much AfCFTA. However, i t is not possible to capture all the informal trade. There are a lot of smuggling activities beneath that need to be tackled by customs.* – Official of Ghana Chambers of Commerce

Implication: *The data reveals measures taken by the Ministry of Finance to address tax evasion and loopholes within the informal sector. Tax stamps have been introduced as a regulatory measure to combat illicit trade activities, with plans to extend their application to the textiles industry. Contraveners of these regulations will face prosecution, signalling a concerted effort to enforce compliance and deter informal trade practices. Additionally, the data points towards the digitalisation of the informal sector as a means to enhance regulatory oversight and transparency. By leveraging digital technologies, authorities aim to better monitor and regulate informal trade activities, thereby reducing opportunities for tax evasion and illicit practices.*

6.5 OVERCOMING ADMINISTRATIVE CHALLENGES FOR AFCFTA IMPLEMENTATION

Data from various sources, including statements by the Chamber of Commerce and insights from the Ministries of Trade and Customs, offer valuable insights into the complexities and potential administrative hurdles within the AfCFTA framework. Among several hurdles is the issue of taxation policies and trade impediments. The analysis underscores the delicate balance required in taxation policies to foster economic growth while ensuring the free flow of goods and services. The analysis observations highlight the adverse effects of excessive taxation on trade operations, suggesting that high taxes can act as barriers to trade, thereby hindering economic progress.

> *Trade policies and t ax revenue policies are mutually complementary. However, one must be careful because sometimes their concomitant actions diverge, even opposing each other at some point.* - Representative of Ministry of Trade.

Similarly, comments from the Ministries of Trade and Customs echo the importance of harmonising trade and tax policies to facilitate economic transactions. The Ministry of Trade emphasises the mutual complementarity of these policies, acknowledging that while they aim to facilitate trade and generate tax revenue, their concurrent actions can sometimes diverge or even oppose each other. This recognition underscores the need for careful policy formulation to ensure alignment between trade facilitation objectives and tax revenue generation.

> *The other countries' customs are not ready to implement it. For instance, SMEs are paying export duties in Cameroon. It is important for the secretariat of AfCFTA to take action and even sanctions if necessary. Ghana is applying it fully. Likewise, Kenya, Egypt, and Tanzania. The secretariat of AfCFTA needs to work hard for the successful implementation of the agreement* – Official, Ghana Chamber of Commerce

Furthermore, the readiness of AfCFTA member states to implement agreed protocols is crucial for the successful realisation of the trade agreement's objectives. However, challenges persist, as indicated by the Ghana Chamber of Commerce's observation that some countries' customs authorities are not yet prepared to implement AfCFTA regulations fully. This underscores the importance of capacity building and training initiatives to equip customs officials with the necessary knowledge and skills to enforce trade protocols effectively. Accordingly, the data also emphasises the importance of collaborative problem-solving and information sharing among member states to address trade-related challenges. Customs authorities highlight the efficacy of direct communication and regular meetings in resolving issues related to the free movement of goods. Moreover, there is a call for increased public awareness and engagement, particularly among traders, to ensure compliance with trade regulations and mitigate non-tariff barriers.

6.6 STRENGTHENING FISCAL INSTITUTIONS FOR THE AFCFTA REGIME

Effective communication at higher levels and ensuring the application of protocols are identified as crucial factors in the successful implementation of trade agreements. Respondents emphasise the importance of clear communication channels and robust mechanisms to ensure that protocols are effectively enforced across member states. Moreover, investment in training and capacity building emerges as a priority area to enhance the effectiveness of fiscal and economic institutions. The data revealed the need for continuous training programmes to equip officials with the requisite knowledge and skills to navigate the complexities of trade agreements and ensure compliance with their provisions. Sensitisation efforts among government offices and effective implementation of agreements are essential for promoting understanding and compliance with trade protocols.

> *Our efforts to enhance trade include harmonisation of standards for transit vehicles; removal of barriers at the borders; sensitisation and training of public officials at the borders; support for ECOWAS protocols and treaties; inter-agency coordination; helping the transit corridors to support travels within the West Coast.* - Representative of Ministry of Roads and Highway, Ghana.

Private sector support (PSS) plays a crucial role in advancing the objectives of the AfCFTA, fostering intra-regional trade, and promoting economic integration across the continent. Likewise, Senegal stressed the importance of sensitisation and partnership with relevant organisations in driving private-sector support for AfCFTA objectives. By fostering collaboration between public and private entities, there is an opportunity to harness the expertise and resources of the private sector to advance trade facilitation initiatives. This collaborative approach enhances stakeholder engagement and promotes synergistic efforts towards achieving the goals of the AfCFTA. The Ghana Chamber of Commerce also acknowledges the evolving dynamics within AfCFTA negotiations, with increased involvement of the private sector and greater consultation during trade negotiations. As AfCFTA enters its fourth year, stakeholders reflect on challenges and opportunities, seeking ways to improve trade facilitation and resolve disputes. This collaborative approach fosters inclusivity and ensures that trade policies align with the needs and aspirations of both the public and private sectors.

> *Not a political tool. It is rather an economic instrument. The reason behind it is that politics should back it up. The political should solve the issue of implementation. Ghana has an opportunity of a market of 1.3 million people which is a big thing for Africa and for more integration.* - Representative of Customs, Ghana.

While its primary aim is to bolster economic integration and market competition, its efficacy hinges on political commitments and collaborations among member states. Furthermore, the data shows that there is a symbiotic relationship between economic and political backing for the effective utilisation of trade agreements. While AfCFTA presents immense economic potential in terms of market expansion and increased competition, it requires robust political support to realise its full benefits. Thus, the importance of a holistic approach that integrates economic and political dimensions in advancing the regional trade agenda. In other words, the interconnections of political economic factors are key to the success of AfCFTA.

6.7 STRATEGIES TO OVERCOME CHALLENGES IN AFCFTA IMPLEMENTATION

Despite the transformative opportunity for regional economic integration and growth which the AfCFTA presents, realising its full potential requires addressing various challenges effectively. Insight from data emphasises the importance of developing comprehensive strategies, implementing national action plans, and leveraging comparative advantages to overcome these obstacles. These strategies will encompass various aspects, including trade facilitation, infrastructure development, capacity building, and regulatory harmonisation. Adopting a holistic approach this can assist countries to proactively tackle challenges and seize opportunities presented by AfCFTA. Accordingly, governments should develop and implement tailored action plans that align with AfCFTA protocols and priorities.

> *Develop comprehensive strategies. National implementation strategies. Emphasise comparative and competiti ve advantages.* – Official of Tax Administration in Senegal (DGID, Senegal).

Moreover, countries should identify their strengths in key sectors and prioritise investments and policy interventions to capitalise on these advantages. Emphasising sectors where countries have a comparative advantage fosters specialisation, productivity growth, and competitiveness within the regional market. Also, governments should engage in dialogue with businesses, industry associations, and civil society organisations to gather input, address concerns, and garner support for AfCFTA agreements. Utilising best practices and setting standards through collaborative efforts enhances transparency, inclusivity, and ownership of AfCFTA initiatives. In essence, overcoming challenges in AfCFTA implementation requires proactive and collaborative efforts guided by comprehensive strategies and national action plans. Also, by leveraging comparative advantages, promoting stakeholder collaboration, and emphasising transparency and consultation, countries can navigate obstacles and unlock the full potential of AfCFTA for sustainable economic growth and development across the continent.

7. CONCLUDING REMARKS AND CALL FOR ACTIONS

A major observation from the data is regarding the issues of taxation and trade impediments which pose administrative hurdles to AfCFTA implementation. In reality, with the implementation of AfCFTA, there is a need for harmonisation of tax policies across West African countries to facilitate trade and prevent tax competition that could distort market dynamics. This involves aligning tax rates, regulations, and procedures to ensure consistency and fairness in taxation. Furthermore, tax authorities in West Africa - Ghana Revenue Authority (GRA); Nigeria's Federal Inland Revenue Service (FIRS); Liberia Revenue Authority (LRA); Sierra Leone National Revenue Authority (NRA); Senegal Directorate General of Taxes and Domain (DGID)- must enhance their capacity and expertise to effectively administer taxes in the context of increased regional trade. This includes providing training to tax officials on AfCFTA protocols, customs procedures, and international tax regulations to ensure compliance and enforcement. Accordingly, strengthening collaboration and information sharing among tax authorities, regional bodies, and customs agencies is crucial to addressing cross-border tax challenges and ensuring effective coordination in tax administration. This includes establishing formal channels for communication, sharing best practices, and exchanging data to combat tax evasion and promote revenue mobilisation efforts collectively.

Moreover, with the huge wave of ICT globally, investing in digital platforms and automation technologies can streamline tax administration processes, improve efficiency, and reduce the administrative burden on businesses. This includes implementing electronic tax filing systems, data-sharing platforms, and risk assessment tools to enhance revenue mobilisation efforts. In practice, this will further contribute to tax evasion and illicit trade in the region. In other words, AfCFTA may lead to increased opportunities for tax evasion and illicit trade activities. Tax authorities must adopt robust measures, such as implementing tax stamps, strengthening enforcement mechanisms, and enhancing collaboration with other law enforcement agencies to combat tax evasion and illicit trade practices effectively. Similarly, another related implication of AfCFTA for tax administration in West Africa is the need to promote voluntary compliance among taxpayers. Notably, enhancing public awareness and education campaigns on tax compliance and AfCFTA regulations are essential to promote voluntary compliance among taxpayers. This involves disseminating information about tax obligations, incentives, and benefits of AfCFTA to businesses and the general public to foster a culture of tax compliance.

Within the era of AfCFTA, the design of domestic tax laws in isolation may become an old model. Tax structures therefore must align with the provisions of the continental free trade area such that there would be seamless intra-African trading in goods and services. For example, foreign passive income taxation may now become more specific and nondiscriminatory with or without recourse to any double tax treaties which may be in force[31]. Similar measures could also be implemented on withholding taxes for operators in manufacturing, transport etc. industries in order to promote production and trading within the African continent. Thus, strong collaboration among key stakeholders - private or public - in a tax system becomes imperative for any nation's optimal tax system performance. This would not only help to harmonise tax and trade policies but also to achieve high levels of efficiency in policy implementations.

In addition, the emphasis on digitalisation and capacity building in tax administration resonates with recommendations for leveraging technology and human capital to strengthen tax systems, as advocated by Adeyeye (2019). Optimising VAT and GST collection mechanisms emerges as a key consideration for supporting economic growth and maximising the benefits of regional trade integration. Put differently, embracing digital solutions and conducting strategic analyses of the VAT system, could enhance government efficiency, transparency, and compliance in VAT collection processes. Another significant finding of the analysis pertains to the discourse surrounding tax harmonisation within AfCFTA. While stakeholders acknowledge the potential benefits of harmonising tax systems to promote trade, challenges arise in balancing these objectives with national revenue concerns. This nuanced approach reveals the importance of striking a balance between trade incentives and revenue considerations.

Furthermore, customs measures implemented under AfCFTA, such as the ICUMPS, aim to simplify import, export, and transit processes across borders, aligning with the overarching goal of fostering the free movement of goods and services. Despite these advancements, the analysis acknowledges the complexities surrounding informal trade within AfCFTA and efforts to regulate and manage such activities. Challenges persist in regulating informal trade activities, including tax evasion and smuggling, underscoring the need for strengthened enforcement mechanisms. Existing empirical research on informal trade reveals its pervasive nature and implications for formal sector businesses and government revenue. Similarly, administrative challenges and non-tariff barriers (NTBs) emerge as significant impediments to AfCFTA implementation, encompassing issues related to taxation policies, trade impediments, and transportation infrastructure. These findings corroborate the conclusions of scholars like Forsyth and Dwyer (2002) and more recently, Jaman et. al . (2023), who emphasised the adverse effects of excessive taxation and regulatory complexities on trade operations.

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[31] Nigeria recently agreed and gazetted a tax treaty to prevent double taxation on income, capital and inheritance among countries in ECOWAS. While the agreement was signed on May 1, 2023, it only took effect from January 1, 2024. The AU may follow similar a step by promotion continental tax agreement that could spur business and crossborder trade relations.

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