



## **STRUCTURAL CHANGES AND TAX PERFORMANCE IN ECOWAS SUB-REGION: THEORETICAL AND DESCRIPTIVE PERSPECTIVE**

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### **ABSTRACT**

*The pattern of changes and adjustments in the structure of an economy is an issue of consideration in determining tax performance. Most countries inclusive of countries within ECOWAS sub region have recorded major structural changes over the years and this no doubt has a bearing on tax performance in particular and the economy in general. Structural changes was considered as changes in sectorial shares as it relates to output, productivity growth while tax performance was considered in terms of the ratio of taxes to GDP and the structure of taxation in a panel of fifteen (15) countries of the ECOWAS sub-region covering the period of 2000 to 2017. To this end, varied theories were reviewed while the data set were processed and descriptively presented as it relates to structural changes and tax performance in ECOWAS. It was observed that structural changes did not remarkably reflect in improved tax performance owing to factors such as weak tax laws, ease of paying taxes, high of tax rates. It was then recommended amongst others that there is need for ECOWAS sub region to ensure structural adjustments that are market-based and effectively guided by policies and institutional enforcements.*

**Keyword:** *Structural Changes, Tax Performance, ECOWAS, Time Series and Descriptive Perspective*

### **I NTRODUCTION**

The structure of economy in the ECOWAS sub region has changed

considerably in the past few decades. These changes have come mostly in terms of sectoral shares in aggregate output and income either in levels or growth rates. While output is largely composed of



agriculture and other primary sector, the tertiary sector has slowly but steadily grown in the last decade in most ECOWAS countries. For example, the rebasing of GDP in Nigeria 2014 did not only make Nigeria economy to become the largest in Africa, but sectoral distribution was found to have changed drastically. Essentially, the service sector emerged as the leading sector in terms of contribution to overall GDP level and growth rate. A similar trend occurs in most of the countries within ECOWAS sub region where policy and international market factors have caused steady shift away from the primary sector towards the tertiary sectors (Gong, 2015; Adegbeye, Egharevba & Edafe, 2019).

Kuznet (1955) hypothesis on structural changes and income shows that income tends to move or change as the structure of the economy change. That is, as an economy begins to experience structural transformation, income is distributed more relatively equally since traditional/primary or agricultural production prevails. As an economy begins to undergo structural changes, it has a widespread impact on income distribution. The point here is that structural changes have implications on income levels which invariably relates to taxation and taxable

capacities. This study therefore set out to examine the situation with ECOWAS countries.

## Theoretical Basis

### *Theories of Structural Changes*

#### *The Linear Stages of Growth and Structural Change Models*

The first generation of economic development models was formulated in the early years after the World War II. These early models focused on the utility of massive injections of capital to achieve rapid GDP growth rates. The two famous models are Rostow's stages growth model and the Harrod-Domar model (Todaro and Smith; 2009). Developmental theorists of the 1950s and early 1960s viewed the process of development as a sequence of historical stages. Building on the historical pattern of developed countries, Rostow (1960) opined that the transition from underdevelopment to development would pass through five stages: the traditional society, the preconditions for take-off, the take-off, the drive to maturity and the age of high mass consumption. The decisive stage is the take-off stage, through which developing countries are expected to transit from an underdeveloped to a developed economy. Increasing rate of investments is considered to be necessary to induce per-capita growth. Like Rostow's stages growth model, the Harrod-Domar



model emphasized that the prime mover of the economy is investments (Ghatak 2003). Every country therefore needs capital to generate investments. The principal strategies of development from the stage approach were commonly used by developing countries in the early post-war years. With a target growth rate, the required saving rate can then be known. If domestic savings were not sufficient, foreign savings would be mobilized.

Although Rostow (1960), Harrod (1948) and Domar (1947) were right about the important role of investments that is most closely correlated with the economic growth rate, this is not the only condition for a country to develop. The key weakness of these models lies in their simplifying assumptions. A single production function is simply assumed for all countries (Adelman 2000). Every economy is assumed to have the same necessary conditions and would pass through the same phasing, stage by stage. But that economic growth path, which historically had been followed by the more developed countries, is not the only one pathway. The development process is actually highly nonlinear (Cheney 1960; Cheney & Syrquin 1975). Countries may pursue distinct development paths (Morris & Adelman 1988). According to Todaro & Smith (2009),

“economies may miss stages, or become locked in one particular stage, or even regress depending on many other complementary factors such as managerial capacities, and the availability of skilled labour for a wide range of development projects”

### ***The Three-Sector Hypothesis***

According to Kruger (2008), the three-sector hypothesis addressed the long-run development of the three main sectors of the economy at a highly aggregate level. It is concerned with the successive dominance of the primary, secondary and tertiary sectors in terms of employment and value addition to the economy. The primary sector comprises agricultural and related activities, required to satisfy the basic needs of a society as well as the exploitation of natural resources. The secondary sector produces consumption and investment goods by combining raw materials and investment goods in addition to labour. It thus comprises mainly economic activities related to manufacturing and construction. The tertiary sector provides services such as banking and insurance that is generated primarily by the commitment of labour but also by using capital goods such as buildings and computers. This categorization was initially performed by Kuznets (1946) and later fine-tuned by Cheney (1960).



Kruger (2008) opined further that the three-sector hypothesis postulates a systematic succession of the development of the three main sectors of the economy. At onset, the primary sector is dominant, with respect to both the percentage work force employed and the fraction in total value added. At this stage, the secondary sector and the tertiary sector account for only a small part of total employment and value added. As industrialization kick starts, the secondary sector begins to gain in importance at the expense of the primary sector while the tertiary sector stagnates. Subsequently, labour and value added begin to shift from the primary and secondary sectors towards activities in the tertiary sector. At the end, majority of people are employed in the tertiary sector in which also the bulk of value added is generated.

### **Evolutionary Theory**

The evolutionary theory did not analyze economic processes in terms of optimal behaviour and equilibrium paths. Rather, “economic development is perceived as a dynamic, cumulative, open-ended process far from equilibrium paths that is subject to historical contingencies which cause the process to be path-dependent and irreversible” (Kruger, 2008). These theories are embedded in the works of Dosi (1988), Dosi and

Nelson (1994), and Nelson (1995). Agents are assumed to be “heterogeneous and face strong uncertainty” (Dosi, 1988). This implies that they lack knowledge of all available alternatives and are unable to assign probabilities to the resulting events when making their decisions. In addition, they are endowed with only a limited capacity for information processing and therefore behave bounded rational (Simon, 1979).

To generate innovations, the agents engage in search activities based on heuristic principles unless a certain aspiration level is reached (so-called satisficing behavior). Innovations are usually associated with incremental improvements of products and processes on established technological trajectories, but occasionally radical innovations appear that open up fundamentally new paradigms. Since innovations affect different industries with different intensity, economic development in evolutionary perspective is inevitably associated with structural change.

### **Pasinetti's Model of Structural Change**

Pasinetti (1981) presented a forceful theory of structural change based on post-Keynesian and classical characteristics. Structural change is an inevitable companion of long-term economic development and



could be referred to as ‘natural’ level of investigation which are independent of institutions of the economic system and the behavioral modes of economic agents (Pasinetti, 1981). The ‘natural’ forces of structural change considered by him are population growth, learning in the process of production (i.e. through experimentation, research and the exchange of knowledge) and learning of new patterns of consumption. These driving forces of structural change lead to differential rates of change of productivity, new products and changing consumer behaviour. These are interrelated through an income effect of the innovations on the structure of demand. Structural change is assumed to occur within a system of vertically integrated sectors, each of which represents the whole production process of a final consumer product and comprises all input quantities (direct and indirect via production flows within the sector) that are necessary for the production of a certain amount of the final product.

Unique aspect of Pasinetti’s model was the point that there is a certain level of coupling of the different sectors which ensures the capacities of the economy for self-reproduction without crises. Without that coupling, the economy is inherently unstable or crisis-prone. However, Pasinneti showed

that as the system develops, there are dynamic forces which are always at work to uncouple or tear apart the relations between sectors of the economy (Harris, 1982). It can therefore be concluded that intersectoral linkages (in terms of employment and output) are therefore permanently crisis prone when development occurs. Such crisis will always leave the employment sector in disequilibrium

### **Determinants of Tax Performance**

The theoretical effect of the economic structure is essentially differential in terms of tax revenues for different types of economy. Elements of a country’s tax base are the share of agriculture in GDP; the share of oil and non-oil mining activities in GDP; and the ratio of the sum of exports and imports to GDP. The sectoral composition of value added constitutes a key element of the tax base. In many sub-Saharan African economies, a large share of GDP results from agricultural activities (Aguirre, Griffith & Yucelik, 1981). However, the agricultural sector is difficult to tax owing to the prevalence of subsistence activities, which are largely informal. The administrative costs for the tax department of organizing and monitoring subsistence activities can be prohibitively high in relation to potential revenue yield. In



general, therefore, a negative relationship would be expected between the tax revenue - GDP ratio and the share of agriculture in GDP. Mining activities, on the other hand, are organized, and thus easy to monitor and tax. A positive correlation would be expected between the trade openness and the tax revenue – GDP ratio: as the international trade sector is a well-organized and monetized sector, administrative costs of the tax system related to this sector should be lower than others.

Tanzi (1989) stated that one has to look beyond the traditional determinants of tax revenue-elements of the tax base-to obtain a satisfactory explanation of the wide fluctuations in tax ratios observed in several countries over short time periods and that the effect of inflation on tax revenue can be registered through three main channels. First, according to the Tanzi-Olivera effect, in an inflationary environment, when actual tax payments lag the transactions to be taxed, tax obligations are lower in real terms at the time of tax payments. Second, excise duties on a number of products (e.g., tobacco, alcohol, and gasoline) may be levied at specific rates that may not necessarily be adjusted in line with inflation (Tanzi, 1989). Finally, high inflation rates reduce the tax base

because in order to protect the real value of their wealth, economic agents make portfolio adjustments in favour of assets that typically escape the domestic tax net (such as land, livestock, jewels, and foreign capital). An appreciation of the real effective exchange rate is expected to raise imports and lower exports. The overall effect of a real effective exchange rate appreciation on tax revenue could be positive, given the greater dependence of tax receipts on import rather than export taxes. Nevertheless, an overvaluation of the real effective exchange rate – typically brought about by expansionary financial policies-would be expected to adversely affect overall economic activity, and thus to lower tax revenue. An overvalued currency tends to lower real prices of tradable commodities within the economy, which discourages production and tax revenues from incomes and production.

UNDP (2016) provided a general outlook on the relationship between structural changes in the economy and tax performance by arguing that the channel of the linkage arises from the effects of structural changes on the size of the tax base. The report notes that “the trade sector has been traditionally a base that is easier to tax. Accordingly, it is a major source of government revenues in SSA and for most developing countries. On the other



hand, a large subsistence agricultural sector is often viewed as a signal of difficulty to tax". In terms of the structural changes, several literature outcomes have included factors like per capita income growth, the pattern of modern-informal sectors, sectoral composition, trade openness, price level changes, and size of public debt the critical structural factors that determine tax performance.

Tax revenue can also be influenced by the implementation of structural reforms. Such reforms, by improving economic efficiency and resource allocation, enhancing external competitiveness, expanding the productive capacity of the economy, and broadening the tax base, can raise tax revenue. In recent years, a number of sub-Saharan African countries have made progress in the implementation of structural reforms in areas such as public enterprise restructuring and privatization, retail and producer price decontrol, exchange and trade liberalization. Others areas of improvement includes; financial sector reforms, tax reform, civil service reform and legal reform. A number of countries that have made progress in structural reforms have benefited from technical assistance aimed at increasing voluntary compliance and self-assessment, expanding the use of final

withholding, improving collection procedures, developing audit plans and procedures, and reorganizing administration along functional lines (Abed et al., 1998).

## **Trend in Economic Structure and Tax performance in ECOWAS**

### ***Economic Structure in ECOWAS***

Economic structure is usually considered from the perspective of the shares of each sector (often categorized into primary or agriculture and mineral extraction, secondary or industry/manufacturing, and tertiary or specialized services), or total employment share of each of the sectors in the economy. Productivity levels of the sectors of the economy are considered in terms of sectoral changes and shifts over the period of income growth. A significant aspect of the sectoral distribution among ECOWAS countries is the wide heterogeneity in terms of the shares of the three basic sectors in aggregate value-added GDP as shown in Table 1. While agriculture heavily dominates some of the economies like Mali and Guinea, Bisau, the services sector dominates economies like Cape Verde, Gambia and Senegal. Services sector shares are however mainly based on traditional trading and other primary sector-based activities (Adegbeye et al, 2019). Considering that agriculture is also a heavily traditional sector among the



countries in ECOWAS, Table 1 also shows that traditional and primary production-based sectors have dominated the economic landscape in most ECOWAS countries.

Industry has remained generally low in terms of its share in total output in terms of value-added in the sub-region.

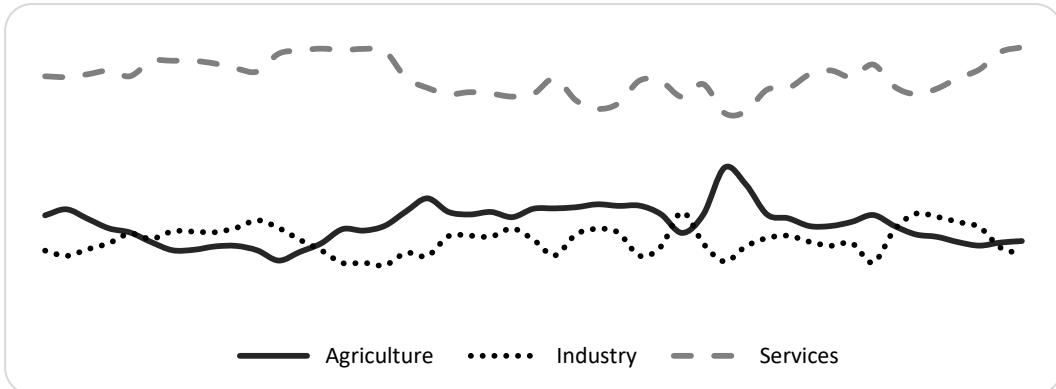
**Table 1: Structure of Economy in ECOWAS Sub Region**

Country	1970 – 1985			1987 – 1999			2000 – 2018		
	Agric	Industry	Services	Agric	Industry	Services	Agric	Industry	Services
Benin	33.08	14.41	52.51	30.35	22.68	46.97	25.53	26.52	47.95
Burkina Faso	22.98	30.33	46.69	26.93	24.47	48.60	26.19	25.41	48.40
Cape Verde	20.14	22.59	57.26	16.18	30.84	52.98	10.55	21.64	67.81
CIV	28.34	21.58	50.08	27.94	24.11	47.96	25.20	25.95	48.85
Gambia	33.78	12.22	53.99	20.41	12.78	66.81	28.42	13.94	57.64
Ghana	40.76	25.45	33.79	31.47	32.31	36.22	25.78	33.60	40.62
Guinea	18.09	31.69	50.23	20.73	30.23	49.04	18.47	33.36	48.16
Guinea Bissau	46.00	19.35	34.65	48.28	14.54	37.17	45.49	14.34	40.17
Liberia	22.58	37.28	40.15	59.01	11.32	29.67	71.55	9.40	19.04
Mali	64.05	10.96	24.99	41.53	17.20	41.27	36.17	23.58	40.25
Niger	41.60	21.96	36.45	32.92	18.34	48.74	38.58	18.82	42.60
Nigeria	16.15	35.55	48.30	24.33	34.50	41.17	25.15	25.39	49.46
Sierra Leone	34.73	23.15	42.16	46.62	10.31	43.07	53.77	9.93	36.30
Senegal	21.30	23.29	55.41	17.92	27.70	54.38	15.66	26.42	57.92
Togo	26.79	27.96	45.25	33.23	26.22	40.55	30.93	18.34	50.74
All	31.36	23.85	44.79	31.86	22.50	45.64	31.81	21.79	46.41

*Source Author's computation with UNCTAD World Investments Reports*

The trend in economic structure of ECOWAS sub-region is shown In Figure 1. The chart shows that services sector has dominated the economies since the 1970s (on average). The large average services share is however due to the fact that of the countries in the sub-region had very large services sector. There is however some degrees of variation as shown in Table 1 where countries like Liberia and Sierra Leone have had sharply rising agricultural share reaching 71.55 percent and 53.77 percent respectively in the 2000-2018

periods. This indicates that services and agriculture have played extensive roles in the structural changes in many ECOWAS countries. The industrial sector has been on the lower-side for much of the periods, especially for economies that do not possess much extractive activities (see the case of Liberia with an industry share of 9.4 percent in 2000-2018). This no doubt has repercussions for tax revenues in terms of the size of the tax base, the influence of the shadow sectors and overall tax capacities for these countries.

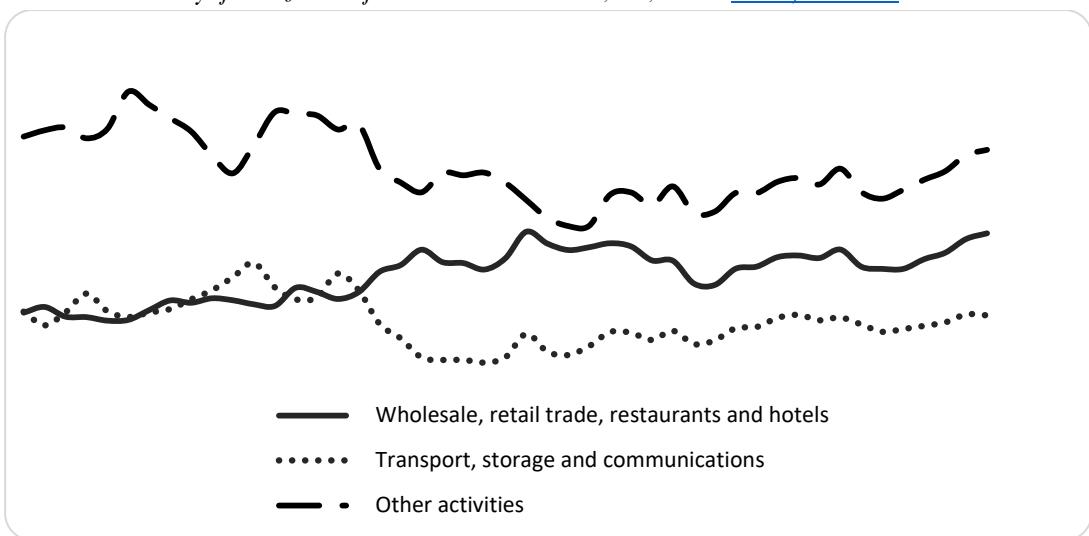


**Figure 1:** Structural Changes in ECOWAS Sub region

**Source:** Graphed by Author's with World Bank/UNCTAD World Investments Reports

Figure 2 also shows the trends in economic structure within the services sector in ECOWAS. From the figure, it can be observed that there has been a fluctuating growing trend in the service sector categorized here as; transport, storage and communication; wholesale, retail, restaurant and hotels; and others. This was however more pronounced in the wholesale, retail, restaurant and hotels. The Transport services dropped in terms of shares in total output since 1986, perhaps due to the SAP applications. It should be noted that the SAP was a structural

break in the economies of the ECOWAS and formed a long-lasting impact on macroeconomic aggregates (Ogiogio, 1995). In particular, the SAP led to dramatic reduction in government ownership of economic resources which led to large-scale changes in the shares of government in GDP as well as the structure of industrial agglomerations, which were no longer determined by government need-based approach but by profit maximization motives of investors. This shows that economic structure even within the services sector has evolved over time in the region.



**Figure 2: Economic structure in services sector in ECOWAS Sub region**

**Source:** Graphed by Author's with World Bank/UNCTAD World Investments Reports

### Patterns of Changes in Structural Variables in ECOWAS Sub region

How countries within ECOWAS sub region faired in terms of structural transformation or structural changes – involving the patterns of changes among the structural variables in the study. Table 2 shows the averages of structural transformation in each of the countries as shown in some variables. In terms of transformation involving sectoral shares in (value

added) output, it is seen that Cape Verde had the largest drop in agricultural share (by 4.38 percent) over the period of 2000 to 2017. This large drop indicates that much of the production factors and capacities had moved away from the agricultural sector in the country. It should be noted that economic transformation involves sufficient shifts from agriculture into other sectors, especially industry and modern services.

**Table 2****Structural changes (changes in structural variables)**

Country	<i>agric</i>	<i>Industry</i>	<i>Serv</i>	<i>urban</i>	<i>enrol</i>	<i>M2/GDP</i>	<i>Gsize</i>	<i>Open</i>
Benin	0.52	-1.07	0.61	0.92	7.06	3.17	2.36	2.59
Burkina Faso	0.11	0.38	0.49	3.49	8.19	3.89	0.87	4.84
Cape Verde	-4.38	-0.92	1.24	1.37	1.70	2.74	0.75	1.28
CIV	0.10	0.15	0.23	1.47	9.25	5.04	-0.12	0.21
Gambia	0.48	0.60	0.10	1.48	1.87	2.78	0.43	1.51
Ghana	-1.41	0.07	1.26	1.39	3.54	59.4	5.90	-1.20
Guinea	-0.41	0.85	0.37	1.21	6.00	8.77	3.15	4.07
Guinea Bissau	1.29	-0.35	-0.89	2.00	3.38	8.64	-1.02	0.22
Liberia	0.11	61.7	-1.69	0.77	-4.61	9.79	11.69	17.09
Mali	1.01	-1.26	-0.01	2.31	6.16	2.59	0.98	0.55
Niger	0.25	2.05	-0.52	0.98	7.68	13.6	1.38	2.55
Nigeria	0.86	0.01	1.07	2.13	6.14	4.10	-2.67	-2.23
<u>S_1</u>	1.56	3.19	-1.26	0.77	2.64	3.38	-4.12	4.42
Senegal	-0.13	0.01	0.21	0.54	8.12	4.68	1.97	1.28
Togo	-0.23	-0.61	0.61	1.30	4.10	5.36	3.70	2.65

Source: Author's computation with World Bank/UNCTAD *World Investments Reports*

Surprisingly, four other countries apart from Cape Verde experienced decline in agricultural share in output over the period. Indeed, Sierra Leone experienced a growth in agricultural share by up 1.56 on average over the period. Also, Nigeria, the larger economy in the sub-region, experienced positive change in the share of agriculture in total output. This shows that most of the countries in the sub-region may have peaked in terms of shifts away from agriculture even though the sector remains very poor in terms of productivity and returns.

For industry share in total output, some countries actually experienced negative changes, although Liberia had 61.7 percent increase in the share over the period. This outcome is understandable since the economy within the 2000-2017 periods was coming out of a protracted conflict and rebuilding of industries was critical. Sierra Leone with a positive change of industry share of 3.19 has a similar story as that of Liberia. Cape Verde which experienced a very large decline in share of agriculture in output surprisingly had a decline in industry output share over the same period, suggesting that movement away



from agricultural production did not enter industry, but perhaps into services. Indeed, while the services sector shrank for five of the ECOWAS countries over the period, the sector expanded greatly for Ghana, Cape Verde and Nigeria. The rate of urbanization was greatest on average for Burkina Faso (which is one of the countries with the least population share in urban centres). This indicates that the countries with small urban areas are expanding rapidly.

### **Tax Performance in ECOWAS**

The tax to GDP, direct tax to GDP ratio, and indirect tax to GDP ratios of each of the individual ECOWAS countries for the period 2000 to 2017 are shown in Table 3. It is

seen that there are quite marked differences among the countries in terms of the size of their tax revenues in relation to overall economic conditions. Cape Verde and Ghana appear to be leading in terms of the ratios over the period 2000 to 2017 with ratios as high as 25 percent for Cape Verde and 23 percent for Ghana. Guinea Bissau has the least tax to GDP ratio among the ECOWAS countries. From Table 3, it is seen that there are very wide variations in the ratios for both direct and indirect taxes. This suggests that within the period between 2000 and 2017, there have been remarkable changes in the shares of each of the components of the tax system in total GDP.



**Table 3: Total, direct, indirect taxes to GDP ratios in ECOWAS countries, 2000-2017**

Country	2000 – 2007			2008 – 2012			2013 – 2017		
	Total	Direct	Indirect	Total	Direct	Indirect	Total	Direct	Indirect
<i>Benin</i>	15.63	4.21	11.42	16.81	4.30	12.51	16.68	4.26	12.42
<i>Burkina Faso</i>	11.52	3.09	8.44	13.16	2.64	7.69	13.77	2.12	5.28
<i>Cape Verde</i>	20.40	6.07	12.50	23.20	5.78	13.37	22.77	5.13	12.81
<i>Civ</i>	15.64	5.30	10.34	15.76	4.13	10.80	15.70	3.58	10.62
<i>Gambia</i>	18.00	3.46	8.42	13.36	4.66	9.60	13.50	4.51	11.19
<i>Ghana</i>	12.57	3.94	8.63	13.82	5.97	8.13	13.52	5.55	8.05
<i>Guinea</i>	11.55	4.45	7.10	15.77	6.84	8.93	14.98	5.99	8.99
<i>Guinea Bissau</i>	5.37	0.80	3.00	7.16	0.47	1.11	6.62	0.41	1.34
<i>Liberia</i>	8.48	3.28	9.36	6.40	6.62	11.17	6.40	8.12	13.68
<i>Mali</i>	14.26	3.08	10.87	14.68	4.34	9.93	14.92	4.04	10.65
<i>Niger</i>	10.29	1.87	7.65	13.01	2.86	8.89	14.56	3.50	9.39
<i>Nigeria</i>	9.34	1.76	2.88	8.63	3.82	2.11	8.78	4.29	2.34
<i>Sierra Leone</i>	8.50	2.24	6.25	9.29	3.14	6.15	9.26	3.27	5.99
<i>Senegal</i>	17.63	3.15	10.29	18.59	5.12	13.47	18.19	4.46	7.62
<i>Togo</i>	14.06	3.43	8.62	15.35	0.12	0.12	15.09	1.38	3.29
<i>ECOWAS</i>	12.88	3.34	8.38	13.67	4.05	8.27	13.65	4.04	8.24

Source: Author's computation with data from World Bank, WDI

The tax revenues for selected countries in the ECOWAS sub region are shown in Table 4. For most of the countries, tax ratios are relatively low. Indeed, tax ratio for the ECOWAS region is far lower than that of the OECD region. For some of the countries, the tax ratios increased substantially between 2000 and 2017. For instance, while the ratio was 10.9 percent in 2000

for Togo, it rose to 21.6 percent in 2015. For countries like Cote d'Ivoire, there were much instability in terms of the tax ratio, with a decline noted between 2000 and 2003, while an increase was seen for the years after 2004. In general also, the tax ratios for Latin American countries were slightly higher than those of the ECOWAS sub region over the period.



**Table 4: Total tax revenue as percentage of GDP for selected ECOWAS countries, 2000-2017**

Year	Cape Verd	Cameroon	CIV	Ghana	Niger	Sen	Togo	ECOWAS	EAC	Africa	OECD
2000	15.6	12.8	15.3	10	9.7	16.3	10.9	12.9	14.2	18.0	33.5
2001	16.9	14	15.6	10.5	10.4	16.8	12.1	13.8	14.8	18.2	33.2
2002	19.3	13.2	15.9	10.7	10.9	16.8	11.1	14.0	15	18.1	33.2
2003	17.7	13.7	14.6	11.8	10.4	17.7	15	14.4	15.3	18.5	33.1
2004	18.7	13.1	15.8	13.7	11.3	17.7	15.4	15.1	15.7	18.9	33.6
2005	19.6	13.5	15.6	13.4	10.7	13.2	14.3	14.3	16.2	19.8	33.7
2006	21.1	14	16.2	13.1	11.2	19.3	15.4	15.8	16.6	20.9	33.8
2007	21.3	14.8	17.1	13.2	12	19.7	16.1	16.3	17.2	21.3	33.2
2008	21.7	14.8	16.9	12.7	12.1	20.1	14.8	16.2	17.7	21.3	32.4
2009	18.7	15	16.8	13.1	14	19	15.3	16.0	17.1	20.8	32.6
2010	18.8	14	16.5	13.2	13.2	18.9	15.7	15.8	17.2	20.8	33
2011	19.8	14.8	15.3	4.5	13.9	19.9	16.4	14.9	17.8	21.3	33.4
2012	18.2	15.3	17.7	14.8	14.4	19.5	16.4	16.6	18.1	21.8	33.8
2013	18.1	15.8	17.6	13.6	15.4	19.3	19.2	17.0	18.5	21.8	34.2
2014	17.4	16.1	16.9	15.0	15.8	20.6	20.3	17.4	18.8	22.2	34.3
2015	19.2	16.4	17	15.0	16.7	20.8	21.6	18.1	19.1	22.2	32.5
2016	19.1	15.8	17.3	15.1	16.2	21.1	21.9	18.1	19.3	23.1	34.3
2017	19.4	16.2	17.5	15.0	16.7	20.8	21.9	18.2	19.6	23.4	34.8

Source: OECD Tax Tables, 2018. EAC East Africa Community

## Conclusion and Recommendations

From the above exposition, the structure of the economy in most ECOWAS countries has transited into more of services sector based. However, the tax system is still largely of indirect taxation in line with WAMA (2017) assertion that “indirect tax ratio has been higher than those of direct taxes for many countries within ECOWAS sub region, and as such create an air of more reliance on indirect tax revenue which averages 67.8 percent for the sub-region in 2017. The point here is that there are remarkable changes in the shares of

each of the components of the tax system; however the pattern of structural changes may have not fully resulted in tax optimization owing to a number of factors. Given that services sector in most countries within ECOWAS sub region are highly informal, this has implication on tax execution and administration. In the area of economic policies, it is hypothesized that, when taxpayers see the benefit of their tax payments in terms of governments provision of public services their willingness to pay taxes increase. According to Ghura (1998), in a number of countries within ECOWAS owing



to weaknesses in the expenditure management process and corruption, a good proportion of tax revenue finds their way into private pocket.

Tax compliance costs, which sometimes are also considered as hidden costs, are the extra costs incurred by taxpayers besides the actual tax liability in the process of becoming and remaining tax compliant (Evans 2008). The hourly amount of time required for tax payments to be made in each of the countries in the ECOWAS sub region is high. Countries such as Nigeria and Senegal recorded huge deterioration in terms of time spent in paying taxes. These create more difficulty for domestic revenue mobilization in the community. Multiplication of tax payments make the tax system cumbersome and provide incentives for businesses to avoid tax responsibilities. As the World Bank (2008) found, “countries that do not require special books of account for tax purposes have 10 percent more revenue (as a percentage of GDP) on average than countries that do. Countries with clear tax laws increase tax revenues by 6 percent on average”. Thus, it appears that making the tax rules for businesses complex will most likely lead to less revenue performance from taxation. Between two periods (2008 and 2017), Nigeria experienced a very large increase in number of taxes

mandated to businesses by as much as 24 (World Bank, 2019). Other countries mostly had decreases in the number of tax payments, especially for Cape Verde and Mali.

On the ease of paying taxes among ECOWAS sub region, World Bank (2019) shows that only Ghana in the sub-region ranked among the 100 top countries in terms of ease of paying taxes in 2008, suggesting that either the costs of paying taxes is high, or that the tax policies are unfavorable in most countries with ECOWAS sub region. In 2017, three countries climbed into the top 100, though Ghana dropped 47 places over the period (World Bank, 2019). Nigeria and Niger were also among the declining performers in ease of paying taxes. For most of the countries, large proportions of firms agreed that tax rates were a major constraint in their activities. The total tax rate is a major component that facilitates the measurement of tax cost. These rates show all the taxes that the corporate sector has to grapple with annually in each of the countries. Excessive tax rates have been one of the bane that were noted in tax administration for many African countries. Most countries within ECOWAS sub region had high total tax rates in 2008, with Gambia having 286.7 percent and Sierra Leone having 233.5 percent rates (World Bank, 2019). This means



that these countries have so many tax rates that businesses have to comply with. Between year 2008 and 2017, total tax rates fell for most of the countries, especially Gambia and Sierra Leone. There were however higher rates for Guinea and Nigeria, especially with respect to taxes in natural resources. Surprisingly, most of the countries also experienced increases in labour taxes over the period. These rising rates have been noted to contribute to the poor performance in direct taxation (Gupta, 2007; Ali, 2018).

In the light of the above, it is recommended that there is need for the ECOWAS sub region to ensure structural adjustments that are more market-based but effectively guided by policies and institutional enforcements. In this direction, relevant policy that promotes private-led production should be implemented in other to shift the burden of revenue charges to productive basis. Also, there is need for more political will for improving tax performance. One of such should be seen in the areas of critical tax reforms.

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