





## **Abstract**

We examine the heterogeneous effects due to government stability of foreign aid on tax revenues in the West African Economic and Monetary Union countries over the period 1986-2010. We show that the tax effects of aid are gradual and varying across countries according to the level of government stability. The Panel Smooth Threshold Regressions indicate that at low levels of government stability, aid negatively affects tax performances. At high levels, it encourages tax collection. Consequently, we provide estimates of individual time varying coefficients of aid effects. In general, the positive effects are marked since the mid of 1990 decade. However, decomposing aid into its forms of loans, technical and non-technical grants provides nuanced results.

**Key words:** Foreign aid, Government Stability, Tax Revenue, PSTR, WAEMU

**JEL codes:** F35, 017, H20, C23, O55

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