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COLLEGE OF BUSINESS AND MANAGEMENT SCIENCES
(COBAMS)
SCHOOL OF ECONOMICS
MASTERS OF ARTS IN ECONOMIC POLICY MANAGEMENT

**DETERMINANTS OF TAX REVENUE IN EAST AFRICAN COUNTRIES: AN
APPLICATION OF MULTIVARIATE PANEL DATA COINTEGRATION ANALYSIS.**

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ABSTRACT

Domestic revenue mobilization has received growing attention in recent years. For the economies of Sub-Saharan African (SSA) countries in general and that of the East Africa countries in particular domestic resource mobilization has crucial national and international dimensions. In most countries, the share of tax revenue collection to GDP is declining and countries rely on foreign aid and other source of capital inflow as a major source of the government budget. Thus, as tax revenue is key for economic development, the study thought to empirically examine the key determinants of tax revenue for East African countries using the recent year data ranging from 1992 to 2015 by employing panel data cointegration approach.

Panel unit root test of stationarity using the LLC, IPS and ADF test of stationarity shows that all variables are cointegrated of order one, $I(1)$ except the variable inflation which is stationary at level. The model estimation was made by using the FGLS and the dynamic panel data GMM model. The long run estimated equation from the FGLS results indicates that per capita GDP, foreign aid, trade openness, share of agriculture, share of industry and share of services have positive contribution for tax revenue of east African countries over the study period. On other hand, urbanization, official exchange rate and rate of inflation have negative impact of the tax revenue to GDP ratio. From the short run panel vector error correction model one period lagged tax revenue and urbanization has negative impact on the current period tax revenue while two period lagged urbanization and official exchange rate has positive impact.

Thus, the result of the study calls for an indication that tax revenue increases under stable macroeconomic environment. Hence, East African countries should therefore better pursue economic policies that at least reveal low inflation rate and favorable trade policies. Moreover, the countries are required to set prudent macroeconomic policy environment which create economic integrations among different sectors, mobilizes domestic resource and improve external trade policies to make each country's growth sustainable on the basis of domestic resource mobilizations. The cumulative effects lead to improved tax revenue collection of the region