

**THE EFFECT OF THE QUALITY OF GOVERNANCE ON TAX REVENUE IN EAST
AFRICA**

BY

KAHUNDE REHEMA

**A Dissertation Submitted to the Directorate of Research and Graduate Training
in Partial Fulfillment of the Requirements for the Award of a Master of
Arts Degree in Economics of Makerere University**

December, 2018

ABSTRACT

The East African countries have run budget deficits for over a decade, implying that the amount of domestic resources collected especially from taxes has been so low compared to what is needed/required for the smooth-running of the economies. Although there are very many reasons to explain the low tax revenue in this region, the quality of governance has been found to be key in this regard. Numerous studies done on this nexus have had conflicting results on the determinants of tax revenue yields. The argument for the discrepancy in the results lies in studying countries at different levels of development, different time periods studied, and the difference in the data types and sources.

Against that backdrop, this study seeks to empirically investigate the effect of the quality of governance on tax revenue in five East African countries, for the period 1996 to 2016 (panel data estimation). Data will be sourced from World Development Indicators and World Governance Indicators. The study employs the Panel Autoregressive Distributed Lag model as developed by Pesaran et al., (1999). The choice of this methodology is based on the need to find out the long run and short run relationship among the variables of interest. Empirical evidence from the Pooled Mean Group shows that there is a positive long run relationship among the variables. This therefore implies that an improvement in the quality of governance leads to a long run increase in the tax revenue. The policy implication is that long run efforts to increase domestic resource mobilization through taxation in the East African countries should focus on the improvements in the quality of governance. It should however be noted that that the study finds a negative short run relationship since the effect of changes in the quality of governance is in most cases evident in the long run.

Key words: Tax Revenue, quality of governance, Panel ARDL