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Influence of Public Governance on Tax Revenue of East Africa Community Member Countries

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Abstract
Raising ample tax revenue remains one of the biggest challenges for most developing countries including EAC affiliated countries. In order to understand this social economic phenomenon, this study sought to determine the effect of public governance on tax revenue of east Africa community member countries. Public governance was measured by corruption perception index while tax revenue was measured by tax to GDP ratio. The study used descriptive research design. The population of the study comprised of 6 east Africa community member countries and collected secondary data from the year 2000 to 2023. Data was analyzed using panel simple linear regression and the findings revealed that public governance has a positive and statistically significant effect on tax revenue of east Africa community member countries. The finding suggests that implementation of effective public governance has a positive impact on total tax revenue collected underscoring the critical role public governance reforms plays in enhancing domestic tax resource mobilization of the EAC member countries. This study suggests that EAC member countries should strengthen their institutional capacity to ensure transparency and accountability in tax administration as a means to boost their total tax revenue collection.
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1. Introduction

Whether a country is classified as developed or least developing country, tax remains one of the major sources of public finance for all governments. Moreover, beyond serving as a means of raising public revenue, tax also function as a tool for promoting economic stability, enhancing economic growth and addressing market externalities (Rahman, 2020). However, for tax to perform these essential functions, the taxpayer must be willing to comply with tax laws by remitting tax due to the authorities. Notably, this willingness to remit taxes is often influenced by range of factors including the prevailing public governance and the extent to which tax systems are perceived as fair, efficient and equitable. To this end, although domestic tax mobilization through taxation remains cornerstone in meeting sustainable development goals and achieving fiscal autonomy, due to ineffective and wanting state of public governance, developing countries more than often confront the challenge of mobilizing ample tax revenue. This persistent failure to generate adequate domestic tax revenue has significantly undermined the capacity of these governments to meet their expenditure needs by creating fiscal imbalance. As a result, these nations continue to grapple with the challenge of funding the ever-increasing public expenditure while balancing macroeconomic stability (Alabede, 2025).

With limited success in expanding the domestic tax base, governments in developing countries are often left with few viable alternatives to finance their budgets. This difficulty in expanding the tax base is often rooted in deep-seated structural, administrative and governance challenges within the fiscal system. Particularly, weak fiscal institutions and limited tax compliance have hindered sustainable tax revenue generation. This development has compelled many developing countries including EAC member countries to continue relying on budgetary support from supranational organizations inform of aids, donations and debt. Moreover, in the face of persistent domestic tax revenue shortfalls, these nations have resorted to external debt as a means of financing their national budgets. However, the use of external debt to fund public expenditures has further entrenched fiscal imbalances and triggered debt crisis where most developing countries are left servicing huge debt levels at the expense of providing essential public goods and services. While external borrowing may provide temporary budgetary relief, it often leads to long-term fiscal stress, especially when borrowed funds are not efficiently invested in productive or revenue-generating projects. In this context, external debt ceases from serving as a bridge to development and instead become a perpetuating factor of fiscal imbalance, as developing countries are forced into recurrent borrowing cycles to meet not only their current expenditures but also past debt obligations. This situation has undermined not only macroeconomic stability and fiscal autonomy but has also limited the much-needed fiscal flexibility for sustainable development planning. Aslam *et al.,* (2022) observes that despite constant reforms in trade policies, tax policies and tax administration over the past two decades, tax-to-GDP ratios in many EAC countries remain below the Sub-Saharan African average, constraining investments in infrastructure, health and education.

As countries strive to meet growing public expenditure demands and reduce reliance on external aid, the effectiveness of domestic tax systems has become a topical issue. As a consequence, the performance of tax systems in developing countries has emerged as a critical area of inquiry in understanding the broader dynamics of public finance and governance. While several factors influence tax revenue performance, public governance has increasingly been recognized as a critical determinant, though it remains underexplored in empirical studies especially within the context of developing countries. This empirical gap underscores the need for more empirical investigation into how public governance quality shapes tax outcomes, particularly in regions such as EAC which experience persistent revenue mobilization challenges. Moreover, given the growing emphasis on domestic resource mobilization, it has become imperative to examine how governance quality affects tax administration outcomes. In the context of developing countries, particularly within the East African Community (EAC), governance-related challenges have significantly constrained tax revenue performance. These countries often contend with weak institutional frameworks, limited administrative capacity and widespread corruption, which collectively undermine effective tax policy implementation. Furthermore, Alabede, (2025) asserts that tax collection efforts in these countries have been hampered by political interference, low levels of transparency and inadequate regulatory oversight which have created a thriving environment for tax evasion and informal economic activities.

Despite these challenges, strengthening public governance comes with a promise of offering a viable pathway for improving tax revenue performance in developing countries. For instance, effective public governance in tax administration not only enhances institutional capacity but also fosters public trust and promotes voluntary tax compliance. Noch *et al.,* (2024) while emphasizing on the importance of public governance, observed that citizens are generally more willing to pay taxes when they perceive that public resources are managed transparently and used efficiently. Moreover, strong governance systems, by contrast, facilitate efficient tax collection and help broaden the taxable population, ultimately increasing government revenue. Furthermore, the implementation of sound governance practices such as ensuring government effectiveness, improving regulatory quality, upholding the rule of law, and controlling corruption plays a crucial role in shaping taxpayer trust, strengthening compliance behavior and enhancing the overall capacity of tax administrations (Mahran, 2023). Conversely, Amin (2023) argue that weak governance undermines tax systems by eroding the tax base through leakages, rent-seeking behavior, and distorted incentives. While theoretical evidence underscores the importance of good governance in enhancing tax performance, empirical validation of this relationship remains limited, especially within the context East African Community (EAC). This finding motivated the pressing need for this study to establish the effect of public governance dimensions on tax revenue collection in order to ensure current and future tax reform efforts are evidence based to meet their intended goals.

1.1 Public Governance

Public governance refers to the exercise of public power and the utilization of public resources in managing the affairs of society while observing principles of good governance (Farazmand, 2023). In this regard, the concept of public power is broadly categorized into four main strands: administrative, legislative, judicial and executive. Moreover, public governance refers to the traditions and institutions by which authority in a country is exercised, including mechanisms for assessing accountability, transparency, effectiveness and rule of law. According to Mahran (2023), public governance is the process through which public decisions are made and executed, guided by fundamental principles such as transparency, accountability, the rule of law and fairness. Effective public governance dictates that these principles must be upheld consistently, especially during times of crisis, in alignment with constitutionally enshrined values. Similarly, the OECD (2021) defines public governance as the manner in which decisions are formulated and carried out for the common good. In this study, corruption perception index was used as a measure of public governance

1.2 Tax Revenue

Tax revenue refers to compulsory payment made by the citizens to the state to enable the government to meets its operational and developmental expenses. It is undeniably that tax revenues constitute bulk of the public revenues especially in the context of poor least developing countries such as those in sub-Saharan Africa. Some of the common types of taxes which yields revenue to the government includes VAT, PAYE, corporation tax, presumption tax, stamp duty among others. Unquestionably, the amount a country collects from taxes largely depends on the effectiveness of its tax administration system, which provides the framework upon which the entire tax system is anchored. Furthermore, this framework also outlines the powers and responsibilities of relevant tax authorities for effective fiscal management and provide assurance to the electorate that the prevailing government will uphold the social contract by delivering public goods and services that address their pressing needs (Olurankinse & Rufus, 2021). However, the capacity of a country to mobilize domestic tax revenue effectively is influenced by a wide array of factors, chief among them being the quality of public governance and efficiency of tax administration (Apergis, 2022). In this study, tax revenue was measured in terms of tax to GDP ratio.

2.0 Theoretical Review

This study was anchored on agency theory and supported by institutional theory. Agency theory originally was proposed by Jensen and Meckling (1976). Agency theory was used to explain the relationship between principal and agents where tax managers and customs officials were regarded as the agents while and the principal which was government in this case. The agents, in this case also include high-level officials such as tax commissioners and lower-level functionaries like tax or customs officers stationed at strategic border entry points. Jensen and Meckling (1976) argue that unless agents are effectively monitored and held accountable, they are unlikely to act in the best interests of the principal. Instead, agents may pursue their own self-serving objectives at the detriment of their principals. As a direct consequence, this theory suggests that without appropriate oversight and safeguards, agents are more likely to prioritize personal gain over the goals of the principal.

The theory suggests a positive relationship between public governance and tax revenue arguing that effective public governance helps to align the interest of agents and those of their principals by laying down clear controls and governance structure. The theory further put forward that the relationship between principals and agents is based on trust where government as the principal delegate authority to agents to implement tax laws and policies in a manner that reflects the interests of citizens who, in this context, are also the taxpayers. Moreover, in this principal-agent relationship, the citizens who also doubles as the tax payers also rely on the government to supervise the agents work and uphold fairness, transparency and efficiency in tax revenue collection reinforcing the proposition that agents must be supervised to work for the best interests of the principal. Moreover, Zaki (2020) observed that without proper controls, agents prioritize their selfish interests by misusing their delegated authority, undermining both tax revenue efforts and public trust in public governance.

This study is also supported by institutional theory which was originally developed by John R. Commons in the early 1930s. The theory seeks to highlights the critical role of institutions in shaping economic behavior. It posits that effective governance institutions, through both formal and informal rules, norms and structures, play a fundamental role in influencing the actions of individuals and organizations over time. These institutional frameworks impact a wide range of social and economic outcomes, including fiscal growth.

According to this theory, public governance institutions affect decision-making processes, trade policy and the legitimacy and stability of systems including economic, social and political systems. In doing so, these institutions help to create an enabling environment for international trade, foreign direct investment (FDI) and fiscal development in both developed and developing economies.

In the context of public finance, this theory suggests a positive relationship between public governance and tax revenue. It argues that strong legal and regulatory institutions enhance tax collection by minimizing loopholes, curbing evasion and improving taxpayer compliance. As a result, well-functioning governance structures contribute significantly to increased and sustainable tax revenue generation.

3.0 Empirical Review

Olurankinse & Rufus (2021) carried out a study on the effect of governance and personal income tax compliance in Nigeria from 2012 to 2019. The research employed a quantitative research design, utilizing pooled regression analysis to assess the relationship between tax planning and financial performance. Data were sourced from the annual financial statements and reports of selected Nigerian development banks. The study focused on variables such as Control of Corruption, rule of the law and government effectiveness while tax compliance was measured by Self-reported likelihood to file tax returns on time, fully declare income and willingness to pay assessed liabilities. The study found that effective control of corruption in tax revenue administration positively influences tax compliance in Nigeria. The study also established that adherence to rule of law enhanced confidence in fair dispute-resolution mechanisms and existence of a streamlined legal recourse significantly improves taxpayers' willingness to meet tax obligations when they fall due. The findings suggest that development banks that engage in efficient control of corruption can boost fiscal outcomes further reinforcing the importance of public governance in tax revenue administration.

Apergis (2022) studied institutional determinants of tax revenue mobilization in Nigeria. The study specifically focused on the effect of Corruption, Bribery, Political Stability, Inflation and Interest Rates on tax revenue from the period between 2000 to 2019. Total tax revenue was measured as a percentage of GDP (TR/GDP). The findings revealed that corruption negatively affects tax revenue, suggesting that control of corruption has a significant effect on total tax revenue collected.

Alabede (2025) examined the influence of public governance dimensions on tax revenue in the Sub-Saharan Africa. Public governance dimensions included control of corruption, democracy and accountability as well as rule of law. The study covered 42 Sub-Saharan Africa countries for the period 2002 to 2015 and data were obtained from World Bank database. The study utilized generalized least square approach and the findings revealed that control of corruption, rule of law, democracy and accountability have a positive significant relationship with tax revenue level in SSA. The study also concluded by noting the importance of public governance factors in determining tax revenue in SSA and suggested the need for the policy makers in sub–Saharan Africa to give much attention to governance factors if they desire to enhance tax revenue collection for their countries.

4.0 Conceptual Framework

Conceptual framework depicts the pictorial representation of the relationship between study variables. In this study, public governance was the independent variable while tax revenue was the dependent variable as shown below:

Independent variable Dependent variable

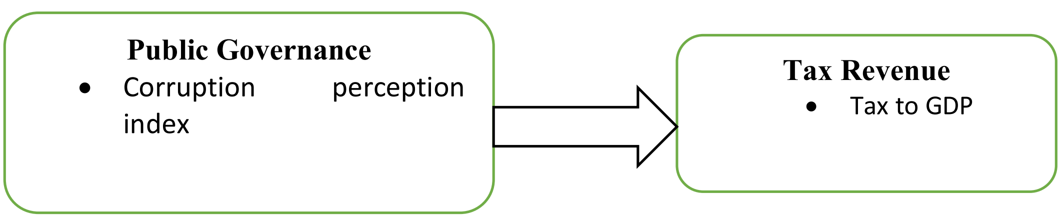

Figure 2.1: Conceptual Framework

5.0 Methodology

The study used descriptive research design and collected secondary data from a population comprising of 6 east Africa community member countries for the period between 2000 and 2023. This time period was chosen because of various reasons. First, the year 2000 marked the year when east Africa community regained their operations after collapse in 1977 due to among others issues such as governance and political ideology differences. Secondly, this period reflected a time when nearly all EAC member countries experienced declining tax revenue amid the clarion call to fully adopt trade liberalization for purposes of fostering regional integration. To empirically examine the relationship between public governance and tax revenue of east Africa community member countries, a panel simple linear regression analysis was conducted using data for six countries. To test the null hypothesis, p-value was used and the null hypothesis was rejected if the P value calculated was less than 5%. The following model was used in estimation:

$TR_{It} = a + \beta_1 X_{1It} + \varepsilon$, where: β= Regression coefficients, X_1=Public governance measured by Corruption perception index, TR= Tax revenue, ε= Error terms.

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Analysis and Findings

6.0 Regression analysis

Regression analysis is a statistical technique commonly used in social sciences for determining the nature, strength and extend of the relationship between one or more independent variable(s) and the dependent variable.

Model Summary

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.298[a]	.089	.083	3.75322315

a. Predictors: (Constant), Public governance

The findings revealed that public governance had a weak correlation with tax revenue. Moreover, the model could explain about 8.9% of the total variations experienced in the value of tax revenue while 91.1% of the total variations in tax revenue of EAC affiliated member countries were attributable to other factors which were not part of this study.

Table 2: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	195.624	1	195.624	13.887	.000[b]
	Residual	2000.309	142	14.087		
	Total	2195.933	143			

a. Dependent Variable: Tax Revenue

b. Predictors: (Constant), Public Governance

The findings indicated that the model was statistically significant and could reliably be used in making predictions on the effect of public governance on tax revenue of east Africa community member countries.

Table 3: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	8.127	.929		8.752	.000
	Public Governance	.120	.032	.298	3.727	.000

a. Dependent Variable: Tax Revenue

The findings established that public governance statistically influences tax revenue of east Africa community member countries implying that strong and accountable governance is a fundamental pillar for effective and sustainable tax revenue mobilization. Moreover, the findings revealed that a unit increase in public governance would result to 0.120 increase in tax revenue of east Africa community member countries underscoring the need to improve governance by controlling corruption, establishing efficient tax administration, promoting taxpayer compliance, minimizing tax leakages, improving tax payers trust in the government and ensuring that tax policies are implemented fairly and transparently.

7.0 Conclusion

The study established that public governance has significant effect on tax revenue underscoring the need for EAC member countries to improve their governance systems in order to improve tax revenue mobilization. In particular, controlling corruption and establishing efficient tax administration systems would help to improve the transparency and accountability of governance institutions to ensure that tax policies are not only implemented fairly but also ensure that public resources are managed responsibly to strengthen trust between the state and its citizens. This trust, in turn, would be critical in encouraging voluntary taxpayer compliance and reducing incidences of tax evasion.

Moreover, the finding that corruption negatively affect tax revenue calls for the need to establish functional public governance institutions for optimal and sustainable tax administration. This is founded on the realization that effectiveness of economic and tax policies largely depends on quality of such public institution in executing their mandate. Remarkably, countries with quality governance institutions tend to have more robust and equitable tax systems than the ones with ineffective public governance institutions.

8.0 Recommendations

Given the positive and significant role of public governance on tax revenue, East African Community (EAC) member states should prioritize establishment and development of robust, transparent and accountable public governance institutions in order to prevent unnecessary tax leakages through vices such as corruption and tax bribes. Notably, the established public governance institutions should be well funded for efficient tax administration and better fiscal management within a liberalized trade framework.

Furthermore, EAC member countries should enact laws as a strategy to curb corruption in order to minimize tax leakages, which are common tax challenges in many developing economies. The enacted laws should also be well implemented to inculcate a culture of integrity, transparency, rule of the law and accountability in public institutions. This would then support increased trade volumes, attract foreign direct investments and generate more sustainable public revenues for supporting developmental programmes.

Moreover, EAC member countries should step up fight against corrupt practices in both tax administration and other institutions in charge of public revenue by undertaking frequent tax audits. Also, EAC member countries should adopt social approach towards controlling corrupt practices by remunerating tax officers and other public servants in accordance with the nature of the job they do to discourage temptation of taking bribes to meet short fall in their payment.

The study recommends that East Africa community member countries should improve the capacity of tax administrators through trainings in order to equip them with necessary skills for tax collection and tax management for effective service delivery. Tax administrators should also be trained on acceptable ethical conduct and behavior expected as they undertake their fiducial duty to collect taxes for their country.

EAC member countries should sensitize and educate tax payers on why they need to pay taxes to the government and why they need to obey the applicable tax laws. Moreover, the existing tax laws need to be reviewed frequently as situation dictate to keep abreast with changes in the society. As a result, this would promote voluntary tax compliance, improve filing of tax returns, reduce incidence of under reporting of taxable income, overstating tax claims and ensure that tax payers promptly pay taxes when they fall due.

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