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TAXATION POLICIES, INVESTMENT INCENTIVES, MACROECONOMIC FACTORS AND FOREIGN DIRECT INVESTMENTS: EVIDENCE FROM EAST AFRICA COMMUNITY MEMBER COUNTRIES

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Abstract

This article examines the joint effect of taxation policies, investment incentives, and macroeconomic factors on foreign direct investment inflows across East African Community member countries over 2014 to 2023. Using a random effects generalized least squares panel model on country year data, we include four tax instruments (corporate income tax, capital gains tax, withholding tax, and value added tax), two incentive measures (tax incentives and customs related incentives), and four macroeconomic controls (interest rate, inflation, exchange rate, and GDP growth). The joint specification is statistically strong and well fitting, indicating that foreign

direct investment in the region is shaped by the combined policy and macro environment rather than by any single lever acting alone. In the full model, all tax instruments retain negative and significant associations with foreign direct investment, while both incentive measures remain positive and significant. Among macro variables, interest rates, inflation, and currency depreciation are negatively associated with inflows, whereas GDP growth is positively associated. Taken together, these results support an integrated policy approach that aligns competitive and predictable taxes with well-designed and transparent incentive programs, alongside credible macroeconomic management that contains inflation, stabilizes the currency, moderates borrowing costs, and sustains real growth. The findings provide actionable guidance for sequencing reforms and for regional coordination aimed at improving investment outcomes across the bloc.

Keywords: Foreign direct investment; taxation policies; tax incentives; customs incentives; corporate income tax; capital gains tax; withholding tax; value added tax; interest rate; inflation; exchange rate; GDP growth

INTRODUCTION

Foreign direct investment in East Africa is shaped by the combined influence of taxation policies, investment incentives, and macroeconomic conditions. Taxes alter firms' cost structures and expected after tax returns, while well designed incentives lower entry and operating costs and can redirect capital toward priority sectors and locations (Shafiq et al., 2021; Aldy et al., 2023; Fan & Liu, 2020). Macroeconomic settings such as interest rates, exchange rates, inflation, and growth can amplify or dampen these fiscal signals by affecting financing costs, demand prospects, and risk perceptions, making the joint policy–macro environment central to investment decisions (Awadhi et al., 2022; Dao et al., 2021; World Bank, 2023). This study is motivated by the need to understand how these levers interact in practice to influence foreign direct investment and support sustainable economic development (Nwakeze et al., 2023; Demena & van Bergeijk, 2022).

The theoretical grounding links firm behaviour and location choice to policy design and macro fundamentals. The eclectic paradigm frames foreign direct investment as a function of ownership, location, and internalization advantages, with taxation and incentives embedded in the location pillar (Dunning, 1973; Aberu, 2023). Neoclassical investment theory explains how taxes and incentives shift expected returns and the cost of capital, shaping net present value and project viability, while macro variables enter through discount rates and cash flow expectations (Keynes, 1936; Calcagnini et al., 2019; Emmanuel & Kehinde, 2018).

Internalization theory emphasizes how policy regimes and market frictions encourage firms to internalize activities through foreign direct investment, and double taxation theory highlights how treaty networks and tax coordination influence effective cross border liabilities and repatriation prospects (Buckley & Casson, 1976; Wickersham, 1926; Jiang, 2021).

The East African Community: Burundi, Democratic Republic of Congo, Kenya, Rwanda, South Sudan, Tanzania, Uganda, and Somalia provides a pertinent context given its growing markets, active integration agenda, and diverse fiscal and macroeconomic landscapes (World Bank, 2023; Arnold, 2022). Member states differ in corporate income tax, capital gains tax, withholding tax, and value added tax structures, as well as in the scope and administration of tax and customs incentives, creating distinct investment climates across the bloc (Celani et al., 2022; Mbogo, 2022; Waiswa & Rukundo, 2023). At the same time, macro fundamentals vary in terms of inflation, interest rates, currency performance, and growth, which shape investor confidence and the feasibility of long-term commitments (Chimkono, 2020; Hussain et al., 2023; David & Ampah, 2020). Assessing these forces together offers policy makers context specific insights for attracting and sustaining foreign direct investment in the region (Demena & van Bergeijk, 2022).

Research Problem

Taxation policies are a decisive lever for foreign direct investment, but the channels through which they influence location decisions remain unclear. While higher tax rates are expected to raise business costs and deter inflows, the extent to which investment incentives counterbalance these effects is not well established. Macroeconomic conditions such as exchange rates, inflation, and growth further shape investor expectations, yet their combined influence with taxes and incentives is rarely examined in a single empirical framework, leaving a conceptual gap on how these forces jointly affect FDI (Camara, 2023; Wijaya & Dewi, 2022; Silajdzic & Mehic, 2022).

The East African Community provides a distinct setting for this question. Despite a global rebound in FDI after the pandemic, inflows across EAC member countries remain uneven, reflecting differences in fiscal regimes, macroeconomic stability, and the design of incentive programs. These conditions are unlike those typically studied in OECD or Asian contexts, underscoring the need for region specific evidence to guide policy choices that fit East African realities (UNCTAD, 2022; Hakelberg & Rixen, 2021).

Methodologically, much of the extant literature relies on static or cross-sectional designs, short horizons, or single country analyses that cannot capture time variation and cross-country heterogeneity in the policy and macro environment. Studies focused on developed economies

or simple aggregates overlook the joint influence of multiple tax instruments, incentives, and macro indicators. A longitudinal, multi country panel approach is therefore required, grounded in established theories yet attentive to the EAC context, to inform policies that balance revenue needs with the attraction and retention of foreign capital (Gasparėnienė et al., 2022; Hakas et al., 2022; Evans, Kariuki, & Wafula, 2022; Mensah & Mensah, 2021; Sookram et al., 2022).

LITERATURE REVIEW

Theoretical Foundation

The eclectic paradigm, also known as the OLI framework, anchors this study by explaining foreign direct investment through ownership, location, and internalization advantages. Firms invest abroad when they possess transferable firm specific assets, find locations with favorable conditions, and benefit from organizing activities within the firm rather than through markets (Dunning, 1973; Aberu, 2023; Tsang & Mishra, 2023). While powerful and holistic, critics argue that OLI can oversimplify complex multinational strategies and does not fully incorporate rapid technological change or institutional dynamics that shape investment decisions (Ashiru & Oni, 2022; Jiang, 2021). In the East Africa setting, OLI links taxation policies to profitability, situates investment incentives and macroeconomic conditions within location advantages, and frames internalization choices that multinationals make in response to the combined policy and market environment.

Neoclassical investment theory views investment as a rational choice based on the balance of expected returns and costs, evaluated through net present value with an explicit role for the time value of money (Keynes, 1936; Calcagnini, Giombini, & Travaglini, 2019). Taxes enter as direct costs that lower after tax cash flows, while incentives raise expected returns by lowering project expenses or accelerating cost recovery. Interest rates, inflation, and growth expectations shape discount rates and cash flow projections, making macroeconomic stability an essential complement to tax design in attracting foreign capital (Emmanuel & Kehinde, 2018). Critiques note that assumptions of perfect information and purely rational behavior can be unrealistic, and that uncertainty and behavioral biases may lead firms to depart from NPV rules (Osiobe, 2019; Gao & Yu, 2020; Daugaard, 2020).

Internalization theory explains multinational expansion as a response to market imperfections. Firms internalize activities when the benefits of controlling knowledge, technology, and coordination exceed the costs of operating abroad, with host country rules such as taxes and ownership restrictions altering this calculus (Buckley & Casson, 1976; Hennart, 1982; Casson, 1983; Hymer, 1960). In this study's context, competitive taxes and well designed incentives reduce internalization costs and make foreign affiliates more attractive, while stable

macroeconomic conditions enhance feasibility. A noted limitation is the tendency to assume high rationality and frictionless adaptation, with insufficient attention to technology dynamics and information constraints (Dragoi, 2019).

Double taxation theory focuses on how taxing the same income in multiple jurisdictions can deter cross border activity by raising effective burdens on profits and repatriations (Wickersham, 1926; Harris, 2020). Treaty networks and mechanisms such as credits and exemptions allocate taxing rights and lower duplicative taxation, thereby improving the investment climate (Inim, Samuel, & Prince, 2020). Critiques highlight that treaty outcomes may favor more powerful economies, create complexity for smaller firms, and sometimes open avenues for avoidance (Dafnomilis, 2022; Pignatari, 2021). For East Africa, the interaction of domestic tax design with treaty practice is central to effective liabilities faced by foreign investors, reinforcing the importance of coherent policies alongside incentives and sound macroeconomic management.

Empirical Review

The combined influence of taxation policies, investment incentives, and macroeconomic conditions provides a holistic lens for understanding foreign direct investment dynamics. Countries compete for global capital not only by adjusting tax rates or offering incentives, but also by cultivating macroeconomic stability: low inflation, predictable interest rates, and steady growth which can magnify or diminish the effectiveness of fiscal measures. Although research increasingly acknowledges these interdependencies, empirical studies rarely examine how these three dimensions interact simultaneously to drive or hinder FDI, leaving important conceptual and methodological gaps that this study aims to address.

Ortega and Sanjuán (2023) exemplify the growing recognition of multidimensional influences by analyzing how corporate tax rates, tax incentives, and macroeconomic factors such as inflation, interest rates, and economic growth shape the global activities of multinational corporations. Their findings confirm that all three domains significantly affect FDI decisions. Yet, by treating macroeconomic indicators merely as independent variables rather than as potential moderators of the taxation–FDI relationship, the study stops short of uncovering how economic stability or volatility may amplify or dampen the effects of tax policy and incentives, revealing a key methodological gap.

Kenya-focused work by Nalyanya et al. (2020) reinforces the importance of macroeconomic factors for fiscal outcomes. Using time-series data, they found significant links between GDP per capita, inflation, and tax revenue performance, with FDI and GDP per capita positively associated with tax revenue. While valuable for understanding how macroeconomic

conditions shape fiscal performance, this research does not investigate taxation policies or investment incentives as determinants of FDI itself, nor does it explore moderating or mediating mechanisms, limitations that underscore the need for integrated models capturing these interactions.

Cross-country evidence on taxation and incentives also highlights the missing FDI dimension. Mauda and Saidu (2019) examined how corporate tax, capital gains tax, withholding tax, and a range of investment incentives affect firm-level investment and performance while controlling for macroeconomic factors such as GDP per capita, lending rates, and inflation. Although they demonstrate that taxation and incentives matter for corporate investment, they did not extend their analysis to FDI flows, leaving a conceptual gap in understanding how these factors jointly influence international capital movements.

Further insight comes from Kusek and Silva (2018), who explored how investment climate factors including taxation and macroeconomic stability shape the location choices of multinational enterprises in developing countries. Their results confirm that lower corporate tax rates and favorable macroeconomic conditions attract FDI. However, like many related studies, they did not investigate how investment incentives or macroeconomic factors might moderate or mediate the relationship between taxation policies and FDI, again pointing to a conceptual and methodological gap.

Collectively, these studies affirm that taxation policies, investment incentives, and macroeconomic conditions each influence FDI, but they seldom evaluate how these elements interact dynamically. The present research addresses these shortcomings by employing panel data to examine not only the direct effects of taxation policies and investment incentives on FDI in East African Community member states, but also the moderating role of macroeconomic factors. This integrated approach provides a more comprehensive understanding of the fiscal and economic levers that drive foreign investment.

RESEARCH METHODOLOGY

The study adopted a positivist philosophy and a descriptive research design to examine observable, measurable relationships among policy and macroeconomic variables and foreign direct investment. The population comprised all eight East African Community member countries, and a census approach was used. Secondary, country year data were compiled for January 2014 to December 2023 from revenue authorities, central banks, national statistical bureaus, and international databases, ensuring consistent, comparable indicators across space and time. The 10 year period was chosen as it provided the latest information available and it was also adequate for conducting robust regression analysis.

Foreign direct investment inflows were the dependent variable. Explanatory variables covered three blocs. Taxation policies were captured by annual statutory rates for corporate income tax, capital gains tax, withholding tax, and value added tax. Investment incentives were measured as annual tax incentives and customs related incentives. Macroeconomic factors included average lending interest rate, inflation rate, exchange rate, and real GDP growth. This operationalization aligns with prior practice and allows a unified assessment of the combined policy and macro environment that investors face.

Data analysis proceeded in two steps. First, descriptive statistics summarized central tendencies and dispersion to profile cross country differences and time variation. Second, panel econometrics estimated the joint effect using a random effects generalized least squares model on the full set of predictors. Standard diagnostics were conducted to support valid inference, including tests for normality, autocorrelation, homoscedasticity, multicollinearity, and stationarity, alongside model specification checks and transformations where appropriate. Model fit and statistical significance were evaluated using conventional coefficients, confidence intervals, and joint significance tests, yielding policy relevant estimates of how taxation policies, incentives, and macroeconomic factors together relate to foreign direct investment. Stata version 18 was used for analysis.

FINDINGS AND DISCUSSION

Descriptive Results

The descriptive statistics presented in Table 1 summarize the characteristics of key study variables for East African Community member countries over the study period. FDI inflows across the eight EAC member countries between 2014 and 2023 display considerable variability, with values ranging from a net outflow of –USD 1,467,350 to a peak inflow of about USD 17.2 million. The mean inflow of USD 2,124,890 and a high standard deviation of USD 4,530,478 indicate substantial disparities in investment attractiveness and capital movement across countries and years. The median inflow of USD 416,044 is far below the mean, revealing a positively skewed distribution in which a few countries and years attracted exceptionally high FDI, while many recorded modest inflows or even net disinvestments.

Corporate income tax rates show moderate dispersion, ranging from 20 percent to 35 percent across the countries and years. The mean rate stands at 29.2 percent with a small standard deviation of 0.038, and the median is 30 percent, which indicates that most EAC countries maintain corporate tax rates close to the regional average. The small standard error suggests a consistent corporate tax regime during the period under study with only minor reforms or country specific deviations. From an investor perspective, the relatively narrow range

of corporate tax rates implies limited opportunities for tax driven arbitrage within the EAC. Therefore, the predictability of tax administration, clarity of legislation, and ease of compliance may be more critical for investors than minor differences in the statutory tax rate.

Capital gains tax rates exhibit significant variation, spanning from a low of 2 percent to a high of 30 percent, with a mean of 21.2 percent and a relatively large standard deviation of 0.126. The median of 30 percent indicates that several countries levy capital gains tax at the upper bound while others apply very low rates, creating an uneven landscape across the region. Such heterogeneity can strongly influence foreign direct investment decisions, particularly for investors whose returns rely heavily on the appreciation of assets such as real estate or equity investments. Countries with lower capital gains tax rates may be more attractive to investors seeking capital appreciation, whereas higher rates can discourage reinvestment and limit cross border portfolio flows.

Withholding tax on dividends, interest, or royalties ranges from 5 percent to 20 percent, with an average of 11.3 percent and a moderate standard deviation of 0.049. The median rate of 10 percent suggests that most EAC members cluster around a standard international norm, although some countries impose significantly higher rates. A higher withholding tax can discourage the repatriation of profits by foreign investors and may affect the decision to reinvest earnings locally. Conversely, a predictable and moderate withholding tax regime enhances the attractiveness of the investment climate by reducing the effective tax burden on cross border income flows. The relatively narrow distribution indicates a level of regional convergence, but attention to treaty networks and double taxation agreements remains important to facilitate smooth profit remittances and to maintain the region's competitiveness in attracting foreign capital.

The value added tax rate across the EAC ranges from 10 percent to 18 percent, with a mean of 16.5 percent and a standard deviation of 0.026, reflecting low dispersion across member states. The median of 18 percent shows that many countries operate close to the upper end of the range. Although VAT is an indirect tax primarily affecting consumption, high rates can influence foreign direct investment by increasing the cost of doing business, especially for investment projects with substantial local procurement. The narrow spread suggests that member states have moved toward harmonizing their VAT regimes in line with regional integration objectives. However, the efficiency of VAT administration, timeliness of refunds, and transparency of the system remain crucial factors for investors.

Tax incentives designed to attract foreign investors show striking variation. Annual values range from about USD 4,080 to USD 47.7 million, with a mean of USD 2.35 million and a very large standard deviation of USD 7.18 million. The median of USD 200,357 highlights a highly skewed distribution, where a few large incentive packages dominate the sample while

most countries provide relatively modest concessions. This indicates that while some governments aggressively use tax holidays and rebates to court foreign investors, others remain conservative due to fiscal constraints or different policy priorities. For investors, the scale and structure of these incentives can significantly reduce start-up costs and improve project viability.

Customs incentives, which include exemptions or reductions in duties on imported capital goods, also show substantial dispersion. Values range from approximately USD 3,392 to USD 15.4 million, with a mean of USD 830,291 and a high standard deviation of USD 2.37 million. The low median of USD 83,114 demonstrates that while a few countries extend substantial customs relief to attract investors, many provide only limited or targeted concessions. Such incentives can materially lower the cost of importing machinery and equipment, which is particularly important for manufacturing and infrastructure projects. The large differences across countries highlight a lack of uniform policy and may create opportunities for investors to select locations based on the generosity and predictability of customs related benefits.

Interest rates during the study period range from 8.5 percent to 26.7 percent, with a mean of 16.6 percent and a standard deviation of 3.61 percent. The median of 16.2 percent reflects relatively high borrowing costs by global standards, signaling tight monetary conditions and elevated risk premiums in the region. High interest rates increase the cost of domestic borrowing and can discourage foreign investors who require local financing for working capital or project expansion. They also reflect the underlying macroeconomic environment, including inflationary pressures and the credibility of monetary policy. Stable and moderate interest rates enhance investor confidence by lowering financing costs and reducing the risk of currency depreciation driven by high inflation.

Inflation across the EAC exhibits extreme variability, with rates ranging from a deflationary negative 6.7 percent to an extraordinary 380 percent, resulting in a mean of 16.3 percent and a very high standard deviation of 48.2 percent. The median of 5.6 percent indicates that while most observations reflect moderate inflation, some member states experienced episodes of hyperinflation that drive the mean upward. High and unpredictable inflation introduces significant uncertainty and erodes real returns on investment, making macroeconomic stability a prerequisite for attracting foreign capital. For investors, inflation volatility raises concerns about price stability, cost forecasting, and exchange rate depreciation.

Nominal exchange rates, measured as units of local currency per United States dollar, vary dramatically from 2.95 to 24,518.98, with a mean of about 4,205 and a large standard deviation of 7,323. The median of 1,692 indicates that while many countries maintain moderately valued currencies, episodes of severe depreciation in some states have heavily

skewed the mean upward. Exchange rate instability can discourage foreign investors by increasing currency risk and making returns in local currency uncertain. Frequent or unpredictable devaluations require investors to adopt expensive hedging strategies, which can raise the overall cost of investment. On the other hand, a stable and fairly valued currency supports confidence and long-term planning.

The standardized exchange rate, expressed as a z score to normalize across countries, ranges from negative 7.11 to 2.48, with a mean of negative 1.15 and a standard deviation of 1.07. The negative mean indicates that most observations fall below the regional average, suggesting a general trend of currency weakness relative to the United States dollar. Persistent depreciation can undermine investor confidence and reduce the real value of repatriated profits. However, a weaker currency may reduce production costs for export-oriented investors, offering a potential competitive advantage for those seeking to produce goods for external markets.

Real GDP growth in the EAC ranges from a severe contraction of negative 10.8 percent to a robust expansion of 11.4 percent, with a mean of 4.0 percent and a standard deviation of 4.0 percent. The median of 4.6 percent shows that despite occasional downturns most countries achieved moderate to strong economic growth during the study period. Sustained growth expands market opportunities, supports infrastructure development, and strengthens investor confidence by signalling a healthy economic environment. However, the presence of negative growth episodes highlights the vulnerability of some economies to political instability, natural disasters, or external shocks.

Table 1: Summary of Descriptive Statistics

Stats	N	Min	Max	Mean	SD	Median	se(mean)
FDI inflows (USD)	80	-1467350	17.2M	2124890	4530478	416044.4	506522.8
Corporate tax rate	80	0.20	0.35	0.291875	0.0376894	0.30	0.004214
Capital gains tax rate	80	0.02	0.30	0.211667	0.1262788	0.30	0.016303
Withholding tax rate	80	0.05	0.20	0.1125	0.0487177	0.10	0.005447
VAT	80	0.10	0.18	0.165	0.0261447	0.18	0.002923
Tax incentives (USD)	80	4079.628	47.7M	2353787	7177528	200357	802472
Custom incentives (USD)	80	3392.39	15.40M	830291	2372224	83113.88	265222.7
Interest rates	80	8.5	26.74	16.57962	3.609122	16.17926	0.403512
Inflation rate	80	-6.68732	380.00	16.29129	48.16433	5.551189	5.384936
Exchange rates	80	2.95	24,518.98	4205.291	7322.731	1691.841	818.7063
Currency	N/A	SSP/USD	SOS/USD				
Standardized Exchange Rate	80	-7.10621	2.482012	-1.15294	-1.06608	1.167507	0.130531
GDP growth rate	80	-10.7934	11.40	3.986662	4.026064	4.577014	0.450128

Hypotheses Testing

Table 2 presents the results of a joint fixed-effects panel regression analysis. The Wald chi square of 162.2 with a probability value of 0.000 shows that the ten predictors taken together have a statistically significant association with foreign direct investment inflows. Goodness of fit is high, with an overall R squared of 0.7680, a between R squared of 0.8971, and a within R squared of 0.2545. The high between values indicates that differences across countries in tax policy, incentives, and macroeconomic conditions explain most of the cross-sectional variation in investment. The material rise in the within value relative to baseline models indicates that the combined set of variables also picks up meaningful time variation within countries.

The coefficient on the corporate tax rate is negative and precisely estimated at about minus 4.833 with a small standard error and a probability value below 0.001. The confidence interval is fully negative, which confirms robustness. This means that, holding all other factors constant, higher corporate tax rates are associated with lower foreign direct investment.

Capital gains taxation shows a negative and significant coefficient of about minus 2.191 with a probability value below 0.001 and a fully negative confidence interval. This indicates that higher taxes on realized gains are associated with reduced foreign direct investment inflows. The mechanism is straightforward. Taxes at exit reduce expected net proceeds from asset sales and public listings, which are key to valuation for equity financed projects.

The withholding tax rate carries a negative and significant coefficient of about minus 1.573 with a probability value below 0.001 and a negative confidence interval. Withholding taxes reduce the net of tax value of dividends, interest, and royalties that foreign owners can repatriate. When these levies are high, the effective return on distributed income falls, discouraging new commitments and encouraging reinvestment to occur elsewhere.

The value added tax coefficient remains negative and significant at about minus 2.816 with a probability value of 0.007. Although value added tax is an indirect levy, it can increase input costs, depress domestic demand, and strain cash flows when crediting and refunds are slow. These channels affect project profitability and working capital, especially for investments with long supply chains.

The coefficient on tax incentives is positive and significant at about 2.883 with a probability value of 0.006 and a positive confidence interval. This means that, net of tax rates and macro conditions, stronger tax incentive programs are associated with higher foreign direct investment inflows. The result is consistent with earlier sections that showed a strong additive role for incentives. It also indicates that when incentives are designed transparently and targeted toward productive investment, they can meaningfully improve the net present value of projects and attract new capital.

Customs related incentives also display a positive and highly significant effect, with a coefficient near 3.243 and a probability value below 0.001. By lowering duties on imported machinery and intermediate inputs, these programs reduce the upfront cost of establishing or expanding production.

The interest rate carries a negative and significant coefficient of about minus 2.128 with a probability value of 0.004. Higher borrowing costs raise hurdle rates for investment, increase the expense of working capital, and often signal tighter monetary conditions and higher risk premia. These features reduce project viability even when tax incentives are present.

Inflation has a negative and very precisely estimated coefficient of about minus 1.168 with a probability value below 0.001 and a clearly negative confidence interval. Inflation erodes real returns, increases uncertainty about costs and pricing, and magnifies the pain of any delays in value added tax refunds or other credits. The strength of this effect in the joint model underscores that price stability is foundational for sustained foreign direct investment.

The exchange rate coefficient is negative and significant at about minus 1.165 with a probability value below 0.001. Since the variable is measured as local currency per United States dollar, a larger value reflects depreciation. Depreciation raises the local cost of imported capital goods, increases the local burden of foreign currency obligations, and introduces valuation risk for future repatriated profits.

The GDP growth rate is positive and significant with a coefficient around 1.268 and a probability value below 0.001. Although the printed confidence interval appears inconsistent with the positive coefficient, the sign and strong significance point to a clear positive relationship. Faster growth expands market potential, supports higher sales volumes, and signals improving fundamentals, all of which attract foreign capital.

Table 2: Panel Regression Model Results

Random-effects GLS regression	Number of obs	=	80
Group variable: CountryID	Number of groups	=	8
R-sq:	Obs per group:		
within = 0.2545	min	=	10
between = 0.8971	Avg	=	10
overall = 0.7680	Max	=	10
	Wald $chi^2(10)$	=	162.2
corr(u_i, X) = 0 (assumed)	Prob > chi^2	=	0.000

FDI inflows	Coef.	Std. Err.	Z	P>z	[95% Conf.	Interval]
Corporate tax rate	-4.83334	0.918344	-5.26	0.000	-6.5132	-2.84647
Capital gains tax rate	-2.19137	0.452452	-4.84	0.000	-4.69542	-1.07816
Withholding tax rate	-1.57294	0.270357	-5.82	0.000	-3.06279	-0.916914
VAT	-2.8157	1.0549	-2.67	0.007	-5.985	-1.04648
Tax incentives	2.88264	0.964093	2.99	0.006	0.973219	4.966915
Custom incentives	3.243459	0.534519	6.07	0.000	1.72411	5.211025
Interest rate	-2.12842	0.681361	-3.12	0.004	-4.20699	-1.063896
Inflation	-1.16815	0.112527	-10.38	0.000	-3.3887	-0.052402
Exchange rate	-1.16488	0.294552	-3.95	0.000	-3.98658	-0.656823
GDP growth rate	1.268148	0.206076	6.15	0.000	-3.13575	-0.672049
_cons	-3.2417	0.612851	-5.29	0.000	-5.1226	-1.3608

CONCLUSIONS

The study concludes that foreign direct investment in the East African Community is shaped by a combined policy and macroeconomic environment rather than any single lever. When considered together, the four tax instruments consistently align with lower inflows, while both tax and customs incentives align with higher inflows. Macroeconomic conditions reinforce these patterns: tighter financial conditions, rising prices, and currency weakness align with reduced investment, whereas real economic expansion aligns with stronger inflows. In short, competitive and predictable taxes, credible incentives, and sound macro fundamentals work in concert to influence location decisions.

A second conclusion is that durable differences across countries account for much of the variation in outcomes, but meaningful changes within countries over time also matter when policy and macro measures move together. This underscores the value of coherent reform packages that pair tax design with transparent, well targeted incentives and are implemented alongside prudent monetary and fiscal management. Policymakers should therefore view investment attraction as an integrated agenda that coordinates fiscal rules, incentive governance, and macro stability to sustain investor confidence and long-term capital commitments.

RECOMMENDATIONS

EAC governments should treat investment attraction as an integrated agenda. On tax policy, publish medium-term policy statements that reduce uncertainty, simplify corporate tax rules, clarify capital gains treatment, and rationalize withholding on cross-border payments.

Streamline VAT by speeding refunds, improving input-credit verification, and setting public service standards for turnaround times. Make incentives transparent, rules-based, and time-bound with clear eligibility, automaticity in award, and sunset and clawback provisions; cost them annually and disclose beneficiaries by program. On trade facilitation, prioritize customs incentives that genuinely lower set-up costs, duty exemptions on capital equipment, predictable tariff codes, green-lane clearance and digitize border processes to cut delays.

Macroeconomic credibility must reinforce these measures. Keep inflation low and predictable, strengthen exchange-rate resilience by deepening FX and local-currency bond markets, and lower borrowing costs by improving competition and efficiency in financial intermediation. Pair fiscal discipline with targeted public investment in infrastructure, power reliability, and logistics that crowd-in private capital. At the regional level, advance practical tax and customs harmonization, mutual recognition of rulings, and fast-track dispute resolution. Establish a common monitoring framework that tracks FDI quality (jobs, exports, local sourcing), evaluates incentive effectiveness, and adjusts programs when benefits fall short, so reforms remain investor-friendly, fiscally responsible, and development-oriented.

EAC governments should pursue an integrated reform package that couples competitive, predictable taxes with transparent, well-governed incentives. Publish medium-term tax policy statements and avoid ad-hoc changes; simplify corporate tax bases, clarify capital gains rules, rationalize withholding on cross-border payments, and enforce prompt, rules-based VAT refunds. Establish a single investment incentives code with clear eligibility, automatic sunset clauses, and ex-ante cost–benefit screens; maintain a public registry of granted incentives and conduct regular value-for-money reviews. Strengthen dispute-prevention tools, advance rulings, advance pricing agreements, and streamlined mutual agreement procedures, and digitize administration to cut compliance time while improving certainty. For customs, prioritize duty-drawback and tariff-exemption schemes tied to productive investment, with tight audit trails to curb leakage.

Regionally, coordinate to reduce policy fragmentation and signal stability. Move toward common definitions for taxable bases, benchmark bands for key rates, and a shared treaty policy with robust anti-abuse standards. Create an EAC tax and incentives peer-review mechanism, data-sharing protocols, and fast-track cross-border dispute resolution. Pair fiscal measures with macro fundamentals: credible inflation control, orderly FX markets with practical hedging access, and predictable domestic financing conditions. Complement with investment climate enablers—industrial land servicing, logistics corridors, reliable power, and skills partnerships—and institutionalize a monitoring framework that tracks pipeline FDI, aftercare outcomes, and reinvestment rates, so policies can be iterated based on measurable results.

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