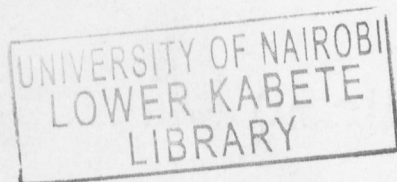


**THE EFFECTS OF KENYA REVENUE AUTHORITY REGULATIONS
ON KENYA'S INTERNATIONAL BUSINESS IN EAST AFRICA**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS**

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NOVEMBER 2014

DECLARATION

This research project is my original work and has not been submitted for examination in any other university.

Signed Muhoro Date 13/11/14

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ACKNOWLEDGEMENTS

I would like to thank God for making it possible for me to be able to pursue my MBA. I would also love to extend my sincere gratitude to all the wonderful people who assisted me in making this research a success. I am especially greatly indebted to my Supervisor, Dr. John Yabs for his invaluable support, suggestions and guidance. I am also grateful to Mr. Eliud Mududa, my moderator for his guidance.

Sincere gratitude goes to my supervisors and colleagues at work, who understood of my absence during the period of my studies. They also made time in their busy schedule to answer my interview questions.

In a special way I thank my fellow MBA students, especially Ruth Wanjiku, Kafura Gitau and George Njeru for their assistance, as well as encouragement and moral support. They were a welcome relief during the challenging times of the study.

I also thank the staff of University of Nairobi whose assistance contributed to the smooth flow of my studies and research.

Finally, I would like to thank my family members and friends who were my biggest cheerleaders; their support was astounding.

DEDICATION

This work is dedicated to my wonderful family, my mother Teresa Muhoro and my sister Mary Muhoro, for their invaluable prayers, encouragement and support throughout my pursuit of the MBA program. I also dedicate it to the wonderful man in my life, my best friend, George Njeru. Without you, this would not have been possible.

ABSTRACT

This study was carried out with the aim of identifying the place, if any, of national institutions within international trade. It sought to do so within the East African Community, specifically Kenya's international business with her EAC counterparts. The Kenya Revenue Authority was chosen as it has more interactions with the EAC members, especially at the borders. In the first chapter, the study explores the background of the study with emphasis on the concept of international business as well as the concept of regional integration. Attention is accorded to the East African Community, especially the integration process of the EAC as well as the customs union. The customs union is given special attention because in Kenya, the responsibility of customs roles and procedures fall under the KRA docket. As such, there is also an introduction to the Kenya Revenue Authority within this first chapter, giving a detailed description of this major national institution. Chapter two focuses on the literature aspect related to the study. It delves into the theoretical foundation of the study, presenting different views espoused on regional integration. It is here that there is an exploration of the nature of regional blocs, outlining the process of regional integration. The practice of regional integration is also outlined with emphasis on what characterizes a successful integration process. It is here that the characteristics of regional blocs are outlined. Chapter three is on the methodology used in the study. A qualitative case study approach was employed as the study was focused on one organization. Respondents were drawn from officers stationed at seven border points, which were deemed to be major entry and exit points into the EAC countries. Chapter four is about data analysis, results and discussions. The results were analysed and are presented in tables and figures. It is here that the effects of KRA's regulations on cross border trade within the EAC are discussed. In chapter five is a discussion of the summary of the findings, as well as the conclusions and recommendations. The study results showed that KRA has a role to play in Kenya's international business within the EAC, especially in the area of clearance of goods and border security. It revealed that KRA's policies and regulations have a positive effect on how smooth business flows across the borders, and that a lapse in implementation of some of the institution's policies results in a negative effect on business across the EAC.

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ABBREVIATIONS AND ACRONYMS

CET	Common External Tariff
EAC	East African Community
EU	European Union
FDI	Foreign Direct Investments
GATT	General Agreement on Trade and Tariff
GDP	Gross Domestic Product
KRA	Kenya Revenue Authority
LTO	Large Taxpayers Office
MST	Medium and Small Taxpayers
RDL	Railway Development Levy
WTO	World Trade Organization
KEPHIS	Kenya Plant Health Inspectorate Service
KEBS	Kenya Bureau of Standards

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The practice of international business has been around for a very long time, since man's venture into far of places, and discovery of new lands. This international trade continued and is still continues up to date. As things stand now, countries are constantly engaging in business with each other. It is the norm to find some products whose different parts are manufactured in different countries and assembled in another to make a complete whole. This internationalization especially of manufacturing has led to the internationalization of trade. This has been made possible by such factors as trade liberalization, non-tariff barriers, government policies, and emergence of regional trading blocs among others. The concept of regional trading blocs has become a key factor in the conduct of international business. Today, most countries belong to a trading bloc, some even more than one. These blocs champion the needs of their members, which more often than not tend to differ thereby complicating the conduct of international business.

The format of international business has changed to incorporate new aspects such as Foreign Direct Investments (FDI). The coming together of nations to front similar financial agendas is a concept that is synonymous with the global political landscape today. The European Union (EU) is a good example of successful regional integration. It changed the way the member states conducted business, such that where there were several documents and stops to be made while ferrying goods from one country to another, this was drastically reduced, make the process of doing business seamless. The success of the EU, even to the extent of adopting a common currency, highlighted a new

realization, that it was possible for countries to form regional blocks and gain from such integration.

In Kenya, international business is commonplace. Kenya has become a hotbed for foreign investors as they clamor for a piece of this growing economy. This therefore means that even national institutions have been caught up in the melee especially with Kenya's membership in key regional blocs. As such, major national institutions have a role to play in the field of international business. One such national institution is the Kenya Revenue Authority (KRA). KRA is principle in the conduct of Kenya's international business especially within the EAC. This is because; Kenya is major economy in the East African region, in fact the biggest economy. KRA has a great influence on trade conduct within the EAC as it is responsible for the enforcement and management of customs laws, as well as the administration of Common External Tariff. This is in addition to being the principle revenue collector of the largest economy in East Africa.

1.1.1 Concept of International Business

International business refers to all commercial transactions be they sales, investments and transportation, that take place between two or more countries. International business, simply put, is business across national borders. International business developed from international trade which as old as Man's civilization. According to Yabs, (2006), international trade can be traced back to 2500B.C. in Mesopotamia during King Hammurabi's reign. International trade is engaged through export and import strategies. Exporting is an entry strategy involving the sale of products or services to customers

located abroad from the home country. Importing also known as global sourcing is the procurement of products or services from suppliers located abroad.

International investment is a concept within International business which is concerned with the transfer of assets to another country or acquisition of assets in that country. These assets include factors of production that is, capital, technology, managerial talent, manufacturing infrastructure among others. One major strategy adopted for international investment is through Foreign Direct Investments (FDI). Through this strategy, the firm establishes a physical presence abroad through acquisition of productive assets such as capital, land, technology, labour plant and equipment.

International business in Kenya can be traced back to the arrival of the British and the granting of Royal Charter to East African Company to rule. On becoming a British colony, business organizations came into being. These organizations orchestrated the development of International business in Kenya as they engaged in trade, bringing supplies for the British settlers in the country.

1.1.2 Concept of Regional Integration

Regional integration refers to an arrangement for enhancing cooperation through regional rules and institutions entered into by states of the same region. It is the process by which two or more nation-states agree to cooperate and work closely together to achieve peace, stability and wealth. Regional integration may be driven by the need for meeting similar political or economic goals, but more often than not, it is for economic reasons. Usually, integration involves one or more written agreements that describe and outline the areas of

cooperation as well as the coordinating bodies representing the countries involved. In economic integration, countries agree to remove trade barriers between them. These trade barriers could be in the form of tariffs, quotas and border restrictions.

1.1.3 The East African Community Integration Process

The history of the East African Community (EAC) can be traced back to a time when a customs collection Centre for Uganda was established in Mombasa. Subsequently, a currency board was set up to issue currencies for Kenya and Uganda. This led to the establishment of a customs union between Kenya and Uganda in 1917, which Tanganyika later joined in 1927. The treaty establishing the first community was signed in 1967 and just 10 years later, the community collapsed. Structural problems, ideological differences, inequalities in the sharing of the costs and benefits of integration have been sighted as some of the reasons the EAC broke, among others.

The revival of the EAC was discussed at a side meeting during the Commonwealth Heads of State and Government meeting in Harare in 1991. Kenya's, Uganda's and Tanzania's heads of state agreed to revive cooperation. The Agreement for the establishment of the Permanent Tripartite Commission for East African Cooperation was signed in 1993. The treaty establishing the EAC was signed on 30th November 1999 and entered into force on 7th July 2000. The EAC has a membership of five nations; Kenya, Uganda, Tanzania, Burundi and Rwanda. The Republic of Sudan's application for membership has been declined while the applications of the Republics of South Sudan and Somalia are still pending.

1.1.4 East African Customs Union

Usually, a customs union is the third stage of economic integration after a preferential Trade Area and a Free Trade Area. However, in the case of the EAC, it was agreed through the Treaty for the Establishment of the EAC that a Customs Union shall be first in the integration process. This would be followed by a Common Market, a Monetary Union and finally, a Political Federation.

A protocol for the Establishment of the EAC Customs Union was signed by the Heads of State of Kenya, Uganda and Tanzania on 2nd March 2004 in Tanzania and commenced on 1st January 2005. Burundi and Rwanda joined the customs union in 2008. A Common External Tariff (CET) is applied on goods imported from other countries.

According to the Protocol, the objectives of the Customs Union are; To further liberalise intra-regional trade in goods on the basis of mutually beneficial trade arrangements among the Partner States; Promote efficiency in production within the Community; Enhance domestic, cross border and foreign investment in the Community; and Promote economic development and diversification in industrialization in the Community. Kenya continued to pay duties on goods entering the other four countries on a declining scale until 2010.

1.1.5. Kenya Revenue Authority

The Kenya Revenue Authority (KRA) was established by an Act of Parliament which became effective on 1ST July 1995. It is the principle body of collection of revenue on behalf of the Government of Kenya. KRA's main purpose is assessment, collection,

administration and enforcement of laws relating to revenue. The principal organ at KRA is a Board of Directors, which is made up of experts drawn from both the public and private sectors. The board is responsible for making policy decisions to be implemented by KRA's management. The chief executive of the authority is the Commissioner General.

KRA is divided into six departments as follows: Customs Services Department; Domestic Services Department-Medium and Small Taxpayers (MST); Domestic Taxes Department- Large Taxpayers Office (LTO); Investigations and Enforcement; and Corporate Support Services. In the East African Region, the Customs Services Department is the department that interacts mainly with the players on the East African front. This is so because, it is the department that is at the borders which are the entry points and exit points into and out of the country.

One of the key responsibilities of KRA, specifically customs, is facilitation of trade. This could not be more important than for those conducting business within the EAC. This is in light of the fact that the EAC is a major destination of Kenya's exports. In 2010, the EAC accounted for 53 percent of Kenya's total exports to Africa, and 24 percent of its total exports to the world. Uganda was Kenya's leading export destination, at 12.7 percent of the total exports. Kenya's trade value in the region has grown in leaps and bounds to 1.52 billion dollars in 2010, Muluvi, Kamau, Githuku, & Ikiara, (2012). It follows therefore that KRA's role and importance in enabling such growth cannot be over emphasized.

1.2 Research Problem

Regional integration is never an easy thing. For different nation states with different cultures, different political ideologies, different ways of doing business, to come together with the aim of working together, it takes a lot of hard work and compromise from each party. It is even harder where each country has its own institutions, running the national affairs on behalf of the government. This is often the case.

According to the EAC Trade Report, (2013), the East African Community midyear population as at June 2012 was estimated to be 141.1million with an average growth rate of 1.9 percent. The report also indicates that the per capita Gross Domestic Product (GDP) for the region ranged from 271 US dollars in Burundi to 999.9 US dollars in Kenya. The combined GDP stands at 99.8billion dollars. The Community sits on a total land area of 1.82 million square kilometers.

The EAC integration process is one that has taken place with fluidity. This is an expression of the willingness of the member states to work together so as to reap the economic benefits of being members of a regional bloc. As a result, there have been several milestones in the EAC integration process. These include the EAC customs union and the Common Market Protocols which were negotiated and became operational in 2006 and 2010 respectively. The EAC roadmap assumes a political federation by next year, 2015.

Nonetheless, the integration process has experienced some hiccups along the way. Key among them has been the non-tariff barriers. These have been as a result of policy gaps in

implementation of laws and policies affecting business among the member states. This year for instance, the Kenyan government introduced the Railway Development Levy (RDL) which was to be collected on all goods entering the country at a rate of 1.5 percent. The RDL is collected by the KRA. This prompted the EAC member states to raise objections. While this was resolved, it did create a standoff between Kenya and her EAC partners as the latter felt that they were treated unfairly.

As well, the EAC members have had some share of disagreements and disputes among them, Africa Business, (2013). The main source of these disagreements has been a common belief by Uganda and Tanzania that Kenya's economy is more competitive than theirs. This situation resulted in three countries working together in a trilateral manner; Kenya, Uganda and Rwanda, in what was commonly referred to as the coalition of the willing. Tanzania and Burundi were not invited to these meetings, Kakaire, (2013). The heads of the three states even went as far as agreeing on ambitious infrastructure developments and strategies for fast-tracking the federation. They three said that this arrangement was within the EAC framework, something that Tanzania argued otherwise, Kakaire, (2013).

In spite of these glitches along the way, the EAC member states remain committed to the success of the Community. For instance, the EAC partner states are set to jointly collect customs taxes starting July of this year, 2014. This is following a successful test-run on a selected range of commodities. Irungu, (2014) clarifies that Kenya, Uganda and Rwanda have been experimenting on the system, known as the Single Customs Territory Since April 1. Under the system, importers in the countries are expected to lodge import

declaration forms in their respective home countries and pay relevant taxes to facilitate the export process. According to KRA, the system has helped Uganda and Rwanda shave off 40 billion shillings in clearance and shipment costs from the port of Mombasa.

In the area of revenue agencies, research done tends to lean more on the running of these organizations and not really on how they affect international business of their countries. Such is the case of Mulyagonja, (2007) whose research was on organizational support, organizational citizenship behaviour, and customer service after restructuring in Uganda Revenue Authority. In regards to the EAC, research has been on the integration process and on the non-tariff barriers. For instance, Kirk, (2010) undertook a study on Non-Tariff measures on goods trade in the EAC. Hartzenberg, (2011), also explored regional integration in Africa, specifically the history of regional integration in Africa, as well as the nature of the integration process and the challenges. Musau, (2013) on the other hand did a study on the influence of Non-Tariff barriers on the operations of selected Kenyan firms within the EAC. The research aim here therefore was to answer the question, what role do national institutions play on how their respective countries conduct international business? More specific to this study, how do KRA's regulations affect how Kenya conducts international business within the East African region?

1.3 Research Objective

The research objective of this study was to identify the effects of Kenya Revenue Authority regulations on Kenya's international business within the East African Community.

1.4 Value of the Study

This study adds to the body of knowledge especially in the areas of regional integration as well as the role of national institutions in the international business environment.

This study can be of great assistance to many people more so the traders in the East African Region. These traders will gain knowledge on what is expected from them, on issues regarding taxation, what goods to trade in and what not to trade in. It also enriches existing literature on the role that KRA plays in the way Kenya conducts business with her East African counterparts.

As well, this study enriches any existing knowledge gap on the place of national taxation agencies and the role these national institutions play within regional bodies. It highlights the place of these national institutions and to what extent they foster the integration agendas of these regional bodies.

This study can also be of value to KRA staff by helping the organization understand their importance in the East African Region and what role they have to play to further the EAC agenda. By understanding the place of KRA in Kenya's conduct of business in the East African region, they will understand the role they have to play to further this agenda and consequently, embrace their duties.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter will aim to explore the various theories relating to regional integration. It will also look at the general overview of the Kenya Revenue Authority, as well as the East African Community, especially the Customs Union.

2.2. Theoretical Foundation of the Study

There are several theories that can inform this study. The first attempts to develop a theory of the integration process dates back to the period between the two world wars. A serious analysis however took place after the second World War and was essentially based on the experiences of the European Communities and the European integration process, Metclaf & Papageorgiou, (2005).

The theory of regional integration as written by Fort & Webber, (2006) can be boldly classified into two. The first theory they espouse that regional integration is fundamentally a market driven process. This means that countries come together with their main drive being economic. Thus, such regional blocs have their cross-border activity being primarily through trade, investment, production and distribution of goods and services. In this case, national governments are handmaidens of transnational business interests, whose decisions are key for nations' economic development, thereby in turn determining national governments' prospects for political survival.

They further state that according to the other theory, in contrast, regional integration is a politically driven process. Inter-governmentalism, as they call it, has its roots I

international relations. In this case, countries come together to advance political interests. The pace and scope of integration in this case depends on the stance of the most powerful country in the region,

Regional integration takes place through different stages of regional growth. According to Paul, (2008), regional trading blocs can be classified conceptually into five major types. These major types also represent the different stages of regional growth. First is Preferential Trading Agreement where the member countries lower barriers to imports of identified products from one another. The second type of regional blocs is a Free Trade Area. In a free trade area, barriers to trade in respect of all items among member states are completely eliminated by each member country, while still following its own policy in regard to trade with non-member countries. A Customs Union is the third form whereby apart from elimination of all barriers to trade among themselves, the member countries follow a common policy in their trade with non-members. After a customs union, what follows is a Common Market where the region becomes a common market for all factors of production. Economic Community is the fifth type in which the member countries follow common policies in respect of all economic matters.

2.3 The Practice of Regional Integration

Economic integration of developing countries has been advocated by many experts as a means to accelerate economic development and strengthen their trading and bargaining power. Regional agreements among developing countries accounted for about thirty per cent to forty per cent of all Regional Trade Agreements in force in the beginning of the

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the methodology of the study. It outlines how the research was conducted; that is the research design, population of the study, data collection and data analysis. All this is with the aim of further outlining the processes and procedures of data collection to elicit relevant, reliable and detailed information related to the area of study.

3.2 Research Design

The study adopted the case study research design. Gall, Borg and Gall (1996) define a research design as a logical and valuable way of looking at the world. In this study, the researcher used a qualitative case study approach. According to Baxter and Jack (2008), the qualitative case study approach facilitates exploration of a phenomenon within its context using a variety of data sources. Thus it ensures that the issues are not explored through one lens, but rather from a variety of lenses allowing for multiple facets of a phenomenon to be revealed and understood. This study focused on one establishment, the Kenya Revenue Authority, making the qualitative case study the most appropriate. More so, the case study approach was best situated for this study as the study was concerned with issues that could be best answered through the experiences gained by the respondents in their daily interactions with issues on international trade.

3.3 Population

According to Mugenda and Mugenda (1999), a population is a complete set of individual cases or object with some common observable characteristics. The area of study for this

research was officers of KRA stationed at border exit and entry points. In total seven border points were visited, which included; Malaba, Busia, Mombasa, Namanga, Taveta, Oloitokitok and Lunga Lunga border posts.

3.4 Sample Design

Gall, Borg and Gall (1996) defines sampling as a research technique that is used to select a given number of subjects from a target population as a representative of the population. Therefore, a sample population must represent the target population in all aspects. It is a significant process since it is not possible to study every member in the whole population and thus it enables one to learn something about a large group by studying only a few lists of the members thus saving time and money. In this study, the researcher targeted six respondents per border post, drawing in 42 respondents. All this respondents were drawn from the positions of officers, supervisors and managers and clearing agents participated in this study through purposive sampling.

3.5 Data Collection

The study used two sets of instruments namely: an interview schedule and a document analysis guide. Primary data was collected through the administration of scheduled interviews. The interview schedules were prepared in advance and were definite, concrete and preordained. They were used to initiate formal enquiry with the target respondents. The interviews were administered face to face. This was important as the researcher was able to get a complete, clear and detailed understanding of the issues under study. Their main shortcoming was that they were time consuming and expensive.

Secondary data refers to data collected as information by the researcher mainly from research articles, existing government statistics, among other sources. This data was generated from a review of various documents giving policy frameworks and operations of KRA. Interviews schedules were also used to gain an insight into the manner in which various government agencies carry out their duty in enhancing cross border trade between Kenya and its neighbours.

3.6 Data Analysis

The data generated by interview and document analysis guide was checked, edited organized and coded by computer to reduce the mass of data obtained into a form suitable for analysis. Whereas the bulk of the data was qualitative, there nevertheless existed some quantitative data that was generated from the instruments. This was analyzed using Statistical Package for Social Science Programme (SPSS). The statistical analysis was then summarized into frequencies and percentages and presented in tables, bar charts and figures. Frequencies and percentages were adopted to present, discuss and interpret findings obtained. The research questions giving qualitative data were on the other hand analyzed using content analysis procedures. The findings obtained were discussed and formed the basis for the research findings, conclusion and recommendations.

CHAPTER FOUR

DATA ANALYSIS RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter provides the empirical results of the data analysis as outlined in the research design presented in chapter three. The data was gathered through face to face interviews with 42 respondents drawn from seven border posts. The presentation, analysis and interpretation of the data is in line with the research objective. Descriptive statistics and inferential statistical tools have been used to give the presentation.

4.2 Demographic Data

This section highlights the demographic information of the respondents such as the length of service and the number of border posts worked in.

4.2.1 Length of Service of Respondents

From table 4.1, most of the respondents (35.7%) had been in service for between 5 – 6 years while 28.6% had been in service for between 2 – 4 years, 21.4% for between 1 – 2 years and 14.3% for over 6 years.

Table 4.1 Length of Service of Respondents

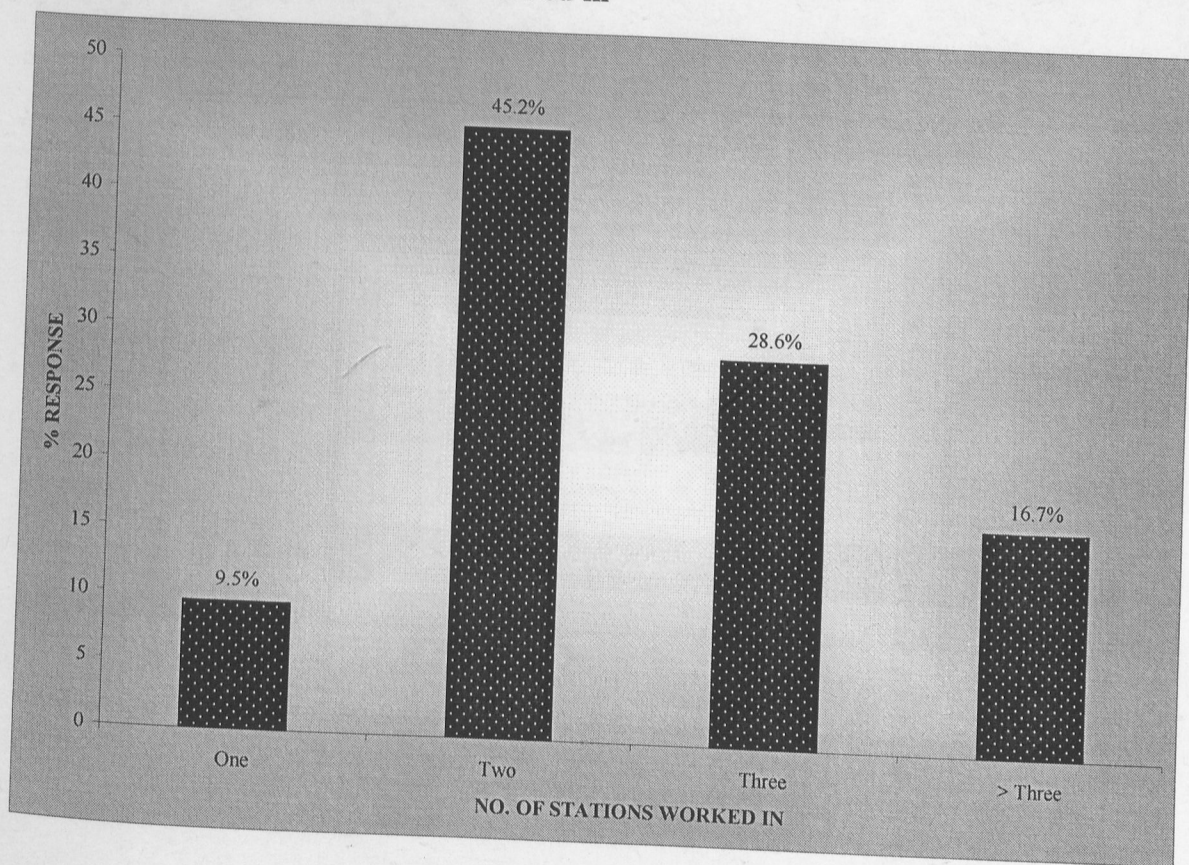
Length of Service	Frequency	Percentage (%)
1 - 2 yrs	9	21.4
2 - 4 yrs	12	28.6
5 - 6 yrs	15	35.7
More than 6 yrs	6	14.3
Total	42	100

From these findings, it is clear that most of the respondents had worked with KRA for over 2 years, a period that the researcher considers to have been long enough to be conversant with the running of KRA and its operations; aspects that were key in this study.

4.2.2 Number of Stations Worked in

Figure 4.1 shows that most of the respondents, 45.2% had worked in two stations, 28.6% in three stations, 16.7% in more than three stations and 9.5% in one station.

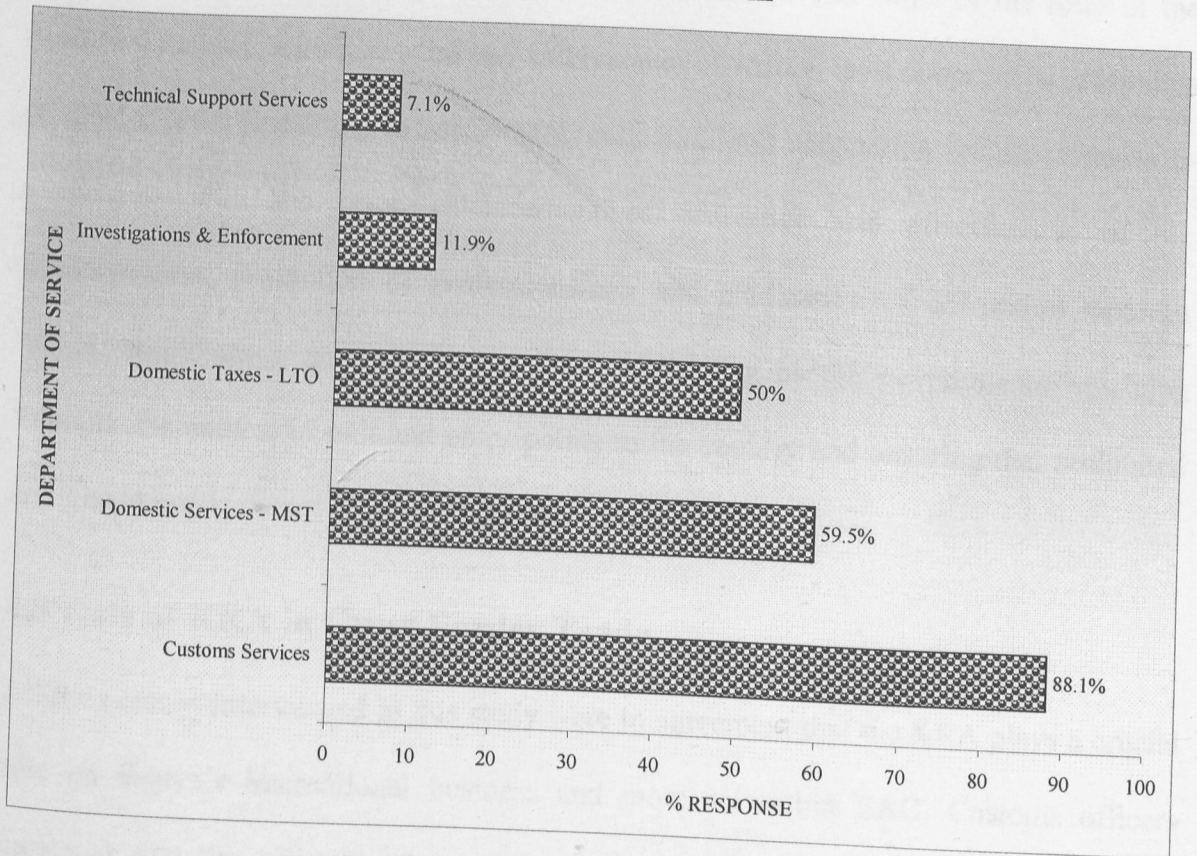
Figure 4.1 Number of Stations Worked in



4.2.3 Departments Respondents have Worked in

The findings of this study reveal that majority of the respondents, 88.1% worked in the Customs Department followed by 59.5% who worked in the Domestic Services Department (Medium and Small Taxpayers (MST)), then 50% who worked with Domestic Taxes Department (Large Taxpayers Office (LTO)), 11.9% with Investigation and Enforcement Department and 7.1% with the Technical Support Services.

Figure 4.2 Departments Respondents have Worked in



4.2.4 Roles and Responsibilities of KRA Officials

All the respondents in this study indicated that they were aware of their roles and responsibilities as expected by KRA. They noted that their roles included; customs management, facilitating legitimate trade within the borders of Kenya, protection of the country from illegal entry and exit of prohibited goods, clearance of goods at customs among others.

A review of KRA's website and policy documents show that some of the roles of the Authority include; administration and enforcement of written laws or specified provisions of written laws pertaining to assessment, collection and accounting for all revenues in accordance with the laws, enhancement of efficiency and effectiveness of tax administration, promotion of professionalism and eradication of corruption amongst K.R.A. employees, enforcing tax policies and acting as the governments watchdog through the control of exit and entry points to the country and ensuring that prohibited and illegal goods do not find their way into Kenya.

4.3 Role of KRA in Cross Border Trade

All the persons interviewed in this study were in agreement that the KRA plays a crucial role on Kenya's international business and more so within EAC. Customs officers indicated that the authority plays a significant role in combating illicit cross-border activities, prevention, detection and investigation of custom offences. A customs commissioner interviewed stated that KRA has also played a crucial role in the development of a legal framework for the exchange of information and evidence so as to

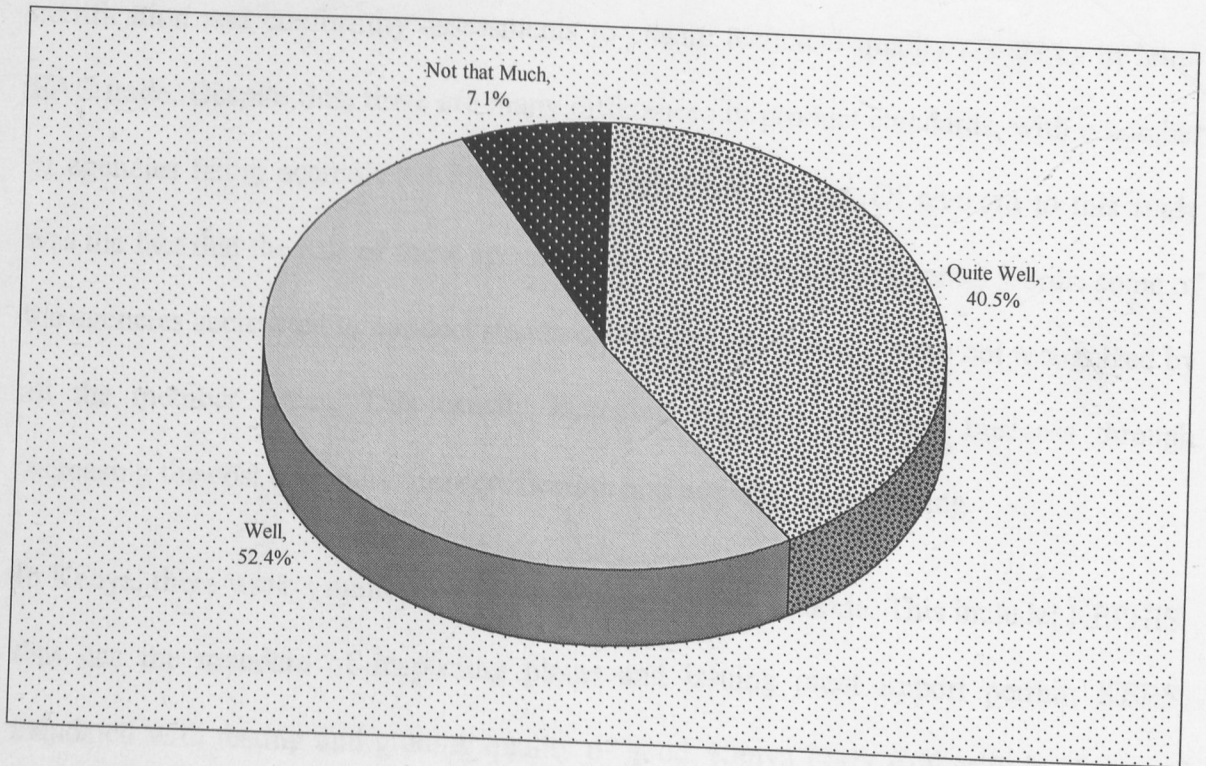
assist the EAC in the enforcement of customs laws, including duty evasion, trafficking, proliferation, money laundering, and terrorism-related activities.

On combating terror which has an adverse effect on a nations economic growth and development, several respondents indicated that KRA officers tried their best to ensure that all goods and luggage entering into the country are thoroughly checked thus preventing the proliferation of arms and light weapons through the borders posts.

4.4 Regulations on EAC Custom Management

Apart from being aware of the members that make up the East African Communities, all the respondents in this study seemed to have an idea on the stage of integration that the East African Community was at by the time of this study. On being aware of the regulations on EAC customs management, 52.4% indicated that they were aware of the regulations 'Well', 40.5% quite well and 7.1% not that much. This information is captured in Figure 4.3 below.

Figure 4.3 Knowledge of the Regulations on EAC Custom Management



Within the EAC Customs regulations KRA was mentioned as having the most significant impact on intraregional trade. Among its major roles, enforcement and management of the customs laws and the administration of common external tariffs stood out as the most significant of its roles. Nevertheless, customs officials argued that the effectiveness of KRA had been greatly hampered by the regulations in the other East African countries. Whereas the Kenya customs operated 24 hours, seven days a week, Tanzania and Uganda only operated during the day. This meant that even if goods were cleared in Kenya, they would still be delayed by the other member states in cases where they are cleared outside the working hours of the other countries. The study was also able to learn that, the digital data exchange system used by revenue authorities was operational in Rwanda, Uganda and Kenya, but not in Burundi and Tanzania.

A review of various regulations reveals that EAC member countries apply numerous certification and conformity assessments to ensure technical quality standards in intra-EAC trade. Despite this, there are many differences in product standards, with a number of agencies being accredited with standardization procedures. Of concern to this study was the fact that the role of these agencies was not intraregional. In other words, some of the agencies accredited to conduct standardization in one country were not recognized by all the member states. This usually increased the cost of doing business through increasing the cost of conducting certification and was also time wasting.

In Kenya, there were a number of bodies that affect EAC's trade. This include; KEPHIS, that has the mandate of inspecting plants and issuing plant import permit; KEBS, mandated with testing and grading quality of good, Kenya Ports Authority in charge of managing cargo by through the verification of legal documents and the Immigration Department that is in charge of issuing work permits. Other agencies include KRB that is in charge of the application of axle load specifications through the truck scales and the Public Health Department that is in charge of inspecting goods to ensure that they are fit for human and animal consumption. It is evident from the field study that the disjointed operation of this agencies occasioned delays in intraregional trade and whereas the customs department operated 24 hrs, most of these agencies did not operate 24 hours, hence further causing delays in freighting of goods within the region.

4.5 Effect of KRA's Regulation on Cross Border trade within EAC

Findings of the study reveal that within the EAC Customs Union, KRA has a role to manage operations so as to facilitate faster clearance of goods. The researcher was able to learn that KRA has put measures in place so as to ensure there is less paperwork in order to faster clearance at the port and border points. KRA has in place a Customs Management System (CMS) dubbed SIMBA that has core customs management system with most of the basic modules and another 14 subsystems interfaced with the core system. Interviews with the respondents revealed that the system architecture allows for multiple points of authentication for users and multiple points of system failure.

Although KRA has put in place regulations and the SIMBA as the core customs management system, most of the respondents indicated that the system experiences frequent downtime which causes congestion at the port borders and warehouses, in turn resulting in high cost overruns for transporters and exporters using the Kenya ports. At the same time Kenya importers are also faced with the same challenges due to increased freight and warehouses charges as a result of the system breakdown. The researcher was able to find out from a customs commissioner that the main causes of system downtimes on the SIMBA system is greatly attributable to the use of outdated hardware and software.

At the Malaba border post, the researcher was able to interact with some clearing agents seeking clearance services at the KRA offices. They informed the researcher that drivers and transporters had to pay hefty bribes, especially during system downtime in order to speed up passage of their goods through customs. This negatively impacted on business

across the East African Community as drivers and transporters were at times forced to make hefty arrangements to get money they had not planned so as to pay for the bribes. Apart from disruption of clients' operations, such incidences led to high administrative taxes. At the same time, a few of these respondents indicated that one of the main reasons for increased highway robberies targeting transporters was due to the fact that transporters had to cushion themselves against such cases by carrying huge sums of money. At border points, failure to pay such bribes at times led to delays in getting services.

5.2 Summary

The findings of this study have revealed that KRA plays a significant role in collecting trade duties within EAC. The Authority has been instrumental in the development of various regulations that EAC member countries apply. KRA also plays a significant role in monitoring illicit cross-border activities, prevention, detection and investigation of customs offences which are critical in sustaining fair competition within the country and the region. Development of a legal framework for the exchange of information and evidence has been able to assist the EAC in the enforcement of customs laws, including duty evasion, smuggling, counterfeit, transit, bonded, and warehousing activities. A major challenge faced by the EAC is the harmonization of procedures and systems across member states in order to ensure a seamless flow of goods and services and reduce the burden of trade. It is recommended that the EAC should continue to work towards the harmonization of procedures and systems across member states in order to ensure a seamless flow of goods and services and reduce the burden of trade.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The objective of the study was to investigate the effects of Kenya Revenue Authority Regulations on Kenya's International Business in East Africa. Of concern was how various operations of KRA impact on intraregional trade within the East African Community. This chapter gives a summary of the study and makes conclusion and recommendations based on the results. The chapter also presents implications from the findings and areas for further research.

5.2 Summary

The findings of this study have revealed that KRA plays a significant in enhancing trade within EAC. The Authority has been instrumental in the development of various regulations that EAC member countries apply. KRA also plays a significant role in combating illicit cross-border activities, prevention, detection and investigation of custom offences which are critical in enhancing fair competition within the country and the region. Development of a legal framework for the exchange of information and evidence has been able to assist the EAC in the enforcement of customs laws, including duty evasion, trafficking, proliferation, money laundering, and terrorism-related activities.

Among the many challenge faced by the EAC has been the harmonization of customs operations so as to reduce delays in clearance of goods and services and reduce the amount of time it takes for goods to move from one country to the other. This has been

exacerbated by downtime in the SIMBA core systems coupled with rampant cases of corruptions amongst KRA officials in charge of clearance of goods. Existence of many disjointed agencies accredited with standardization of goods has further impacted negatively on intraregional business within the EAC.

5.3 Conclusions

In any trade block, regional trade arrangements are instrumental in promoting both global trade and foreign direct investment. Within the East African Community (EAC) that is comprised of Burundi, Kenya, Rwanda, Tanzania and Uganda, intraregional trade is still considered to be performing below optimal levels. That being said, there is a lot being done to improve trade that falls within the premise of KRA. For instance at Namanga, there has been the establishment of One Stop Border Post that has been successful in fastening clearance of goods across the border between Kenya and Tanzania. As well, there has been the introduction of the Single Customs Territory, which KRA officers think is a good idea but has its own challenges. This is the newest development, and it would be interesting to see how it would improve trade within the EAC. Although there have been recent developments in the establishments of customs union within the block, there is still much that needs to be done to improve trade between the EAC. The regulatory procedures governing customs and trade needs to be critically reviewed if trade within the block is to fostered.

5.4 Recommendations

There is need for the harmonization of regulatory procedures and roles of agencies involved in cross-border clearance amongst the East African Member Communities so as to ensure that there is faster clearance of goods at border posts. Besides meting punitive action on corrupt customs officials, there is need for all East African countries adopt the use of information technology so as to reduce the number of interfaces with public officials hence reducing the opportunities of bribery.

Considering the critical role that KRA plays in intraregional trade amongst East African Countries, there is need for it to adopt a modern customs management system. This should be able to allow for efficient information sharing with other revenue authorities.

Finally, in order to ease on the regulatory barriers, Kenya, in conjunction with the other members of the EAC, should streamline customs clearance procedures, rules of origin and standards. This can be done through the reduction of the number of trade documents and through harmonization of the nature of the information contained in the documents.

5.5 Limitations of the Study

The focus of this study was only on KRA and therefore cannot be generalized for all the other custom authorities within the EAC. The study relied on primary data and secondary data collected in Kenya and therefore the same cannot be applied within the other members of the EAC. Therefore the reliability and quality of this data cannot be considered to be 100% perfect. Whereas collection of data from the entire region would have been more appropriate, collection of such data was not possible.

5.6 Suggestions for Further Study

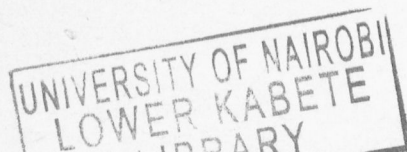
This study finds the need for similar studies to be carried to identify ways in which the other agencies such as KEPHIS, KRB, KEBS and the Public Health Department affects intraregional trade within EAC. At the same time, there is need for further research geared towards determining how the various roles as performed by these agencies can be integrated in the customs regulations. At the same time there is need to focus on the challenges that can be posed through the harmonization of agencies accredited to conduct standardization within EAC and the possible mitigating measures.

Further studies need also to be done on the Single Customs Territory, especially its implementation and procedures so as to see just how effective it is in facilitating trade in the EAC and which areas need to be improved.

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APPENDICES

Appendix I: Letter of Introduction



UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
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P.O. Box 30197
Nairobi, Kenya

DATE 09/09/2014

TO WHOM IT MAY CONCERN

The bearer of this letter MUHORO MARGARET

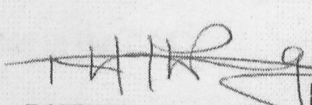
Registration No. D61/60118/2013

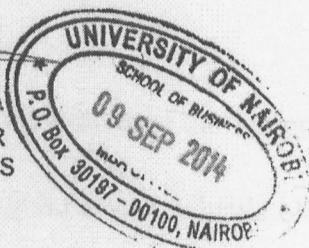
is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.


PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS



Appendix II: Interview Guide

SECTION A:

1. How long have you been working at Kenya Revenue Authority?
2. In that time, how many stations have you worked in within the country?
3. In which department of KRA?
4. Have you worked in other KRA departments?
5. Do you understand your roles and responsibilities as expected from you by the Authority?
6. What are some of these roles and responsibilities?

SECTION B

1. To what extent do you understand Kenya Revenue Authority policies and regulations?
2. In your opinion, does KRA play any role on Kenya's international business within the EAC?
3. Do you know the membership of the EAC?
4. Do you know the stage of integration that the East African Community is at?
5. How well do you know the regulations on EAC Custom Management?
6. Do you think these regulations on EAC Custom Management affects Kenya's business in the EAC?
7. In what areas of business are the effects of these regulations mostly felt?
8. How well do you know the regulations on whistle blowing at KRA?

9. Do you think these regulations on whistle blowing affect Kenya's business in the EAC?
10. In what areas of business are the effects of these regulations mostly felt?
11. What other regulations are you aware of that affect Kenya's business in the EAC?
12. In what ways, would you say, do KRA's regulations affect Kenya's business in the EAC?
13. In your opinion, are these regulations known and well understood by the business players within the EAC?