

**EFFECT OF CUSTOMS CLEARANCE REGIMES ON REVENUE COLLECTION OF  
CUSTOMS AND BORDER CONTROL DEPARTMENT IN KENYA**

**BETT VIBIAN CHEPKEMEI**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULLFILLMENT FOR THE  
AWARD OF POSTGRADUATE DIPLOMA IN CUSTOMS ADMINISTRATION,  
DEPARTMENT OF ECONOMICS, ACCOUNTS AND FINANCE - JOMO KENYATTA  
UNIVERSITY OF AGRICULTURE AND TECHNOLOGY**

**2018**

**DECLARATION**

This project is my original work and has not been presented for a post graduate diploma in any other institution.

Signature..... Date.....

Student: Bett Vibian Chepkemei

Registration No: HDB335-C016-2490/2016

**APPROVAL**

This project report has been submitted for examination with my approval as university supervisor

Signature..... Date.....

Supervisor: Mr. Owuor Ominde

KESRA Westlands Campus

## **DEDICATION**

This research project is dedicated to my family and my supervisor for their moral support and steadfast encouragement.

## **ACKNOWLEDGEMENT**

I would like to thank God for His wisdom and ability that He has given me throughout my life and during this research. I would also like to thank my entire family for their support. I would like to express my heartfelt gratitude to my supervisor, Mr. Owuor Ominde for his encouragement and support during the drafting of this research project I am deeply indebted to many others whom I have consulted in the course of preparing this proposal.

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## **ABBREVIATIONS AND ACRONYMS**

<b>APSC</b>	-	Airport Passenger Service Charge
<b>CBP</b>	-	Customs and Border Protection
<b>CBCD</b>	-	Customs and Border Control Department
<b>EAC</b>	-	East African Community
<b>EACCMA</b>	-	East African Community Customs Management Act
<b>ECTS</b>	-	Electronic Cargo Tracking System
<b>EU</b>	-	European Union
<b>GRACD</b>	-	Ghana Revenue Authority-Customs Division
<b>GSA</b>	-	Ghana Shippers Authority
<b>IDF</b>	-	Import Declaration Fee
<b>INCB</b>	-	International Narcotics Control Board
<b>KAA</b>	-	Kenya Airports Authority
<b>KRA</b>	-	Kenya Revenue Authority
<b>PDL</b>	-	Petroleum Development Levy
<b>RFID</b>	-	Radio Frequency Identification
<b>RM</b>	-	Malaysia Ringgit
<b>UNCTAD</b>	-	United Nations Conference on Trade and Development
<b>US</b>	-	United States
<b>VAT</b>	-	Value Added Tax
<b>WCO</b>	-	World Customs Organization

## DEFINITION OF TERMS

- Cargo Diversion:** an illegal change in the original billed destination which may or may not include a change in Consignee and/or Order Party (Naidoo, 2012)
- Globalization** the process by which businesses or other organizations develop international influence or start operating on an international scale
- Revenue** income that a business has from its normal business activities, usually from the sale of goods and services to customers. (Odundo, 2007).
- Revenue collection** amount of money that a company receives during a specific period. (Awitta ,2010)
- Tax** fees levied on individuals or corporations and enforced by a government entity whether local, regional or national - in order to finance government activities
- Temporary imports** certain goods brought into a country on a temporary basis without the payment of duties and taxes (Sowinski et al., 2013).
- Transit goods** goods that pass through the territory of one or more third countries prior to reaching its final destination (Melghar, 2014).
- Warehouse:** commercial building used by manufacturers, importers, exporters, wholesalers, transport businesses, and customs for storage of goods (EAC) Customs (2018)

## ABSTRACT

Customs revenue is the major source of income for many if not all Governments. Cargo diversion is a very important topic in matters of revenue performance for a country. This study aimed at determining the effects of customs clearance regime on the revenue collection of customs and border control department in Kenya. The task included; establishing how transit goods, warehoused goods and temporary imports influence revenue collection of customs and border control department in Kenya. The study adopted a descriptive research design and employed quantitative research as the main approach to guide the study. The study targeted all 750 officers from the customs and border control department at the KRA Headquarter who were sampled to 260 respondents. The research instrument used in data collection was a questionnaire to draw information from the respondents. To ensure validity of the instruments, expert opinion was sought. Data analysis was started immediately after the field. Data was summarized into frequencies and percentages and presented in tables. The study findings reveal that majority of the customs and border control department of Kenya are males aged between 41-50 years who have completed diploma level of education as their highest level. The findings also reveal that majority of the staff worked had with the customs and border control department of Kenya for over 5 years and have accounts and finance as their career orientation. The findings give an implication that the staffs at the customs and border control department of Kenya are well educated and are able to tackle the issue of customs clearance regime with no issues. The study findings indicated that customs clearance regime affects revenue collection of customs and border control department in Kenya to a very great extent.

The study found that there exists a positive association between: transit goods, warehoused goods, temporary imports and revenue collection of customs and border control department in Kenya. This positive association suggests that when one variable increases, revenue collection of customs and border control department in Kenya increases. The study therefore concludes that transit goods, warehoused goods, and temporary imports affect revenue collection of customs and border control department in Kenya. The study suggests that: there is need for political goodwill by the local dealers and support when fighting cargo diversion and coming up with stringent laws. The national government and KRA management should increase the allocated budget for more staff advanced training to help learn new tricks ahead of time so as to seal all possible loopholes. There is need for better upgraded internet connectivity especially at the border points to cut down on unnecessary delays which lead to corruption and hence reduction in revenue collected.



# CHAPTER ONE

## INTRODUCTION

### 1.1 Background to the Study

Customs revenue is the major source of income for many if not all Governments, whether for developed or developing nations as it plays an important role in shaping the distribution of benefits from higher income citizens to those most in need in a country (Kudakwashe & Farai, 2016). Countries have set dedicated institutions for tax collection purposes for instance Kenya has Kenya Revenue Authority (KRA). All these efforts point to the significance of tax as revenue generation mechanism for a nation (Aisha & Tahir, 2015). Despite the presence of governing Acts and administrative structures for tax collections purposes, tax avoidance and evasion continue to cripple Governments efforts in gathering enough financial resources for the betterment of their respective nations (Mohd, 2010). Tax evasion and avoidance both have negative implications on the economy as they hamper governmental efficiency engaging in beneficial programs and result in an eroded tax base which in turn widens the national budget deficit (Adebisi & Gbegi, 2013; Wang, 2012).

Globalization of trade as well as establishment of economic blocks and agreements has led to an increase in the level of export and importation of goods and services between different countries which then directly involve the customs departments of the countries. Customs is defined as the government service responsible for the administration of customs law and the collection of import and export duties and taxes, and also has the responsibility for the application of other laws and regulations relation to importation, transit, and exportation of goods (World Customs

Organization-WCO, 2012). Over the years, the role of customs management has changed from the traditional revenue collection to include other objectives such as protection of society, combating: piracy, drug trafficking, money laundering, trade facilitation, goods smuggling, and security (Gathigia, 2013). In as much as all these roles are important, their emphasis differs from country to country with customs administrations in developing countries focusing mainly on revenue collection (Gordhan, 2007).

### **1.1.1 Cargo Diversion**

Cargo diversion refers to an illegal change in the original billed destination which may or may not include a change in Consignee and/or Order Party (Naidoo, 2012). Stephens (2013) attributed several factors to causing cargo diversion. First is the issue of variations in port charges. The variations are due to the difference in the nature of approach (the port channel) and draft of the ports, hours of operation, the cost of labor in the different countries, the availability and sophistication of port facilities and equipment, level of computerization and of course, the difference in the billing system for port services. Secondly, the freight rate charged to get goods to the different ports by the calling shipping companies varies. Most of the shipping companies operating in Nigeria were simply charging importers whatever they can get away with, without any rational basis for some of these charges; thereby raising rather highly the cost of shipping and associated port services in Nigeria (Nze 2011).

### **1.1.2 Revenue Collection**

Awitta (2010) defines revenue collection as the amount of money that a company receives during a specific period. Revenue may refer to business income in general, or it may refer to the amount, in a monetary unit, received during a period of time (Odundo, 2007). In government, revenue refers to all amounts of money received by a government from external sources like those originating from “outside the government”, net of refunds and other correcting transactions, proceeds from issuance of debt, the sale of investments, agency or private trust transactions, and intra-governmental transfers (Lymer and Oats, 2010).

### **1.1.3 Global Perspective of Cargo Diversion**

In the United Kingdom, the London City Bond fraud which led to the loss of at least £340 million in revenue and probably many millions more had its origins in an EU directive introduced as a method of ensuring compliance with the regulations (Rozenberg, 2003). However, an audit system enabling the EU fiscal authorities, inspecting the documentation long after the transaction had been completed, to check whether what should have happened months earlier took place. Duties do not have to be paid on alcoholic drinks while they are stored in bonded warehouses. Goods may also be moved to other warehouses or exported without payment of duty. Fraudsters soon realized that they could buy bonded goods without paying duties, generate false paperwork showing that the goods were being exported, and then sell them through cash-and-carry outlets in Britain. With the average duty on a container-load of spirits amounting to about £100,000, profits from this diversion fraud were enormous (Rozenberg, 2003).

Malaysia has lost over RM2.5 billion (\$821 million) in revenue to customs fraud related to cargo diversion and smuggling over the last three years (Subromaniam, 2017). This was largely due to

freight forwarders falsifying documents, where shipments containing taxable items were declared to be other products. A total of RM1.06 billion in taxes and duties was uncollected in 2017 alone, with goods worth RM731 million smuggled into the country. In 2015, the value of smuggled goods seized throughout Malaysia by customs department stood at RM416 million, rising to RM447 million in 2016. Taxes and duties "lost" totaled RM854 million in 2016, up from RM635 million in 2015. Measures to handle the problem included revoking licenses of 20 forwarding agents nationwide for their alleged involvement in smuggling. Customs department of Malaysia argued that ignorance or abetting by forwarding agents cannot be tolerated and therefore agents should bear responsibility

#### **1.1.4 Regional Perspective of Cargo Diversion**

In Zimbabwe, the Zimbabwe Revenue Authority (Zimra) in mid-2017 started tracking cargo coming into and out of the country in a bid to curb transit fraud and reduce incidences of cargo diversions (Karombo, 2017). The southern African country is a major transit corridor linking South Africa and other regional countries through the Beit Bridge and Chirundu border posts. Zimbabwe links South Africa and Zambia, Malawi and the Democratic Republic of Congo. Zimbabwe Revenue Authority (Zimra) introduced strict penalties of \$2000 (R26500) for transporters whose cargo trucks and other vehicles passing through the country divert from stipulated routes, while also giving a transit period of only three days, including weekends and public holidays to the trucks and other vehicles. The new stringent measures for transit trucks, containers and other vehicles come against the backdrop of suspicions that unscrupulous traders are falsely declaring goods as in transit when they are discreetly destined for Zimbabwe, fuelling smuggling of finished products. Zimbabwe is tightening revenue leakage loopholes in a bid to raise more funds for the state's

coffers. In September, 2017, Zimra surpassed its revenue targets of about \$267.6million after collections surged to \$307.9m. Zimra acknowledged that smuggling was a major issue despite the introduction of import restriction measures last year to boost local production and tax payments (Karombo, 2017).

In Ghana, the Tema Sector Command of the Customs Division of the Ghana Revenue Authority impounded a total of six containers carrying unclear goods on 14<sup>th</sup> May 2018. The goods which included canned drinks, lubricants, frozen fish and mackerel were loaded in 20-foot containers were en route to Burkina Faso for transit and other neighbouring countries but ended up in a warehouse at Tabora in Accra, Ghana. The duty charges worth Ghanaian Cedi 570,000 (US\$120,000) were avoided by the owners of consignments. Since the goods were cleared as transit goods, the Ghanaian Authorities let them go only for the goods to end up in Ghana and hence were compelled to intercept and seize the consignments. Transit goods do not attract any duty because the goods are not consumed in Ghana. This is the third seizure of transit goods since the beginning of the second quarter of the year 2018 in Ghana (Okoh, 2018).

#### **1.1.5 Local Perspective of Cargo Diversion**

In Kenya, the Kenya Revenue Authority (KRA) instituted a 24-hour monitoring system on transit cargo in a move expected to stem rising cases of diverting Uganda-bound goods into the local market (Gitonga, 2015). KRA Commissioner for Customs and Border Control stated there was an increase of vehicles being concealed in containers more so top-of-the-range vehicles that are of high value. The new measures started to bear fruit almost immediately with the interception of three Range Rover sports utility vehicles worth Sh28 million at the port. The cars had been

declared as household goods, and were concealed using mattresses and toys in a 40-foot container. The items declaration as household goods would have attracted less than Sh1 million customs duty and related taxes, denying the authority over Sh19 million (Gitonga, 2015).

KRA on 10<sup>th</sup> February 2016 implemented a measure of taxes on goods imported through Kenya but destined for other countries to be paid in Mombasa in new changes to tackle diversion of transit cargo (Michira, 2016). Previously, taxes on transit cargo were payable after the commodities arrive at the final destinations. It has however been impossible to monitor and track the thousands of trucks moving the cargo to ensure the commodities actually leave the country. Importers exploited that loophole to divert cargo, and often, only the security locks used to secure containers are taken to the border crossing points to conceal the fake handover. KRA acknowledged that its own staff would be complacent in aiding such schemes, all aimed at evading taxes. KRA Chief Commissioner stated that East African nations including Uganda, Tanzania and Rwanda were integrating their Customs systems to make it possible for the three countries to have a regional bond for goods in transit (Michira, 2016).

Export products from Kenya enjoy privileged status on taxation and excise duties with most exempted (Siror et al., 2010). Taxes and duties are usually paid by manufacturers upon selling the goods. Refund claims are then processed by the tax authority upon proof of export from the traders. Unscrupulous traders however misuse the provision by making fake claims. Goods would be loaded and leave their factories with documents indicating that the goods are destined to foreign markets, but along the way the goods are diverted and dumped to the local market (Michira, 2017).

Additionally, they would thereafter lodge refunds claims for the same cargo on pretext that they were exported. Other traders exaggerate what is exported to facilitate diversion of the cargo difference to the domestic markets. While some would dump the cargo, others however exchange the original contents for prohibited or illegal goods such as narcotics to facilitate transiting to other destinations. This is done due to weaknesses in tracking or bribery of those responsible for escorting or verifying the export cargo (Warui, 2017).

The UN's International Narcotics Control Board (INCB) in Siror et al. (2010) reports that Kenya is an emerging transit area for narcotics where they arrive, are repackaged and exported to Europe disguised as legitimate cargo. Export cargo is carried mainly by trucks with full covered bodies, tankers and containers on trailers or on rail with manual seals used to secure the doors. Use of mechanical security seals and physical escorts has however not been effective in curbing diversion of goods. Instances of seals being broken, goods dumped or exchanged and a substitute imitation seal fixed abound (Warui, 2017). Despite the measures put in place, large quantities of export goods still get diverted to the local market with most undetected. These challenges impact negatively on revenue collections, confidence in customs controls, costs of controlling revenue leakages, security and cost of doing business in the region and increased risk of export goods from the region (Siror et al., 2010).

### **1.1.6 Customs and Border Control Department**

The Customs and Border Control Department (CBCD) is one of the Revenue Departments within Kenya Revenue Authority. The department administers the East African Custom Management Act

(EACMA) 2004 and other Revenue Acts that impose taxes or levies on imports and exports e.g. the VAT Act 2013, Excise Act 2015 and miscellaneous Act 2016. CBCD collects and accounts for Import Duty and VAT (Value added Tax) on imports. The department also collects Agency Fees on behalf of other institutions related to cargo. CBCD collects and accounts for 35% of the gross revenue collected by Kenya Revenue Authority. CBCD compliments security agencies operations at the entry points (KRA, 2018).

CBCD roles include: trade facilitation, border control, revenue collection, protection of society and smuggling prevention, and compilation of trade statistics (KRA, 2018). Under trade facilitation, CBCD roles include: facilitating international trade by providing expedited clearance of goods through simplified and harmonized Customs procedures as envisaged under the Revised Kyoto Convention. In border control, CBCD roles include: Control of Exports & Imports, travellers, border patrols and surveillance. Revenue collection roles include: Import & Export Duty, APSC (Airport Passenger Service Charge), IDF (Import Declaration Form) fees, PDL (Petroleum Development Levy), Transit Road Toll, VAT, Excise & Sugar Levy etc. Protection of society and environment through enforcement of prohibitions and restrictions: by barring international trade in illegal substances and materials e.g. narcotic substances, arms and ammunitions, endangered animal species, counterfeit or sub-standard goods, stolen motor vehicles, smuggled goods, etc. Under compilation of trade statistics, CBCD roles include: department collecting trade data on all imports and exports that the government uses for planning purposes (KRA, 2018).

## **1.2 Statement of the Problem**

Cargo diversion is an internationally unacceptable trade practice because it undercuts government revenue and discourages private sector investments in all industries. The amount of container goods that is lost due to theft, piracy, accidents and damage is unfortunately increasing leading to government losing revenue to cargo diversion (Bonsu, 2011). High levels of taxation, collusion by law enforcement agents, particularly at border points or the port, increasing volumes of trade, inadequate physical and technological infrastructure, vast distances traversed by cargo trucks have created a conducive environment for cargo diversion practices (Siror et al., 2010). These practices have led to large quantities of export goods getting diverted to the local market with most undetected. Reported cases of transit cargo diversion into the local market in Kenya have cost Kenya Revenue Authority (KRA) an estimated Ksh 12 Billion every year (Gitonga, 2015; Mugambi, 2017). This has compelled KRA to take measures such as introducing real time cargo tracking systems aimed at minimizing or deterring tax evasion through diversion of transit goods (Mugambi, 2017). Therefore, there is need for a study to determine the effects of customs clearing regimes on revenue collection of customs and border control department.

A number of studies carried out on cargo diversion and cross-border trade sector such by Kabiru (2016); Mugambi (2017); Mwendu (2008); Apondi (2015); Ndikom (2005); Siror et al. (2010); and Ogah (2002) have been general or have failed to give detailed insights on the effects of cargo diversion on a countries revenue collection. Although these studies among others attained their objectives, they did not delve into the effects of cargo diversion on revenue collection of customs and border control department. There is a scarcity of published work on the effect of cargo

diversion on revenue collection of customs and border control department, particularly in the context of developing countries in the dynamic African region and specifically in Kenya. This study intended to bridge this gap in knowledge that exists.

### **1.3 Objectives of the Study**

This section presents the general and specific objectives of the study.

#### **1.3.1 General Objective of the Study**

The general objective of this study was to determine the effect of customs clearance regimes on the revenue collection of customs and border control department in Kenya.

#### **1.3.2 Specific Objectives**

This study specifically sought:

- i) To examine the effect of transit goods regime on revenue collection of customs and border control department in Kenya.
- ii) To investigate the effect of warehoused goods regime on revenue collection of customs and border control department in Kenya.
- iii) To ascertain the effect of temporary imports regime on revenue collection of customs and border control department in Kenya.

### **1.4 Research Questions**

This study sought to answer the following research questions:

- i) To what extent do transit goods regime influence revenue collection of customs and border control department in Kenya?

- ii) To what extent do warehoused goods regime influence revenue collection of customs and border control department in Kenya?
- iii) To what extent do temporary imports regime influence revenue collection of customs and border control department in Kenya?

## **1.5 Significance of the Study**

This study will be of importance and beneficial to various stakeholders in the effort to reduce cargo diversion. It is urged that by eliminating cargo diversion the cost of doing business will reduce and more trade is likely to be carried out along customs and border control departments. This study will be significant and valuable to the following:

### **1.5.1 Customs and Border Control Department**

This study is significant and relevant to the Customs and Border Control Department of KRA as it will help their management to draw appropriate strategies as they continue with the fight cargo diversion which is a huge problem to the country. The study findings will help the management to understand the possible bottlenecks and identify potential areas of improvement and change so as to eradicate cargo diversion and boost revenue collection. The research findings will help inform the managers of the usefulness of the cargo in-fast tracking the operations of the ports and reduction of time spent on temporary imports goods.

### **1.5.2 Traders (Importers and Exporters)**

The study will help importers understand the negative effects of cargo diversion to a country's economy. It will also help them understand how goods on transit, warehoused and temporary goods should be handled and also offer reference for further learning on the measures the

government is taking to counter the menace. This will deter those traders who may be tempted to divert cargo.

### **1.5.3 The Government**

The study will bring out key issues regarding cargo diversion and their effects on the economy which will prompt the government to review existing policy framework especially on bilateral trade in promotion of international trade especially on transit goods. It is expected that the outcome of the study will assist policy and decision makers in government agencies such as KRA will use the study results which will provide invaluable insight towards cargo diversion and provide information that allows them to provide useful suggestions to the improvement in performance in the countries revenue collection and growth of the economy.

### **1.5.4 Future Researchers and Academicians**

The study will be of benefit to academicians as it adds knowledge to already existing context of revenue collection. The findings of this study will enrich existing knowledge and hence will be of interest to both researchers and academicians who seek to explore and carry out further investigations. It will provide basis for further research.

## **1.6 Scope of the Study**

This study focused on the effects of custom clearance regime on revenue collection of customs and border control department in Kenya. The study involved a sample of all 750 officers from the Customs and Border Control Department at the KRA Headquarter. The respondents were supplied with a questionnaire with the aim of getting their views regarding custom clearance regime as they

are better placed and knowledgeable about the study topic. The data was collected over 2-week period.

### **1.7 Limitations of the study**

The study was confined at KRA Headquarters times tower where security to the place was very tight. KRA customs and border control department were busy at work thus it took longer for certain interviews and filling in of questionnaire some questionnaires went unfilled. Some officers were unwilling to offer some information which they considered private and confidential yet it was important for the research to be conclusive

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter comprises of literature as presented by other authors and scholars. Literature review is defined as the review of theories and previous research findings regarding the problem of the study (Leedy & Ormrod, 2010). Lamb (2014) defines literature review as identifying and discussing the research gaps in those findings. The literature reviewed can help in drawing significant conclusions while giving a fair chance to identify research gaps that exist

#### **2.2 Theoretical Review**

This section presents the theories underpinning the study and provides the study with a perspective to relate to the subject matter in the real world context. Halvorson (2012) define a theory as a set of statements or principles devised to explain a group or facts specifically one that has been repeatedly tested or is widely tested. The theories are Institutional Theory, Theories of Constraints and Operational Measures, the Transaction Cost Theory, and The Expedition Theory of Taxation.

##### **2.2.1 Institutional Theory**

Institutional theory emphasizes on the need to focus on the formal and legal aspects of government structures in determining the efficiency of trade (Scott, 2004). Meyer & Rowan (1977) came up with the institutional theory which recognizes the embedment of institutional actors and was supported further by DiMaggio & Powell (1983). The theory considers the process by which structures become ingrained as authoritative guidelines for influencing social behaviour (Scott, 2004). Institutional theorists such as Marquis & Tilcsik (2016) and Scott (2008) suggest that organizational actions and processes are driven by their actors in order to justify and plausibly

explain their actions. According to this perspective, strategy implementation is rationally accounted for by organizational actors as organizations adopt a standardized set of practices (Oliver et al., 2007).

The Institutional theory suggests that existence of formal rules and enforcement standards create an incentive for action patterns (Adeleke et al., 2010). These rules have the effect of protecting national markets and obstructing a level playing ground. Ang & Michailova (2008) argue that, harmonizing and simplifying trade rules and regulations pertaining to import/export trade could facilitate cross-border trade, and the integration of national and regional. Cross-border cargo clearance processes interests' cargo owners, transporters, freight forwarders who will be interested in shorter time in seeking to cross a border crossing with cargo (Calabrese & Eberhard-Ruiz, 2016). Many governments in Africa are interested in maximising revenue collections and consequent will be interested in the introduction of stringent measures at the borders with an aim of increasing revenue collection and at the same time reduce bureaucratic delays at the border post that lead to cargo diversion into local markets (Barka 2012).

In an effort to improve the operational efficiency of all Border Stations, the Kenya government will need to improve its efficiency with a view to reducing any form of bureaucracy that will lead to increased cost of operations (Apondi, 2015; Mugambi, 2017). The theory considers cross-border differences between countries to consist of complex variety of legal rules and procedures in the host countries (Scott, 2004). The Kenya Revenue Authority would need to align internally to be able to ensure that the new introduced system for tracking goods in transit becomes part of their day to day activities. The implementers of the system would therefore need to educate the staff

members internally on the benefits of the system both internally and externally in order to achieve the desired results (Mugambi, 2017).

### **2.2.2 Theory of Constraints and Operational Measures**

This theory assumes that performance of an organization can't improve due to a specific problem or inefficiencies. A constraint is defined as anything that prevents a system from achieving a higher performance relative to its goal. The constraint can however be established by looking at the effect it causes the organization. Once the main constraint is established and removed the operation performance will improve. The process of establishing the cause of the undesirable effect should be repeated until the overall performance completely improves Eliyahu and Goldratt, (1980). The Theory of Constraints states that constraints determine the performance of a system.

This theory was first applicable to business systems (Blackstone, 2010). Based on the theory of constraints and operational measures, Kenya Revenue Authority ensures that it establishes internal process that will support the measures of curbing cargo diversion from goods in transit goods such as introduction of the electronic cargo tracking system. The processes have to be repeated until the system is fully owned by the employees and is yielding results. Challenges that may stem from using the system initial also need to be dealt with as they emerge, and the lessons recorded for future reference. This theory eliminates the constraints so as to maximize the owners' or stockholders' wealth such as people or departments that cannot keep up with the changes. The management therefore needs to meet regularly with their team members so as to be able to receive feedback and use the feedback to make amendments to the policy and over internal processes.

### **2.2.3 Transaction Cost Theory**

The transaction cost theory opines that the costs of establishing and monitoring the actions of partners influence the entry mode choice (Sauve & Zampetti, 2010). Transaction cost theory propose that if there are market based measures, business players will buy-in because a firm can benefit from the economies of scale of the market place. However, McIvor (2005) elucidates that a firm faces increased costs in finding or negotiating a market based agreement due to difficulties of estimating all contingencies in the agreement or because of the inability to receive a fair price due to the problems arising from information asymmetry. The use of technology in monitoring of cargo in transit, in particular, has created enormous value by improving transit management in long global supply chains, helping reduce inventory costs by up to 70 percent while improving the service offered (Raghu & Harrop, 2013).

McIvor, (2005) assert that transaction costs are the reason behind different forms of organizing economic activity in the two ends of a continuum regarding how to administrate business in markets. Transactions and transaction costs differ between the various governance structures in business relationships and arise from four different classes namely: search costs, contracting costs, monitoring costs and enforcement costs in the business transaction. As a result of this, Faems (2008) opine that transaction theory makes firms vulnerable to its exchange partner's opportunistic behaviour when it's hard to evaluate the partner's performance. In addition, it has been argued that trust reduces some of the risks and uncertainties associated with such economic transactions.

#### **2.2.4 The Expediency Theory of Taxation**

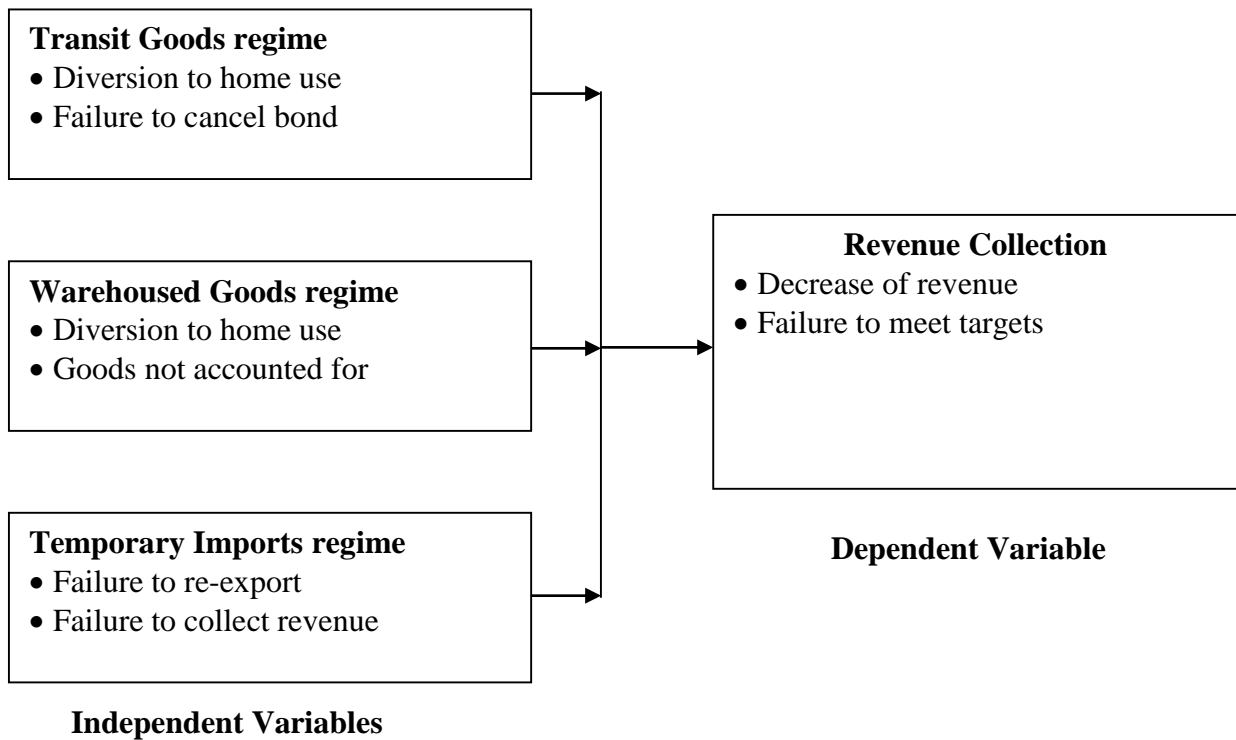
The expediency theory states that every tax proposal must pass the test of practicability (Hazel, 2005). This implies that it must be the only consideration when the authorities are choosing a tax proposal. Economic and social objectives of the state should be treated as irrelevant. This proposition has a truth in it, since it is useless to have a tax which cannot be levied and collected efficiently. There are pressures from economic, social and political groups. Every group tries to protect and promote its own interests and authorities are often forced to reshape tax structure to accommodate these pressures (Bhartia, 2009).

Administrative set up may not be efficient to collect the tax at a reasonable cost of collection. Taxation provides a powerful set of policy tools to the authorities and should be effectively used for remedying economic and social ills of the society such as income inequalities, regional disparities, unemployment, cyclical fluctuations and so on (Bhartia, 2009). The expediency is relevant to the current study in that, it seeks to explain how cargo diversion could influence revenue collections by customs and border control departments.

#### **2.3 Conceptual Framework**

Mugenda and Mugenda (2003), define a conceptual framework as a hypothesized model identifying the concepts under study and their relationships. A conceptual framework is a graphical model presentation of the relationship between variables in the study (Orodho, 2012). In this framework, there are certain cargo diversion factors influencing revenue collection of customs and border control department in Kenya. These factors include but are not limited to; transit goods, warehoused goods, and temporary imports. Revenue collection of customs and border control

department in Kenya is the dependent variable that is affected by the independent variables. The study will be guided by the conceptual framework as shown in Figure 1 relating the dependent and independent variables.



**Figure 2.1: Conceptual Framework**

### 2.3.1. Transit Goods regime

Duties and taxes on transit goods are covered by insurance bond entered into by customs and insurance company and the owner of the transit goods. This mode has helped curb diversion of transit cargo but to a given extend it has not eliminated it completely. Kenya has joined East

African neighbor's Uganda and Rwanda to launch a common cargo tracking system intended to reduce the cost of trade and check tax evasion (EACMA) 2004.

The Kenya Revenue Authority (KRA) launched Regional Electronic Cargo Tracking System, which enables real time tracking of transit cargo from Mombasa port to its destination through an online platform monitored in the three countries. The system allows three countries to monitor the cargo in real time hence limiting the opportunity for any collusion to evade tax. It is a game changer in the cross border trade and will go a long way to safeguard Kenya as a major transit point for cargo in this region. The magnetic gadget is attached on the container's rear and armed before the lorry leaves the port. It contains details about the container and lorry registration details including the driver's contacts. Any diversion from the transit route is viewed from the command Centre in the three capitals with a team of customs officials and the police on patrol at different check points to respond to any violations triggered by the system.

### **2.3.2 Warehoused Goods regime**

Warehoused goods are those goods kept in a customs warehouse whose duty has not been paid for and are under customs control. Upon landing of such goods, the proper officer takes account of the goods and are entered in a book. Warehoused goods are left in custody of the person in charge of the warehouse called warehouse keeper. Before goods are warehoused a bond is executed to act as a security for the goods. Warehoused goods are entered for home use, exportation, removal to another warehouse or use as stores for aircraft or vessels. When these goods are diverted they fail reach the bonded warehouse and customs officer or warehouse keeper cannot account for leading to loss of revenue(EACMA) 2004.

### **2.3.3 Temporary Imports regime**

Goods temporarily imported under one of the simplified procedures such as oral declaration are to be presented to Revenue at re-exportation together with the holder's copy of the inventory which was completed on importation. In the case of goods declared for temporary admission on a customs declaration an export declaration will have to be completed and the goods presented to Revenue at the point of exportation. The Customs officer should be satisfied that the period of temporary admission as originally granted or subsequently extended has not been exceeded and that the declaration is correct. Goods should be as described in the documentation and are to be examined to the extent necessary to establish that they were the goods originally imported.

This provision has been misused by many scrupulous traders who enter goods as temporary imports but later end up using or selling the goods within the country instead of re-exporting them, this is possible with the collusion of those in the authority and as a result the government loses a lot of revenue in terms of taxes and duties. On the other hand, if any modification in terms of value addition has been made on the temporary imported goods, then proper declaration should be reported to the authority so that duties could be collected for the same.

Where evidence of discharge of temporary admission arrangements and a request for a refund is not received at the import station within a reasonable time after the period of temporary admission allowed has expired the holder of the authorization is to be contacted regarding discharge of the arrangements. In addition, s/he is to be advised that failure to respond will result in the deposit

being brought to account or, if a guarantee has been used, the guarantors being called on to pay the amount due(EACMA) 2004.

#### **2.3.4 Revenue Collection**

Goods are monitored during transportation in the region to guard against cargo diversion, which results in tax revenue losses. The common platform had enabled the RAs (regional authorities) in the three countries to effectively combat transit cargo diversion given the platform's capability to allow simultaneous tracking and real-time communication between tracking and enforcement teams in different countries. Taxes on goods imported through Kenya but destined for other countries will be paid in Mombasa in new changes to tackle diversion of transit cargo.

The Single Customs Territory will ensure that assessment and collection of taxes for goods destined for countries in East Africa is done at the port of entry. The use of cargo tracking system to monitor the movement of transit goods from the port of Mombasa to the frontier office has also helped curb cargo diversion hence eliminating revenue loss. The system will help us monitor goods from end to end; it will ease cargo handling, improve revenue collection and reduce diversion of untaxed goods into the market. It will lead to improved fair trade and target meet as goods that have not been taxed will not be diverted to distort the market.

#### **2.4 Empirical Review**

Empirical review refers to a way of gaining knowledge by means of direct and indirect observation or experience (Goodwin, 2005). The empirical literature review can offer an efficient method of building a professional knowledge base, understanding performance issues, identifying potential

interventions and measurement methods, providing a foundation for asking the right questions in a proposal, and defining common practices in organizations (Kothari & Garg, 2011).

#### **2.4.1 Transit Goods**

Goods in transit refer to merchandise and other types of inventory that have left the shipping dock of the seller, but not yet reached the receiving dock of the buyer (Melghar, 2014). The United Nations Conference on Trade and Development-UNCTAD (2017) define transit trade as a country's external trade that passes through the territory of one or more third countries prior to reaching its final destination. Goods are transported across and among nations so far as preferences, price differentials and comparative advantages exist (Adu, Poku, & Anarfi, 2014). Carmignani (2012) posit that individual citizens and governments engage in transit activities sometimes as a result of a disadvantageous natural geographical location of a country such as being landlocked, and because the goods they intend trading in are located in a far country, especially when they do not share common borders. In that case, the goods imported from one location or country must be permitted to pass through other countries of no interest in the transaction (UNCTAD, 2017). Nevertheless, there are various steps that such non-interested countries take to avoid various negative tendencies that affect these transit countries such as; infrastructure damages, influx of various diseases, illicit drug trade and consumption, various degrees of crimes and loss of tax revenue through transit activities (Adu et al., 2014; Carmignani, 2012; Kharel & Belbase, 2010).

In many developing countries, duties and taxes on transit goods are covered by insurance bond entered into by customs and insurance company and the owner of the transit goods (Ghana

Shippers Authority (GSA), 2013). An area of concern to various transit regions governments' is the massive calculated tax evasive efforts these transit activities pose to them by unscrupulous individuals and groups. Diversion of transit goods and removal of transit and warehouse cargoes are mostly as a result of weak institutional frameworks and loopholes in various legal contracts which some selfish business people would take advantage (Adu et al., 2014).

The Ghana Revenue Authority-Customs Division (GRA-CD), being the enforcement agency of transit activities echoed the following challenges as widespread perception that transit regime is an open door leading to transit goods diverted into local market resulting to revenue loss and economic distortion; reliance on escort systems again leads to ineffectiveness in tackling diversion and very costly (GRA, 2018). Transporters of goods in transit and goods under customs control in Kenya are required to be licensed under the East African Community Customs Management Act (EACCMA), 2004 read together with the EACCMA regulations, 2006 (KRA, 2018).

#### **2.4.2 Warehoused Goods**

Richards (2011) highlight that there is rising pressure is on warehouse managers to decrease cargo diversion with the aim of improving on tax compliance. Warehousing is a system by which imported goods or locally manufactured goods are stored under Customs control in a Government or Private Bonded Warehouse without payment of import duty and other taxes (Ghana Revenue Authority (GRA), (2018). This system affords the importer or manufacturer the opportunity to defer the payment of duty and taxes until the goods are needed for home consumption or are exported. East Africa Community (EAC) Customs (2018) define warehousing as the practice or business of storing, holding and handling goods in a warehouse. According to GRA (2018), this

facility enables the importer/Manufacturer to take advantage of both the home and foreign markets without any loss in respect of duties and taxes. Goods in a Warehouse may be reentered by their owners for home consumption, exportation or removal to another Warehouse anytime within two years (GRA, 2018).

The U.S. Customs and Border Protection (CBP) (2010) define a customs bonded warehouse as a building or any other secured area in which imported dutiable merchandise may be stored, manipulated, or undergo manufacturing operations without payment of duty for up to 5 years from the date of importation.

According to GRA (2018), there are four categories of warehouses which include: state warehouse, government warehouse, private bonded warehouse and public warehouse. A state warehouse is a compulsory storage place for goods which have contravened the customs laws, or goods which have not been entered within the statutory period. As such, goods which are un-entered, detained, unexamined, abandoned, or seized are compulsorily stored in a state warehouse. Security of such goods is the responsibility of the Customs, Excise and Preventive Service (Adu et al., 2014). A government warehouse is a building or place, the property of the government, approved by the minister by notice in the gazette where goods to be warehoused may be lodged, kept or secured (GRA, 2018). Goods entered for deposit in the government warehouse are so deposited at the request of the importer/manufacturer after passing a warehousing entry a removal bond is executed before delivery of the goods into the warehouse. The Customs provides the revenue lock to the warehouse (Adu et al., 2014).

A private bonded warehouse is any building or place appointed by the commissioner of customs and licensed to be a place where goods to be warehoused are lodged, kept and secured (GRA, 2018). Similar to government warehouse, goods entered for this warehouse are so deposited at the request of the importer/manufacturer after passing a warehousing entry and executing a removal bond. Double locks are provided: one by the warehouse keeper and another by customs. A public warehouse is any building or place appointed by the minister of Interior and licensed by the commissioner of customs for the storage of arms and ammunitions and dangerous weapons for the security purposes and the consequent levying of customs duties. This warehouse is kept and controlled by the police and the customs (Adu et al., 2014).

### **2.4.3 Temporary Imports**

Temporary imports refer to certain goods brought into a country on a temporary basis without the payment of duties and taxes (Sowinski et al., 2013). Temporary importation is a customs procedure under which certain goods can be brought into a customs territory temporarily, conditionally relieved from the payment of import duties and taxes; such goods must be imported for a permitted purpose and must be intended for exportation within the permitted period (Cheraghi & Heidari, 2016). Many countries including Kenya allow temporary importation without levying customs duties and turnover tax on items which are to be within their borders for only a short time. The Temporary Importation procedure may be used for goods such as large capital equipment that is imported for a specific single use in the country (such as road construction equipment), wherein payment of full duties and taxes on the imported equipment would make regular or permanent importation economically unfeasible. This could also cover goods coming into the country for repairs or alterations (Ngoc & Phuong, 2017).

Thu (2016) notes that internationally, the best practice is to require the posting of a security (a financial guarantee) in connection with permitting temporary imports. In that connection, one of the most important internationally accepted systems for permitting the temporary admission of goods is the ATA carnet. A carnet is an internationally recognized document for the temporary importation or exportation of goods throughout many countries. This relies on an international chain of guaranteeing organizations that provide security for any duties and taxes that may be owed in the event that the temporary imports are not properly re-exported within the time period specified. Goods placed under the temporary importation procedure must remain in the same state (not be further processed or manufactured). Repairs and maintenance, including overhaul and adjustments or measures to preserve the goods or to ensure their compliance with the technical requirements for their use under the temporary importation procedure are admissible (Ngoc & Phuong, 2017).

Some enterprises and individuals take advantage of preferential policies for temporary imports or goods in transit, by declaring legal goods for customs procedures, and not including other items in the shipment (which may be contraband imports) (Adu et al., 2014). In the process of transporting shipments in transit, these enterprises and individuals withdraw the goods from the shipment for consumption in the local market. Customs authorities should review and promote guidance for enterprises to implement regulations properly. Also, Customs needs to be aware of the tricks, and methods which some businesses are using to evade paying taxes which affects revenue collection (Thu, 2016).

Ngoc & Phuong (2017) contends that some of the measures to address temporary imports from getting diverted to local markets include: shortening the time storing commodities subjected to temporary import for re-export trading in the country in order to limit the potential risks; detailing the list of goods banned from temporary import for re-export; goods of this kind must be granted licenses from competent authorities to transparent management policy of this type; specify Customs bonded warehouse to place the goods; not allowing splitting of containers during transportation of goods from the gate to the areas supervised by Customs authorities, and gate points for re-export and Customs clearance points. At the same time, Customs procedures as well as the monitoring and management of businesses and enterprises implementing such activities should be controlled via electronic devices even for liquidity management (Ngoc & Phuong, 2017).

### **2.4.3 Revenue Collection**

Awitta (2010) stated that revenue collection is the amount of money that a company receives during a specific period. It is the gross income figure from which costs are subtracted to determine net income. Revenue collection can be defined as income that a company receives from its normal business activities, usually from the sale of goods and services to customers. Revenue is referred to as turnover. Some companies receive revenue from interest, dividends or royalties paid to them by other companies. Revenue may refer to business income in general, or it may refer to the amount, in a monetary unit, received during a period of time.

Karingi et al (2005) argues that in revenue collection, tax administration is crucial in the implementation of a properly designed tax. Tax administration consists of three interrelated activities: a) the identification of tax liabilities based on existing tax laws, b) the assessment of taxes to determine if the taxes actually paid are smaller (or large) than liabilities and, c) the collection, prosecution and penalty activities that impose sanctions on tax evaders and ensure that taxes and penalties due from tax payers are actually collected.

## **2.5 Critique of Literature Review**

Adu et al. (2014) did a study aimed at finding out how Ghana Revenue Authority (GRA) is dealing with the diversions and removal canker affecting Transit and Warehousing regimes in international trading activities in Ghana. Siror et al. (2010) researched on the impact of RFID based tracking to address the challenges of diversion of export goods into the local market in Kenya. Mugambi (2017) did a study attempting to find to establish the effect of cargo tracking system on cross-border trade between Kenya and Uganda. The study specifically sought to determine the extent of automation at the Kenya–Uganda border post as well as establish the effect of the cargo tracking system on the level of trade between Kenya and Uganda.

Kabiru (2016) carried out an exploratory study in an attempt to determine the extent of implementation of the electronic cargo tracking system by both the transporters and by Kenya Revenue Authority, to determine factors that influence the implementation of electronic cargo tracking and operational performance at Kenya Revenue Authority and by the transporters and lastly to establish the challenges faced in the implementation of the system. Kamande (2014) carried out a study with the purpose of examining the factors that affect revenue collection in

Kenya Revenue Authority (KRA) in Nairobi County. Despite the studies undertaken by different researchers' effects of cargo diversion on revenue collection of customs and border control department in Kenya has not been addressed.

## **2.6 Research Gaps**

From the background of the study and the literature reviewed, it is clear that custom clearance regime plays a huge role in revenue collected by a country. The studies reviewed have not given detailed insights on the effects of cargo diversion on a countries revenue collection. There is a scarcity of published work on the effect of cargo diversion on a countries revenue collection, particularly in in Kenya. This study intended to bridge this gap in knowledge that exists.

## **2.7 Summary of the Literature Review**

This chapter has reviewed the literature related to the study as presented by various authors and scholars. This chapter has discussed the theories underpinning the study as well as the empirical literatures. The chapter further has reviewed the conceptual framework and criticized already existing literature relevant to the study.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

This chapter will entail the process of how the research will be designed, data collected and analyzed. Research methodology is a system of explicit rules and procedure upon which research is based and against which claims for knowledge are evaluated (Nachmias and Nachmias, 2007).

#### **3.1 Introduction**

The research methodology outlines the methods to be employed by the researcher in collecting, assembling and analyzing data. The chapter comprises of research design, target population, sample design, data collection methods, data analysis, and ethical considerations.

#### **3.2 Research Design**

A research design is defined as an overall plan for research undertaking (Cooper and Schindler, 2014). The current study adopted a descriptive research design. Descriptive research is defined by Kothari (2009) as research that establishes an association between variables. The research design chosen for this research due to its ability to ensure minimization of bias and maximization of reliability of information gathered.

#### **3.3 Target Population**

Cohen, Manion, and Morrison (2007) define a target population as a specific proportion of the entire population that can be narrowed to achieve research objectives. The research targeted all 750 customs officers from the customs and border control department at the KRA Headquarter. Salkind (2005) proposes a rule of the thumb for determining a target population and says that a

size of 30 to 500 is appropriate for most academic researches. The respondents were chosen to participate in the study since they were quite knowledgeable about the subject of custom clearance regime. KRA headquarters was selected due to budgetary constraints, financial constraints and time available for research.

### **3.4 Sampling Technique and Sample Size**

This section entails the sample procedures used to derive the sample for the study which was used to generalize the findings for the larger population. According to Cooper and Schindler (2014), sampling is the process of selecting a number of individuals for a study in such a way that the individuals selected represent the larger group from which they were selected. Sampling involves the researcher securing a representative group that will enable him/her to gain information about the population (Mugenda and Mugenda, 2003). Choosing a sample is a key feature of any research undertaking.

According to the Kenya Revenue Authority Human Resources Data (2018), the customs and border control department at the KRA Headquarter has 750 officers. To determine the size of the sample used, the Yamani Taro (1967) formula was used. It states that the desired sample size is a function of the target population and the maximum acceptable margin of error (also known as the sampling error) and it expressed mathematically thus:

$$n = \frac{N}{1+Ne^2}$$

Where:

$n$  =sample size

N = target population

e =maximum acceptable margin of error (5%)

Thus in this study, the desired sample size given that the total population of the officers is 750 was:

$$n = \frac{750}{1 + 750 (0.05)^2}$$

Applying this to the above formula the minimum sample size obtained was 260 officers.

### **3.5 Data Collection Instruments**

A structured questionnaire was used to collect primary data. Cooper and Schindler (2014) define a questionnaire as a technique of data collection in which each respondent is asked to give answers to the same set of questions and statements in a predetermined order. According to Mugenda and Mugenda (2003), questionnaires are commonly used to obtain important information about a population under study. Each item was developed to address specific themes of the study.

### **3.6 Data Collection Procedures**

The questionnaires were preferred in this study because respondents of the study were assumed to be literate and quite able to answer questions asked adequately. Kothari (2009) terms the questionnaire as the most appropriate instrument due to its ability to collect a large amount of information in a reasonably quick span of time. It is for the above reasons that the questionnaire was chosen as an appropriate instrument for this study. The questionnaires were administered

physically and the respondent filled the questionnaire as the researcher waited. The study used able research assistants to help administer the questionnaires. The questionnaires were administered and respondents given a maximum of two weeks to fill the questionnaires which were collected upon completion.

### **3.6.1 Pilot Test**

The research instrument was piloted on a small representative sample but the group was not used in the actual study. The pilot study enabled the researcher to check whether the items used were valid and reliable and also correct misunderstanding, check language level and eliminate ubiquity at the right time. The piloting extracted comments from respondents which helped in the improving the instruments modifying and making clear the instructions given in order to avoid misinterpretation during the actual data collection. The piloting for this study involved 10 random officers from the customs and border control department who were approached and interviewed. These respondents were not included in the actual research sample size.

### **3.6.2 Validity Test**

Validity test refers to the means of assessing whether a research instrument collects the data it attempts to gather (Bryman, 2012). This study adopted content validity which is the extent to which a measuring instrument provides adequate coverage of the topic under study. In order to establish content validity and make adjustments and/or additions to the research instruments, consultations and discussions with the supervisor was done.

### **3.6.3 Reliability Test**

Reliability test is the degree of consistency that the instrument or tool demonstrates on repeat trials (Wambugu *et al.*, 2015). Cronbach's Coefficient Alpha approach was used as recommended by Cohen, Manion, and Morrison (2007), to test reliability of the data. Cronbach's alpha coefficient ranges between 0 and 1 with higher alpha values of <0.5 being unacceptable, 0.5 to 0.6 being poor, 0.6 to 0.7 being questionable, 0.7 to 0.8 being acceptable, 0.8 to 0.9 being good, and above 0.9 being excellent. The questionnaires were accepted at reliability indices of 0.70 and above.

### **3.7 Data Analysis and Presentation**

The process of data analysis involved several stages namely; data clean up and explanation. The data was then coded and checked for any errors and omissions (Kothari, 2009). Frequency tables, percentages and means were used to present the findings. Responses in the questionnaires were tabulated, coded and processed by use of a computer Statistical Package for Social Science (SPSS) version 20.0 programme to analyze the data. The responses from the open-ended questions were listed to obtain proportions appropriately; the responses were then reported by descriptive narrative. Descriptive statistics such as Analysis of Variance (ANOVA) was used. This analysis helped to test the research questions of the study and also stress the most important factor(s) under the study. The findings were interpreted in line with the main research objective and hence appropriate conclusion and recommendation made. These findings were presented using tables, charts and graphs. For regression analysis the following regression model was used:

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + \epsilon$$

Where:

$Y$  = Dependent variable namely revenue collection

$b_0$  = Constant

$b_1, b_2, b_3$ , = Regression Coefficients

Independent variables namely;

$X_1$  = transit goods

$X_2$  = Warehoused goods

$X_3$ , = temporary imports

$\epsilon$  = Error term or residuals

**CHAPTER FOUR**  
**RESEARCH FINDINGS AND DISCUSSION**

**4.1 Introduction**

This study's general objective was to determine the effects of customs clearance regimes on the revenue collection of customs and border control department in Kenya. The data was then analyzed by use of SPSS version 21 using descriptive analysis techniques that included Analysis of Variance (ANOVA) and the results thereafter presented on tables, charts, and graphs.

**4.2 Response Rate**

Wambugu et al. (2015) refer to response rate as the proportion of sample that participated in the research. Out of 260 questionnaires which had been administered to the interviewees, 198 of them were returned for data analysis. This translates to 75.3% return rate of the respondents. Overall, the response rate can be considered to have been high. Mugenda & Mugenda (2012) indicated that a response rate of 50% is adequate for analysis and reporting, a rate of 60% is good, and a rate of 70% and above is excellent. Therefore the response rate of this study of 73.5% was excellent for data analysis and was deemed as sufficient to draw inferences for the effects of customs clearance regime on the revenue collection of customs and border control department in Kenya. Table 4.1 presents the distribution of the respondents by response rate.

**Table 4.1: Distribution of the Respondents by Responses Rate**

<b>Response Rate</b>	<b>Frequency (F)</b>	<b>Percentage (%)</b>
Questionnaires Returned	198	76.2
Questionnaires Not Returned	62	23.8
<b>Questionnaires Issued</b>	<b>260</b>	<b>100.0</b>

### 4.3 Demographic Characteristics of the Respondents

This section looked at the background information of the respondents seeking to find out how the demographic characteristics influence the subject of the study. The categories were characterized by gender, age, academic achievement, year's employed and career orientation. This section presents a summary of the findings.

#### 4.3.1 Gender of Respondents

The study sought to find out the distribution of the respondents by gender to know which gender is the majority in the customs and border control department in Kenya. The summary of the distribution by their gender is given in Table 4.3.1

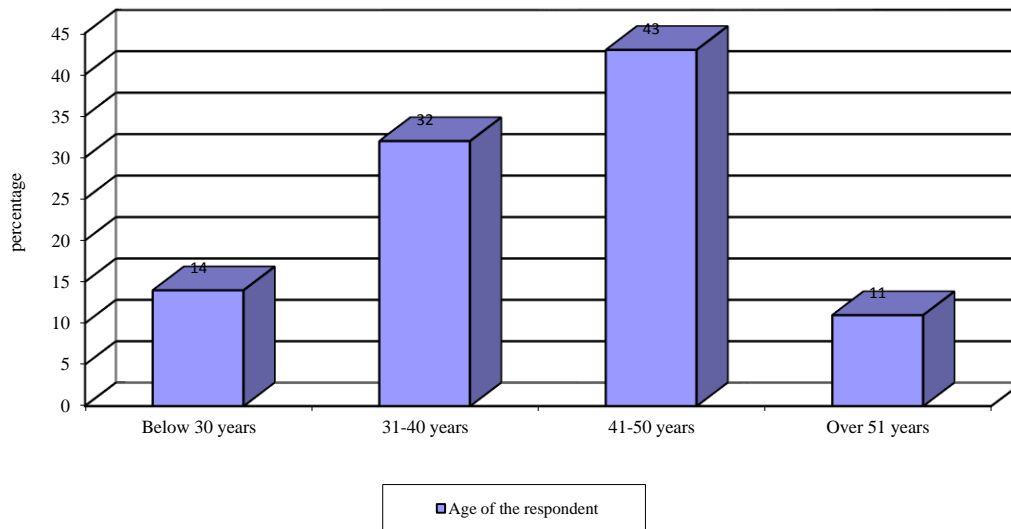
**Table 4.3.1: Distribution of Respondents by Gender**

<b>Gender</b>	<b>Frequency (F)</b>	<b>Percentage (%)</b>
Male	112	56.6
Female	86	43.4
<b>Total</b>	<b>198</b>	<b>100.0</b>

According to the data presented in Table 4.3.1, out of 198 respondents who participated in the study, 112 (56.6%) the majority were males while 86 (43.4%) were female. The findings give an indication that the customs and border control department of Kenya is male dominated, but it has adhered to the constitutional requirements of the one third gender rule of at least 30.0% of all employees in an organization to be of the female gender as stipulated in the constitution of Kenya (2010).

### 4.3.2 Age of Respondents

Because of differences in the respondent's age groups, the study sought to find out age brackets of the respondents so as to know which bracket is the majority in the customs and border control department of Kenya. The distribution of the respondents by age is given in Figure 4.3.1.

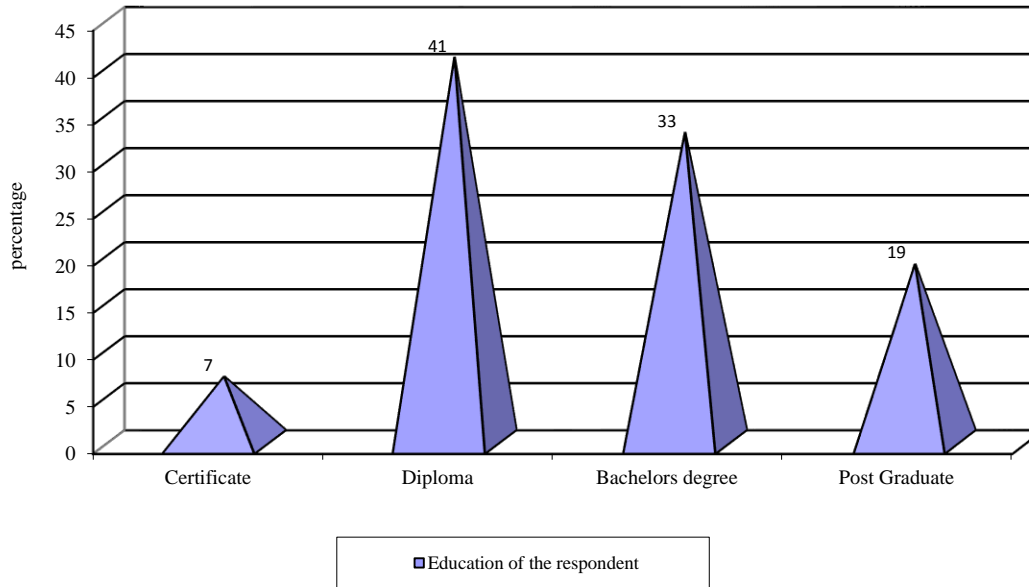


**Figure 4.3.1: Distribution of Respondents by Age**

Figure 4.3.1 reveals that majority of the respondents represented by 43.0% are aged between 41-50 years followed by 31-40 years (32.0%), below 30 years (14.0%), and then over 51 years of age (11.0%). The findings reveal that majority of customs and border control department of Kenya staff comprises of middle aged personnel.

### 4.3.3 Education Level of Respondents

The study sought to find out the education level of the respondents so as to know which bracket is the majority in the customs and border control department of Kenya. The distribution of the respondents by education level is given in Figure 4.3.2.

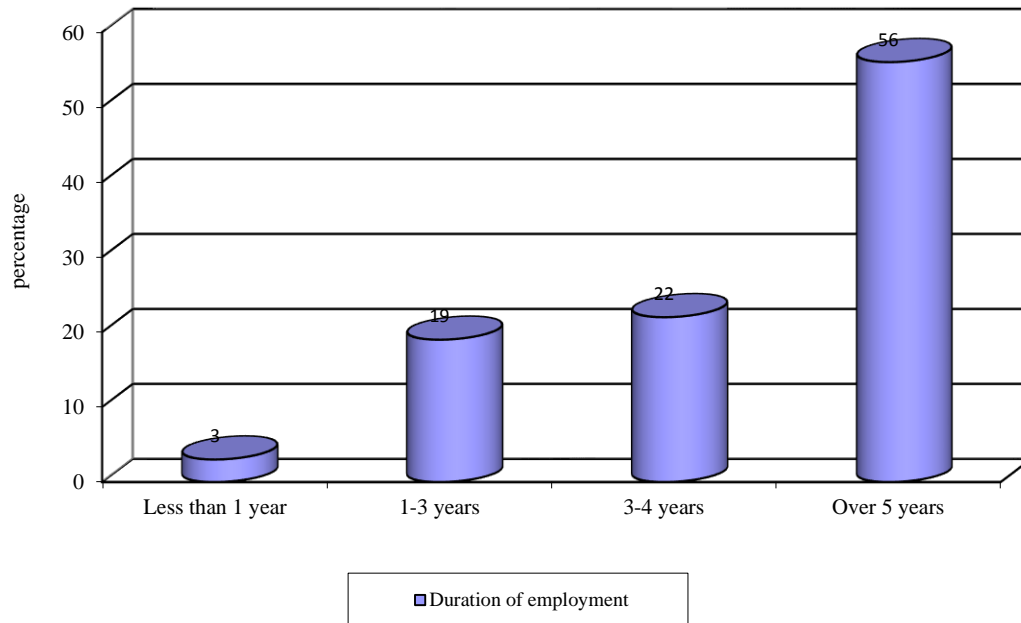


**Figure 4.3.2: Distribution of Respondents by Education Level**

Figure 4.3.2 reveals that majority of the respondents represented by 41.0% have attained diploma level of education as their highest level of education. 33.0% have attained bachelor’s undergraduate level of education, 21.0% have attained masters and post graduate while 4.0% have attained certificate level. The findings reveal that majority of customs and border control department of Kenya staff are well educated and knowledgeable about their jobs and are therefore expected to be perform well in regard to revenue collection.

#### **4.3.4 Duration of Employment at Customs and Border Control Department**

The section sought to find out the number of years the respondent has worked at the customs and border control department. The distribution of the respondents by duration of employment is given in Figure 4.3.3.



**Figure 4.3.3: Distribution of Respondents by Duration of Employment**

The study results presented in Figure 4.3.3 reveal that majority of the respondents represented by 56.0% have worked with the customs and border control department of Kenya for over 5 years. 22.0% have worked for 3-4 years, 19.0% have worked for 1-3 years while 3.0% have worked for less than one year. The findings reveal that majority of customs and border control department of Kenya staff have worked with the department for a period of over 5 years and are therefore well experienced and able to handle issues in regarding revenue collection.

#### **4.3.5 Career Orientation of Respondents**

The study sought to find out the distribution of the respondents by their career orientation. The summary of the distribution by their career orientation is given in Table 4.3.2

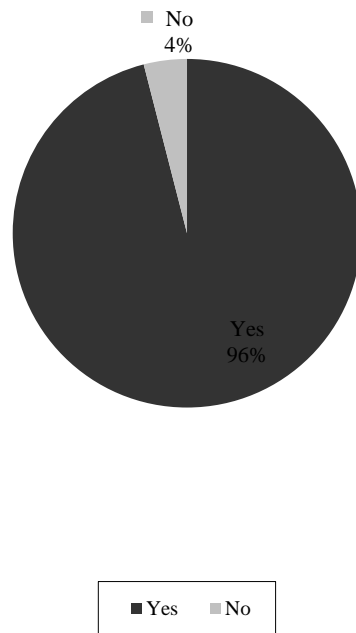
**Table 4.3.2: Distribution of Respondents by Career Orientation**

<b>Career Orientation</b>	<b>Frequency (F)</b>	<b>Percentage (%)</b>
Accounting & Finance	97	48.9
Procurement	18	9.1
Legal	9	9.5
Public Relations & Communication	19	14.3
Marketing	27	13.6
Purchasing & Supplies	22	11.1
Project Management	6	3.0
<b>Total</b>	<b>198</b>	<b>100.0</b>

From Table 4.3.2, out of 198 respondents who participated in the study, 97 (48.9%) the majority indicated accounts and finance as their career orientation. 14.3% indicated public relations and communication, 13.6% indicated marketing, 11.1% purchasing and supplies, 9.5% legal, 9.1% procurement, while 3.0% indicated project management. The findings give an indication that the customs and border control department of Kenya staff are well qualified to handle matters regarding revenue collection in the department and are expected to give better decisions.

#### **4.4 Customs Clearance Regime and Revenue Collection**

This section looks at the effect of customs clearance regime on revenue collection of customs and border control department in Kenya. The influence of customs clearance regime on revenue collection of customs and border control department in Kenya is given in Figure 4.4.1.



**Figure 4.4.1: Custom Clearance Regime and Revenue Collection**

The study findings in Table 4.4.1 indicate that almost all (96.0%) of the respondents agreed that customs clearance regime affects revenue collection of customs and border control department in Kenya. The extent to which they agreed is presented in Table 4.4.1.

**Table 4.4.1: Extent to which customs clearance regime affects revenue collection**

<b>Extent</b>	<b>Frequency (F)</b>	<b>Percentage (%)</b>
Moderate extent	7	3.5
Great extent	42	29.8
Very great extent	132	66.7
<b>Total</b>	<b>198</b>	<b>100.0</b>

The results in Table 4.4.1 indicate that, majority 132 (66.7%) of the respondents indicated that customs clearance regime affects revenue collection of customs and border control department in Kenya to a very great extent. A significant number of the respondents 42(29.8%) agreed customs clearance regime affects revenue collection of customs and border control department in Kenya to a great extent while 7 (3.5%) agreed to a moderate extent.

#### 4.5 Transit Goods and Revenue Collection

This section looks at the effect transit goods has on revenue collection which was the first objective of the study. The extent to which transit goods affect revenue collection of customs and border control department in Kenya is given in Table 4.5.1.

**Table 4.5.1: Extent to which transit goods affect revenue collection**

<b>Transit goods</b>	<b>No extent at all (%)</b>	<b>Little extent (%)</b>	<b>Moderate extent (%)</b>	<b>Great extent (%)</b>	<b>Very great extent (%)</b>
Cargo diversion leads to failure of goods reaching destination	0.0	0.0	0.0	14.3	85.7
Cargo diversion leads to failure to cancel bonds	0.0	0.0	10.0	27.2	67.8
Diversion of goods has reduced after installation of tracking devices	0.0	0.0	0.0	0.0	100.0
The customs department ensures goods on transit take the least time within the country to prevent diversion	0.0	0.0	0.0	0.0	100.0

The study results in Table 4.5.1 indicate that, all (100.0%) of the respondents agreed to a very great extent that diversion of goods has reduced after installation of tracking devices, and the customs department ensures goods on transit take the least time within the country to prevent diversion. Majority of the respondents agreed to a great extent that cargo diversion leads to failure

of goods reaching destination (85.7%) and cargo diversion leads to failure to cancel bonds (67.8%). The study findings support the findings by Adu et al. (2014) who stated that transit goods diverted into local market result to revenue loss and economic distortion; reliance on escort systems again leads to ineffectiveness in tackling diversion and very costly. Adu et al. (2014) argue that diversion of transit goods and removal of transit cargoes are mostly as a result of weak institutional frameworks and loopholes in various legal contracts which some selfish business people would take advantage.

#### 4.6 Warehoused Goods and Revenue Collection

This section looks at the effect warehoused goods has on revenue collection which was the second objective of the study. The extent to which warehoused goods affect revenue collection of customs and border control department in Kenya is given in Table 4.6.1.

**Table 4.6.1: Extent to which warehoused goods affect revenue collection**

Warehoused goods	No extent at all (%)	Little extent (%)	Moderate extent (%)	Great extent (%)	Very great extent (%)
The customs department offers tight security in all bonded warehouses to ensure goods don't enter local market without proper documentation	0.0	0.0	0.0	0.0	100.0
Cargo diversion results in failure of warehoused goods to reach bonded warehouse	0.0	0.0	0.0	0.0	100.0
Goods in bonded warehouses for re-export don't leave for local markets and are well accounted for	0.0	0.0	0.0	0.0	100.0
The customs bonded warehouse don't allow splitting of containers during transportation of goods from the gate to the areas supervised by Customs authorities, and gate points for re-export and Customs clearance points	0.0	0.0	0.0	0.0	100.0

The study results in Table 4.6.1 indicate that, all (100.0%) of the respondents agreed to a very great extent that; the customs department offers tight security in all bonded warehouses to ensure goods don't enter local market without proper documentation; cargo diversion results in failure of warehoused goods to reach bonded warehouse; goods in bonded warehouses for re-export don't leave for local markets and are well accounted for; and customs bonded warehouse don't allow splitting of containers during transportation of goods from the gate to the areas supervised by customs authorities, and gate points for re-export and customs clearance points. These findings are in line with Richards (2011) who highlighted that having well secured warehoused goods decreases cargo diversion and improves tax compliance and revenue collection.

#### **4.7 Temporary Imports and Revenue Collection**

This section looks at the effect of temporary imports on revenue collection which was the last objective of the study. The extent to which temporary imports affect revenue collection of customs and border control department in Kenya is given in Table 4.7.1.

**Table 4.7.1: Extent to which temporary imports affect revenue collection**

<b>Temporary imports</b>	<b>No extent at all (%)</b>	<b>Little extent (%)</b>	<b>Moderate extent (%)</b>	<b>Great extent (%)</b>	<b>Very great extent (%)</b>
Customs authorities strictly adhere to temporary importation procedures to ensure no loss in revenue	0.0	0.0	0.0	0.0	100.0
The customs department shortens the time storing commodities subjected to temporary import for re-export trading in the country in order to limit the potential risks	0.0	0.0	1.0	10.0	89.0
Cargo diversion from temporary imports results in failure to pay taxes	0.0	0.0	0.0	0.0	100.0

Table 4.7.1 reveals that, all (100.0%) of the respondents agreed to a very great extent that customs authorities strictly adhere to temporary importation procedures to ensure no loss in revenue, and cargo diversion from temporary imports results in failure to pay taxes. 89.0% of the respondents which is a significantly big number agreed to a very great extent that the customs department shortens the time storing commodities subjected to temporary import for re-export trading in the country in order to limit the potential risks. The findings here support Adu et al. (2014) and Thu (2016) who state that customs authorities should review and promote guidance for enterprises to implement regulations properly on temporary imports and customs need to be aware of the tricks, and methods which some businesses use when dealing with temporary imports to evade paying taxes which affects revenue collection.

Majority of the respondents noted that some of the challenges they undergo as the customs and border control department face in their efforts to combat cargo diversion include: lack of enough resources, threats and intimidation from scrupulous business men and a few politicians, lack of political goodwill by member of parliament to pass more strict rules to deal with cargo diversion

and lack of sufficient departmental budget to help train further and investigate new ways and tricks business men are using to circumvent the system in place hence diverting cargo.

The respondents of the study gave suggestions for the study among which included: political goodwill by the local dealers and support when fighting cargo diversion and coming up with stringent laws, increase in allocated budget for more staff advanced training to help learn new tricks ahead of time so as to seal all possible loopholes, better upgraded internet connectivity especially at the border points to cut down on unnecessary delays which lead to corruption and hence reduction in revenue collected.

#### **4.8 Inferential Analysis**

This section presents the inferential analysis by use of analysis of variance (ANOVA) and regression analysis which help to see the relationship that exists among the variables of the study.

##### **4.8.1 Analysis of Variance (ANOVA)**

This section presents the relationship between the dependent variable of the study that exists and the independent variables. The analysis was done by use of ANOVA to determine the relationship between the dependent variable (revenue collection of customs and border control department in Kenya) and the independent variable (customs clearance regimes). The acceptance confidence level was 95% or at significance level of 0.05. Table 4.8.1 reveals that significance level of 0.002 was found at 95% confidence level. Given that  $0.002 < 0.05$  it implies that the null hypothesis was not rejected showing the variance are equal across all independent variables affecting revenue collection of customs and border control department in Kenya. Analysis of Variance was used to

test the significance of the regression model as pertains to significance in the differences in means of the dependent and independent variables. The ANOVA test produced an f-value of 1.336 which was significant at  $p=0.002$ . This depicts that the regression model is significant at 95% confidence level.

**Table 4.8.1 Analysis of Variance (ANOVA)**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.297	7	.042	1.336	.002 <sup>a</sup>
	Residual	2.603	82	.032		
	Total	2.900	89			

a. Predictors: (Constant), transit goods, warehoused goods, temporary imports

b. Dependent Variable: revenue collection of customs and border control department in Kenya

#### 4.8.2 Regression Model Summary

Table 4.8.2 presents the model goodness of fit.

**Table 4.8.2: Model Goodness of Fit**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.853 <sup>a</sup>	.728	.026	.573

a. Predictors: (Constant), transit goods, warehoused goods, temporary imports

This study used Table 4.8.2 to establish whether revenue collection of customs and border control department in Kenya has a linear dependence on the independent variables. The study established a correlation value of 0.853. This depicts a good linear dependence between the two variables. An

R-square value of 0.728 was established and adjusted to 0.026. The coefficient of determination depicts that factors regarding customs clearance regime brings about 72.8% variations in revenue collection of customs and border control department in Kenya; however 42.7% of variations are brought about by factors not captured in the objectives.

**Table 4.8.3: Regression Analysis Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.510	.279		5.417	.000
	Transit goods	.097	.027	.220	3.60	.002
	Warehoused goods	.265	.083	.387	3.193	.000
	Temporary imports	.178	.130	.029	1.372	.435

a. Dependent Variable: Revenue collection of customs and border control department in Kenya

The regression model used for this study was:  $Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + \epsilon$

Where:

Y = Dependent variable (revenue collection of customs and border control department in Kenya)

$b_0$  = Constant

$b_1, b_2, b_3$ , = Regression Coefficients

Independent variables namely;

$X_1$  = Transit goods

$X_2$  = Warehoused goods

$X_3$ , = Temporary imports

$\epsilon$  = Error term or residuals

From the findings on Table 4.8.3 of the regression analysis coefficients, the regression model for this study will be:  $Y = 1.510 + 0.22X_1 + 0.387X_2 + 0.029X_3 + \epsilon$ . The regression model depicts that, when the transit goods, warehoused goods, and temporary goods have null value; performance would be 1.510.

The  $\beta$  coefficient of transit goods is 0.22, that of warehoused goods is 0.387 and temporary imports is 0.029. These results indicate that temporary imports had no statistically significant effect on revenue collection of customs and border control department in Kenya ( $\beta=0.029$ ,  $p=0.435>0.05$ ). Comparing the p values, it can be noted that the p values for transit goods ( $p=0.002$ ) and warehoused goods ( $p=0.000$ ) are both statistically significant. The  $\beta$  values imply that one unit change in revenue collection of customs and border control department in Kenya is associated with 22.0% changes in transit goods, 38.7% changes in warehoused goods and 2.9% changes in temporary imports.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

In this chapter, summary of findings, the study handled one research question after another systematically, had its findings, and concluded them all together. The study has a general but brief conclusion based on the study findings and discussions as per the research questions with the conclusion based on the entire study subject whereby recommendations are also given.

#### **5.2 Summary of findings**

This study aimed at determining the effects of customs clearance regime on the revenue collection of customs and border control department in Kenya. The task included; establishing how transit goods, warehoused goods and temporary imports influence revenue collection of customs and border control department in Kenya. The study reviewed previous studies with a view to establish academic gaps which the present study sought to bridge. This was done through library research. This study adopted descriptive research design and employed quantitative research as the main approach to guide the study.

The study targeted all 750 officers from the customs and border control department at the KRA Headquarter who were sampled to 260 respondents. The research instrument used in data collection was a questionnaire to draw information from the respondents. To ensure validity of the instruments, expert opinion was sought. Data analysis was started immediately after the field. Data

was summarized into frequencies and percentages and presented in tables. This section comprises of discussions based on the specific research objectives of the study.

The study findings reveal that majority of the customs and border control department of Kenya are males aged between 41-50 years who have completed diploma level of education as their highest level. The findings also reveal that majority of the staff worked had with the customs and border control department of Kenya for over 5 years and have accounts and finance as their career orientation. The findings give an implication that the staffs at the customs and border control department of Kenya are well educated and are able to tackle the issue of customs clearance regime with no issues. The study findings indicated that customs clearance regime affects revenue collection of customs and border control department in Kenya to a very great extent.

### **5.2.1 Effect of Transit Goods and Revenue Collection**

The objective was to examine the effect of transit goods on revenue collection of customs and border control department in Kenya. The major finding of this objective was that majority of the officers from customs and border control department in Kenya agreed to a very great extent that diversion of goods has reduced after installation of tracking devices, and the customs department ensures goods on transit take the least time within the country to prevent diversion. Majority of the respondents agreed to a great extent that cargo diversion leads to failure of goods reaching destination and cargo diversion leads to failure to cancel bonds which affects revenue collection. The study findings support the findings by Adu et al. (2014) who stated that transit goods diverted into local market result to revenue loss and economic distortion; reliance on escort systems again leads to ineffectiveness in tackling diversion and very costly. Adu et al. (2014) argue that diversion

of transit goods and removal of transit cargoes are mostly as a result of weak institutional frameworks and loopholes in various legal contracts which some selfish business people would take advantage.

### **5.2.2 Effects of Warehoused Goods on Revenue Collection**

The objective was to examine the effect of warehoused goods on revenue collection of customs and border control department in Kenya. The major finding of this objective was that majority of the officers from customs and border control department in Kenya agreed to a very great extent that; the customs department offers tight security in all bonded warehouses to ensure goods don't enter local market without proper documentation; cargo diversion results in failure of warehoused goods to reach bonded warehouse; goods in bonded warehouses for re-export don't leave for local markets and are well accounted for; and customs bonded warehouse don't allow splitting of containers during transportation of goods from the gate to the areas supervised by customs authorities, and gate points for re-export and customs clearance points. These findings are in line with Richards (2011) who highlighted that having well secured warehoused goods decreases cargo diversion and improves tax compliance and revenue collection.

### **5.2.3 Effect of Temporary Imports on Revenue Collection**

The objective was to examine the effect of temporary imports on revenue collection of customs and border control department in Kenya. The major finding of this objective was that majority of the officers from customs and border control department in Kenya agreed to a very great extent that customs authorities strictly adhere to temporary importation procedures to ensure no loss in revenue, and cargo diversion from temporary imports results in failure to pay taxes. A significantly

big number agreed to a very great extent that the customs department shortens the time storing commodities subjected to temporary import for re-export trading in the country in order to limit the potential risks. The findings here support Adu et al. (2014) and Thu (2016) who state that customs authorities should review and promote guidance for enterprises to implement regulations properly on temporary imports and customs need to be aware of the tricks, and methods which some businesses use when dealing with temporary imports to evade paying taxes which affects revenue collection.

Majority of the respondents noted that some of the challenges they undergo as the customs and border control department face in their efforts to combat cargo diversion include: lack of enough resources, threats and intimidation from scrupulous business men and a few politicians, lack of political goodwill by member of parliament to pass more strict rules to deal with cargo diversion and lack of sufficient departmental budget to help train further and investigate new ways and tricks business men are using to circumvent the system in place hence diverting cargo.

### **5.3 Conclusion of the Study**

The study found that there exists a positive association between: transit goods, warehoused goods, temporary imports and revenue collection of customs and border control department in Kenya. This positive association suggests that when one variable increases, revenue collection of customs and border control department in Kenya increases. The study therefore concludes that transit

goods, warehoused goods, and temporary imports affect revenue collection of customs and border control department in Kenya.

## **5.4 Recommendations of the Study**

### **5.4.1 Transit Goods**

Customs department should invest in installation of tracking devices so that it can help in curbing diversion and eliminate cargo diversion. The custom department should also ensure that goods on transit should take the least time within the country to prevent diversion. This will involve strictly adhering to the custom transit period granted of only 30 days as stated by East Africa custom management regulation 2010 subsection 104. The custom department should also institute punitive measures that carry fines and penalties as a form of discouraging transit diversion.

### **5.4.2 Warehoused Goods**

The customs department should offer tight security in all bonded warehouses to ensure goods don't enter local market without proper documentation; they should also be involved in making sure that goods to be warehoused reaches bonded warehouse in order to avoid being diverted into the local market. It's also the work of custom department to ensure that goods in bonded warehouses for re-export don't leave for local markets and are well accounted for; and customs bonded warehouse don't allow splitting of containers during transportation of goods from the gate to the areas supervised by customs authorities, and gate points for re-export and customs clearance points.

### **5.4.3 Temporary Imports**

Customs department should shorten the time for storing commodities subjected to temporary import for re-export trading in the country in order to limit the potential risks of diversion. Secondly, Customs authorities should also review and promote guidance for enterprises to implement regulations properly on temporary imports and customs need to be aware of the tricks, and methods which some businesses use when dealing with temporary imports to evade paying taxes which affects revenue collection. Lastly custom should strictly emphasize on the adherence to temporary import procedures in order to avoid diversion of cargo.

### **5.5 Areas for Further Study**

This study sought to determine the effects of customs clearance regime on the revenue collection of customs and border control department in Kenya attempting to bridge the gap in knowledge that existed. Although the study attained these, it mainly focused on customs clearance regime. There is need to conduct a similar study which will attempt to find out the challenges facing customs and border control officers when collecting revenue.

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**APPENDIX I**  
**INTRODUCTION LETTER TO THE RESPONDENTS**

Vibian Bett,  
P.O Box 48240,  
Nairobi, Kenya  
21st July, 2018.

Dear Respondent,

**RE: REQUEST FOR DATA COLLECTION FOR ACADEMIC RESEARCH PROJECT**

I am a student at the School of Communication and Development studies of Jomo Kenyatta University of Agriculture and Technology (JKUAT) currently undertaking a research study to fulfill the requirements of the Award of Post Graduate Diploma in Customs Administration on the **effect of customs clearance regime on the revenue collection of customs and border control department in Kenya**. You have been selected to participate in this study and I would highly appreciate if you assisted me by responding to all questions in the attached questionnaire as completely, correctly and honestly as possible. Kindly note that the study will be conducted as academic research and the information you provide will be treated as confidential. Kindly spare a few minutes from your busy schedule to complete the attached questionnaire.

Thank you in advance for your co-operation.

Yours Faithfully,

Vibian Bett  
Researcher

## APPENDIX II

### STRUCTURED QUESTIONNAIRE

This questionnaire is designed to collect data on the effects of customs clearance regime on the revenue collection of customs and border control department in Kenya. Kindly complete the following questionnaire using the instructions provided for each set of question. Tick appropriately. Do not write your name on this questionnaire.

Date of interview..... Consent: Yes [ ] No [ ]

#### Part A: Respondent's Background Information

1. What is your gender?

Male [ ] Female [ ]

2. In which of the following age brackets does your age fall?

Below 30 years [ ] 31-40 years [ ] 41-50 years [ ] Over 51 years [ ]

3. What is your education level (state the highest level)

[ ] Certificate [ ] Diploma [ ] Undergraduate  
[ ] Post Graduate [ ] PhD [ ] Other \_\_\_\_\_

4. How long have you worked with the customs and border control department?

[ ] Less than a year [ ] 1-3 years [ ] 3-4 years [ ] Over 5 years

5. What is your career orientation (your main profession)?

[ ] Accounting [ ] Procurement [ ] Finance [ ] Public Relations  
[ ] Marketing [ ] Purchasing & Supplies [ ] Other \_\_\_\_\_

**Part B: Cargo diversion and revenue collection**

6. In your own view, does customs clearance regime affect revenue collection of customs and border control department in Kenya?

Yes  No

To what extent

To a very great extent  To a great extent  To a moderate extent

To a low extent  To a very low extent

**Part C: Transit goods and revenue collection**

7. To what extent do you agree to the following in regard to transit goods and its effect or influence on revenue collection? Indicate your response based on a 5-point scale by using a tick (√) or X to mark the applicable box.

<b>Transit goods</b>	<b>Not at all (1)</b>	<b>Little extent (2)</b>	<b>Moderate extent (3)</b>	<b>Great extent (4)</b>	<b>Very great extent (5)</b>
Cargo diversion leads to failure of goods reaching destination					
Cargo diversion leads to failure of cancel bonds					
Diversion of goods has reduced after installation of tracking devices					
The customs department ensures goods on transit take the least time within the country to prevent diversion					

**Part D: Warehoused goods and revenue collection**

8. To what extent do you agree to the following in regard to warehoused goods and its effect or influence on revenue collection? Indicate your response based on a 5-point scale by using a tick (√) or X to mark the applicable box.

<b>Warehoused goods</b>	<b>Not at all (1)</b>	<b>Little extent (2)</b>	<b>Moderate extent (3)</b>	<b>Great extent (4)</b>	<b>Very great extent (5)</b>
The customs department offers tight security in all bonded warehouses to ensure goods don't enter local market without proper documentation					
Cargo diversion results in failure of warehoused goods to reach bonded warehouse					
Goods in bonded warehouses for re-export don't leave for local markets and are well accounted for					
The customs bonded warehouse don't allow splitting of containers during transportation of goods from the gate to the areas supervised by Customs authorities, and gate points for re-export and Customs clearance points					

**Part E: Temporary imports and revenue collection**

9. To what extent do you agree to the following in regard to temporary imports and its effect or influence on revenue collection? Indicate your response based on a 5-point scale by using a tick (√) or X to mark the applicable box.

<b>Temporary imports</b>	<b>Not at all (1)</b>	<b>Little extent (2)</b>	<b>Moderate extent (3)</b>	<b>Great extent (4)</b>	<b>Very great extent (5)</b>
Customs authorities strictly adhere to temporary importation procedures to ensure no loss in revenue					
The customs department shortens the time storing commodities subjected to temporary import for re-export trading in the country in order to limit the potential risks					
Cargo diversion from temporary imports results in failure to pay taxes					

10. What challenges does the customs and border control department face in its efforts to combat cargo diversion?

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11. Please give suggestions/recommendations towards the effects of customs clearance regime on the revenue collection of customs and border control department in Kenya.

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**THANK YOU FOR YOUR TIME AND COOPERATION!!**

### APPENDIX III

### DEFENSE OF RESEARCH PROPOSAL VERDICT



Kenya School of Revenue Administration



<b>NAME</b>	BETT VIBIAN CHEPKEMEI
<b>REG. NO.</b>	HDB335-C016-2490/2016
<b>DATE</b>	27 <sup>th</sup> JULY 2018
<b>SUBJECT</b>	DEFENSE OF RESEARCH PROPOSAL
<b>TITLE</b>	EFFECTS OF CARGO DIVERSION ON REVENUE COLLECTION OF CUSTOMS AND BORDER CONTROL DEPARTMENT IN KENYA.
<b>COMMENTS</b>	<ol style="list-style-type: none"><li>1. You can change your topic to “Effects of Customs clearance regimes on revenue collection of Customs and Border control department in Kenya”. A topic should not solicit an answer of yes/no.</li><li>2. In your independent variables, talk about revenue specific areas.</li></ol>
<b>VERDICT</b>	<b>PASS WITH MINOR CORRECTIONS</b>

You are expected to work closely with your supervisor and make all the required corrections to his/her satisfaction.

**SIGN:** 

Professor Willy M. Muturi,  
Chairman,  
Department of Economics, Accounts and Finance,  
School of Business.  
**J.K.U.A.T.**