

**FACTORS INFLUENCING OPERATIONALIZATION OF WORLD TRADE
ORGANIZATION AGREEMENT ON CUSTOMS VALUATION IN KENYA**

ANGELINE JERUTO

**A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMICS,
ACCOUNTING AND FINANCE, SCHOOL OF BUSINESS IN PARTIAL FULFILMENT
OF THE REQUIREMENT FOR THE AWARD OF POSTGRADUATE DIPLOMA IN
CUSTOMS ADMINISTRATION AT JOMO KENYATTA UNIVERSITY OF
AGRICULTURE AND TECHNOLOGY**

2018

DECLARATION

This research project is my original work and has not been submitted for academic award in any other institution.

Angeline Jeruto

HDB335-C016-5006/2016

Signed _____ Date _____

This research project has been submitted for examination with my approval as University Supervisor.

Mr. Khamila John

Research Supervisor

Signed _____ Date _____

DEDICATION

I dedicate this proposal to my mother, Mrs.Kipkemboi Mary. The financial and moral support has been very instrumental in my undertaking the Postgraduate course. I extend my heartfelt gratitude.

ACKNOWLEDGEMENT

I would like to thank my supervisor, Mr. Khamila John, for his dedicated efforts in guiding me to complete this project. I would also like to thank my lecturer, Mr. Mati Martin, for imparting to me, the knowledge of Research Methods by various means.

TABLE OF CONTENTS

DECLARATION	ii
DEDICATION.....	iii
ACKNOWLEDGEMENT.....	iv
TABLE OF CONTENTS.....	v
LIST OF TABLE.....	viii
LIST OF FIGURES	ix
ACRONYMS	x
DEFINITION OF TERMS	xi
ABSTRACT.....	xii
CHAPTER ONE.....	1
INTRODUCTION	1
1.1 Background of the Study.	1
1.2 Statement of the problem.....	5
1.3 Research Objectives.....	6
1.3.1 General objective.....	6
1.3.2 Specific Objectives	6
1.4 Research Questions	7
1.5 Significance of the study.....	7
1.5.1 Policymakers.....	7
1.5.2 Government.....	7
1.5.3 Existing body of literature.....	8
1.5.4 Industries and Firms.....	8
1.6 Scope of Study	9
1.7 Limitations of the study.....	9
CHAPTER TWO.....	10
LITERATURE REVIEW	10
INTRODUCTION.....	10
2.2 Theoretical Framework.....	10
2.2.1 Resource Based View Theory.....	11

2.2.2 Theory of Economic Policy	12
2.2.3 Modern Organizational theory	13
2.3 Conceptual Framework	14
2.4 Empirical Review	16
2.4.1 Capacity Building	16
2.4.2 Policies	18
2.4.3 Procedures	20
2.5 Critique of Literature	21
2.6 Summary of Literature	22
2.7 Research Gaps	22
CHAPTER THREE	24
RESEARCH METHODOLOGY	24
3.1 Introduction	24
3.2 Research Design	25
3.3 Population	25
3.4 Sample and Sampling technique	26
3.5 Instruments	26
3.6 Data Collection Procedure	27
3.7 Pilot Test	27
3.7.1 Validity	28
3.7.2 Reliability	28
3.8 Data Processing and Analysis	28
3.8.1 Analytical Model	29
3.8.2 Test of Significance	29
CHAPTER FOUR	30
RESEARCH FINDING AND DISCUSSION	30
4.1 Introduction	30
4.2 Quantitative Data Analysis	30
4.2.1 Response Rate	30

4.3 Background Information.....	31
4.3.2 Ages	31
4.3.3 Education Level	31
4.4 Capacity Building.....	32
4.5 Policies.....	33
4.6 Procedures.....	35
4.7 Aspects of WTO Customs Valuation Agreement.....	37
4.8 Regression Results.....	38
CHAPTER FIVE.....	42
SUMMARY, CONCLUSION AND RECCOMENDATIONS.....	42
5.1 Introduction.....	42
5.2 Summary of the findings.....	42
5.2.1 Capacity building.....	42
5.2.2 Policies.....	43
5.2.3 Procedures.....	43
5.3 Conclusion.....	43
5.3.1 Capacity building.....	43
5.3.2 Policies.....	44
5.3.3 Procedures.....	44
5.4 Recommendations.....	44
5.4.1 Capacity building.....	45
5.4.2 Policies.....	45
5.4.3 Procedures.....	45
5.5 Suggestions for further research.....	46
REFERENCE.....	47
APPENDICES.....	51

LIST OF TABLES

Table 4.1 Response rate.....	30
Table 4.2 Ages.....	31
Table 4.3 Level of education.....	32
Table 4.4 Aspects of capacity building.....	33
Table 4.5: Policies.....	35
Table 4.6 Aspects of procedures.....	37
Table 4.7 Aspects of WTO Customs Valuation Agreement.....	38
Table 4.8: Regression Model Parameters.....	39
Table 4.9: Analysis of Variance of the Regression.....	39
Table 4.10: Significance of Independent Variables.....	40

LIST OF FIGURES

Figure 2.1. Conceptual framework.....	15
---------------------------------------	----

ACRONYMS

ACV	Agreement on Customs Valuation
BDV	Brussels Definition of Value
CU	Customs Union
ERCA	Ethiopian Revenues and Customs Authority
FTA	Free Trade Area
GATT	General Agreement on Tariffs and Trade
GON	Government of Nepal
KRA	Kenya Revenue Authority
MFN	Most-Favored Nation
OECD	Organization for Economic Co-operation and Development
PTA	Preferential Trade Agreement
RBV	Resource Based View
TBT	Technical Barriers to Trade
TRIPS	Trade-Related Aspects of Intellectual Property Rights
WCO	World Customs Organization
WTO	World Trade Organization

DEFINITION OF TERMS

Capacity Building: Capacity building is the commitments as well as a proper strategy which involves the development of systems, procedures, and processes, as well as staff competencies to carry out its allotted functions and achieve its objectives (Wiki, 2018).

Policies: Policies are the elementary doctrines and consecutive instructions that are designed and imposed by the administrative body of an organization, to govern and check the process of achieving the long term goals of the organizations. They also help the higher management in decision making (Wies, 2002).

Procedures: Procedures are detailed step by step instructions to achieve a given goal or mandate. They are typically intended for internal departments and should adhere to strict change control processes. Procedures can be developed as you go (Wies, 2002)

WTO Customs Valuation Agreement: The Customs Valuation Agreement of the World Trade Organization (WTO) sets out a fair, uniform and neutral system for determining the value of imported goods on which customs officials levy duties. This system bars the use of arbitrary or fictitious customs values. (Wto, 2012)

ABSTRACT

World Trade Organization aims to establish a predictable and transparent multilateral trading system to strengthen multilateral cooperation in trade liberalization(WTO, 2012c).This implies a reduction of trade barriers and non-tariff barriers, such as import licensing, rules for the valuation of goods at customs (including customs formalities and procedures), pre-shipment inspection, rules of origin, investment measures, lack of transparency and unfair application of trade measures, unnecessary obstacles to trade embedded in technical regulations and standards measures. Nevertheless, under certain circumstances, WTO law allows members to restrict trade to protect legitimate policy objectives, such as the health of consumers, exhaustible natural resources, and so on. The specific objective of this project was to: establish the effect of capacity building on operationalization of WTO Customs Valuation Agreement in Kenya ; Find out the effect of Policies on the operationalization of WTO Customs Valuation Agreement in Kenya Customs and to assess the effect of Procedures on the operationalization of WTO Customs Valuation Agreement in Kenya. The study will be conducted at Kenya Revenue Authority. The study targeted 60 respondents from KRA. The study adopted primary data and a descriptive survey research design. Primary data was collected using semi structured questionnaires containing closed ended questions. The quantitative data was analyzed using descriptive statistics. In addition the study used multiple regression analysis to analyze the data. The study concluded that capacity building significantly and positively influences Operationalization of WTO Customs Valuation Agreement in Kenya. The study also concluded that policies have a significant and a positive effect on operationalization of WTO Customs Valuation Agreement in Kenya. Finally, the study concluded that procedures had significant and a positive effect on operationalization of WTO Customs Valuation Agreement in Kenya. In order to improve efficiency in customs clearances and administration, the study recommends that KRA should adequately undertake some customs modernizations efforts mainly concerned with integration of ICTs and trying as much as possible to make customs paperless. The study also recommends that KRA should encourages the government to involve private entities to act as surveillance agencies to identify non-conformities to trade agreement regulations. Finally, the study recommends that KRA should do away with inconsistent valuation procedures on determining the proper invoicing of customs products.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study.

The World Trade Organization (WTO) is the only global international organization responsible for the regulation of international trade. Located in Geneva, the WTO has 159 Members, Observer Governments and membership including the 128 contracting parties of the General Agreement on Tariffs and Trade (GATT) of 1947. The vast majority of the WTO membership is composed of developing countries that are grouped according to the classifications of “developing countries” and “least developed countries” (WTO, 2012a). WTO is considered fundamental for the effective functioning of the world economy (Matsushita, Schoenbaum, and Mavroidis, 2004).

World Trade Organization aims to establish a predictable and transparent multilateral trading system to strengthen multilateral cooperation in trade liberalization(WTO, 2012c).This implies a reduction of trade barriers and non-tariff barriers, such as import licensing, rules for the valuation of goods at customs (including customs formalities and procedures), pre-shipment inspection, rules of origin, investment measures, lack of transparency and unfair application of trade measures, unnecessary obstacles to trade embedded in technical regulations and standards measures. Nevertheless, under certain circumstances, WTO law allows members to restrict trade to protect legitimate policy objectives, such as the health of consumers, exhaustible natural resources, and so on.

Walsh (2003) defines Customs Valuation as an essential element in a variety of other aspects of international trade including statistics, quota, and licensing arrangement, taxes and other charges levied on imports and the application of preference systems. Customs Duties are levied mostly

on an Ad Valorem basis, and Customs Valuation is usually the basis on which tariff and tax liability is calculated. Since statute unambiguously fixes these rates in a Tariff Schedule, the declared value of imported goods may differ from transaction to transaction. This change affects the tariff policy leading to under-invoicing by declaring a lower value of the shipment to reduce the duty liabilities. This practice unless detected by the government leads to loss of government revenue while on the other hand, the importer receives an unfair advantage compared to its competitors. Moreover, governments can take advantage of the Valuation System to increase or decrease duty liabilities for revenue or protective purposes, thereby offsetting tariff concessions made under multilateral or bilateral trade agreements. (Wulf & Goorman, 2005). Therefore, valuation standard is needed both at national and international levels to ensure that the correct duty is levied and a level playing field exists for all importers. It is also needed to enhance transparency and predictability of international transactions.

According to Wulf *et al.* (2005), Customs Valuation Systems have been the subject of many international harmonization and standardization efforts. This effort began in the early 20th century, but significant results did not come until the 1947 General Agreement on Tariffs and Trade (GATT). This Agreement was followed by the 1950 Convention on the Valuation of Goods for Customs purposes, establishing the Brussels Definition of Value (BDV) and the 1979 Agreement on Implementation of Article VII of the GATT (ACV), resulting from the Tokyo Round. At the 1994 Uruguay Round, a decision (based on Article 17 of the GATT Valuation Agreement) was reached regarding the cases where Customs Administrations have reasons to doubt the truth or accuracy of the declared value.

WTO Valuation rules require an administration to accept the declared Transaction Value (even when patently arbitrary) unless the authorities can plainly invalidate the authenticity of the

supporting invoice. Developing countries are of the view that requiring customs to accept the Transaction Value reflected in invoices submitted by importers would impede detection of cases in which imported goods were undervalued to reduce the incidence of duties (Rege, 2002). Membership to WTO expects that member states conform to the full array of obligations contained in its various agreements. WTO undertakes many negotiations with countries to meet its regulations in a bid to meet its mandate of enhancing global trade. Trading and investment regimes adopted by different countries influence the way agreements to take place. Trade policies and practices have a significant influence in the formulation and implementation of trade agreements. WTO Valuation Agreement emanated from the Customs Act, 1962, amended in 1997. At the inception, the WTO Valuation Agreement recognized transaction value as a basis of Customs Valuation. This was later amended to allow the use of invoice value as the base price for calculation of customs duties and other levies (Chapman. *et al.*, 2003).

There are many factors facing Kenya Customs in the operationalization of WTO Customs Valuation Agreement. Filmer (2003) highlighted fraud and collusion among the customs staff in the form of undervaluation and delay in clearance to solicit illegal payments from the traders. Many cases of valuation fraud have been reported among developing countries (Rege, 2002). Trade policies and procedures is another challenge in customs handling affecting the declared transaction value during clearance of customs products. Customs face challenges in determining the Transaction Value from the provided invoices because of underdeveloped procedures for determining the value (Rajkarnikaret al., 2005). This is made possible by a reduced level of tax compliance, deliberate poor records maintenance, and collusion between the customs officers and importers.

Nepal became a member of WTO on April 23, 2004. The country enjoyed a grace period of three years to implement WTO Valuation Agreement fully and was bound to introduce all provisions of the valuation agreement from 1st January 2007. However, the country still has to make acts and regulations compatible with the provisions of the WTO Valuation Agreement (Pushpa, 2007). WTO Customs Valuation System implementation in Nepal had a positive impact on revenue. However, there is also a high probability of revenue leakage if ACV is implemented without adequate legislation and robust Post Clearance Audit. King *et al.* (2003) estimates a widespread under-invoicing in Nepal and also indicates lack of effective valuation procedure in place in Nepal. The transaction value system also was introduced without adequate preparation, without putting into place the necessary procedural and organizational framework, without adequate training and an adequate value information system. Therefore, Nepal WTO agreed Customs Valuation is yet to be fully implemented.

Kenya is one of the countries among the member states, which implement the agreement, subjecting its imports and exports to the stipulated Valuation System. The government agencies such as Kenya Revenue Authority (KRA) and through Customs and Border Control Department are tasked with implementation of the agreement. Apart from its fiscal responsibilities, the Customs Services Department is responsible for facilitation of legitimate trade and protection of society from illegal entry and exit of prohibited goods (Mbatia, 2009). As the agency of government entrusted with the responsibility to monitor and control imports and exports, the department is responsible for the implementation of the trade and customs clauses of regional trade agreements and implements and enforces the WTO Agreement to which Kenya has acceded. These include the ACV adopted by Kenya with effect from January 2000 and TRIPS (Mbatia, 2009).

1.2 Statement of the problem

According to Rege, (2002) the main purpose of adopting Customs Valuation Agreement by WTO member countries is to adopt a fair, neutral and uniform valuation system that prevents use of arbitrary or fictitious values. Customs Valuation Systems have been the subject of International Agreements because they can constitute barriers to trade. The WTO Agreement on Customs Valuation dictates the use of the Agreement Customs Valuations for all WTO members. However, this has not succeeded in many developing countries despite receiving substantial technical assistance in implementing the WTO Valuation standard. (Wulf & Goorman 2005). GATT Article VII provides that the value for customs purposes of imported merchandise should be based on actual value. Most of the implementation requirements for valuation on the basis of the WTO Agreement on Customs Valuation are lacking in developing countries. Such various requirements include the establishment of a legislative and regulatory framework; a mechanism for judicial review; administrative procedure; organizational structure; and training (Pushpa, 2007).

Kenya has been party to the WTO Agreements since 1995. She has taken steps to implement Article VII of GATT 1994 albeit with numerous challenges. This study aims to investigate the factors influencing the operationalization of World Trade Organization Agreement on Customs Valuation in Kenya. A transaction-based valuation system was introduced in Kenya in 1995. However, Kenya Customs Administration continuously faces the difficulty in determining transaction value based on commercial invoice. Customs officials face difficulty in verification of transaction documents. Traders complain that customs arbitrarily uplift values on imported goods. This study strived to determine the factors influencing the operationalization of World Trade Organization Agreement on Customs Valuation in Kenya.

1.3 Research Objectives

Objectives can be defined as the stipulations, clearly stated, made by the researcher so as to create a benchmark focus on which the research study will be based. General objectives can be defined as the stipulations, clearly stated, made by the researcher so as to create a benchmark focus on which specific objectives will be derived. Specific objectives can be defined as the stipulations, clearly stated and derived from the general objective, made by the researcher so as to create a benchmark focus on which the research study will be based.

1.3.1 General objective

The general purpose of this research was to determine factors influencing the operationalization of World Trade Organization Agreement on Customs Valuation in Kenya.

1.3.2 Specific Objectives

The specific objectives of this study were to:

- .1. Establish the effect of capacity building on operationalization of World Trade Organization Agreement on Customs Valuation in Kenya.
2. Find out the effect of Policies on the operationalization of World Trade Organization Agreement on Customs Valuation in Kenya.
3. Assess the effect of Procedures on operationalization of World Trade Organization Agreement on Customs Valuation in Kenya

1.4 Research Questions

1. How does capacity building affect the operationalization of World Trade Organization Agreement on Customs Valuation in Kenya?
2. How do policies affect operationalization of World Trade Organization Agreement on Customs Valuation in Kenya?
3. How do procedures affect operationalization of World Trade Organization Agreement on Customs Valuation in Kenya?

1.5 Significance of the study

1.5.1 Policymakers

The regulators and the policymakers can use the findings as a reference for policy guidelines on the proper management of customs duties in Kenya. They will be able to use the findings of the study to formulate viable policy documents that effectively address problems faced by the Customs Department in Kenya in the clearing of imports and exports products.

1.5.2 Government

This study provides the much-needed analysis of the transformation of import and export trade in Kenya because of implementation of WTO Customs Valuation Agreement. This research informs customs agencies in the development of appropriate strategies to abate the challenges faced in operationalization of Customs Valuation Agreement through highlighting of the key aspects that influence its success. The finding from this research is fundamental in the development of policies and strategies for enhancing trade. The study is useful not only to the customs agencies to identify challenges facing Kenya Customs in the operationalization of WTO

Customs Valuation Agreement, but also to the government at large to enhance trade with their trading partners around the globe.

1.5.3 Existing body of literature

The study provides additional information into the already existing body of literature regarding the WTO Customs Valuation Agreement operationalization in Kenya. The findings from this study provide more understanding of Customs Valuation and its impact on trade facilitation process in Kenya.

1.5.4 Industries and Firms

Investors in the industry benefit from this study through knowledge and insight that promote fair and transparent valuation in trade along the Kenyan borders and other WTO member states. Since industries and firms are the key players participating in importation and exportation of goods this study help inform them on the factors influencing operationalization of WTO Customs Valuation in Kenya. Furthermore, the findings from this study contribute towards the improvement of international trade in the region through an understanding of the current inadequacies and loopholes that hinder operationalization of WTO Customs Valuation Agreement.

1.6 Scope of Study

The study is seeking to examine factors influencing the operationalization of World Trade Organization Agreement on Customs Valuation in Kenya. The study was limited to three specific

objectives namely; Capacity Building, Policies, and Procedures. The scope of the study was a focus on Kenya Revenue Authority officials as the target population.

1.7 Limitations of the Study

The main limitations of the study were the inability to include more Revenue Authorities from the region. This was a case study which focused on the Kenya Revenue Authority. The study could cover more Revenue Authorities in the region so as to provide more broad based analysis. However, resources constraints place this limitation. The study also encountered unwillingness by interviewees who could not reveal information which was classified to them as confidential. Finally there was limited literature available that linked operationalization of World Trade Organization Agreement and Customs Valuation in Kenya to draw lessons from. This necessitated the review of literature relevant to the study from around the world. Nevertheless, all the challenges encountered were adequately addressed and they did not in any significant way impair the outcome of the study.

CHAPTER TWO

LITERATURE REVIEW

This chapter provides a discussion of the Literature Content that will be used in this study. The structure of this chapter two of the study, Literature Review comprises the following; introduction, theoretical review, conceptual framework, empirical review, critique of literature review, summary of literature review and research gap. The contents of this chapter will give assessment on the current state of research on this study, reveal which researchers have done writings in support of this topic, identify key questions of the topic and determine past methodologies used in past studies in support of this topic

2.1 Introduction

A literature review offers current knowledge, including substantive findings, as well as theoretical and methodological contributions to a particular topic (Baglione, 2012). It will offer a basis for research in the lead up to the formulation of the questionnaire. The contents of this chapter will give assessment on the current state of research on this study, reveal which researchers have done writings in support of this topic, identify key questions of the topic and determine past methodologies used in past studies in support of this topic.

2.2 Theoretical Framework

This is the structure that can hold or support a theory of a research study. It introduces and describes theory that explains why the research problem under study exists (Abend, 2008). Theories are formulated to explain, predict and understand phenomena while challenging existing knowledge. Significant studies have been conducted by researchers and scholars on the

topic. Relevant theories are; Resource Based View Theory, Theory of Economic Policy, and Modern Organizational Theory.

2.2.1 Resource Based View Theory

This theory was founded by Penrose (1959) from her description of the importance of firms to use their resources to gain competitive advantage. Penrose *et.al* (1959) emphasized on the importance of the internal resources of a firm towards its growth and limited by managerial resources. Resource Based View theory analyzes and interprets resources of the organizations to understand how organizations achieve sustainable competitive advantage. According to Barney, (1991) an organization can be considered as a collection of physical resources, human resources and organizational resources that are valuable, rare, imperfectly imitable, imperfectly substitutable and as main source of sustainable competitive advantage for sustained superior performance. Competitive advantages and disadvantages in resources are equivalent to strengths and weaknesses respectively, which stimulate cost and differentiation advantages or disadvantages in competitive product markets (Valentin K. E., 2001).

According to RBV, not all the resources of the firm will be strategic and hence, sources of competitive advantage. Competitive advantage occurs only when there is a situation of resource heterogeneity and resource immobility. According to Brown, (2007) the assumptions of diversity and immobility in resources can be used to determine whether an organization is able to create a strategic competitive advantage by providing a background to determine whether a process or technology provides a real advantage over the marketplace. Thus, the Resource based theory tends to focus on the types of resources and the characteristics of these resources that make them strategically important. The resource based view is useful in informing about risks as well as

benefits of diversification strategies. This theory has several limitations namely, unforeseen environmental upheavals or drastic turbulence, managerial influence that is limited, and data challenges based on intra-organization resources.

Customs Valuation authorities require resource and capabilities that reside within the organization to administer their Customs Valuation activities efficiently and effectively. The ability of the valuation authority to fully implement the Customs Valuation Agreement by WTO depends on the capacity building of human capital, technological tools, processes and systems.

2.2.2 Theory of Economic Policy

The theory of Economic Policy has its roots in the contributions of Tinbergen and Theil, who solved the problem of a policymaker aiming to achieve certain values for his policy targets, or to minimize a loss function defined on those targets, by using the available policy instruments. The new theory of economic policies introduces concepts and tools that develop a theory of conflicts which assert conditions under which policy neutrality, game equilibrium existence, and policy uniqueness or multiplicity appears.

An advance in the explanation of the neutrality result (and in the theory of Economic Policy) was achieved on realizing that those conditions for policy invariance or, instead, policy effectiveness that were stated by Barro and Gordon (1983) and the articles presenting other policy games reviewed in the previous section hold only under specific circumstances. The general conditions leading to effectiveness or neutrality of the policy of a player might have to do with existence of conflicts on shared targets with other players and the possibility that the player in question has or does not have enough instruments for reaching his targets. This consideration led to

rediscovering the requirements for controllability of an economic system asserted by the classical theory of Economic Policy (Acocella and Di Bartolomeo, 2005).

This theory is relevant to the study in discussing the effects of policies as informed by Economic Theory to Customs Valuation implementation. Policies affect the trade restrictions and regulations which either create barriers to trade or liberalize trade among countries. Either way, this decision affects the volume of trade which trickles down to the economic welfare of the country. Economists often measure economic well-being in terms gross domestic product, that is, share of total output of goods and services that the country produces per person on average. Reducing tariffs or other barriers to trade increases trade in the product which benefits an economy from expanded exports as a trade partner improves market access.

2.2.3 Modern Organizational theory

Modern organizational theory was developed in early 1960s. It takes an organization as an adaptive, dynamic and open system. This theory consists of two theories. According to system theory, productivity is considered as an interaction of people, structure and environment. Contingency theory describes that there must be a match between organizational structure and its environment to enhance performance (Prasad, 2008). This theory requires that organizations adapt to changes in the environments in which they operate due to multicultural environment changes. The German sociologist Max Weber (1864—1920) behind the organizational theory believed that bureaucracies, staffed by bureaucrats, represented the ideal organizational form. Weber based his model bureaucracy on legal and absolute authority, logic, and order. In Weber's idealized organizational structure, responsibilities for workers are clearly defined and behavior is

tightly controlled by rules, policies, and procedures. But since then organizations have been dynamic in their operations and therefore need to adjust to the changes in the business world. Modern organizational theory is relevant to this paper since the revenue collection and tax administration role of customs is given a higher priority in Kenya which relies on customs duties as a major source of tax revenue and more resources are consequently channeled toward this role of customs. In order to ensure that customs deploy and utilize the available resources efficiently and effectively to handle ACV enforcement, it would be imperative that modern organizational theory be applied since the government must adapt to changes in the environment in regard to the laws and regulations, customs valuation procedures, tariffs and other customs valuation that are dynamic.

2.3 Conceptual Framework

A conceptual framework is a set of broad ideas and principles taken from relevant fields of inquiry and used to structure a following presentation (Reichel & Ramey, 1987). It is a tool intended to assist a researcher in developing awareness and understanding of the situation under scrutiny. It helps the researcher to explain the relationship between interlinked concepts such as the dependent and independent variables (Kombo, 2006). The figure below shows a diagrammatic representation of the relationship between the dependent and independent variables

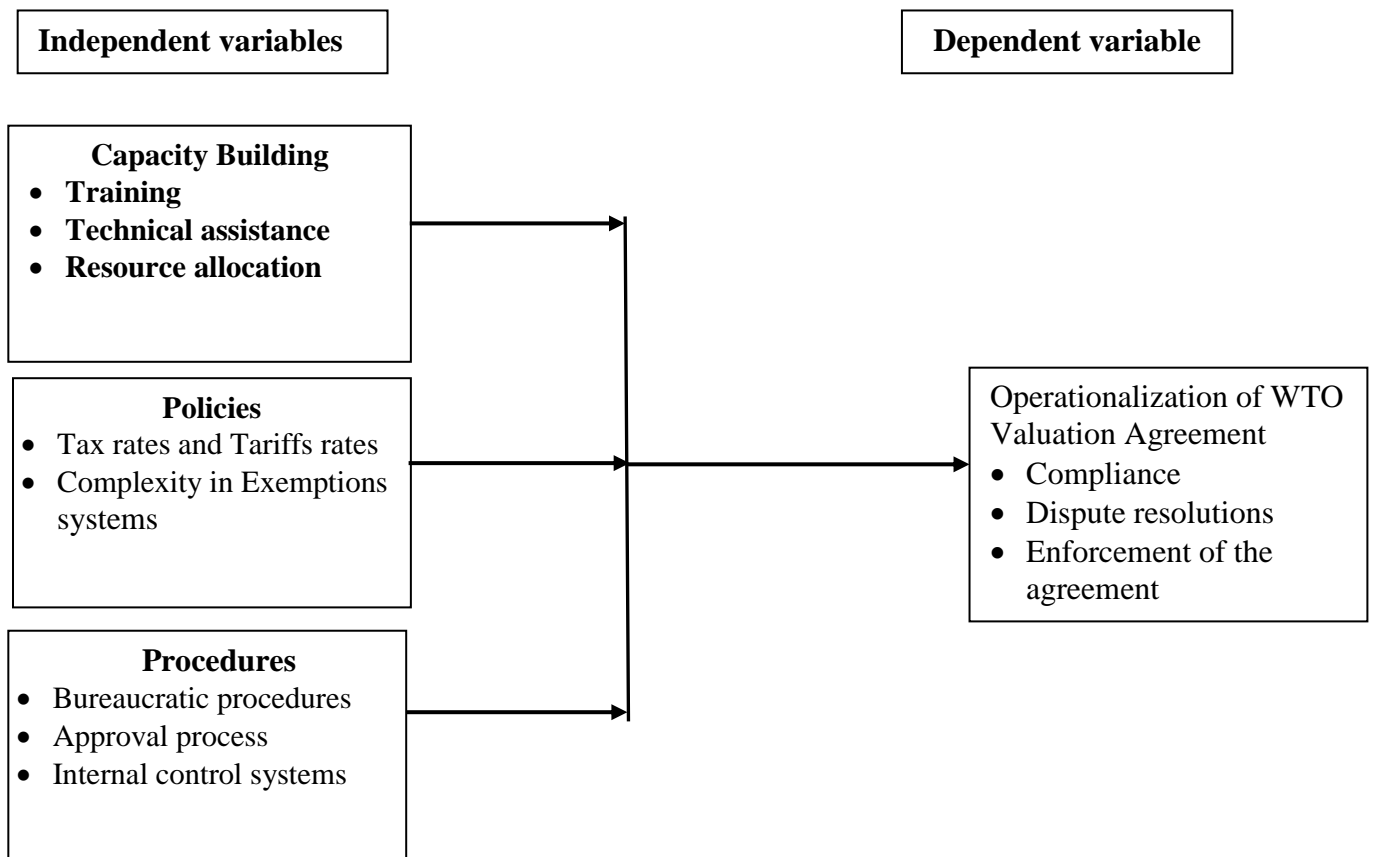


Figure 2.1: Conceptual Framework

2.4 Empirical Literature Review

Empirical literature explores the finding of previous literary work in this research area. The empirical review focuses on the primary research objectives; Capacity Building, Policies and Procedures.

2.4.1 Capacity Building

Capacity building is the commitment as well as a proper strategy which involves the development of systems, procedures, and processes, as well as staff competencies to carry out its allotted functions and achieve its objectives. The Revised Kyoto Convention on simplification and harmonization of customs procedures has sketched the vision of a modern customs organization and has provided guidelines for a customs reform strategy (WCO, 1990). According to Pushpa, (2007) ,business, governments and international organizations have been involved in capacity building related to cross-border transactions and customs issues for some time. A large proportion of the funding and technical assistance has been undertaken in the form of separate projects and not part of a coherent improvement process using recognized best practices. As a result, improvements in the management and control of international trade have not progressed as much as might have been expected, considering the resources that have been applied to the capacity building (ICC, 2003)

Customs Administrations in many developing countries typically face enormous pressure to maximize revenue collections, (WCO, 2002). Therefore, to achieve maximum particularly in an operating environment characterized by inadequate levels of voluntary compliance, Customs officials often recourse to high levels of documentary and physical inspection to verify the value,

classification and origin of goods. This results in significant delays in Customs clearance and creates an operating environment that is vulnerable to corruption.

Based on some case studies, the WCO has concluded that the significance of human and financial resources devoted to achieving effective Customs Valuation process. Furthermore, the variation in trading environments and lack of adequate computer system and databases, customs officials of developing countries, foresee the creation of problems resulting from the application of the WTO standards. The absence of clear ownership toward the Agreement by the member countries coupled with lack of immediate advantages and an inadequate and broader technical as well as financial assistance responsive to the needs of developing countries prohibits rapid application of the WTO standards.

According to GoN (2004), adopting WTO Valuation methods will be beneficial after adequately training of customs inspectors on valuation methods and allowing them relevant access to database with pricing information. The need to implement Valuation Systems on automated platforms demands for both finance and skills to implement and support the system. This raises the need to build institutional capacities for the member countries to support and use the Valuations Systems. This also required countries to adopt automated trading systems to conform to the Valuation Systems, which again affects the trading practices and policies of the member states.

In order to improve efficiency in customs clearances and administration, EAC Partner States have undertaken some customs modernizations efforts mainly concerned with integration of ICTs and trying as much as possible to make customs paperless. For instance, Kenya embarked on its far-reaching Revenue Administration Reform since 2005 and modernization program replacing its old customs system with a new one. The new system in Kenya allows traders to

submit customs declarations electronically and pay duties directly. Selective post clearance verifications and risk analysis techniques save time by eliminating unnecessary inspections. A new reward scheme for employees, based on performance targets for cargo clearance, better aligns employee compensation with clearance objectives (EAC, 2009)

2.4.2 Policies

According to WTO (2002), success in customs modernization is, as importantly, tied to the overall trade policy environment. Mismanagement and bureaucratic processes increase operational inefficiencies, administrative complexities, facilitate ambiguity, and increase the vices of corruption. Weak internal control systems regarding internal audit make it easier and effective for officials to engage in corrupt practices. Customs modernization, therefore, also needs to be examined from the broader and complementary perspective of trade policy reform.

Countries wishing to join WTO engage in parallel bilateral talks with individual member countries. In each two-way negotiation, an agreement is deliberated on tariff rates, specific market access commitments and other policies on goods and services of the acceding state. Furthermore, all states subscribed to WTO are obliged to comply with the Customs Valuation Agreement. Adopting the Customs Valuation Agreement gives the customs officer's standards of assessing the value of goods in which the import duty will be determined. Customs officers are bound not to apply any discretion or are they allowed to use some external standard, such as a minimum price or a reference price for this purpose. Instead, customs officials are obliged to accept the amount stated on the shipment invoice, though there are provisions for situations when customs administrations have reasons to doubt the accuracy of the declared value of imported goods (Javorcik and Narciso, 2017).

Policy issues have aggravated the difficulties in the operationalization of the WTO Valuation Agreement (WCO, 2002). In developing countries, most of the implementation requirements for valuation founded on WTO Agreement on Customs Valuation are lacking. These include the establishment of a regulatory and legislative framework, administrative procedure, and high tax and tariff rates. High tax and tariff rates, particularly on tobacco and alcohol, can lead to valuation fraud, the bribery of revenue officials, smuggling and organized crime. According to Javorcik *et al.*(2017) underreporting of import prices are higher when the tariff rate is higher. This finding is innate as importers wanting to evade paying import duties will have a greater incentive to underreport the price of the imported product if the tariff rate is higher. The findings is from a study done on three major exporting countries developed and relatively uncorrupt economies, that is, Germany, USA, and France.

According to Bagwell &Staiger, (2002), a complex system of exemptions in preference to a particular group of individuals creates the opportunity to engage in corrupt practices. Special treatment among these individuals instigates imports of the high target value and highly dutiable goods which undermine the fairness of the tax and valuation system and encourage non-compliance by importers. Moreover, many Customs Administrations adopt a confrontational stance towards the trading communities. This leads to failure in distinguishing between compliant and non-compliant traders, application of excessive and unnecessary control procedures.

China reformed trade regulations and administrative practices into further support growth in trade. Some of the regime changes undertaken by China include the provision of non-discriminatory treatment to all WTO Members, elimination of dual pricing practices as well as

differences in treatment accorded to goods produced for sale in China compared to those provided for export. Further, China in its bid to protect domestic industries will not apply price controls that inhibit trade. The adoption of WTO membership made China revise existing local laws and enact new legislation fully in compliance with the WTO Valuation Agreement effectively. Through the association, the enterprises within the country can import and export all goods and trade them throughout the customs territory with limited exceptions (Baier, *et. al*, 2008).

WTO membership encourages the government to involve private entities to act as surveillance agencies to identify non-conformities to trade agreement regulations. This meant that there was a need to sensitize the private sector so that they are aware of the provisions of the WTO regulations, achieved through training and outreach programs and the creation of consultative mechanisms with the private industry and consumer organizations. This partnership leads to increasing information sharing and increasing government's ability to access and enforce WTO agreement through the elimination of discriminatory policies (Pushpa, 2007).

2.4.3 Procedures

According to WTO (2012) customs administrations in developing countries lies in the development of administrative procedures aim at enhancing effective customs valuation. King (2003) conducted a research in Nepal and found an ineffective Customs Valuation procedure which hurts the economy of the country. This was evident by under invoicing of imported goods lowering the customs duties and resulting in gross economic distortions. This also leads to an uneven playing field, unfair competition and is disadvantageous to goods manufactured in the country.

Walsh (2003) conducted a research in Ethiopia on the Customs Valuation procedures, the study identified inconsistent valuation procedures on determining the proper invoicing of customs products. The research concluded that the Customs Valuation procedures in Ethiopia does not provide fair, neutral and uniform valuation and does not protects traders from risk of arbitrary valuation by the customs officers. In-depth Interviews with the ERCA on the one hand, and data collected from importers and customs clearing agents on the other, revealed the existence of recurring under invoicing by some traders leading to unfair playground for genuine traders.

According to a research study in the Customs Valuation authority of Philippines, it was found that majority, about 64.5 percent, of transistors replied that the average clearing time is less than 5 days while only 33.33 percent of importers said the average time is less than 5 days. The computation of Pearson coefficient of correlation produced value of 0.749 implying stronger positive relationship among the responses of transistors and importers.

Cullinane (2007), conducted a research on the bureaucratic procedures in the valuation of customs in Nepal. The results indicated that importers' overall attitudes on the Customs Valuation procedures is related with the time taken for clearance which is based on the approval procedures and processes in the customs administration. The value of Pearson coefficient of correlation was found to be 0.381 which meant that the importers' overall attitudes are less positively related with their attitude on the fairness of customs clearance time.

Bagwell and Staiger(2002),several customs administrations adopt an aggressive stance towards the traders and customs agents. This leads to failure in distinguishing between compliant and non-compliant traders which leads to application of excessive and unnecessary control procedures.

2.5 Critique of Literature

The critics lament that previous studies only looked at the trade facilitation and trading blocs regarding the regional and global trading. Few studies have been carried out on WTO Customs Valuation implementation in Kenya leaving out its impact on customs performance. The critics also argue that Customs Valuation Agreement implementation has not addressed the mixed results in treatment of Customs Valuation misunderstandings. Despite few studies, the exact challenges facing Kenya Customs in the operationalization of WTO Customs Valuation Agreement is not clear.

2.6 Summary of Literature Review

This chapter concentrates on various theories used in the study of factors influencing the operationalization of World Trade Organization Agreement on Customs Valuation in Kenya; the main theories captured are Resource Based View Theory, Theory of Economic Policy, and Modern Organization Theory. The chapter also conceptualized the research problem through a conceptual framework on capacity building, Policies and Procedures. The chapter concluded by looking at critique of literature reviewed, summary of literature and the research gaps and it identified various gaps that were related with this study which need to be filled. For instance the study filled the knowledge gap by conducting on the factors influencing the operationalization of World Trade Organization Agreement on Customs Valuation in Kenya.

2.7 Research Gaps

Previous literature has evaluated the failures that hinder successful implementation of WTO Valuation Agreement (Chua *et al.*, 1999; Chan *et al.*, 2004; and Saqib *et al.*, 2008, Jefferies *et*

al., 2002). However, there is little literature or knowledge on successful implementation of WTO Valuation Agreement. Therefore, the debate has frequently been brought up with a more general one on the advantages of WTO Valuation Agreement and inconclusive to uncover strategies required to implement the Agreement. Despite the increased attention on WTO valuation of goods none of the studies has addressed the gap in implementation of WTO valuation Agreement in Kenya and therefore this study seeks to establish the factors influencing the implementation of WTO Valuation Agreement by Kenya Customs.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter provides a discussion of the research methodology that was used in this study. The structure comprises the following; introduction, research design, target population, sampling technique and sample size, data collection instrument, data collection procedure, Pilot testing and data analysis presentation. The contents of this chapter helped in laying out the means by which data was collected, analyzed and presented and the means by which it will inform action (Warrier, 2015).

3.1 Introduction

Research methodology can be defined as the guidelines and procedures, outlined in a framework used to guide the detailed study of something in order to realize or discover facts (Warrier, 2015). The chapter provided a framework for the detailed study on the factors influencing the operationalization of World Trade Organization Agreement on Customs Valuation in Kenya. The framework will comprise specification of methods and processes in: deriving samples from the target population, the tools used in extracting necessary information and extracting the necessary information from the derived samples (Chron, 2015). The contents of this chapter will help administer identified questions that are key to the research topic, and give assessment on the means of collection, assessment and presentation of data in support of current state of research on this study. Further on the importance and significance of this chapter's contents, are respectively discussed as follows.

3.2 Research Design

This study adopted a descriptive survey research design aimed at analyzing factors influencing the operationalization of World Trade Organization Agreement on Customs Valuation in Kenya. Descriptive research, also known as statistical research describes data and characteristics about population or phenomenon being studied. Singh & Nath (2010), a descriptive survey is used to obtain information concerning the status of the phenomena to describe concerning variables or conditions in a situation.

The study research design was a descriptive one since it would provide data from the population on the universe being studied; the researcher will have no control over the research variables. The main purpose of using descriptive research was because it was an accurate indicator of what the researcher intended to measure and reports the way things are (Mugenda and Mugenda, 2003).

3.3 Population

Target population refers to a specific group of individuals to which the researcher is interested in generalizing conclusions (Catillo, 2009). Target population may also refer to the total number of people that the research wants to get information from to compile the research. The target population will consist of 500 staff of KRA Customs and Border Control Department in Times Towers Nairobi. Purposive sampling was used to select Nairobi headquarters other than other KRA stations in the country to carry out the research because it has many employees and major customs duties is performed.

3.4 Sampling and Sampling Technique

Mugenda (2001) defines sampling frame as a list of accessible population of the people, events or documentation that can be included in a survey from which the researcher will pick a sample to collect data. Mugenda and Mugenda (2006) note that simple random sampling as a powerful technique. The sample of 25 employees from a population of 500 employees forms 50% of the target population which is recommended by Birchall (2009) and Kothari (2003) as sufficient to carry out statistical inferences. The researcher therefore, adopted a sampling frame of 60 employees which deemed relevant, complete in attainment of the study objectives.

The study used Customs and Border Control organizational structure as strata. A list of employees from these groupings of the departments formed the sampling frame. Through random sampling a sample was used to ensure that all respondents in each stratum had an equal opportunity for selection.

3.5 Instruments

Research instruments are used by researchers to help in the assessment or evaluation of subjects. The instruments are used to measure or collect data on a variety of variables. Types of measurement tools include scales, indexes, surveys, interviews, questionnaires and informal observations. The researcher made sure that the instruments chosen for the study were valid and reliable. The validity and reliability of a research project depends largely on the type of the research instruments chosen. Before the study was executed the researcher ensured that the instruments chosen gave the desired results. The research used primary data with questionnaires on the factors influencing the operationalization of World Trade Organization Agreement on Customs Valuation in Kenya.

3.6 Data Collection instruments and Procedure

Data collection is the process of gathering and measuring information to be able to answer questions that prompted the undertaking of the research (Flick, 2009). This research used primary data. A set of questionnaires was administered to the KRA officials working in the Customs and Border Control Departments. The questionnaires were given to the respondents at their convenient times. Questionnaires were more preferred for this study because it was easier for busy respondents to answer and fill in.

3.7 Pilot test

Mugenda (2010), states that pilot testing is important for development and testing adequacy of research instruments, finding out whether research material is realistic and workable as well as determining the extent of effectiveness of the sampling frame technique. The target population will consist of 500 staff of KRA Customs and Border Control Department in Times Towers Nairobi. In conducting the reliability measurement, the researcher first pre-tested the questionnaires on 10 respondents of the sample 50 respondents to ensure its reliability. The respondents who participated in the pilot testing were not eligible to participate in the final study. Mugenda (2006) emphasized the aim of pilot testing as to eliminate common errors and commissions and help in testing the study plan to minimize error and increase reliability of data collected.

3.7.1 Validity

According to Mugenda and Mugenda (2003), validity is the accuracy and meaningfulness of inferences, which are based on the research results. In order to test and enhance the validity of the questionnaire, the researcher selected two Assistant Commissioners randomly and discussed

the contents of the questionnaire. This aimed at assessing the content validity of the questionnaire. The comments from the two Assistant Commissioners was reviewed and incorporated to enhance the validity of the questionnaire.

3.7.2 Reliability

Reliability is the consistency of a set of measurement items (Cronbach, 1951). Reliability is the consistency of measurement, or the degree to which an instrument measures the same way each time it is used under the same condition with the same subjects. A measure is considered reliable if a person's score on the same test given twice is similar. Ten questionnaires were piloted, and the results coded into SPSS which was used to generate the reliability coefficient. The researcher used Cronbach's Alpha (α) generated by SPSS. The recommended value of 0.7 was used as a cut-off of reliability for this study.

3.8 Data processing and Analysis

The collected data was sorted, classified, coded and then tabulated for easy analysis. The inferential and descriptive statistics was used to analyze the collected data. SPSS computer Package version 21 was used in the analysis since its more users friendly. The data was inputted into the SPSS and examined using descriptive, and regression analyses. In descriptive statistics, the study used mean, standard deviation and scatter plot. In inferential statistics, the study used regression analyses to determine the relationship between independent variables and dependent variables.

3.8.1 Analytical Model

Using the collected data, the researcher conducted a regression analysis to establish the relationship extent between WTO Customs Valuation Agreement and: Capacity building, Policies and Procedures in Trade.

$$Y = f(X_1, X_2, X_3)$$

Where Y is WTO Customs Valuation Agreement, X_1 = Capacity building, X_2 =Policies X_3 =Procedures. The analytical model will take the linear form below:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3$$

Where α is the constant of regression while β_1 , β_2 and β_3 are the coefficients of X_1 , X_2 and X_3 respectively. The significance of β_1 , β_2 and β_3 will be done using the t -statistic at 95% confidence interval.

3.8.2 Test of Significance

To test the statistical significance the F-test and t-test was used at 95% confidence level. The F statistic was utilized to establish the statistical significance of the regression equation while the t statistic was used to test the statistical significance of study coefficients.

CHAPTER FOUR
RESEARCH FINDING AND DISCUSSION

4.1 Introduction

This chapter presents the findings of the primary data collected from the respondents. The purpose of the study was to evaluate the factors influencing the operationalization of World Trade Organization Agreement on Customs Valuation in Kenya. The questionnaire was designed and distributed to help in collection of quantitative data. The information was presented in form of tables. This has been done in terms of introduction, response rate, quantitative and discussion of the study results and conclusion.

4.2 Quantitative Data Analysis

4.2.1 Response Rate

The researcher administered a total of 60 questionnaires and all were completed and returned. This represents a response rate of 100% as shown in Table 4.1. This response rate was adequate to allow the researcher to continue with the analysis. The questionnaires were composed of questions that addressed the objectives of the study.

Table 4.1 Response rate

Category	Frequency	Percentage
Completed and returned	60	100
Not returned	0	0
Total	60	100

4.3 Background Information

4.3.2 Ages

Table 4.2 shows that most of the respondents are over 40 years, those over 40 years were 30 representing 50% and those above 30years were 20 representing 33.3% of the total applicants, while those below 30 years taking the lesser percentage. This has implication that most respondents are experienced and therefore clear and valid information will be gathered from them.

Table 4.2 Ages

Category	Frequency	Percentage
Below 30yrs	4	6.7
31-40yrs	20	33.3
41-50yrs	30	50
Above 50yrs	6	10
Total	60	100

4.3.3 Education Level

The researcher wanted to establish the level of education of the respondents. Table 4.3 shows that 67.7% are degree holders, 33.3% are diploma holders and 5% of the respondents are diploma holders. The researcher therefore concluded that respondents were all intellectuals and that they would effectively assist in achieving the objective of the study. The table 4.5 shows the responses concerning their level of education.

Table 4.3 Level of education

Education level	Frequency	Percentage %
Degree	37	61.7
Diploma	20	33.3
High school	3	5
Total	60	100

4.4 Capacity Building

The respondents were asked to indicate their level of agreement with various aspects of capacity building. From the findings, the respondents agreed with a percentage of 70% that KRA has invested in a technologically sound system for Customs Valuation. Also, the respondents agreed with a percentage of 80% that KRA systems of Customs Valuation have reduced administrative costs. Furthermore, the KRA valuation systems are compatible with other systems as shown by a percentage of 85%. Respondents also agreed that Customs staff receive technical assistance for customs administrations as shown by a percentage of 75%. Also, the respondents agreed with a percentage of 75% that KRA customs officials normally receive work related training to enhance their custom valuation duties. However, the respondents disagreed that KRA budgetary allocations is sufficient for effective operationalization of WTO Customs Valuation Agreement as shown by a percentage of 90%. The findings supports ICC, (2003) who cited that a large proportion of the funding and technical assistance has been undertaken in the form of separate projects and not part of a coherent improvement process using recognized best practices. As a result, improvements in the management and control of international trade have not progressed

as much as might have been expected, considering the resources that have been applied to the capacity building. The rest of the results have been summarized in the table below.

5-Strongly Agree 4-Agree 3-Neutral 2-Disagree 1-Strongly Disagree

Table 4.4 Aspects of capacity building

Aspects of capacity building	1	2	3	4	5
KRA has invested in a technologically sound system for Customs Valuation	5%	10%	15%	20%	50%
KRA systems of Customs Valuation have reduced administrative costs	4%	5%	11%	60%	20%
The KRA valuation systems is compatible with other systems	5%	0%	10%	35%	50%
KRA budgetary allocations is sufficient for implementing customs valuations	50%	40%	5%	1%	4%
Customs staff receive technical assistance for customs administrations	8%	2%	15%	30%	45%
KRA customs officials normally receive work related training to enhance their customs valuation duties	2%	13%	10%	35%	40%

4.5 Policies

The respondents were asked to indicate their level of agreement with various aspects of the policies. From the findings, the respondents agreed with a percentage of 85% that there are too many approvals for foreign trade licenses and other permits to import and export. Also, the respondents agreed with a percentage of 60% that high tax and tariff rates of some custom goods

encourage breach of custom valuation rules. Furthermore, the respondents agreed that the exemption of imports by special class of individuals encourages non-compliance as shown by a percentage of 65%. Moreover, the respondents agreed that Customers often complains on customs value imposition due to breach in policies as shown by a percentage of 55%. However, the respondents disagreed that the custom valuation systems in Kenya are fair given the policies on importation as shown by a percentage of 70%. The findings also concur with those of WTO (2002) which cited that success in customs modernization is, as importantly, tied to the overall trade policy environment. Mismanagement and bureaucratic processes increases operational inefficiencies, administrative complexities, facilitate ambiguity, and increases the vices of corruption. Weak internal control systems regarding internal audit make it easier and effective for officials to engage in corrupt practices. Customs modernization, therefore, also needs to be examined from the broader and complementary perspective of trade policy reform. The rest of the results have been summarized in the table below.

5-Strongly Agree 4-Agree 3-Neutral 2-Disagree 1-Strongly Disagree

Table 4.5: Policies

Aspects of policies	1	2	3	4	5
There are too many approvals for foreign trade licenses and other permits to import and export.	5%	5%	5%	45%	40%
High tax and tariff rates of some custom goods encourage breach of customs valuation rules.	10%	20%	10%	30%	30%
The customs valuation systems in Kenya are fair given the policies on importation.	40%	30%	15%	10%	5%
The exemption of imports by special class of individuals encourages non-compliance	20%	5%	10%	35%	30%
Customers often complain on customs value imposition due to breach in policies	15%	10%	20%	30%	25%

4.6 Procedures

The respondents were asked to indicate their level of agreement with various aspects of the procedures. From the findings, the respondents agreed with a percentage of 75% that the internal control systems for customs valuation are effective in achieving a free and fair valuation process. Also, the respondents agreed with a percentage of 80% that there is a no delay and complaints in the method of determining customs value. Furthermore, the custom valuation and approval process is tiresome and costly as shown by a percentage of 70%. Finally; respondents agreed that there are high bureaucratic procedures associated with custom valuation as shown by a

percentage of 65%.The findings concur with those of Bagwell and Staiger (2002), who argues that several customs administrations adopt an aggressive stance towards the traders and customs agents. This leads to failure in distinguishing between compliant and non-compliant traders which leads to application of excessive and unnecessary control procedures. The rest of the results have been summarized in the table below.

5-Strongly Agree 4-Agree 3-Neutral 2-Disagree 1-Strongly Disagree

Table 4.6 Aspects of procedures

Aspects of procedures	5	4	3	2	1
The internal control system for Customs Valuation is effective in achieving a free and fair valuation process.	10%	5%	10%	45%	30%
There is no delay and complaints in the method of determining customs value	6%	4%	10%	40%	40%
The Customs Valuation and approval process is tiresome and costly	5%	5%	10%	40%	30%
There are high bureaucratic procedures associated with Customs Valuation.	10%	10%	15%	5%	60%

4.7 Aspects of WTO Customs Valuation Agreement

The respondents were asked to indicate their level of agreement with various aspects of the WTO Customs Valuation Agreement. From the findings, the respondents disagreed with a percentage of 70% that the trends of the compliance over customs service have been increasing for the last five years. Also, the respondents disagreed with a percentage of 60% that the trends of the dispute resolutions relating WTO Agreement have been effective for the last five years. Furthermore, the trends of the enforcement of the agreement relating to WTO agreement have not been effective for the last five years as shown by a percentage of 80%. Finally; respondents disagreed that information on policies has been effective on the operationalization of World

Trade Organization Customs Valuation Agreement as shown by a percentage of 55%. The rest of the results have been summarized in the table below.

Table 4.7: Aspects of WTO Customs Valuation Agreement

Aspects of WTO Customs Valuation Agreement	5	4	3	2	1
The trends of the compliance over customs service have been increasing for the last five years	30%	40%	15%	7%	8%
The trends of the dispute resolutions relating WTO agreement have been effective for the last five years	40%	20%	15%	10%	15%
The trends of the enforcement of the agreement relating to WTO agreement have been effective for the last five years.	30%	50%	15%	2%	3%
Information on policies has been effective on the operationalization of World Trade Organization Customs Valuation Agreement	50%	5%	10%	20%	15%

4.8 Regression Results

A multiple linear regression analysis was performed to test the effect of the independent variables on the dependent variable. The average ratings for the three independent variables (capacity building, policies and procedures) were used as the indicators for input into the regression model. The coefficient of determination and standard error of the regression model is indicated in Table 4.10. Results in Table 4.8 indicate that the adjusted r^2 was 0.545 indicating that the independent variables explained 54.5% of the operationalization of WTO customs Valuation Agreement in Kenya. This indicates that the model had good explanatory power.

Table 4.8: Regression Model Parameters

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.754	.568	.545	.30663

Further, the regression output in Table 4.9 presents the source of variance, mean of variances and the f value. The results indicate that the overall model was significant and could provide important results. This indicates that the model could provide some predictive significance and was a good fit.

Table 4.9: Analysis of Variance of the Regression

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	6.918	3	2.306	24.526	.000
Residual	5.265	56	.094		
Total	12.183	59			

Further, the regression output on significance of the independent variables is presented in Table 4.10.

Table 4.10: Significance of Independent Variables

Variables	Unstandardized Coefficients		Standardized	T	Sig.
	B	Std. Error	Coefficients Beta		
(Constant)	2.215	.462		4.79	.000
Capacity building	.878	.101	.754	8.730	.000
Policies	.811	.150	.578	5.394	.000
Procedures	.768	.215	.425	3.576	.001

The results in Table 4.10 indicate that capacity building significantly and positively influenced operationalization of WTO Customs Valuation Agreement in Kenya. This indicates that capacity building is the commitment as well as a proper strategy which enhances the development of systems, procedures, and processes, as well as staff competencies to carry out its allotted functions and achieve its objectives.

Further, policies have a significant and a positive effect on operationalization of WTO Customs Valuation Agreement in Kenya. This indicates that success in customs modernization is, as importantly, tied to the overall trade policy environment. Mismanagement and bureaucratic processes increases operational inefficiencies, administrative complexities, facilitate ambiguity, and increases the vices of corruption. Weak internal control systems regarding internal audit make it easier and effective for officials to engage in corrupt practices.

Procedures had significant and a positive effect on operationalization of WTO Customs Valuation Agreement by Kenya Customs. This indicates that administrative procedures aim at enhancing effective customs valuations. However, where administrative procedures are not

effective will lead to failure in distinguishing between compliant and non-compliant traders which leads to application of excessive and unnecessary control procedures.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter provides a summary, discusses findings, and offers conclusions, gives recommendations and suggestions for further findings based on the objectives of the study. It comes after identifying the background, problem at hand and the objectives in chapter one, followed by an in-depth literature review done in chapter two. Chapter three set out the methodology that the study used to collect data as well as laying out the analysis methods that were used. Chapter four then analyzed the data obtained from the research instruments.

5.2 Summary of the findings

5.2.1 Capacity building

The study established that KRA has invested in a technologically sound system for Customs Valuation. The study also established that a KRA system of Customs Valuation has reduced the administrative costs and that also that KRA valuation system is compatible with other systems. Furthermore; the study established that customs staff receive technical assistance for customs administrations and also that KRA customs officials normally receive work related training to enhance their Customs Valuation duties. However, the study established that KRA budgetary allocations are not sufficient for implementing Agreement Customs Valuation.

5.2.2 Policies

The study established that there are too many approvals for foreign trade licenses and other permits to import and export and also that high tax and tariff rates of some customs goods encourage breach of Customs Valuation rules. The study also established that the Customs Valuation Systems in Kenya are fair given the policies on importation. Furthermore; the study established that the exemption of imports by special class of individuals encourages non-compliance. Finally, the study established that customers often complain on customs value imposition due to breach in policies

5.2.3 Procedures

The study established that the internal control systems for Customs Valuation are effective in achieving a free and fair valuation process. The study also established that there is a no delay and complaints in the method of determining Customs Value. Furthermore; the study established that the Customs Valuation and approval process is tiresome and costly process restructuring improve innovation process in the public sector. Finally, the study established that there are high bureaucratic procedures associated with Customs Valuation.

5.3 Conclusion

5.3.1 Capacity building

The study concluded that capacity building significantly and positively influences operationalization of WTO Customs Valuation Agreement by Kenya Customs. This indicates that capacity building is the commitments as well as a proper strategy which enhances the

development of systems, procedures, and processes, as well as staff competencies to carry out its allotted functions and achieve its objectives.

5.3.2 Policies

The study concluded that policies have a significant and a positive effect on operationalization of WTO Customs Valuation Agreement by Kenya Customs. This indicates that success in customs modernization is, as importantly, tied to the overall trade policy environment. Mismanagement and bureaucratic processes increases operational inefficiencies, administrative complexities, facilitate ambiguity, and increases the vices of corruption. Weak internal control systems regarding internal audit make it easier and effective for officials to engage in corrupt practices.

5.3.3 Procedures

The study concluded that procedures had significant and a positive effect on operationalization of WTO Customs Valuation Agreement by Kenya Customs. This indicates that administrative procedures aim at enhancing effective Customs Valuation. However, where an administrative procedure is not effective will lead to failure in distinguishing between compliant and non-compliant traders which leads to application of excessive and unnecessary control procedures

5.4 Recommendations

The study highly recommends that the Directorate of Public Service Management should pay more attention to all the above recommendations in order to remain relevant and competitive in service delivery.

5.4.1 Capacity building

The study recommends that customs proper officers should be adequately trained on valuation methods. The study also recommends the need to build institutional capacities for the member countries to support and use the Valuation Systems besides adopting automated trading systems to conform to the Valuation Systems, which again affects the trading practices and policies of the member states. Finally ,in order to improve efficiency in customs clearances and administration, the study recommends that KRA should adequately undertake some customs modernizations efforts mainly concerned with integration of ICTs and trying as much as possible to make customs paperless.

5.4.2 Policies

The study recommends that KRA should encourages the government to involve private entities to act as surveillance agencies to identify non-conformities to trade agreement regulations. This mean that there is a need to sensitize the private sector so that they are aware of the provisions of the WTO regulations, achieved through training and outreach programs and the creation of consultative mechanisms with the private industry and consumer organizations.

5.4.3 Procedures

The study recommends that KRA should do away with inconsistent valuation procedures on determining the proper invoicing of customs products. It should enhance the Customs Valuation procedures that provide fair, neutral and uniform valuation and protects traders from risk of arbitrary valuation by the customs officers.

5.5 Suggestions for Further Research

This study was conducted at a single Kenya Revenue Authority. It is recommended that further studies be conducted in other Revenue Authorities within East Africa Region and consider other factors that might influence Customs in the operationalization of WTO Customs Valuation Agreement. Future research should include larger sample size to analyze the in-depth relationship. Studies could be conducted on other sector to study if relationship differs in different setting. Researcher used quantitative research, future researchers can adopt other research instruments to investigate the relationship further. This study further recommends that since the study was limited to only three variables, a similar study could be conducted with additional variables. Different models besides regression could also be used on similar studies to get an in-depth understanding of the relationships between the variables being studied.

REFERENCE

- Alesina, A., Spolaore, E., & Wacziarg, R. (2005). Trade, growth and the size of countries. In P. Aghion & S. N. Durlauf (Eds.), *Handbook of economic growth* (Vol. 1B). Amsterdam: Elsevier.
- Anderson, J. E., & van Wincoop, E. (2004). Trade costs. *Journal of Economic Literature*, *XLII*, 691–751.
- Armstrong, H. W., & Read, R. (2006). Geographical ‘handicaps’ and small states: Some implications for the Pacific from the global perspective. *Asia Pacific Viewpoint*, *47*(1), 79–92.
- Bagwell, K. and R. Staiger (2001). Reciprocity, Non-discrimination and Preferential Agreements in the Multilateral Trading System: *European Journal of Political Economy*, *17*(2), pp.281-325.
- Bagwell, K. and R. Staiger (2005). Enforcement, Private Political Pressure and the GATT/WTO Escape Clause: *Journal of Legal Studies*, *34*(2), pp. 471-513.
- Bagwell, K., & Staiger, R. W. (2002). *The economics of the world trading system*. Cambridge, MA: MIT Press.
- Baier, et. al. (2008). Do economic integration agreements actually work? Issues in understanding the causes and consequences of the growth of regionalism. *The World Economy*, *31*(4), 461–497.
- Chapman, R. et.al. (2003), Nepal: Trade and Competitiveness Study, Kathmandu: World Bank.

- Carrel, A., Sengupta, R., & Walker, J. L. (2015). The San Francisco Travel Quality Study: Tracking Trials and Tribulations of a Transit Taker. *University of California, Working Paper*
- Cooper & Schindler, D.R. (2003). *Business Research Methods*, (8th Edition), New York, NY, McGraw-Hill.
- Creswell, J. (2003). *Research design: Qualitative, quantitative and mixed methods approaches* (2nd Edition ed.). Thousand Oaks, CA: SAGE Publications.
- Finger and Schuler (2000), Implementation of Uruguay Round Commitments: *The Development Challenge, RIS digest*.
- Filmer, R. (2003). Customs Administration: Impediments to trade and investment, South Asia FDI Roundtable, *Foreign Investment Advisory Service*, 9-10 April 2003, Maldives.
- Gawande, et, al (2006), Foreign Lobbies and U.S. Trade Policy, *Review of Economics and Statistics*, 88(3), pp. 563-571.
- Ghimire et al (2005), Center for Public Policy Dialogue, *The Legislative Review Study on Customs Policies of HMG, Nepal*.
- GoN (2006), Finance Ordinance, Kathmandu: Government of Nepal.
- GoN, (2004), Custom an Introduction, Custom Department, Kathmandu: *Government of Nepal*.
- Horn, Henrik, Giovanni Maggi and Robert W. Staiger (2006), Trade Agreements as Endogenously Incomplete Contracts, *NBER Working Paper No 12745*
- Keen, M. (2003), Changing Customs Challenges and Strategies for the Reform of Customs Administration, Washington: *IMF*.

- King, J. *et al* (2003) Next steps in Tax Reform - Preliminary Report Nepal, Washington: IMF.
- Kothari, C. R. (2004). *Research methodology: Methods and techniques*. New Delhi: New Age international ltd.
- Magee, C. S. P., & Magee, S. P. (2008). The United States is a small country in world trade. *Review of International Economics*, 16(5), 990–1004.
- Maggi, Giovanni and Andrés Rodríguez-Clare (1998). The Value of Trade Agreements in the Presence of Political Pressures, *Journal of Political Economy*, 106(3), pp. 574-601.
- Meade, J. E. (1955). *The theory of customs unions*. Amsterdam: North-Holland
- Pelkmans, J. (2006). *European integration: Methods & economic analysis* (3rd ed.). London: Prentice Hall.
- Phillips, P. W. B. (2007). The breadth of integration arising from trade agreements. In W. A. Kerr & J. D. Gaisford (Eds.), *Handbook on international trade policy*. Cheltenham: Edward Elgar.
- Read, R. (2004). The political economy of international integration: Small states in the Caribbean and the Free Trade Area of the Americas (FTAA). In N. Karagiannis & M. Witter (Eds.), *The Caribbean economies in an era of free trade*. London: Ashgate Publishing.
- Viner, J. (1950). *The custom union issue*. London: Stevens & Sons for the Carnegie Endowment for International Peace.
- Rajkarnikar, P. R. (2005)., The Need for the Cost of Selected Trade Facilitation Measures Relevant to the WTO Trade Facilitation Negotiation: *A Case Study of Nepal, Kathmandu: Institute for Policy Research and Development*.
- Rege, V (2002), *Custom Valuation and Customs Reform Development, Trade and the*

WTO, A Hand Book edited by Barnard Hoekman, Aaditya Mattoo, and Philip English, Washington: World Bank.

Walsh, T. J (2003), *Customs Valuation, Changing Customs*, (edited by Michael Keen), Washington: *IMF*.

WTO (2004), *Valuation of Goods for Custom Purposes*, Geneva: WTO.

Wto, S. (2012). *Wto dispute settlement procedures: A collection of the relevant legal texts*. Cambridge: Cambridge Univ Press.

APPENDICES

APPENDIX I: COVER LETTER

ANGELINE JERUTO

KENYA SCHOOL OF REVENUE ADMINISTRATION (KESRA)

P.O. BOX 48240-00100

NAIROBI.

Dear Respondent,

I am carrying out a research on **Factors Influencing the Operationalization of World Trade Organization Agreement on Customs Valuation in Kenya**. This is in partial fulfillment of the requirement of the postgraduate diploma in customs administration, a diploma program at KESRA. This research is significant, as it will highlight the factors that influence the operationalization of WTO Customs Valuation Agreement in Kenya. It is envisaged that this survey will provide information useful to regulatory agencies, investors and other stakeholders in trade facilitation in Kenya and the globe. This is an academic research and confidentiality will be strictly observed and your name will not appear anywhere in the report. Kindly spare some time to complete the questionnaire attached.

Thank you in advance,

Yours sincerely,

Angeline Jeruto

APPENDIX II: QUESTIONNAIRES

This questionnaire has been designed for the purpose of collecting data on the Factors Influencing the Operationalization of World Trade Organization Agreement on Customs Valuation in Kenya. The data collected will be treated with high degree of confidentiality and it is meant for academic purposes only.

PART I: GENERAL INFORMATION

Please Tick or Answer where appropriate

1. Please indicate your age group Below 30 31-40 41-50 Above 50Years

2. Indicate your highest level of education: High school College Diploma

Bachelors' Degree Other.....

3. Please specify your current grade in the organization?.....

4. How long have you worked in your current position?.....

PARTII: INFORMATION ON CAPACITY BUILDING

To what extent do you agree with the following statements concerning the operationalization of WTO Customs Valuation Agreement. Where Strongly Agree =5, Agree=4, Neutral=3 Disagree=2, Strongly Disagree=1.

Statement	Strongly disagree=1	Disagree=2	Neutral=3	Agree=4	Strongly agree=5
Kenya Customs has invested in a technologically sound system for Customs Valuation					
Kenya Customs systems of customs valuation have reduced administrative costs					
The Customs Valuation system is compatible with other systems					
Kenya Customs budgetary allocations is sufficient for implementing Customs Valuation Agreement					
Kenya Customs staff receive technical assistance for customs administrations					
KRA customs officials normally receive work related training to enhance their Customs Valuation duties					

PARTIII: INFORMATION ON POLICIES

To what extend do you agree with the following statements concerning the operationalization of WTO Customs Valuation Agreement. Where Strongly Agree =5, Agree=4, Neutral=3 Disagree=2, Strongly Disagree=1.

Statement	Strongly disagree=1	Disagree=2	Neutral=3	Agree=4	Strongly agree=5
There are too many approvals for foreign trade licenses and other permits to import and export.					
High tax and tariff rates of some customs goods encourage breach of Customs Valuation rules.					
The Customs Valuation system in Kenya is fair given the policies on importation.					
The exemption of imports by special class of individuals encourages non-compliance					
Traders often complain on customs value imposition due to breach in policies					

PART IV: INFORMATION ON PROCEDURES

To what extend do you agree with the following statements concerning the operationalization of WTO Customs Valuation Agreement. Where Strongly Agree =5, Agree=4, Neutral=3 Disagree=2, Strongly Disagree=1.

Statement	Strongly disagree=1	Disagree=2	Neutral=3	Agree=4	Strongly agree=5
The internal control systems for Customs Valuation are effective in achieving a free and fair valuation process.					
There is no delay and complaints in the method of determining customs value					
The customs valuation and approval process is tiresome and costly					
There are high bureaucratic procedures associated with Customs Valuation.					

PART V: INFORMATION ON OPERATIONALIZATION OF WTO CUSTOMS

VALUATION AGREEMENT

To what extent do you agree with the following statements concerning the operationalization of WTO Customs Valuation Agreement. Where Strongly Agree =5, Agree=4, Neutral=3 Disagree=2, Strongly Disagree=1.

Statement	Strongly Disagree =1	Disagree =2	Neutral =3	Agree =4	Strongly Agree =5
Kenya Customs is compliant to the Agreement on Customs Valuation					
The KRA's valuation dispute resolution mechanism is streamlined.					
Kenya Customs has been successful in enforcing the Agreement on Customs Valuation.					