

**STRATEGIC FACTORS AFFECTING CUSTOMS REVENUE COLLECTION  
PERFORMANCE IN KENYA REVENUE AUTHORITY AT THE PORT OF  
MOMBASA**

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**2018**

## **DECLARATION**

This is my original work and has not been presented for any degree in any other university.

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

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## **DEDICATION**

I would like to dedicate this project to my wife Jackline Diana, my sons, Ridge, Lawrence and my daughter Angela. Also to My mum Penina Ogola and my late Dad Lawrence Ogola and entire family, Late Lilian, Lucas, Mourice, Rodgers, Roline and Jalen. God bless you all.

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

<b>CBCD</b>	Customs and Border Control Department
<b>CCS</b>	Creative Capital Solutions
<b>DAC</b>	Development Assistance Committee (of the OECD)
<b>DTD</b>	Domestic Taxes Department
<b>ERS</b>	Economic Recovery Strategy
<b>ETR</b>	Electronic Tax Registers
<b>EX ANTE</b>	as important
<b>FTA</b>	Forum on Tax Administration
<b>GDP</b>	Gross Domestic Product
<b>GNP</b>	Gross National Product
<b>GoK</b>	Government of Kenya
<b>ICT</b>	Information and Communication Technology
<b>IMF</b>	International Monetary Fund
<b>KRA</b>	Kenya Revenue Authority
<b>NTA</b>	National Taxpayers Association
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>PAYE</b>	Pay As You Earn
<b>RARMP</b>	Administration Reform and Modernization Program
<b>SME</b>	Small and Medium Enterprises
<b>SMEDA</b>	Small and Medium Enterprise Development Authority (of Pakistan)
<b>SPSS</b>	Statistical Package for the Social Sciences
<b>VAT</b>	Value Added Tax

## DEFINITION OF TERMS

- Collection Efficiency:** This is the ratio of collected revenues to collection costs (Aizenman & Jinjarak, 2005). It measures the effectiveness of revenue collection efforts.
- Employee Motivation:** Employee motivation is the process that directs or provides the stimuli and direction towards which employees can execute their duties. It is one of the policies of managers to increase effectual job management amongst employees in organizations (Lauby, 2005)
- Revenue collection:** This is the collection of all revenue owed to the Government through various taxes, fines, fees and penalties and it is the responsibility of KRA. (KRA, 2017)
- Strategy:** This is a method or plan chosen to bring about a desired future, such as achievement of a goal or solution to a problem (Freedman, 2013)
- Tax Base:** This is amount of economic wealth that is liable to taxation (Talvi and Vegh, 2005). It is the total value of financial assets and incomes on which taxes can be imposed. This also varies depending on the current tax rate as well as the jurisdiction; in some countries some categories of income are not liable to tax while in others, they are (Aizenman and Jonjarak, 2009).
- Tax Burden:** This is the amount of tax levied on an individual or business. It may vary depending on income level, current tax rates and

the jurisdiction (Fullerton & Rogers, 1993). It is the effect of a particular tax on the distribution of economic wealth.

**Tax Rate:**

This is the percentage of the tax base to be charged. That is, the total amount to be collected from for example a purchase. It is the percent of assets, incomes, goods or services that is payable as tax (Fullerton and Rogers, 1993).

**Target Deficit**

This is the tax amount by which the actual amount is less than the required/expected amount (Aizenman Jinjark, 2005). It is an excess of expenditure over revenue available at a certain period (Awitta, 2010).

## ABSTRACT

Kenya Revenue Authority and especially Customs department operates in a dynamic environment both internal and external environment which dictates how customs align its operation in order to meet its annual targets and the government to fulfill its obligations that is to fund the big four agendas and on the other hand help in trade facilitation, without compromising on National security. The advent of new instruments to help businesses work more efficiently affects the way taxes and revenues are collected in the aspect of trade facilitation. KRA embarked on extensive implementation of various revenue collection strategies in its operations. This has been significantly to enhance revenue collection in all departments. Implementation of innovative revenue collection strategies was supposed to improve its organization structures, training, manpower planning, developing teamwork among management and staff, Staff competencies, new approaches to reward management and adaptation of information technology to reduce bureaucracy or red tape and corruption focusing on harmonization of all customs procedures and sharing of information within government agencies ,therefore the study has focused on how resource or budgetary allocation and fiscal policies are bottleneck to the performance in customs and benefits accruing from staff continual training on contemporary world trade for instance the emergence of Maritime Trade in other words Blue economy , the concept of Irregular Funds Transfer(IFT)and money laundering. Blue economy initiative should be the next big thing for customs in terms of trade dynamics which need new skills to handle .According to world bank coastal development projects that blue economy can add up to 254 billion annually to Kenyan fiscal deficit if well initiated. The objective of this study was to determine the strategic factors that affect customs revenue collection at the port of Mombasa. The study was therefore conducted as a survey with the sample of the responding firms being from Southern region of Mombasa region as classified by the Kenya Revenue Authority (KRA). A structured questionnaire was used to collect the data based mainly on the scale. Developing effective ways in revenue collection has been an important matter in tax and revenue collection. The influence of various strategic factors and how these factors affect customs revenue collection has not been investigated. The purpose of this study was to examine how the strategic factors affect customs performance and effectiveness of revenue collection strategies at KRA in the port of Mombasa. Theories that the researcher used to build on this research work were Expediency Theory, Optimal Theory of Taxation, Resource Based Theory and Institutional Theory .The descriptive research design was adopted with focus on quantitative characteristics and status of revenue collection strategies at KRA with regard to enhancements of revenue collection. The target population was staff of KRA in Mombasa and its branches. Although there is 3,905 staff, the focus was senior revenue officers who are 1,540. Stratified random sampling technique will be used to select a sample of 195 staff, where Verification, Valuation National Targeting Centre ,Refunds and Incentives and Document Processing Centre were included In this study, data was collected using a questionnaire which was administered through pick and drop method. All the data was matched and coded to maintain the temporary employees' confidentiality which was paramount. Descriptive statistics in the form of pie charts, contingency tables and bar graphs was used to describe the data. The collected data was analyzed through SPSS version 25. Mean and standard deviations were used to describe the variables in the study while regression analysis was conducted to determine strategic factors affecting customs revenue collection in Kenya Revenue Authority at port of Mombasa. Study findings

revealed that resource allocation, management and customs legislation have significant effect on customs revenue collection in Kenya Revenue Authority at the Port of Mombasa individually with  $t=3.081$ ;  $p=0.003$ ,  $t=4.397$ ;  $p=.000$  and  $t=3.904$ ;  $p=0.000$  respectively and collectively with R-square value of 0.773. From the findings, the study recommends that management should involve all organization functions to work together with organization resources and human capital. The study suggested that adequate deterrent measures of customs law should be put into place to enhance customs revenue collection. Study also recommended that management should improve on procedures of administering licenses in order to improve on the efficiency of revenue collection. Lastly further research may be explored on other theories that emphasizes on efficiency.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

Customs administration efficiency and its impacts on trade facilitation, has been major topics of concern by the World Bank and the International Finance Corporation, through the “Trading Across Borders” topics, which focuses on assessment of the imports and exports activities based on time, documents involved and cost incurred. Through the facilitation of international trade, Customs administrations emphasize on investigation on matters that concern customs administration which they are participants. From 2006 to 2011, some African Countries which include; Burkina Faso, Madagascar, Mali, Senegal, and Togo were able to reduce the documentation time needed to import and export (World Bank, 2011). The ease of doing business is determined by time needed for export or import, customs and non-customs formalities during export or importation; it is worth noting that clearance time plays just a little effect on the ease of doing business. The concept of ease of doing business, “Trading Across Borders” concept has been in the frontline to enhance ease of doing business this is according to the World Bank Logistics Performance; it takes an approximately two days of physical examination of goods, and five days with physical verification. Taking for instance, Nepalese Customs Administration which accounts to 50% of the countries’ total revenue, therefore it’s a significant department for improvement of trade facilitation through implementation of international convention, recommendation and consideration of having no interference to the country’s national security. This country’s struggle is focused towards making administration more adept, service oriented and transparent as it requires continuity on making timely enhancements in its task according to variations and changes experienced through the international trading.

Cleland (2004) observes that revenue fail because of management’s failure to effectively plan, poor organizational structure, poor planning, absence of clearly defined work responsibilities and delegation, weak monitoring and evaluation system and misuse of resources, inadequacy in teamwork during the implementation of revenue verdicts, Impractical cost estimates and schedules, lack of customer commitment to revenues, reduced customer supervision and insufficient management information systems.

Therefore, this study seeks to respond to strategic factors affecting revenue collection in government agencies, in consideration of KRA as the principle government revenue collecting agency.

### **1.1.1 Strategic factors**

Every organization operates in a given environment. There are two kinds of organizational environment; external and internal. The internal phenomenon consists of elements within the firm which influence the success and approach of processes and the firm has control over these elements. The strength of employees, which can also be referred to as staff competencies is an important internal business element. A firm should check to know if workforce is properly fit, motivated and qualified based on their talents and professionalism. Qualified workforce which is properly motivated will perform better compared to an unqualified workforce. The interdepartmental processes and communication among the departments enhances effectiveness and efficiency (Pastel analysis, 2015).

Some instances of fields which are typically contemplated in internal factors are: Financial resources like funding, sources of income and investment opportunities.; Physical resources like equipment, company's location, and facilities; Human resources like employees, target audiences, and volunteers; Access to natural resources, copyrights, patents, and trademarks; Current processes like software systems, employee programs, and department hierarchies; Companies should also put into consideration softer factors like company image and culture, operational efficiency , the role of key staff and potential which includes engagement with stakeholders

### **1.1.2 Customs revenue collection**

Customs Services Department (CSD) in KRA was established in 1978 to collect and account for Import Duty and VAT on imports, protect the society from illegal entry and exit of prohibited and restricted goods while at the same time facilitating legitimate trade. Its vision is to 'be globally recognized as a contemporary Customs Administration that is responsive to the needs of the 21<sup>st</sup> century customer. The KRA Customs Services Department (CSD) accounts for over 45% of all our revenue collection. The department's functions are geographically scattered throughout the country and include operations, transit management, border operations, air and sea port x-ray cargo scanners, trade statistics management function (KRA, 2013).

There are other different taxes levied in Kenya. The income tax department in the Kenya Revenue Authority administers various direct taxes. One of them is the PAYE, and is a process of collecting tax at source from persons in gainful employment. The employer subtracts a specific amount of tax from his / her employee's salary or wages on each payday then forward the tax to KRA. Corporation tax is also a kind of income tax that is levied on companies. Another type of income tax is the withholding taxes which are deducted at source from the following sources of income: royalties, dividends, commissions, rent, management or professional fees, interest, sporting or diverting an audience, appearance or performance fees for entertaining, pension or retirement annuity, (KRA, 2017).

Advance tax also a form of tax and is implemented on Matatus and other Public Service Vehicles. This is not a final tax, but a tax partially paid in advance before a public service vehicle or a commercial vehicle is registered (KRA, 2017). Import Duty refers to the customs duties that are payable at importation. Excise duty refers the excise duty levied under the Excise duty Act, 2015; Value Added Tax is imposed on consumption of taxable goods and services supplied in Kenya. Some of the offences related to the charging to these taxes include, indirectly or directly taking of a bribe; disclosing information unless where he or she is lawfully allowed by the act, a court of law or with the approval of the minister, entering into an agreement to defraud the department or the authority.

According to Ole Therkildsen (2004), the problem to be tackled by this research is that, notwithstanding the fact that KRA has adequately been authorized to mobilize collect revenue and introduce new service products so as to enhance the government income so as to sustain its budget; the government is not able to develop new revenue mobilization strategies or even strengthen its existing ones. Porosity at our borders, tax evasion and tax avoidance still takes center stage in revenue collection. On bureaucracy basically or the red tape on processing of documents and its effects on value for money customs department just like other Government parastatals KRA is facing challenges emanating from long processes in making a decision , information technology system down time when Simba system is down the transaction is slowed and when there is a threat of cyber-attack customs department must shut down for fear of exposure of its systems (KRA, 6<sup>th</sup> corporate plan).Management Decisions on Staffing ,Training and Legislations are still the impediment in the customs department ,as mentioned earlier duty free importation of maize and sugar imports in 2017 really hampered customs targets on revenue collection ,as this was a decree

from the government to allow the importation of free sugar and maize to fill in the shortage or the deficit witnessed in the recent past in the country.

### **1.1.3 Kenya Revenue Authority**

The Kenya Revenue Authority is charged with the duty of collecting revenue on behalf of the Kenyan Government. Its purpose is assessment, to collect revenue, Administer and enforce the revenue laws and regulations. Established by an Act of Parliament, Chapter 469 of the laws of Kenya, in 1995, the Kenya Revenue Authority is a Government parastatal that conducts its activities in the similar manner as a private enterprise. Its Core values include Trustworthy, Ethical, Competent and Helpful (KRA, 2015).

The Customs and Border Control Department (CBCD) in the Kenya Revenue Authority was established in 1978 to collect and account for Import Duty and VAT (Value added Tax) on imports, protect the society from illegitimate entrance and exit of prohibited and restricted goods while at the same time accelerating legitimate trade. Additionally the department collects agency fees for other governmental institutions involved in import and export. The department collects 45% of the total revenue collected by the authority. The department also through border control compliments the National Security Agencies at the border points (KRA, 6<sup>th</sup> corporate plan).

The department has undergone tremendous changes since 2005; it is worth noting that the Customs Service Department was developed from the previously known Customs and Excise Department. While the Domestic Tax Department was created from the Domestic Excise component, the Customs Service Department was then renamed to Customs and Border Control Department after the Border Security was given importance role at the department in 2015. The departmental vision is to become globally recognized Modern Customs Administration responsive to the needs of the 21<sup>st</sup> century customer expectation. The department has a wide range of external customers who include importers, exporters, manufactures, transporters, shipping lines/ Agents, members of the public, other departments, Clearing Agents, financial institutions, insurance companies among others. Customs officers on the other hand, are the department's internal customers and they should be appreciated because of their role in ensuring that the department achieves its mandate and goals. Majorly customs department in Mombasa Kilindini operates just like other port around the world performing issues to do with matters relating to levies and duties of Direct Taxes. Investigation into economic offences and enforcement of economic laws .Prevention and combating abuse of Narcotic drugs and psychotropic substances and illicit Work

relating to forfeiture of property under Smugglers and Foreign Exchange Manipulators (Forfeiture of Property). All these are supported by intergovernmental interaction and sharing of information, for instance Kenya wildlife and Kenya forestry services, the use of scanners, involvement of K9 and also good working relationship with stakeholders who provide vital information for customs consumption.

This research is aimed at establishing strategic factors that enhance revenue collection by Customs department at KRA at port of Mombasa.

## **1.2 Statement of the problem**

Customs services department operates in an increasingly unstable and intricate environment consisting of many interacting and interrelated elements. Managing various and complex internal accomplishments and external environment pose a great challenge to many managers in customs. As per the external environment it is vividly clear when there are significant changes in doing business around the world, Customs policy management also takes a new shape and dimension to realign itself with modern trade practices. Under development of globalization, the part played by Customs has been increasingly vital not only for an individual economy, but also for the entire international community Mathew (2014). Traditionally, the mandate of Customs was to collect national revenue as well as protecting the country's borders events changed after 9/11 and customs department had additional a new role of border protection. Recently, Customs department has been dealing with emerging trends in cross-border trade menace which includes an increasing threat to peace and security as well as transnational organized crime, cybercrimes, including more sophisticated smuggling activity (Kidd & Crandall, 2006). Tax competition and proportionate tax rebates implemented by different countries to lure investors should be on customs department focus. Unlike other organizations customs should not be a moribund organization, it should position itself with creativity to assist in trade facilitation and adopt the contemporary world trade practice because most governments compete aggressively to attract multinational companies and fiscal incentive have become a global phenomenon and how government induce favorable foreign tax for foreign direct investment (FDI) guarantee against expropriation and currency convertibility. The signing of exploration of our blue economy by the president of Kenya recently should be a wakeup call to re-evaluate customs strategic internal options to tap into this emerging trade environment with expectation of

injection of over 200 billion into the economy, exploration of natural gas from the seabed, petroleum and unique and precious aquatic features are the target here.

In the political arena, the performance of Customs has been in the limelight because of congestion at the Port of Mombasa and other exit points like Malaba and Busia the formation of a 24hrs operation at Kenyan port to ease congestion. Further, formation of Kenya Trade Network Agency (KENTRADE) to spearhead implementation of the national Single Window offers competition in trade facilitation and such Customs has to devise ways and means of remaining relevant in revenue collection. Despite the efforts made to improve service delivery, previous research has shown that strategic factors affecting customs revenue collection at the port of Mombasa of Kenya Revenue Authority has not been satisfactorily addressed (KRA 6<sup>th</sup> Corporate Plan).

Numerous studies conducted in the country (Muriithi, & Moyi, 2003) have investigated their response to revenue to changes in Gross Domestic Product (GDP), he concluded that revenue and GDP are positively related; other key elements have been left out. Due to this omission revenue estimates have often been inaccurate and unreliable for planning leading to budget deficit (Wawire 2000). It is therefore critical strategic factors affecting the performance of revenue collection be determined. Therefore this research intends to fill this gap. Whilst putting into consideration the documentation provided above, this study seeks to add onto the publications on revenue collection and strategic factors in a firm by reporting on the strategic factors affecting the customs revenue collection performance in Kenya Revenue Authority at the port of Mombasa.

### **1.3 Objectives**

#### **1.3.1 General objective**

The general objective was to study the strategic factors affecting customs revenue collection performance in Kenya Revenue Authority at the Port of Mombasa.

#### **1.3.2 Specific objectives**

The study aimed at achieving the following objectives:

- i. To find out the how the resource allocation affects customs department performance in revenue collection in customs department at Port of Mombasa
- ii. To investigate how management decision is affecting customs performance in revenue collection in customs department at Port of Mombasa

- iii. To find out the effects of customs legislation in revenue performance in customs department at Port of Mombasa.

#### **1.4 Research questions**

The study sought to answer the following questions:

- i. How does resource allocation affect the performance of customs in revenue collection at Port of Mombasa?
- ii. How does management decision affect the performance of customs in revenue collection at Port of Mombasa?
- iii. How do customs legislations affect performance of customs in revenue collection at Port of Mombasa?

#### **1.5 Justification of the study**

The study findings will be of value in various ways. Firstly, the Government of Kenya, through the Kenya revenue management will benefit from this study as it aims at providing a detailed analysis of the strategic factors that affect the customs revenue collection at the port of Mombasa. This will therefore assist in the formulation of policies and legislation in regards to enhancing revenue collection. Secondly, the study aims at adding knowledge to the body of research hence other researchers and scholars will be able use these findings to further study in the field. The taxpayers and the general public will also benefit from this study for the reason that this study will highlight the strategic factors that affect the collection of revenue at the port of Mombasa.

#### **1.6 Scope of the study**

The study confined itself to study strategic factors that affect customs revenue collection at the port of Mombasa. It also confines itself to determining the strategies used to collect revenue and the performance of customs department in KRA and the recommendations. In order to achieve this, the study had its respondent as the KRA senior staff from the cadre of revenue officers to top management, which involves Verification, Valuation, National Targeting Centre, and Refunds and Incentives ,Document processing Centre as sections. This study was conducted at KRA at Port of Kilindini, Mombasa. The data to be considered was revenue for the period 2013-2014 to 2015-2016. This period is long enough to capture

the responsiveness of revenue changes. The study investigated revenue allocation, management decision and customs legislations. The main data collection was through questionnaires. Secondary data was also collected through document review.

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

During the research, the study was faced by some limitations: Uncooperativeness of some respondents during data collection and denial to access relevant data. The limited schedule available to present project and collect data since the research study was an academic research therefore strict adherence to academic calendar. Insufficiency of funds to fully undertaken this research study. Despite the challenges mentioned above, the researcher tried all the best and overcame these challenges and came up with reliable conclusion. Notwithstanding the above challenges the researcher informed people to be interviewed that the information they have provided shall be treated with utmost confidentiality and they should be free to provide the information relevant for the purpose of the research .In terms of financial constraints the researcher narrowed down the scope to customs officers, middle level managers and senior managers in Kilindini in the sections of Verification, Valuation, National Targeting Centre, and Refunds and Incentives ,Document processing Centre as departments.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The chapter presented an in-depth examination of existing literatures submitted by other scholars relevant to the strategic factors affecting Customs Revenue Collection at the port of Mombasa. This literature review has assisted the researcher to limit the problem to define it better and to avoid repeat of other research work that have been done.

#### **2.2 Theoretical Review**

This study was anchored on four theories: The Expediency Theory, Optimal Theory of Taxation, Resource Based Theory and The Institutional Theory; which are related to customs revenue collection.

##### **2.2.1 The Expediency theory of taxation**

According to the expediency theory, taxation proposal should pass practicability test, that is, should be the sole consideration for the Authority at the time of choice of the proposal. By so doing both the economic and social interests of the state ought to be considered as irrelevant. According to Bhartia (2009), there is no need for a tax policy which cannot be imposed and collected efficiently. Political, social and economic groups keeps on piling pressures to the relevant authorities with an aim of protecting their own interests and eventually forcing the authorities to reshape their tax frameworks by giving in to the pressure exerted by these groups (Bhartia, 2009).

The composition of the authority might be that effectiveness to collect such taxes by using the minimum budgeted collection cost. Taxation policies ought to be effectively adopted to fix both social and economic evils of the society including disparity, inequality in income and unemployment among other evils. The expediency theory can be used to explain the feasibility of tax proposals of the authority which could have revenue implications.

##### **2.2.2 The Optimal theory of taxation**

Theory of optimal taxation focuses on the ways and policies of reducing the taxation cost while optimally maximizing collection. This theory considers the costs of taxation to include the efficiency costs of the distorted tax system. Having to consider the administration costs together with compliance costs which are argued that have little role during the analysis (Fowler, 2002). The theory of optimal taxation borrows a lot from the

tax evasion perspective, having to consider the progress of the personal income taxation policies, company taxation and their differences in the indirect tax systems. Therefore tax evasion perspective is important to the optimal taxation theory since it is believed to bring into attention the taxation policies and structure (Ghura, 2006).

According to Hazel (2005) a taxation system that increases the consumers' welfare is crucial, having not to take to the assumption of the society being composed of completely identical entities. Therefore the optimal taxation theory advocates for a system that maximizes the stakeholders' social welfare which is based on utilities possessed subject to the constraints. According to Graham (2000) the use of nonlinear function of utilities gives the social planner a chance to reduce problems facing revenue collection.

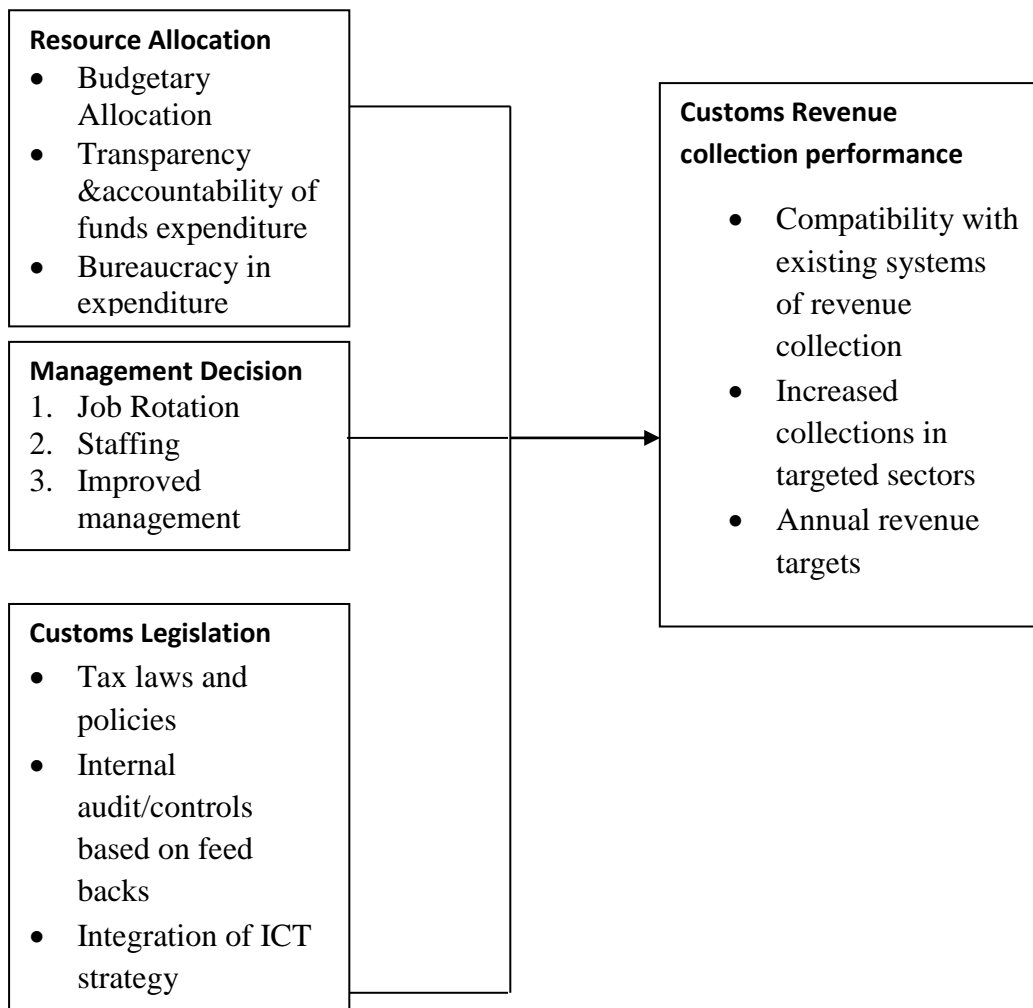
### **2.2.3 Resource based theory**

The resource-based theory is a management theory that focuses on the firms' available materials and determination with an aim of creating a comparative advantage through exploitation of the available materials in the firm in order to sustain the firm's competitive advantage. The attention is brought to the firms' tangible assets available at the moment and planning on utilization of such resources to improve the firms' competitive advantage. The theory's attention is focused on the firms internal and available materials, aimed at arriving a management decision to direct the firm towards achieving its goals and objectives at the same time achieving a competitive advantage. The theory has roots on the Ricardian and Penrosian theory of economics. Butler (2001) stated that the firm's internal materials (including assets and capabilities) if managed properly and the strategic management decisions undertaken properly will have a guaranteed sustainability on returns. The backbone of this theory requires the manager of a firm to acknowledge and identify the firms available materials and evaluating such materials to determine whether the firm's available materials are useful to the firm that they can be utilized to improve performance and these materials should be unique in nature not easily available with the firm's competitors, they are hard to implement and are rare in existence. The external and internal resources of the firm are also considered if they offer the firm's competitive advantage (Verbeke, 2002).

#### **2.2.4 Institutional Theory**

Institutional theory focuses on the social structure of an organization, the theory is focused on determination of the firm's prevailing norms, rules and routines are made and followed. The theory seeks to establish how these structures are adopted over a period of time; these structures are affected by the prevailing environmental conditions. Some of these structures could be adopted by the firm even if they could not improve on the efficiency on operations (Meyer, & Rowan, 1977). The actions of management to adopt such structures are entirely based on good faith and legitimately assist in preservation of organizational atmosphere (DiMaggio, & Powell, 1983). There are pressures that force the firms to use the aforementioned structures; coercive, normative and mimetic. Coercive can be in form of legally while normative is from professional pressures and mimetic is uncertainty related.

**Figure 2.3 conceptual frameworks**



**Independent variables**

**Dependent Variables**

Source: Author (2017)

## **2.4 Review of variable**

### **2.4.1 Resource Allocation and customs revenue collection performance**

Resource allocation is the determination of spending decisions and budgeting of the resources available and distribution to a program. Petrei (1998) argues that this exercise involves use of least technicalities during the budgeting. Expenditure decisions are not always made through technical principles unlike investment projects which largely depend on such technicalities (Petrei, 1998). The resource allocations rises from a series of forces that joins at different points during process of decision making having a mediator to rule based on perception of both present and future expected outcomes and predictions.

As the section 16 of the Kenya Revenue Authority Act (Cap. 469) clearly spells for the authority's funding, its resources are based on targets and other governmental agencies fees. Though, the full operation of the authority's previous corporate plans has been affected by low funding. Low funding as observed based on forecasts during the implementation of the (6<sup>th</sup> corporate plan), which was centered on National Treasury support. It is evidenced that there has been insufficient funds for the implementation on customs modernization therefore resource allocation is crucial for full operations and attaining fiscal annual targets (6<sup>th</sup> corporate plan).

### **2.4.2 Management Decision and customs revenue collection performance**

Management is an activity with a social factor. There is necessity for the effective utilization of resources collectively with the leadership of society for the achievement of particular firm's objectives and goals, it includes obligation to realize the goals and achieve a particular organizational targets through economic and actual preparation and control. It includes taking control and making sure emphasis is focused on the factors and features of the business that aid in achieving the vision and the objectives (Anastasia, 2017).

The process of management is described by three key features; Management being a procedure of systematic and related accomplishments. All the functions are linked to each other and also complementary to each other. Difficulties will be experienced in contemplating the functions in separation, as management necessitates every action to complement each other. By a manager involving in one function, another function is affected by the process to start (Anastasia, 2017).

The next main feature of management involves clustering on firm objectives. Management is mainly concerned with attaining the strategic mission of the organization, its vision.

Whereas there are comprehensive goals it could emphasize on, management is mostly concerned with ascertaining the broader organizational objectives and by utilizing the various functions for achievement of these goals. All the functions are involved in making organization faster towards realizing its vision (Anastasia, 2017).

Finally, by the management working with organization resources and people it attains the organizational objective. Various financial resources or physical tools may be utilized by one as part of the process, while also guiding and directing the workforce towards the goals. The manager is tasked with the responsibility of linking the right people with the appropriate knowledge and supporting human resource (Anastasia, 2017).

There are five functions of management: The planning function encompasses on generating a comprehensive strategy directed towards attaining a particular goal of the company. During the planning, there is the need for one to ascertain the responsibilities, which are needed to attain the anticipated objective, framework on how the duties should be executed, and ascertaining by whom and when they should be accomplished. The highlight of planning involves getting right the overall goals and the knowledge needed to attain the goals and visions of the firm. Organizing is another function that follows planning. It's involves utilizing the roadmap to pull together the financial, physical and other scarce resources and utilizing them to attain the firm's objectives (Anastasia, 2017).

Staffing as a function is mostly left out when main management functions discussed is an increasingly vital function of management. Staffing and organizing can be seen as closely associated; with both emphasizing on making sure that the resources are channeled towards the appropriate tasks and processes. Staffing focuses on workforce and relates them to the firm's goals (Anastasia, 2017)..

Directing or influencing or leading is the fourth function; Directing entails the actualization of the approaches to function efficiently in order to attain the set firm's goals. It goes beyond organizing the staffs to their particular tasks and involves making sure they have the ability to execute the responsibilities via a diversity of ways. Directing guarantees productivity and ensures productivity is kept on an increasing scale instead of declining Nachum L. (1999)

Controlling: involves making sure the other functions are tackled in the right manner and the work flow is channeling the organization towards the goals set to be achieved. Haimann

(1978) expressed controlling as the process of confirming progress and taking actions in case of deviation of the progress against set goals and objectives.

### **2.4.3 Customs Legislation and Customs revenue collection performance**

Waris (2007) observed that, tax laws and policies are as a result of the capabilities of a nation its constitution and legislative provisions. She was of the opinion that tax laws operate in a system of trial and error. This implies that, there is no 'one size fits all' when it comes to formulation of tax policies, policymakers have to tailor-make their policies to fit their constitutional needs and economic trends, as well as to match the legislative structure and governance of the society; and that there is no way of finding out how effective a policy will be before it is implemented. Waris (2007) also noted that tax reforms in Kenya were moving towards new legislation, rather than increasing or reducing the tax rate imposed. For instance, there are considerations of widening the tax base to include the informal sector, that is, the 'juakali' and second-hand clothes industry which also include small business enterprises (SMEs.) control of footloose industries and promote plausible tax policies.

Although this would be hard to accomplish, it would drastically increase the amounts of tax revenue collected on behalf of the government (Waweru, 2007). Waris (2007) also pointed out that tax laws and policies source their authority from the constitution of the land they govern; and that the policies are not static, rather, they change depending on the goals of the government in power at the time and its priorities and intentions dynamics of trade practices which customs need to contend with. This implies that, if the incumbent's motives are noble and legitimately geared towards growth of the economy and the general well-being of its people, then the policies formulated will reflect this intent, and there will be greater levels of efficiency of revenue collection as a result of proper policies and structures set up by the policymakers. Waris (2007) noted that the current policy reform processes in Kenya presume that the legal framework for taxation was not for primary concern. This was indicated by the fact that, as Kenya inherited her system of taxation, she also inherited her form of governance and legislature without adjusting the framework that had been, and the previous policies by negotiating new principles of governance and aspirations for her citizens. This initially posed difficulty in tax administration and efficiency of collection since the policies did not fit the people of Kenya.

According to Cobham (2005), any well-functioning tax system is a balanced mixture of the history of the land; experiences of the people; political situation, economic state and the law

of the land it governs. Waris (2007) pointed out that, the efficiency of collection of revenue is dependent on various dimensions of the tax system. These include: the volumes of tax involved, the composition of taxes, the rates and coverage of taxes, the timings of collection as well as the mode of collection. Therefore, to improve on the efficiency of collection, the government would need to address all the aforementioned dimensions individually. She noted that the nature of all taxpayers is that they wish to be free of the tax burden and would not mind if it was entirely borne by others and not themselves. This element creates situations of mistrust and animosity between tax collectors and tax payers. Policies to an efficient tax system should therefore ensure equality of all taxpayers in-order to help foster good relations between tax collectors and tax payers. Waris (2007) also noted that, changes in the tax policies should be implemented slowly and in stages as opposed to all at once. This is because a sudden overhaul of the tax system may collapse the economy of the nation.

Mutua (2012) stated that the objective of a good tax system is to change the economic decisions of persons and firms as little as possible comparing to the decisions such individuals could make when not taxed. This implies that tax policies hope to have the least possible effect on people's incomes, consumption and expenditure. Stiglitz (2010) described a good tax system as one that: allows for efficient distribution of resources; is not expensive to maintain, and is easy to administer; is able to adjust to changes in the economic conditions of the country; and it treats different individuals in an equal and fair manner. According to Mutua (2012) decisions related to taxation, have diversified effects depending on people, organizations and the entire economy. He noted that, tax issues have previously been left to tax experts. This has contributed to the low levels of information penetration on issues regarding tax and tax policy, administration and performance. He pointed out the high importance that lays in education of the general public for the purpose of their understanding and participation in revenue policy decisions that affect for instance the importation of duty free maize also impeded the implementation of revenue collection, for instance the ban of plastic manufacturing and importation directly hamper revenue collection. Tax legislations should add other incentives such as guarantee against expropriation, guarantees on remittances abroad and probably exemption on capital equipment and exemption from duties on raw material for specific period maybe two years.

## **2.5 Empirical Review**

Baurer (2005) highlighted that failure to act on tax administration staff who are corrupt can generate challenges for the business society. Bird (2003) concluded that, inadequate tax collections are witnessed due to vulnerabilities in revenue collections incident. He also highlighted that developing countries confronted a challenge of inefficient tax administration. The above mentioned challenge is accredited to with inadequate administrative workforce with necessary competences, and level of illiteracy being so high amongst tax collectors and taxpayers. Another study conducted by Kayaga (2010) additionally summarizes that, limitations like financial challenges have led to recruitment of tax officers with limited or non-understanding of the tax rules and laws they are overseeing, and the idea of accounting that is necessary to evaluating revenues. The researcher also points that, the challenge of less experienced and under qualified recruits is intensified by absence of training amenities and prospects.

Simiyu (2010) conducted a study to investigate the challenges that affect collection of turnover tax; the study concluded that corruption among collection officers affected revenue collection. Similar findings were arrived by Pashev, & Chiumya (2006) which further identified collusion between corrupt businesses and revenue collectors. Simiyu (2010) concluded that there is collusion between corrupt official involved in turn over tax collection.

Mutune (2010) did a study on the evaluation of customer and revenue strategy framework adopted by the Authority and found out that Kenya Revenue Authority has not been able to make effective changes to its business strategies in order to align them to the overall strategic direction. For instance no enough resources for KRA to fund its operations the 2.0% agency fee is not adequate and with the current and all the successive regimes they only allocated KRA 1.77% to run its operation (KRA 6<sup>th</sup> corporate plan) .Management decision in terms of staffing, staff rotations, staff training and the bureaucracy or the red tape all the most bottlenecks in customs operation and of course long processes of making a decision are some of the reasons underperforming on revenue collection. Customs legislations for instance the importation of duty free maize and sugar import Levis put customs at a rock and a hard place illegal trade practices and numerous governmental bodies involved in international trade. A strategic component in the workers decision making process whereby there is adoption of diversified valuation and allocation factors on annual

basis might assist Customs to allocate available resources based on risk analysis to higher risky areas (KRA 6th corporate plan).

Absence of clear definition of tasks among public officers, paves way for the abuse of the office, therefore corrupt tax officials have greater chances to collude with unscrupulous businesses and exploit this avenue to obtain illegal payments (Pashev, 2005).

## **2.6 Critiques of the existing literature relevant to the study**

The studies presented above used the case study methodology, targeting a population of 200 people but sampling less than 30 people. The results were not representative of the whole population justifying the present study. The above studies on the other hand utilized primary data collection methods only thus were not conclusive. Kimani (2006) carried out a study on strategic responses of CCS in Kenya to changes in their environment and revenue collection. In addition to the above, content analysis was also used in analyzing qualitative information from responses that had been submitted by respondents. The studies also applied the multivariate regression analysis which resulted in a prediction equation that describes the relationship between the dependent variable and independent variables and answered the study objectives sufficiently. These studies for example Gichohi (2006) study on the strategic responses by construction firms facing changing environmental conditions, while shading so much light on the effects of strategic choices by organizations to deal with changing environmental conditions and improving on their revenue collection they did not deal with KRA even though some of the strategic responses maybe applicable in KRA.

## **2.7 Research Gaps**

There is a gap between theoretical background and operation of the strategic responses as used by government parastatals to improve on their revenue collection. Accordingly, the knowledge in this area is inadequate (Nachum, 1999). So far only a few studies have been carried out on strategic internal factors affecting performance of revenue collection in custom. For example; Kimani (2006) carried out a study on strategic responses of CCS in Kenya to changes in their environment and revenue collection. Gichohi (2006) also did seek to establish the strategic responses by construction firms facing changing environmental conditions.

To address this gap in knowledge and address the time variance there is indeed a need for a study related topic applicable to KRA generally, specifically customs. The question to be

addressed should be; what are these strategic factors affecting customs performance in response to revenue collection in KRA and more specifically customs department.

## **2.8 Summary**

This chapter discussed the relevant theories that influence strategic factors to enhance revenue collection. There is also an in-depth discussion of the various strategic factors and how they impact revenue collection. There was also an analysis of studies conducted by other researchers

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The chapter discusses the procedures and strategies that were used in the study .The research design, location, population, the sample and the sampling procedures piloting and methods of data collection and analysis has also been discussed in the paper.

#### **3.2 Research Design**

The research design is basically the blueprint of carrying out the study. There are number of factors like the topic and research objectives, hypotheses, scope among others which guide on suitability of the design to be implemented. The current study used descriptive research designs. The design was utilized for better description of the respondents' views concerning the variables of the research. In agreement with Kothari's (2008) expression that descriptive study is quantitative in nature.

#### **3.3 Population**

According to Mugenda and Mugenda (2003) a population is a complete set of individuals or objects with some common observable characteristics; a particular population has some characteristics that differentiate it from other populations and 1540 of KRA technical staff involved in revenue collection out of 3905 in population was expected to provide substantial information related to strategic factors affecting revenue performance. The study was limited to KRA southern region staff attached to the revenue collection, accounts/finance and administrative departments; there is 3,905 staff. The target population was derived from staff of KRA customs and border control in Mombasa as indicated in table 3.1 below. The aforementioned employees are directly or indirectly involved in revenue collection in customs and as such were presumed to be on a vantage position to understand the factors that influence optimal revenue collection by the KRA customs and border control department.

**Table 3.1 Target Population**

<b>Departments</b>	<b>Target Population</b>
Verification	23
Valuation	27
National Targeting Centre	44
Refunds and Incentives	45
Document processing Centre	56
<b>Total</b>	<b>195</b>

### **3.4 Sampling frame**

A sampling frame is the set of source materials from which the sample is selected (Turner, 2003). The sampling frame of this study was a list of the employees of KRA Southern region from the officers to the top management level.

### **3.5 Sample and sampling technique**

Although there is 3,905 staff, the focus was senior tax officers who are 1,540. Stratified random sampling technique was used to select a sample of 195 staff which included officers, supervisors and managers. The Slovin's formula was used to determine sample size as shown below.

$$n = \frac{N}{1 + N(e)^2}$$

Where, N is population size

e merging error to be decided by the researcher

n is desired sample size

Therefore,

$$n = \frac{195}{1 + 195(0.05)^2}$$
$$195/0.6725 = 131$$

**Table 3.1 Sampling Size**

<b>Departments</b>	<b>Sampling Size</b>
Verification	13
Valuation	17
National Targeting Centre	25
Refunds and Incentives	31
Document processing Centre	45
<b>Total</b>	<b>131</b>

### **3.6 Data collection instruments**

The data collection instrument used was closed questionnaire which was designed using the study variables. The data was collected through self- administered structured questionnaires using drop and pick method. According to Wu (2015) drop and pick method is the most appropriate method to administer questionnaires.

### **3.7 Data Collection Procedures**

#### **3.7.1 Primary data**

The Primary data was collected by for analysis of variables by applying the questionnaires which were personally administered to the sampled respondent. An introductory letter was used to introduce the respondents in the research and seek permission to carry out research. The primary data was preferred because the researcher was able to get the first hand information to enable him to have proper results and interpretations.

#### **3.7.2 Secondary data**

Secondary data was collected from past research works, internets, relevant journals, organization magazines and other related publication. The principles of beneficence and respect for human dignity was observed during data collection where no harm and right to self-determination and full disclosure was honored with respondents deciding independently. The research covered a period six months from December, 2017 to May, 2018.

### **3.8 Pilot testing**

Pilot testing was conducted so as put the instruments into test to detect any weakness and if questions are clear to the respondents, Kothari (2004) defines the pilot testing as a field of observation undertaken by researcher as a preliminary survey.

### 3.8.1 Reliability

Reliability is the scale or instrument of measurement that is consistent with its result. It means if any test is taken using any instrument for a particular subject and the result of the test will be similar in every attempt then it will be considered as reliable. Reliability is more concerned with the consistency and the stability of the test result (Bryman & Bell, 2015).

### 3.8.2 Validity

Validity is the instruments or scale by which one can measure the outcomes of a certain research hypothesis about how strong the outcomes are. With the help of validity, one can answer the question such as are we right about the research methodology or the outcomes. Validity is more concerned whether the measure has been done with the right concept or not (Bryman & Bell, 2015).

### 3.9 Data Analysis

Mugenda (2003) observes that data analysis is the process of bringing order, structure and meaning to the mass information collection. The study generated quantitative data; hence descriptive statistics was used to analyze the data obtained. The analysis was systematically presented in narrative form and where possible, charts and graphs were used. Descriptive statistics involves the use of frequencies and percentages. The SPSS statistics was also used to analyze the relationship between the independent and dependent variables, considering the formula:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

$\epsilon$  = error term

Where; Y = customs revenue collection performance

$\beta_0$  = Constant

$\epsilon$  = error term

$\beta_1$  = Coefficient of variable 1

$X_1$  = Resource Allocation

$\beta_2$  = Coefficient of variable 2

$X_2$  = Management decision

$\beta_3$  = Coefficient of variable 3

$X_3$  = Customs Legislation

$\beta_0$  -Y intercept the constant .How in revenue will perform when  $X_1 X_2 X_3=0$

$\beta_1 \beta_2 \beta_3$ -coefficients determining the levels of  $X_1 X_2 X_3$  on how they affect  $Y$

$\epsilon_0$  other factors outside the model which researcher did not look into but can affect the performance in revenue collection in other way.

**CHAPTER FOUR:  
DATA ANALYSIS, RESULTS AND DISCUSSION**

**4.1 Introduction**

This chapter presents the analysis of the data on strategic factors affecting customs revenue collections in Kenya Revenue Authority at port of Mombasa. Discussions on variable analysis results are presented and the discussions on models established after analysis.

**4.2 Response Rate**

**Table 4.1 Questionnaire Response Rate**

	<b>Frequency</b>	<b>Percentage</b>
Respondent	131	67.2%
Non-respondent	64	32.8%
<b>Total</b>	<b>195</b>	<b>100%</b>

**4.2.1 Reliability and Data Validity**

The ability of an instrument to be consistent in producing same results when subjected to same measurement over and over is reliability. Bagozzi (2000) summarizes that reliability can be the extent of accuracy or inaccuracy. Reliability of the data collection instrument was determined using Cronbach's alpha from the SPSS version 25.

**Table 4.2 Reliability Results**

<b>Scale</b>	<b>Cronbach's Alpha</b>	<b>Comments</b>
Resource Allocation	0.775	Accepted
Management Decision	0.718	Accepted
Customs Legislation	0.769	Accepted
Customs Revenue Collection	0.754	Accepted

Reliability refers to the consistency that an instrument has by providing same results when measuring the same test consistently. To test and retest is mostly regarded as conservative estimate of the true reliability of the data collection instrument (Bellini and Rumrill2009:

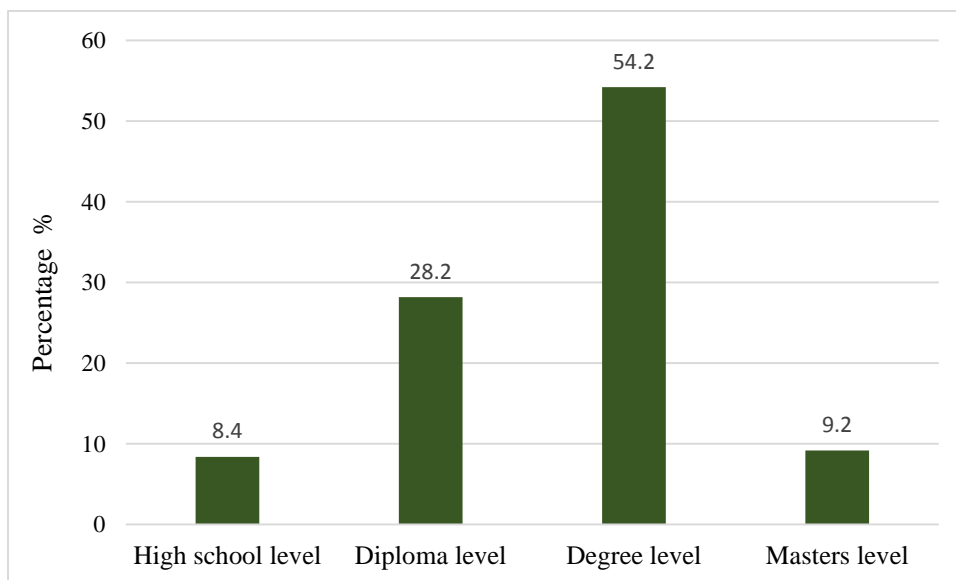
Cronbach, 1990) using the SPSS version 25, Cronbach’s alpha was used to view the values on how the questions are related. According to Amin (2005) a Cronbach’s alpha, an average index of 0.70 is considered adequate to consider the instrument reliable. The above table 4.2 shows the reliability results of the questionnaire. The findings indicated that resource allocation had a Cronbach’s alpha value of 0.775, management decision a value of 0.718, customs legislation having Cronbach’s alpha value of 0.769, while customs revenue collection had a value of 0.754. Therefore indicating that there was high reliability of the data collection instrument.

### 4.3 Demographic characteristics of the respondents

Demographic analysis of the respondents includes the level education of the respondents and working experience.

#### 4.3.1 Level of education

The researcher sought to find out the respondent’s level of education. This was to enable in depth analysis of the response ability to analyze and make correct decisions in course their duty. Figure 4.1 figure below presents the respondents’ levels of education

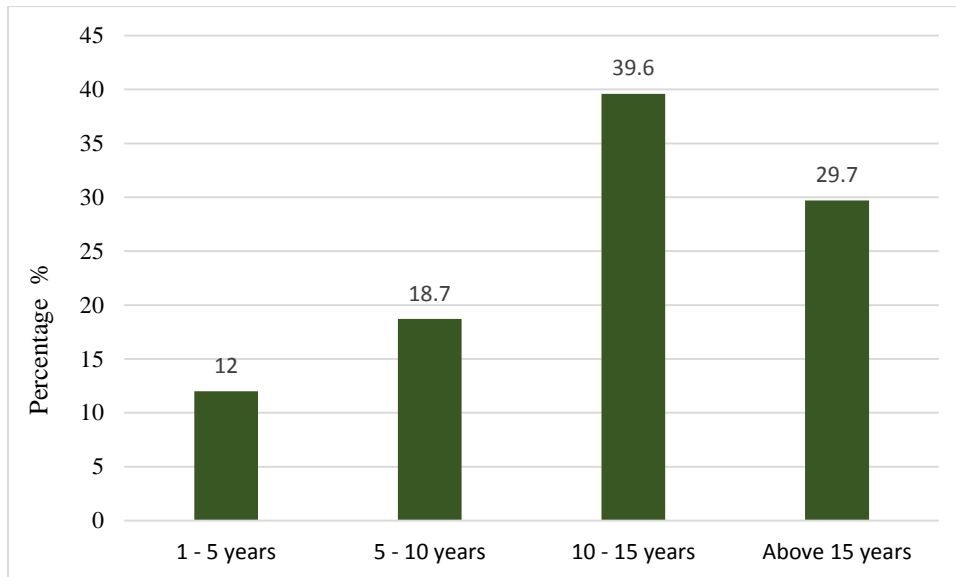


**Figure 4.1 Level of Education**

From the analysis above, it can be gathered that majority of the respondents 54.2% were degree holders, followed by 28.2% diploma level, 9.2% masters level and least were high school level with 8.4%.

### 4.3.2 Respondents work experience

The length of employment determines some of the decisions a person takes in life as it is a demographic characteristic. In order to establish the working experience of the respondents to determine the level of expertise by the respondents to arrive into a conclusive findings. Figure 4.2 below presents the working experience at customs.



**Figure 4.2 Work experience**

From figure 4.2 above, most of the respondents possess a work experience of 10–15 years representing 39.6%, above 15 years was 29.7%, and between 5-10 years was 18.7% then the lowest was between 1-5 years which represented 12%.

## 4.4 Descriptive Analysis

### 4.4.1 Resource allocation

To investigate the effect of resource allocation on customs performance in revenue collection in KRA, using a likert scale questionnaire with ordinal for the respondents to answer the statements with either strongly agreeing to strongly disagreeing. The respondents were in agreement that funds expenditure in organization is more transparent and accounted for as indicated with a mean of 4.05 and standard deviation of 1.602, and that funds allocated to customs add value to the performance of the organization as indicated by a 4.00 mean with standard deviation of 1.678. Resource allocation for customs department 4.03 with standard deviation of 1.645 The research findings that the tax systems in KRA are

reliable and conforms to modern trade realities had 3.71 average with standard deviation of 1.821. Since introduction of these systems; tax collection has improved tremendously due its efficiency.

**Table 4.3: Resource allocation**

	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Resource allocation for customs department is adequate	131	4.03	1.645
Are tax systems reliable and conforms to modern Trade realities	131	3.71	1.821
Do the funds allocated to custom add any value or benefits the performance	131	4.00	1.678
Is funds expenditure more transparent and accountable	131	4.05	1.602
Valid N (listwise)	131		

#### **4.4.2 Management Decision**

To examine effect of management decision on customs performance in revenue collection in KRA, using a Likert scale questionnaire with ordinal for the respondents to answer the statements with either strongly agreeing to strongly disagreeing. The respondents were in agreement that training is a key component and that adequate staff training equips them and enables them to curb present challenges in customs. This had a 3.96 mean with a standard deviation of 1.689. The respondents were also in agreement with 3.83 mean with a standard deviation of 1,706 that recruitment procedures in the organization are transparent.

**Table 4.4 Management Decision**

	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Decision on staff rotation affects custom performance of staff	131	3.82	1.765
Bureaucracy in making a decision in your opinion Can affect customs operation and performance	131	3.62	1.854
Training is a very important component in management is staff training adequate to curb the Contemporary challenges in customs	131	3.96	1.689
Recruitment procedure is transparent	131	3.83	1.706
Valid N (listwise)	131		

**4.4.3 Customs Legislation**

With an objective of examining the effect of customs legislation on customs performance in revenue collection in KRA, and using Likert scale questionnaire with range 5 as strongly agree to 1 being strongly disagree for the respondents to give their opinion. The respondents were in agreement that deterrent measures of customs law are adequate and that the grounds on rejecting and authorization procedures of certification are within the purview of customs laws. This is shown by a mean of 3.63 and 3.95 respectively.

**Table 4.5 Customs legislations**

	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Deterrent measures taken to ensure that the breaches of the customs law are adequate	131	3.63	1.858
To what extent to you agree with the procedures for administering licenses origin documents	131	3.44	1.906
The grounds of rejecting and authorization Procedures of certification are within the customs laws	131	3.95	1.686
Are these procedures transparent and accountable	131	3.51	1.824
Valid N (listwise)	131		

#### 4.4.4 Customs revenue collection performance

The response rate that inadequate staff is due to lack of enough funds allocation to customs department had a mean of 3.96 having a 1.689 standard deviation. The unpredicted funding cycle and resource level affects customs operation and also affects customs revenue collections performance. This is indicated by respondent's mean of 3.85 having a 1.755 standard deviation value. The respondents agree with a mean of 4.15 and standard deviation of 1.576 that the key performance indicators can assist customs improve in their performance.

**Table 4.6: Customs revenue collection performance**

	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Key performance indicators can assist customs improve in their performance	131	4.15	1.576
Inadequate staff is due to lack of enough funds for customs department	131	3.96	1.689
Unpredicted funding cycle and resource levels Affects customs operation	131	3.85	1.755
There exist a good relationship between customs and other stakeholders	131	4.05	1.602
Valid N (listwise)	131		

#### 4.5 Correlation Analysis

The researcher sought to determine the relationship between dependent and independent variables, through correlation analysis. Using Karl Pearson's coefficient of correlation (r) to ascertain the relationship between variables, there was a positive correlation with linear relationship between the independent variables and dependent variable with coefficient of correlation (r) given by values 0.462, 0.659 and 0.635 for resource allocation, management decision and customs legislations and are statistically significant with ( $p < .005$ ) for variables.

**Table 4.7: Pearson Correlation**

	CR_Collections	R_Allocation	Management	C_Legislation
CR_Collections Pearson Correlation 1				
Sig. (2-tailed)				
R_Allocation Pearson Correlation	.462**	1		
Sig. (2-tailed)	.000			
Management decision P.Correlation	.659**	.397**	1	
Sig. (2-tailed)	.000	.000		
C_Legislation Pearson Correlation	.635**	.354**	.666**	1

\*\* Correlation is significant at the 0.01 level (2-tailed).

## 4.6 Regression Analysis

### 4.6.1 Coefficient determination

In the model, the value of (R) is 0.733, which shows presence of variance shared by the independent variables and the dependent variables. The value R Square is a goodness-of-fit of the model. As indicated in the table 4.8 below, the value is 0.538; inferring 53.8% of the relationship is explained by the variables under study.

**Table 4.8: Coefficient of determination (R<sup>2</sup>)**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.733	.538	.527	2.092

a Predictors: (Constant), C\_Legislation, R\_Allocation, Management decision

## 4.6 Regression Analysis

### 4.6.1 Analysis of Variance

The analysis of variance was used to determine the significance of the model. It describes the overall variance accounted for in the model. During testing of significance,

P-value of equal or less than 0.05 is considered to be statistically significant. From the table 4.9 below the model has a p-value of 0.00 which was less than 0.05. This shows that the regression model was statistically significant in predicting strategic factors affecting customs revenue collections in KRA. Basing on confidence level at 95%, the analysis indicated a relatively high reliability of the results obtained. The ANOVA results therefore indicates that the regression model was significant at F (representing a test of the null hypothesis) = 49.245,  $p = 0.000$  as shown below.

**Table 4.9 Analysis of Variance ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	646.670	3	215.557	49.245	.000b
	Residual	555.910	127	4.377		
Total		1202.580	130			

a Dependent Variable: CR \_Collections

b Predictors: (Constant), C\_ Legislation, R\_ Allocation, Management decision

#### 4.6.2 Multiple Regression Analysis

A multiple regression analysis was conducted to determine the relationship between customs revenue collections and the three independent variables of the study.

**Table 4.10 Multiple Regression Analysis**

Model		Unstandardized	Coefficients	Standardized	t	Sig.
		B	Std. Error	Coefficients Beta		
1	(Constant)	5.004	1.052		4.755	.000
	R_Allocation	.198	.064	.204	3.081	.003
	Management	.324	.074	.366	4.397	.000
	C_Legislation	.217	.056	.319	3.904	.000

a. Dependent Variable: CR Collections

As per the table above, the established regression equation was;

The general regression Model arrived at was  $Y = 5.004 + 0.198X_1 + 0.324X_2 + 0.217X_3$

**Where,**

Y= Customs revenue collections,  $X_1$ = Resource allocation,  $X_2$  = Management decision,  
 $X_3$ = Customs legislation

Hence; Customs revenue collection in KRA ( $Y$ ) =  $5.004 + 0.198$  Resource allocation +  $0.324$  Management decision +  $0.217$  Customs legislation.

The findings as indicated in Table 4.10 implies that a unit change of  $X_1$  (Resource allocation) = 0.198, will results in to 0.198 change in performance of customs revenue collections;  $X_2$  (Management decision) = 0.324, will results in to 0.324 change in performance of customs revenue collections;  $X_3$  (Customs legislation) = 0.217; will results in to 0.217 change in the performance customs revenue collections.

The Y- Intercept ( $\beta_0 = 5.004$ ), predict the performance customs revenue collections in KRA, when all other variables are zero, implying that without the independent variables; resource allocation, management decision and customs legislation, performance of customs revenue collections in KRA would be 5.004.

From the analysis, management decision  $X_2$  ( $\beta = 0.324$ ,  $p < 0.005$ ) has the strongest relationship with customs revenue collections. This is in line with Butler (2001) argument that if management decisions are undertaken properly, it will guarantee sustainability on returns. The Beta Coefficients in the regression model shows that all of the tested variables had positive relationship, and are all statistically significant with p-values less than 0.005.

## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

#### 5.1 Introduction

The summary of the findings from the study are highlighted in the chapter, as well as the conclusions and recommendations which are based on the research objectives finally suggested areas for future study.

#### 5.2 Summary

The general objective of the study was to determine the strategic internal factors affecting customs revenue collection performance in Kenya Revenue Authority at the Port of Mombasa. The study was carried out on a sample size of 195 senior tax officers of KRA customs and border control in Mombasa. Structured questionnaires were the primary data collection instruments which were administered to the respondents. The questionnaire had 20 items which employees of KRA were to fill them based to their understanding of the subject of study and return them. The data was analyzed and presented using frequency, percentage, mean scores, standard deviations, and correlation and regression analysis.

After analyzing data, the findings showed that most of respondents are degree holders and work experience between 10 – 15 years representing 39.6%.

##### 5.2.1 Resource allocation and customs revenue collections

The study results revealed that resource allocation affects the performance of customs revenue collections in KRA at port of Mombasa. This is supported by a positive relationship revealed in the analysis and in agreement with respondents that, resource allocation adds value to performance. Also, further analysis of the results a significantly positive relationship between resource allocation and customs revenue collections ( $r = 0.198$ ,  $p < 0.005$ ).

##### 5.2.2 Management decision and customs revenue collections

The study revealed that management decision affects the performance of customs revenue collections and is also affected by other independent variables as it is established in the correlation analysis results all indicating a positive relationship between management decision and customs revenue collections where ( $r = 0.324$ ,  $p < 0.005$ ). This is consistent with Anastasia (2017) view that when a manager engages in one function, in effect it also

starts the process of another function. This explains why a positive correlation with other variables.

### **5.2.3 Customs legislations and customs revenue collections**

The study results showed that customs legislations also affect adversely performance of customs revenue collection as established by correlation analysis. The results show that Customs legislation and performance of customs revenue collections are positively correlated. This implies that good customs legislation improves the efficiency of revenue collection.

### **5.3 Conclusion**

The study sought to establish the strategic factors affecting performance of customs revenue collection in Kenya Revenue Authority at port of Mombasa. The objectives of the study were adequate and comprehensibly assessed and covered. The findings of the study as provided in the above section report concludes that independent variables have significant impacts on the performance customs revenue collections in Kenya Revenue Authority. The study specifically concludes that resource allocation, management decision and customs legislation affect performance customs revenue collections in more positive ways.

### **5.4 Recommendations**

From the research findings on strategic internal factors affecting performance customs revenue collections in regards; to resource allocation, management decision and customs legislation together with the review of the literature, the researcher was able to arrive to the following recommendations that might provide useful insight to the Kenya Revenue Authority. Basing on study findings, the following have been recommended:

1. That in order to achieve strategic mission of the organization, management should involve all functions to work together with organization resources and human capital for it to attain organization objectives.
2. That deterrent measures of customs law should be adequate enough to enhance customs revenue collection. Also the management should improve on procedures of administering licenses in order to improve on the efficiency of collection. This can be achieved through staff training on matters related to customs revenue collections.

3. That there is need to increase resource allocation for the KRA to enable it make effective changes to its business strategies by aligning them to the overall strategic direction to run its operation.

### **5.5 Areas for further research**

The study capitalized on three independent variables as factors that affects the customs revenue collection, which according to the model was 53.8% explaining the relationship. Other researchers should focus on other factors that affect customs revenue collections as the study of strategic factors only contributes 48.4% of factors that affect customs revenue collections. Further research study to explore on other theories that emphasizes on efficiency, and as stated by (Athansongloulou, 2006), a firm earn high profits because they are more efficient than others.

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## **APPENDIX I: LETTER OF INTRODUCTION**

Okoth Paul Ogola

Post graduate diploma in customs administration

KESRA, Mombasa Campus

### **MOMBASA**

September, 2017

Dear Sir/ Madam

### **REF: A REQUEST TO CONDUCT A RESEARCH PROJECT IN YOUR ORGANIZATION**

I am a student of Kenya school of revenue administration pursuing a post Graduate Diploma in customs administration. As part of the requirement for this degree, I am undertaking an academic research project entitled: **“Internal Strategic Factors Affecting customs performance in revenue collection in Kenya Revenue Authority at the port of Mombasa”**.

I am therefore kindly requesting you to allow me submit my questionnaire to you on a few areas of interest indicated in the attached questionnaire. Please note that the information that you will provide will be treated with utmost confidentiality and that it will be used purely for academic purpose only.

I thank you in advance for your cooperation.

Yours faithfully

Okoth Ogola Paul

## APPENDIX II: QUESTIONNAIRE

### Introduction

Dear respondent, I am Paul Ogola, student at Kenya school of Revenue Administration (KESRA) carrying out a research on the Internal strategic factors affecting customs performance in revenue collection at the port of Mombasa. I kindly request you to spare a few minutes and fill this questionnaire. This research is purely academic and any information provided will be treated with at most confidentiality. Thank you for your cooperation.

**Please tick where applicable.**

### SECTION A: Background information.

1. Which is your highest level of education?

- i. Secondary
- ii. Diploma
- iii. Degree
- iv. Masters

2. How long have you been working in customs

- i. 1-5years
- ii. 5 -10years
- iii. 10-15years
- iv. Above 15 years

**Section B: Resource Allocation and customs revenue performance**

Please respond to the following by indicating the extent to which you agree or disagree with resource allocation in customs department in relation to revenue collection Do you agree with the budgetary allocation for customs?

(1=strongly disagree; 2=Disagree; 3=Not sure; 4=Agree; 5=Strongly Agree)

Please tick your choice

	<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	Resource allocation for customs department is adequate?					
2	Are tax systems reliable and conforms to modern trade realities?					
3	Do the funds allocated to custom add any value or benefits the performance?					
4	Is funds expenditure more transparent and accountable?					

**Section C: Management Decision and customs performance**

Please respond to the following by indicating the extent to which you agree or disagree with resource allocation in customs department in relation to revenue collection Do you agree with the budgetary allocation for customs?

(1=strongly disagree; 2=Disagree; 3=Not sure; 4=Agree; 5=Strongly Agree)

Please tick your choice

	<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>

1	Decision on staff rotation affects custom performance of staff					
2	Bureaucracy in making a decision in your opinion can affect customs operation and performance					
3	Training is a very important component in management- is staff training adequate to curb the contemporary challenges in customs					
4	Recruitment procedure is transparent					

### Section D: Customs Legislation and Customs Performance

Please respond to the following by indicating the extent to which you agree or disagree with resource allocation in customs department in relation to revenue collection Do you agree with the budgetary allocation for customs?

(1=strongly disagree; 2=Disagree; 3=Not sure; 4=Agree; 5=Strongly Agree)

Please tick your choice

	Statement	1	2	3	4	5
1	Deterrent measures taken to ensure that the breaches of the customs law are adequate?					
2	To what extent to you agree with the procedures for administering licenses origin documents?					
3	The grounds of rejecting and authorization procedures of certification are within the customs laws?					
4	Are these procedures transparent and accountable?					

## Section E: CUSTOMS REVENUE COLLECTION PERFORMANCE

Please respond to the following by indicating the extent to which you agree or disagree with resource allocation in customs department in relation to revenue collection Do you agree with the budgetary allocation for customs?

(1=strongly disagree; 2=Disagree; 3=Not sure; 4=Agree; 5=Strongly Agree)

Please tick your choice

	<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	Key performance indicators can assist customs improve in their performance					
2	Inadequate staff is due to lack of enough funds for customs department?					
3	Unpredicted funding cycle and resource levels affects customs operation					
4	There exist a good relationship between customs and other stakeholders?					

