

**CUSTOMS INCENTIVES STRATEGY AND THE GROWTH OF TANNERIES WITHIN
THE
LEATHER INDUSTRY IN KENYA**

KARUGO JOSEPH KAMAU

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DECLARATION

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

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

KARUGO JOSEPH KAMAU

D53/CTY/PT/28318/2014

I confirm that the work in this project was done by the candidate under my supervision

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

DR. KINOTI FRANKLINE

Lecturer

Kenyatta University

DEDICATION

To my doting parents, Mr and Mrs Paul KarugoKariuki for your caring love, being my first teachers, ensuring that I went to school and always providing need and help at my tender age. You ensured that I was in upright health, reminiscing my pre-schooler age when pneumonia almost engulfed my life. My dear wife, Jemimah for your unconditional love and support owing to the fact that, I started my University education when you needed me most. To my loving Children, Whitney, Trevor and Leilani Kamau for your understanding that education has no age limit.

This project is dedicated to you all.

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OPERATIONAL DEFINITION OF TERMS

Growth	This basically means increase in size, value, and profit. In this study, it's the measure of level of total assets and net worth capital in all tanneries within leather industry in Kenya.
Export Processing Zones (EPZs)	These are areas or set ups established within developing countries with a purpose of spurring economic growth through attraction of foreign direct investment. It is within the auspices of export promotion and boosting of local production through tax incentives and subsidies.
Custom Incentives	These are legal rewards within import and export business of which it may be monetary or non-monetary in the sense of waiver granted by a government in order to promote economic growth. This motivates business exports and at the same time keeping production cost low while achieving efficient and effective operations. Examples of these tax incentives include manufacturing under bond(MUB), duty remission(DR), special economic zones(SEZs), duty drawback(DD) and export processing zones(EPZs)
Duty Remission Schemes	This is incentive that allows remission of duty paid on imported production inputs or raw materials, assists and components used to manufacture goods meant for export. This scheme simply allows refund of paid duty on imported primary inputs once the produced final goods are exported.
Duty Drawback	This is a refund to an importer whereby upon verification an import fee or duty had already been paid for those goods that were subsequently exported to other countries.

Manufacturing under Bond (MUB)	This is an incentive given to manufacturers. It allows them to import plant, property, equipment, machinery(PPE) and raw materials tax free on condition that they are used in production of goods for exports only
Special Economic Zones (SEZs)	These are selected locations with special laws and acts of Parliament due to favorable geographic positions, factors endowment and economic advantage. This includes production, trade of goods and services for both domestic and export markets.
Tax Incentive	This may take different formations. In Kenya, it's considered as tax holiday, tax rebates, investment deductions and allowances, tax credits and accelerated depreciation.
Tanneries	These are establishments where skins and hides are processed into leather
Custom duty	This is tax on imports and exports. The rates in Kenya range between 0% and 100% depending on types of traded goods and services within the common external tariffs. Mostly it's on an average of 25%, subject to VAT, CIF (Cost, Insurance and Freight) value and any other applicable taxes.
Corporate Income -Tax Incentive	This is subsidized tax levied on qualifying income of specified activities like manufacturing or geographical locations. The rate of reduction is elastic and applicable to both foreign and domestic income or specific sources
Dead Weight Loss (DWL)	This is burden borne by loss of benefit to the players in trade

Wet blue	This is the transformation of raw hides and skins to treated leather using chromium salts
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ABBREVIATIONS

AGOA	– African Growth and Opportunity Act
BOD	– Board of Directors
BOP	– Balance of Payment
BPS	– Budget Policy Statement
CACM	– Central American Common Market
CBA	– Cost Benefit Analysis
CGT	– Capital Gains Tax
CIF	- Cost, Insurance and Freight
DR	- Duty Remission
DWL	– Dead Weight Loss
EAC	– East African Community
EACCMA	- East African Community Customs Management Act
EPAs	- Economic Partnership Agreements
EPZ	- Export Processing Zones
FDI	– Foreign Direct Investment
FTZ	– Free Trade Zone
GDP	– Gross Domestic Product

IBD	– Industrial Building Deduction
ID	– Investment Deduction
IDA	– Investment Deduction Allowance
ITA	– Income Tax Act
KNBS	- Kenya National Bureau of Statistics
MUB	- Manufacturing under Bond
R&D	–Research and Development
SEZs	- Special Economic Zones
SPSS	- Statistical Package for the Social Sciences
TREO	– Tax Remission Exemption Office
UNCTAD	– United Nation Commission on Trade and Development
VAT	- Value Added Tax
W&T	– Wear and Tear
WTO	– World Trade Organization

ABSTRACT

Global competition in modern world has necessitated international corporations to walk extra mile with an aim of withstanding stiff rivalry at the same time adopting dynamic changes in the market. Governments have intervened to protect their domestic corporations, inevitably making customs incentives to become a worldwide concern. Africa developing countries depend on tax holidays, tax concessions and export duty exemptions and replenishments which happen to be a different case with industrialized economies that for instance allow investment allowances and accelerated depreciation. Kenya tanneries within leather industry still post a decline in units exported and also high employee's turnover. Despite introduction of customs incentives in leather industry by Kenyan Government, Tanneries still experience challenges especially fierce competition with foreign leather industries. Therefore we may need to know how these measures that have been put in place by Kenyan government impact on the growth of tanneries within leather industry in Kenya. It is for this reason that the general objective of this study aimed at establishing the effectiveness of customs incentive strategy on the growth of tanneries within leather industry in Kenya. Specific objectives of this research project were geared towards examining the effect of duty drawback, duty remission schemes, manufacturing under bond, export processing zones and special economic zones on the growth of tanneries within leather industry in Kenya. The growth of tanneries in leather industry was measured by the Return on Assets (ROA). The general research question was; is there any influence that custom incentives strategy has on the growth of tanneries within leather industry in Kenya? Profit maximization and competition-based theory, Resource-based theory; Agency theory of tax incentive supported this study. Descriptive research design was adopted in this study. Census method of sampling was used to select all tanneries within or Nairobi County and its environs to represent all the tanneries within leather industry in Kenya. Annual financial statements and disclosures from the individual tanneries formed the source of secondary data. Primary data was obtained from finance and operation directors in various departments of the tanneries within leather industry in Kenya. Further information was derived from research firms like the Kenya National Bureau of Statistics (KNBS). The data collected from yearly financial and general report of individual tanneries in leather industry was then coded into Microsoft excel and analysis done through SPSS version 20. Analysis of data adopted descriptive statistical and multiple regression methods. Results were used in developing a classical regression model to ascertain a causal relationship between dependent and independent variables. Analysis of Variance (ANOVA) was used to give an F test of significance. Relevant discussions and conclusions were arrived at and necessary recommendations made based on the Statistical results. This project will benefit both government and tanneries as it will explain how the various custom tax incentives impact on the growth of tanneries within leather industry in Kenya. It will also help in decision making on which strategies to give more weight to. Those who intend to further their studies in fields related to firms in leather industry and customs incentives will also have a base to start from.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Thomas (2007) argues that for the case of Canada, tax incentives programs are more integrated and centralized than in the case of United States of America. For instance in USA, only federal government is actively involved in putting up the tax incentives. This is a different case for Canada as it's not only the federal government, but also the provincial governments which are both actively involved. For Caribbean countries, Van Parys & James (2010) argued that tax incentives led to losses. Specifically, a loss of 23.5% and 53.9% was recorded in Anguilla and Grenada respectively.

Moreover, similar concerns were raised by Goyal and Chai (2008) whereby they revealed that if tax incentives are not well planned it could lead to huge losses and consequently loss of government revenue. They further noted a loss of between 9% and 16%. Therefore, this clearly depicts tax incentives are a double edged sword with both merits and demerits. The Institute of Economic Affairs (2012) report expressed concern that tax incentives are always increasing and hence an inevitable situations of shifting away from normal and usual provisions of the excise legislations.

In Kenya, Tembur (2016) observed that tax holidays and incentives varied from rebates, allowances, investment deductions, subsidies, accelerated depreciation, reduced tax rates and tax exemptions. Residential companies are taxed at 30% on qualifying income as opposed to non-residential companies that suffer higher rate of 37.5%. For the case of Export processing zones, first 10 years are exempted from tax while a subsidized rate of 25% is applicable for the next 10 years.

It is observed that listed private firms in Nairobi Stock Exchange should benefit from reduced tax rates. Corporations with minimum listing of 20, 30 & 40 percent of the issued share capital pay a rate of 27% for first three years, 25% for the next five years & 20% for 5 years in that order (ITA, 2010).

In Uganda and Kenya, VAT exemptions are very common. Comparatively, over 35 categorized goods and services in Uganda, such as gas, accessories, petrol are exempted from tax unlike the situation in Kenya. It's actually notable that Kenya suspended capital gains tax in the year 1985. However, in the year 2014 this tax was reintroduced back after an amendment of the Finance Act and at the moment, it is 5% as compared to a figure of 30% in Uganda and Tanzania (Ernst & Young, 2014).

In a way to diversify portfolio on spurred economic growth, the Kenyan government has put more emphasis on export promotion as opposed to traditional import-substitution arrangement. Therefore, it is against this backdrop that has led to the creation of EPZs ostensibly aimed at promoting exports, opening and increasing market access (Mangieri, 2006).

Tanneries within leather industry in Kenya are among firms that presumably benefit from customs incentives strategy like DD, DR, MUB, EPZ and SEZ. Corporates operating under the umbrella of EPZ majorly enjoy capital allowances like Investment Deduction (ID), Wear and tear allowances, Industrial Building Deductions (IBD), and other allowable expenses from their corporate tax liability.

Ohaka & Agundu (2012) maintained that companies qualifying for tax holiday usually have higher returns owing to the fact of reduced operational expenses and subsequently long term profits as a result of investment attractiveness and opportunities. On Macroeconomic perspective, tax incentives create employment and encourage conversion of sole

proprietorships to Incorporated Companies limited by shares, hence improved financial performance of industries since limited companies performs better due to ease access of external financing as compared to sole proprietorships (Philips, 2011).

Under the East African customs management Act of 2004, various tax incentives were proposed and adopted by EAC partner states with a sole aim of promoting exports. This literally saw growth of firms within leather industry within EAC region. EPZs, Freeport encouraged removal of supplies or surplus for domestic use hence minimizing wastages. Secondly, MUB that entailed certification of bonded workshops, custom entry of buildings as bonded factories, entry of plant & machinery etcetera for exportation and manufacturer to provide facilities.

Thirdly, the duty drawback provided that certain goods be allowed drawback. Others included duty remission and SEZs. The formation of SEZ's is key to the realisation of vision 2030. SEZ authority is charged with the responsibility of designing, approving, establishing, developing, operating, promoting and regulating on Special Economic Zones. It is for the above reasons that this research study got to examine effectiveness of custom incentive strategy on the growth of tanneries within leather industry in Kenya.

1.1.1 Growth of tanneries within leather industry in Kenya

The aim of 'BIG FOUR' agenda is to make Kenya realize middle-income economy. The manufacturing pillar provides a good platform for industrialization (BPS, 2018). Other than Apparel and textile Industry, there is need to improve performance of leather industry which has great potential create more job opportunities and spur economic growth in the country.

The number of tanneries within leather industry in Kenya has oscillated for years. Presently they are around twenty three (23) varying in size and capacity. Only few of the said tanneries process crust and finished leather products. Rest of tanneries concentrate with exportation of

wet blue products. Surprisingly, a good number of tanneries are mainly involved in sub-contract tanning; whereby small-scale tanneries deliver wet blue to large-scale tanneries like Alpharama Ltd in Nairobi County (Mwinyihija, Mwinyikione, 2014)

Lately, Kenya is on record to have produced an average of six (6) Million skins, 20,000 (twenty thousand) Camel hides and 2.4 million hides. (Mbogo, 2010). Leather industry mainly depend on livestock supply from Semi-Arid and Arid Lands (ASALs) more so pastoralists regions with adequate slaughter stock therefore hides and skins considered as byproducts. In Kenyan economy, it's estimated that Leather industry contributes approximately 4% to the agricultural GDP. Revenues of local market dealers and subdealers are valued at Kshs 1.8 Billion annually. Moreover, this country's total earnings of about Kshs 4 billion are realized from exports of semi-processed and raw leather (KNBS, 2013) report.

The growth of tanneries within the leather industry in Kenya is dependent on value addition. There is notable increase in number of tanneries from nine (9) to eleven (11), with two (2) more being rehabilitated and under renovation therefore posing a positive indicator that the industry is on upward trajectory for growth as shown in the economic survey of 2018 that cited an upward growth of 10.3%. Optimal realization of an industry's capacity in any state is determined by the value addition, which is additionally hinged on skilled expertise, Built capacity, technical knowhow and skills, adequate funding and high quality control.

Lack of the key interventions mentioned above give rise to low quality leather leads to low profit and low demand of leather products in local and export markets. Evidently, Value addition in livestock sector has been negligible since in most cases, Majority of Kenya's exports are in the form of non-processed skins and hides. Kenya is well capable of producing enough footwear for its local and domestic market thereby reducing overreliance of cheap imports and second hand footwear (Curtis, 2010).

Analysis of leading leather export would form a strong base and yardstick in formulation of strategy for Kenya's leather processed and tanned wet blue. (KNBS, 2013) showed that total leather exports was valued at (\$131 Million) in the year 2012 representing 89% of the value of existing leather products and markets. Raw hides and skins posted 27% mark of leather products highlighting highest percentage total export for leather only in 2007 pending the significant sections and inclinations of domestic government duties and taxes impositions and sanctions.

Due to the imposition of close to 80 % export duty on raw hides and skins in 2009, reliable statistics indicated that exports of raw hides & skins significantly dropped over the few subsequent years, including year 2013. However, the size of the leather export market holistically experienced a rising trend (KNBS, 2013)

It will be of great importance to assess the situation of the leather industry in those countries that import Kenya's wet blue. Ironically, the main three(3) countries which are huge importers of Kenya's wet blue are known to be the leading manufacturers and producers in the international leather market. China dominates market in terms of leather processing globally in both production capacity and export volumes while Italy is believed to be ultimate leader and most progressive nation on matters high, classic & quality leather goods. India has also excelled in leather processing, greatly supported by availability of cheap labour, and collaborative and favourable government procedures and policies (KNBS, 2017)

1.2 Statement of the Problem

Opportunities that exist in tanneries within leather industry are not fully utilized. This is because, over 90% of produced skins and hides in Kenya are exported international markets as well as external markets while still in semi processed and raw form. About 80% of the exports are normally in wet blue form (Mwinyihija, 2010). According to (Mhono, 2012).

Production in Kenya alone stands at an anticipated four million gadgets of leather-based products, which is way below expected demand of about 28 million units

According to (Mwinyihija & Onyango, 2012; Kagunyu, 2013) argued that students have shown their concerns on leather producers failing to reap maximum benefits and opportunity which leather industry offers due to loss of fee addition Other studies withinleather industry havelooked on other features and only one or two captures value addition concept. Therefore, there is need to bridge gap within leather industry value chain through research in order to build Kenya firms within leather industry and final leather products hence attainment of competitive edge in the international market (Kiuluku, 2008).

According to Kenya's leather industries report which was on released October 2015, despite Africa possessing 20% of global livestock population, only 4% of the international leather production can be accounted while 3.3% is attributed to value addition. Kenya's textile and apparel sector has the ability to grow and largely contributes to overall GDP. Moreover, it offers employment for the fast growing youthful population. There is need therefore to come up with more and advanced strategies to stimulate the growth of tanneries within Kenya leather industry.

The EAC Partner states have chosen to support five major export promotion schemes, namely DR, EPZs, MUB, SEZ and DD schemes. Manufactured goods for exportsfairly decreasedand stagnatedfor the past few years(1980-1990) and (1992 - 2005). Therefore, this called upon six partner states to embark on measures to promote growth within the region (EAC Protocol, 2005).

Promotion of exports within EAC is critical(EACCU, 1999). Although, the rationale behind the formation of the current export promotion schemes is not clear, and it would be difficult to link export performance and growth of tanneries within leather industry.

Theoretically all these customs incentives are expected to lower the cost of production for goods manufactured for export as they encompass Exemptions, Refunds on duty paid on imported primary inputs, raw materials, assists or components used in the production of exported goods. As a result of this, it is expected that the exports of the EAC partner states should significantly increase, holding other factors constant.

Benefits of these schemes are not very clear on how they impact on exports and the manufacturing sectors within the partner states as per EAC protocol. It is worth to note that statistical evidence reveals a strong positive association between export promotion especially on manufacturing and increased growth in incomes and capacity which eventually lead to expanded external market (Helleiner & Gerald, 2002). It is against this backdrop that this study intends to study the performance of exports and the manufacturing sector of the EAC countries under the different export promotion schemes which are in place, and shed light on their impacts.

Despite the efforts made by the government to rehabilitate tanneries within leather industry in Kenya, with an aim of improving exports, there is no big impact realised in the net income from exportation. Moreover, with all customs incentives in place, tanneries post low production units, net losses and others or on the verge of closing operations. Government has spent huge resources in trying to revamp and improve the production among the existing tanneries in leather industry. This project was therefore meant to close the gap between the efforts made by the government to the growth of tanneries within leather industry in Kenya ((Mwinyihija, 2010). Guiding principle behind this study sought to question an implemented strategy against expected returns.

1.3 Objectives of the study

1.3.1 General Objective

General objective of this research study was to examine effects of customs incentive strategy on the growth of tanneries within leather industry in Kenya.

1.3.2 Specific Objectives

- i. To assess impact of duty drawback on the growth of tanneries within leather industry in Kenya
- ii. To find out how duty remission affect growth of tanneries within leather industry in Kenya
- iii. To examine how manufacturing under bond affects growth of tanneries within leather industry in Kenya
- iv. To investigate effectiveness of export processing zones on the growth of tanneries within leather industry, in Kenya
- v. To find out the effect of special economic zones on the growth of tanneries within leather industry in Kenya.

1.4 Research Questions

The research questions that guided this research study were:

- i. Does duty drawback have any effect on the growth of tanneries within leather industry in Kenya?
- ii. Is there any effect of duty remission on the growth of tanneries within leather industry in Kenya?

- iii. Is there any effect of manufacturing under bond on the growth of tanneries within leather industry in Kenya?
- iv. Do Export processing zones have effect on growth of tanneries within leather industry in Kenya?
- v. Does adoption of special economic zones have any impact on the growth of tanneries within leather industry, in Kenya?

1.5 Significance of the Study

Expected benefits from this research project will be enjoyed by governments within EAC partner states, researchers, corporate and individual tax payers. It provides a platform of revisiting some of customs and tax policies by evaluating their effectiveness. Appraisal of existing tax policies can help in conducting cost benefit analysis (CBA) thereby providing a guide to policy makers on appropriate and applicable customs incentives.

Governments through this study will have a chance to assess viability of the custom incentives, for example to know if the revenue foregone through tax incentive and holidays is admissible or not. Governments will also understand whether tax incentives really impact on redirecting investment patterns of both individuals and corporates towards the expansion and growth of production set ups.

Corporate tax payers more so tanneries within leather industry will greatly benefit from this research by providing information on custom incentives available and how they will utilize them to make savings, maximize profits and future long-term investments. Consequently, increased investments will earn Government revenues through taxation.

Researchers and academicians who may be interested to study areas relating to custom incentives and growth of tanneries within leather industry in Kenya will gain from this research. This study will also be helpful to the students and researchers with quest to

review literature on custom incentives and growth of tanneries within leather industry not only in Kenya but across East Africa Community.

1.6 Scope of the Study

This research project encompassed incentives strategies and the growth of tanneries within leather industry in Kenya. It restricted to tanneries within Nairobi County and its environs and more emphasis was on their internal perspective. Among targeted groups were finance directors, operations managers, managing directors, investment managers, tax managers and senior managers in those tanneries.

This research was conducted in Nairobi County where most of the tanneries are located, between June and August 2019 with help of primary data supported by Secondary data from KNBS Economic Survey 2018 Report; spanning five years that is from 2013 to 2017. Targeted population was all registered tanneries within Nairobi region and its environs. Customs incentives strategy was broken down into DD, DR, MUB, EPZs and SEZs.

1.7 Limitations of the Study

This study called for most confidential information relating to tanneries within leather industry therefore disclosure of such information made respondents feel uneasy and intruded. To moderate this test, the researcher joined basic letter from the University. More assurance was given to respondents basically to gain confidence on information, that it will be handled with highest confidentiality and privacy.

This research was restricted within confines on Nairobi County and its environs. Locations of these tanneries were much interior as per National Environment Management Authority regulations on air pollution.

1.8 Organization of the study

This chapter introduced background of this research by highlighting on how some countries have granted custom incentives to attract foreign investments by promoting exports. It underlined the need for stakeholders to appreciate relevance and aims of custom incentives. Theoretical, empirical and conceptual framework was presented in chapter two of the study while chapter three provided research methodology. Data analysis and presentation were presented in chapter four while discussions, conclusions and recommendations were discussed in chapter five respectively.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter assessed work done by researchers and scholars as far as custom incentives strategy and the growth of firms in leather industry within Kenya is concerned. Empirical and theoretical review was done hence formulation of conceptual framework that guided the research study.

2.2 Theoretical Review

This research project was premised on the profit-maximization and competition theory, resource base theory and agency theory of tax incentives. These are strategic management theories applied in the study of organization's growth and management.

2.2.1 Profit-Maximization and Competition Theory

This theory was based on the idea that business organization main objective is to maximize profit while at it minimizing operation costs thereby giving firms a competitive advantage against their internal and external rivals. The industrial-organization (I/O) perspective forms basis of this theory as it analyses firm's external market positioning a major factor in attainment of sustained competitive advantage (Porter, 1981).

Application of this theory in this study was relevant in the sense that, Government extend Customs incentives mainly to support local manufacturing industries. Firms realize savings emanating from subsidized taxes and hence reduced operation costs, protection from cheap imported products by way of government overtaxing them, promotion of exports encouraging more produced units, tax exempts and waivers. This ultimately actualize profit maximization goal as desired by firms.

2.2.2 Resource Based Theory

This theory postulates that competitive advantage of a firm depends on its internal possessions and factor endowments as opposed to its strategic positioning in the external business environment. This basically ignores environmental opportunities and threats as competitive advantage is coined on unique resources, capacities and capabilities possessed by the firms (Barney, 1995). Resource based theory emphasize that unique nature of resources and capacities are not adequate to sustain competitive advantage (O'Regan and Ghobadian, 2004).

According to Fiol (2001) specialized skills, resources and factor endowments of a firm must constantly change to avoid temporal advantage but a sustained competitive advantage. This suggests that it is the way resources are configured and not the capabilities as such that is the basis of competitive advantage. Resource base view of the firm forecasts that resources endowed by firms guarantees competitive advantage and eventually firm's growth (Ainuddin et al., 2007).

Application of this theory in this study was relevant because as government strive to promote exports of its local manufacturers, the concept of primary inputs, raw materials and assists is inevitable. It's upon these primary inputs government offers tax subsidies, permit duty drawback, duty remission, MUB that leads to reduced operational costs , more profits and hence growth.

2.2.5 Agency Theory of Tax Incentive

Government grants tax incentives to companies and manufacturers to enhance production despite little evidence on efficiency of fiscal policies (Jensen and Meckling, 1985). According to (Wells *et al.*, 2001) Government creates a number of bottlenecks that can be

solved by tax incentives. Tax incentives therefore remedies challenges in the market that are created by its own government and also market failures.

Horizontal equity in government taxation as well as expenditure is not justified since it may not fully address policy objectives even if they do address part of characteristic market failures in other sectors (Allen &Morisset, 2001). The policy therefore advocates for number of concerns that may need a clear focus in order to justify any government incentives.

Application of this theory in this study was relevant because bone of contention revolved custom incentives put in place especially under the auspices of EAC protocol. While one would grapple with effectiveness and efficiency of such duty relief schemes and the intended growth of firms and exports, it's worth to ponder on why some establishments like tanneries within leather industry still make losses and experience staff turnover.

2.3 Empirical Review

This study argued that custom incentives have an impact on the growth of tanneries within leather industry Kenya and also export volumes. It's worth to note that this study doesn't ignore the other drivers of exports in Kenya. Therefore, this paper reviews some empirical studies carried out on EPZ, SEZs, DD, DR and other exports determinants of a country and narrows to find the linkage between their explanations on performance of exports in countries.

2.3.1 Customs Incentive Strategies and Export Performance

Much of the empirical literature on customs incentives has concentrated more on developing and developed countries. According to World Bank Study, 1980 on existing Economic Partnership Agreements (EPAs), (Hogan, Keesing, & Singer, 1992) argued that EPAs contributed negatively on exports among developing nations. They further argued that EPAs failed to realize their goals for instance their negative impact were was rampant with an

exception of nations like Korea, Singapore and Hong Kong. Some of weaknesses these nations experienced were understaffed agencies with inadequate requisite training skills and minimal linkages with private sector.

Customs agencies didn't have more productive and attractive incentives facilitate high-quality services to exporters. (Hogan, 1991; dew Ulf, 2001) argument was that most of customs agencies suffered inadequate budgetary funding but echoed that bad policies on environment could be solved by adequately funded EPAs, like in China, Taiwan and Korea.

(Togan, 1993) researched on export led incentives configurations in Turkey between 1983 and 1990 and came up with positive results. Among the incentives handled were export credits, tax rebate scheme, duty free imports of inputs and raw materials, exemption of VAT, foreign exchange allocations, corporate income exemptions and assorted subsidies. Research results highlighted that in 1980s, levels of the economy-wide subsidized rates and that of inter-industry dispersion of incentives had extensively been reduced. It was further noted that Turkish exports and imports competing firms gained more from the export led incentives compared to other sectors.

Invention of Duty Drawbacks schemes advocated for reduced cost of imported inputs hence profit increase and positioning in the exporting firms' competition (Ianchovichina, 2005). The DD also corrected and alleviated anti-trade tariff barriers. Contrary to this scenario of DD scheme; (Mah, 2007) in his study argued DD scheme in China, posed insignificant impact in export promotion.

Exports promotion competitiveness of manufacturing firms within EAC study by (Niringiye, Luvanda, & Shitundu, 2010) unearthed that capacity building and training of employees, adequate capital funding were success factors that promote exports of the

manufacturing firms' competitiveness. For Kenyan case, it was ascertained that capital, training of employees and proportion of unskilled workers contributes to lesser competitiveness.

(Janniffer, 2013) in her study conducted in Uganda focused on establishment of foreign exchange controls, monetary strategy, institution and infrastructure as the main export promotion strategies. She argued that for export volume units to increase better infrastructures are inevitable, adequate government funding must also be considered and consequently foreign exchanges should be encouraged. Therefore these are important considerations describing export volumes though different from the customs export promotion schemes scenario.

Marianna & Michele, (2011), in their study concentrated on laid measures like National Development Plan (NDP), fiscal policy, procedures, practices, production controls, price controls and investment policies as the main export promotion led strategies. These strategies are important as well on promoting exports, but have discussed nothing on the set out EPZ in the protocol and inexistence.

2.3.2 Duty Remissions Strategy and Growth

(Sharma, 2017) defines DR Scheme as export replacement or reduction of duty that is exclusion of taxes levied on inputs that are used in manufacture of export product. DR schemes consist of D.F.R.C (duty-free replenishment certificate) and D.E.P.B (duty entitlement passbook scheme). D.F.R.C allows duty-free replacement of primary inputs used production of export product.

According to (Mogendi, 2017) part X, sections 138-140 of EAC customs Management Act (EAC, 2004), provides for duty remission for industrial inputs imported for manufacture of goods in the EAC context it is carried out through EAC Customs management (duty remission) regulations which became effective from 1st may 2008. These schemes are mostly

available on those imported products and assists, which will be later on be used for manufacturing of goods only meant for export. This promotes industrial growth and also development hence foreign direct investment gains in long term.

2.3.3 Export Processing Zones Strategy and Growth

According to (EACCMA, 2004) Export processing zones are allocated boundaries in a country with distinct and special economic policies different from other regions within a country. These policies are meant to promote foreign direct investments including tax incentives and reduced tariffs. EPZs in Kenya enjoy tax exemption for first 10 years and a subsequent reduced corporate tax rate of 20% for the next 10 years (ITA, 2010).

Tax exemptions have a number of disadvantages especially if not planned executed and controlled well. Tax exemptions encourage short term development in the sense that once this short tax holiday period is over these organizations cease their operations and shift to invest elsewhere (Blackwell, 2009). Tax holiday to some extent encourages tax avoidance by allowing firms to move from high tax rate areas to low taxed regions. While tax avoidance is not illegal per se, it's clearly unjust because administration expenses to guarantee consistency with all laws and precise reporting might be high (Irish, 1978).

Evidently, some nations have a lot of issues with EPZ establishments. EPZs within Kenya are considered to be outside custom area hence construed not to be of Kenyan origin under COMESA. It is for this case that exports from EPZs are not dutiable when traded among COMESA's member states (Glenday and Ndi, 1999).

2.3.5 Special Economic Zones Strategy and Growth

(EACCMA, 2004) explains SEZs as reserves found in both physical and administration, outside a country customs area. These fenced zones are in regions situated almost like a port. Organizations operating under these SEZs generally have access to duty free capital and

moderate imports. Moreover, they are given access to streamlined custom freedom strategies, harmonized procedures that remove tedious, bureaucratic, and repetitive custom systems at the port.

SEZs offer firms with great physical framework and infrastructures like roads, power, and telecommunications. Few countries offer extra incentives like tax relief on income or wage charges. Good example is the Dominican Republic where zone administrations offer extra services to organizations like recruitment of laborers and bookkeepers. Only few zones are publicly owned and controlled; others are privatized and work closely with the administration (Farole, 2011)

SEZs have areas of concerns and impediments despite benefit facilities and utilities that enable exporters to worry not on issues to do infrastructure, bureaucratic procedures, and imposition high levies and tariffs. These zones are however accessed by only subset of exporters hence limited. Organizations that are found near fundamental provider of raw materials neither can exploit a zone, nor desirous to keep on selling a portion of their production on domestic markets. Segmented zones for public can be excessive to the legislature to make and maintain although this has been defeated due to upsurge of private owned SEZs (Farole, 2011)

2.3.6 Manufacturing under Bond and Growth

This is an incentive to manufacturers permitting them to import hardware, property, plant & equipment and raw materials tax free, on condition that these items are used in production of goods that are meant for exclusive export. This incentive is geared towards empowering manufacturers locally and internationally with ultimate aim of promoting exports and hence growth of these producing firms. US, Canada, India, Bangladesh, Nepal and Tanzania are among nations that have excelled in this incentive (EACCMA, 2004)

Manufacturers are expected to operate within a specific bonded factory or warehouse which must be licensed by Commissioner of Customs. Financial or bond security must be placed in order to cushion the government against loss of duty or tax emanating from imported primary materials (Economic Survey 2004, 2005)

MUB program in Kenya entails exception of import duties, VAT chargeable on raw and primary materials and capital allowances specifically 100% investment deduction allowance on property, plant & equipment and hardware. Under the circumstances that produced goods using those exempted raw materials and components remains unsold, the plan's player is liable to an additional charge tax at a rate of 2.5%. (Economic Survey 2017, 2018)

2.3.7 Duty Drawback and Growth

Unlike duty remission that allows duty exemption upon importation, Duty Drawback offers discount on duty already paid on importation of primary inputs that are used in manufacturing goods meant for export. This incentive reduces risk of tax evasion since the government will have already recovered duty payable upon importation and it's upon the manufacturer to prove that the produced goods were exported in order to get a discount or refund of duty paid on imported primary inputs (EACCMA, 2004).

Immediate exporters as in the ones who undertakes export themselves guarantees duty drawback in several countries. However, few countries enable duty drawback to be guaranteed by an aberrant exporter that is individuals who supplies to an exporter. Like in the case of Korea, Chile and Colombia. Classification of products that will meet all requirements for drawback among few nations is normally done solely as a method of empowering the use of similar private produced goods. A good example is India which entails only those items incorporated into a thorough rundown and grants discount only for focal government duties as opposed to the state taxes and obligations collected on inputs (World Bank, 2005)

Duty drawback rely on computation of the measure of duty accumulated on imported sources of primary inputs that have been consolidated in one unit of yield. Consequently, the measure of the discount should tally with the results of foreign input estimates that are used as a part of delivering exports and the corresponding duty rate. Customs applies two strategies to determine import obligation substance for exports that is settled rates and individual rates. For the case of settled rates, discount will be considered alongside each export great encircled information table with yield coefficients (World Bank, 2013)

Korea and Taiwan were among first countries to adopt this “settled rates” concept. They changed their duty drawback plans at regular and gradual intervals. This framework has pros and con. Its application is difficult, requires much investigation on a specific producer’s execution, approximation may include several coefficients which of course is time consuming and complicated. Moreover, trade imbalance may occur as it might fetch too low for a few exporters and too high for others (EC Synthesis Report, 2017)

“Individual rate” framework relies on the performance of individual producer as ascertained by a customs officer. This concept has a self- assessment part with the manufacturer in charge of setting up rates in respect to guarantee drawback and afterward customs undertaking post-exchange reviews its authenticity. Perception on this concept is that it’s fair and usually applicable than the settled rate concept since it demonstrates execution of individual industrialists as opposed to a normal transverse over industry. (EU Report 2014, 2020)

2.4 Summary of Literature and Research Gaps

Table 2.4 Summary of Literature and Research Gaps

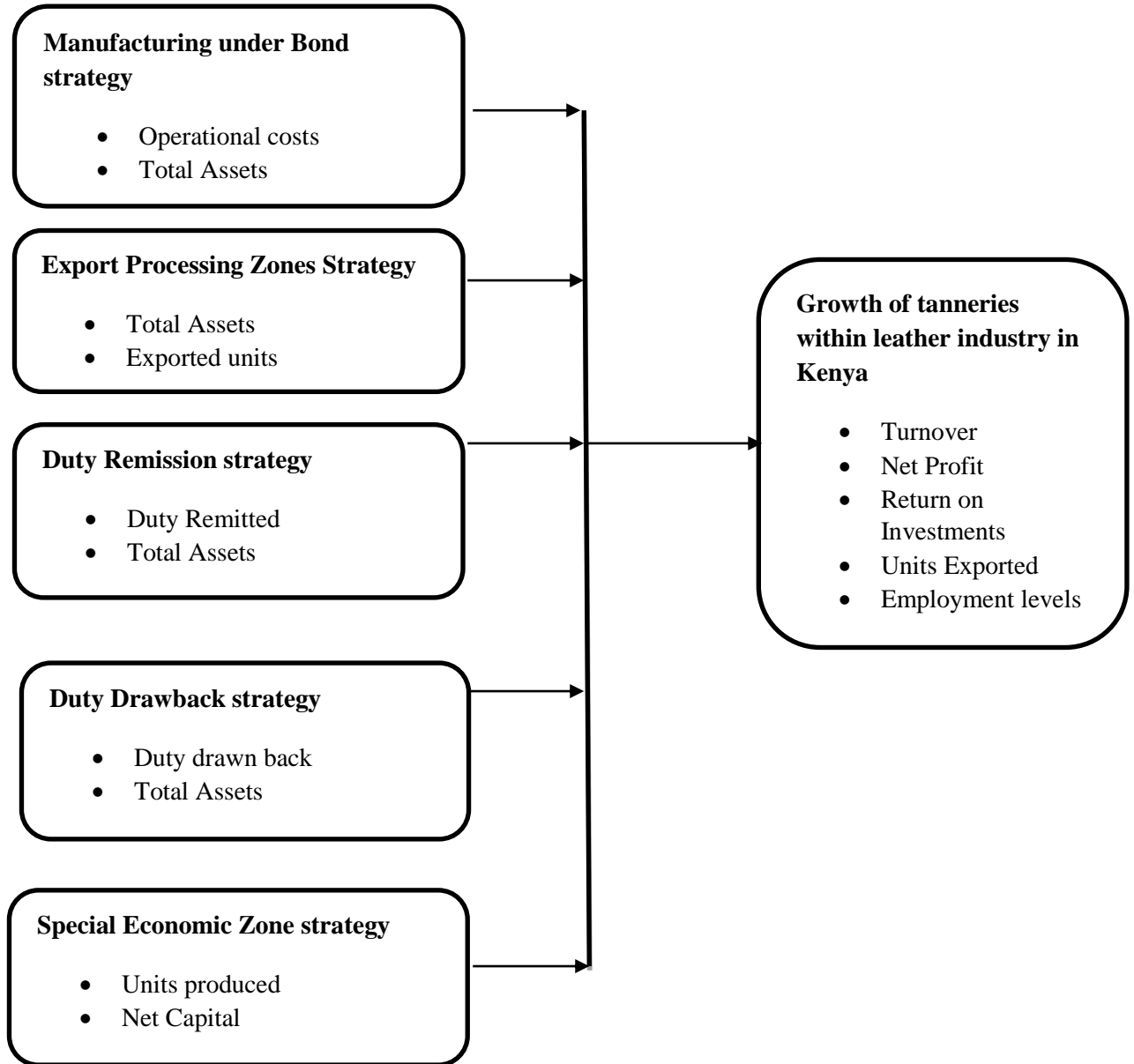
SCHOLAR	OBJECTIVE	RESULTS	WEAKNESS
Akinyomi (2011)	Impact of tax incentive on large	Tax incentives have positive impact on	This study majored on large scale industries which

SCHOLAR	OBJECTIVE	RESULTS	WEAKNESS
	scale industries in Kenya.	large scale industries in Kenya.	doesn't efficiently demonstrate how custom incentives influences the performance of tanneries within leather industry in Kenya.
Glenday&Ndii, July 2000	Export promotion schemes and growth of Kenyan economy	Export promotion schemes were evaluated on basis of their viability	The study touched nothing on custom incentives and the growth of tanneries within leather industry in Kenya.
Gumo (2013)	Effects of tax incentives on FDI in Kenya	There's a Positive correlation between custom incentives and FDI, in Kenya	The study never focussed on the growth of tanneries within leather industry in Kenya.
Marriana&Michele (2011)	Export promotion strategy and growth of firms.	An intensive evaluation of Export promotion schemes was conducted with conclusions thereof.	The study touched nothing on custom incentives and the growth of tanneries within leather industry in Kenya not even their existence.
Tembur(2016)	Impact of custom Duty Incentives on Financial Performance of EPZs in Kenya.	This study noted duty relief schemes had a positive influence on the financial performance of EPZs in Kenya.	This study didn't consider duty relief schemes and growth of the growth of tanneries within leather industry in Kenya.
Uwamme&Odi	Impact of custom strategy on the Economic Development of Nigeria	There exist positive correlation between customs strategy and the economic development of Nigeria	This study cannot be used to predict the economic growth of Nigeria based on custom strategies

Source: Author (2021)

2.5 Conceptual Framework

Figure 2.5: Conceptual Framework



Independent Variable

Dependent Variable

Source: Author (2019)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains methods, processes and procedures undertaken throughout the research with an aim of evaluating the relationship between customs incentive strategy and the growth of tanneries within leather industry in Kenya. Therefore it tackles the research design, measurement of variables, model specifications, population and sampling, data collection, analysis, reliability and viability and also ethical reflections.

3.2 Research Design.

This research study strived to establish relationship between customs incentives strategy and the growth of tanneries within leather industry in Kenya. Denvir & Millet (2003) argued that a research design is like a glue hold and support research project together. Research design shapes research by describing how all sections of research project, including sample or groups, measures, programs, and methods of assignment that works together to address fundamental research question. This study adopted a descriptive design aimed at ascertaining effectiveness of custom incentives strategy and the growth of tanneries within leather industry in Kenya. Since the study sought to establish the relationship between two (2) variables the research employed a descriptive research design.

Mugenda & Mugenda, (2003) argued descriptive design as a method enabling a researcher to organize and summarize data in a proper and efficient way. The study used a descriptive design because this method enhances researcher to obtain detailed information about the population under consideration. In this study, opinions of beneficiaries of customs incentives using survey method were sought. The users of customs incentives were tanneries within

leather industry in Kenya. Descriptive research design is a methodology that strive to describefeatures of specific individual, situation or groups accurately(Kothari, 2004)

3.2.1 Research Philosophy

This concept is very important especially in developing research background, research knowledge and its nature (Saunders and Thorn hill, 2007). It encompasses broad perspective, comprising of perceptions, belief and consideration of some theories and practices applied during research (Cohen, Manion and Morrison, 2000).

Research philosophy adopted in this study was positivistic. Bryman and Bell (2007) argued that positivism involves the study social reality by incorporating natural sciences approach. Therefore, this research study adopted hypothesis based present structuresin relation to method of positivistic philosophy. Assumptions are tested and proven or annulled by statistical and quantitative methods in order yield solutions to the study and attainment of research goals. Remenyi et al. (2005) further noted that positivist method can be adopted to realize final results.

3.3 Target Population

Cooper and Schindler (2014) argued that population is the total number of elements denoted as Nof which researcher is interested to make reference from. Population element is the unit of study considered individually. Target comprises of theoretical, actual set of units, people events and items which researcher needs to simplify and conclude findings of the study but population involves persons who are more realistic to be part of the study sample (Borg & Gall, 2007)Population of this study comprised of all finance managers and Operations Directors in all the 23 registered tanneries within Nairobi County, Kenya. Therefore the study population was 46individuals. The study adopted a census survey design. Census Survey was applied because population was small. Therefore, all the 46 individualswere considered in this study.

Table 3.4: Target Population

Category of Population	Population
a) Finance Directors of all registered 23 Leather Firms in Nairobi	23
b) Operations Directors of all registered 23 Leather Firms in Nairobi	23
Total (N)	46

3.4.1 Sampling Design

(Saunders *et al*, 2003) argued that, sampling frame is a comprehensive list of all the elements within a population of which a sample may be drawn. In some instances, sample depicts representation of total population. In this research study, targeted population was all registered tanneries within leather industry in Kenya specifically those within Nairobi County. All tanneries were considered to form part of the study sample.

3.5 Data collection instruments.

To avoid mono-method bias in this research project, primary as well as secondary data was obtained. Semi structured questionnaires collected primary data obtained through a five point likert scale as presented in the appendix II. Testing of new assumptions and or exploration of new associations in the data collected from past studies is what forms secondary data, (Polit & Beck, 2003). They also indicate that since the gathering of data is basically expensive and involves a lot of time in research project, analysis of the available data is therefore efficient and economical. Data validation of primary data was done through the analysis of secondary data.

Annual reports and financial positions of the firms sampled for the phase of the study forms the extraction source of secondary data. The gathered secondary data was presented in appendix IV. The interpretation consistence, communication and the pragmatic justification of the study for the same objectives were improved by utilizing primary and secondary data.

3.6 Reliability and Validity

Jack and Clarke (1998) explained the concept of reliability as consistent trend in addressing research questions. Cronbach's Alpha measures this reliability and runs in scale of 0 to 1. High reliability is indicated by a number that is close to one than it is to zero. This research study used a threshold of 0.7 as the standard of reliability such that a coefficient below 0.7 signified that the sub constructs were not dependable in capturing the variable. In order to make sure that the questionnaire was effective and efficient, 10% of the sample size was tested.

Reliability was conducted on the questionnaire duly completed by 20 randomly chosen respondents. They were included in the main survey so as to reduce cases of biasness. A coefficient of 0.7 was used as the threshold for this study. Table 3.5 indicates reliability results. Statements were dependable since the Cronbach alpha was above 0.7 which was used in the study as a cut-off of reliability.

The findings of the test reveal the alpha coefficient is above 0.7 and therefore all the statements were reliable since the reliability threshold is 0.7. Manufacturing underbond (0.734), EPZ (0.706), Duty Remission (0.701) Duty Drawback (0.813) and SEZ (0.723).

Consequently, internal consistency, reliability of the measure was exceptional an indication that data was reliable as alpha coefficient greater than 0.70 signals collected data having comparatively high, internal reliability and can be assumed to mirror the respondent views on research problem.

Table 3.5: Reliability Coefficient

Variable	Cronbach's Alpha	Comment
Manufacturing under Bond	0.734	Accepted
Export Processing Zones	0.706	Accepted
Duty Remission	0.701	Accepted
Duty Drawback	0.813	Accepted
Special Economic Zones	0.723	Accepted

3.5.2 Validity

Validity basically test whether scores measure what they are intended to measure and vice versa of what is not supposed to measure (Grecory, 1999). There are two broad categories of validity that is internal and external validity. Content validity was adopted in this study to measure the scope in which instrument of measure adequately covers topic themes.

Content validity was established by seeking opinions of tax experts who gave their views on whether the questionnaire was relevant in relations to the study. They gauged the significance, clearness, vagueness and offense. Before questionnaires were put in place in the main survey, sort of opinions were established and aligned to the questionnaire to heighten content validity. The performance of tanneries was discussed with 23 operation managers drawn from all tanneries, who were randomly selected and thus assisted to authenticate the instrument.

Researcher and research assistant jointly administered questionnaires and clarified all issues which were not clear during pilot study. Final questionnaire print out therefore addressed all

unclear issues that emanated from pilot study through supervisor's guidance in order to retain the original intention of the research instrument.

3.6 Data Collection Procedure

Cooper and Schindler (2014) argued that census involves counting all elements in targeted population unlike sample which is a fraction of the target population chosen carefully through a number of considerations. For the case of sampling, researcher must establish which and how many people to interview, which and how many events to observe or which and how many records to examine.

The research questionnaires were developed based on the study objectives and whose suitability was ascertained through pre-testing prior to the actual distribution. Questionnaires were administered to 5 respondents who were selected purposively for pre-testing. Caution was exercised to ensure that the 5 pre-tested respondents are not part of the study sample size. This facilitated the possibility of fine-tuning the efficiency and the objectivity of the questionnaire. Answering the questionnaire took approximately 15 Minutes.

The administration of questionnaires was done by one research assistant, equipped and tasked with the interviewing and communication skills on respondents with the help of a questionnaire instrument, refined questionnaire was also administered by the research assistant so as to aid the data entry.

The financial managers of tanneries were taken through demonstrated answers to make sure that they had a solid and thoughtful insight of the questions for their timely and accurate responses. To enhance the response rate, questionnaires were dropped and picked later method of collection.

3.7 Data analysis and Presentation

This study adopted descriptive statistical measures. Inferential statistics measures was employed in hypothesis testing for this case; specific objectives. SPSS software was employed to analyze quantitative data. Multiple regression models were adopted expounding on correlation between dependent variables and the independent variables.

Confidence level considered in this study was 95% meaning a significance level (p-value) of 5%. In other words, statistically significant correlations between variables were only those with p-value below 5%. Pearson's correlation coefficient was measured the strength of associations between independent and dependent variables while F-test was employed to verify significance of this correlation coefficient.

3.7.1 Empirical Model

Research problem was conceptualized on direct dependent and independent variable associations. Model specification therefore assessed effectiveness of custom incentives strategy on the growth of tanneries within leather industry in Kenya.

From onset, test one effectiveness of predictor variables on the outcome.

$$Y_{it} = b_0t_0 + b_1X_1t_1 + b_2X_2t_2 + b_3X_3t_3 + b_4X_4t_4 + b_5X_5t_5 + \mathcal{E} \quad \text{where}$$

i is a firm $i=1 \dots 23$

t is the time period $t=2010 \dots 2014$

b are beta coefficients

x is predictor variable vector

Y_{it} = Growth of tanneries within leather industry in Kenya that will be measured by the Net Income

$$X_1t_1 = DD$$

$$X_2t_2 = DR$$

$$X_3t_3 = MUB$$

$$X_4t_4 = EPZ$$

$$X_5t_5 = SEZs$$

ε = error term

3.8 Ethical considerations

These are moral standards a researcher must put in consideration throughout all stages of the research design. Upon University approval, permission was sought from the management of all the tanneries within Nairobi region and its environs. Three principles of ethics were employed; beneficence, human dignity respect and justice (Polit et. al., 2003).

Participants were assured that information provided was not to be misused in adverse manner that may harm or affect them negatively. Researcher stressed that information was purely for academic purpose. Full disclosure, fair treatment especially on emotions and privacy were highly observed.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter depicts an analysis of secondary data collected and deliberates on findings of the impact of customs incentives strategy on the growth of tanneries within leather industry in Kenya. Response rate is also considered under this chapter as well as analysed data obtained through MS Excel and SPSS application.

4.2 Response Rate

Target population involved all the 23 registered tanneries within leather industry, operational since 31st December, 2011 and licensed to carry out tanning activities in Kenya under the leather Act. A population census was applied in this study. However, firms in leather industry which were not in operation for the entire 5-year period or under receivership were dropped due to incompleteness of the records or missing data.

Annual time series data from 2010 to 2014 has been used for the analysis. The data on all the variables was collected from secondary sources. Data on EPZ output and investment was sourced from EPZ authority database. Data on manufactured exports & domestic GDP was sourced from KNBS statistical abstracts & surveys. Data analysis method used was based on Pearson correlation analysis and a multiple regression model which took the form of:

Table 4.1 Response rate

Category	Frequency	Percentage
Returned Questionnaires	40	86.96%
Unreturned Questionnaires	6	13.04 %
Total	46	100%

Regression equation

The analysis and calculations was aimed solving the equation:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon$$

Where:

Y = Growth of leather industries

X_1 = Duty remission

X_2 = Duty drawback

X_3 = Export processing zones

X_4 = Manufacturing under bond

X_5 = Special economic zones.

4.3 Descriptive data analysis

Table 4.2 below summarized the descriptive statistics of the variables included in the regression models as presented. It represents the variables of 23 tanneries within leather industry operating in the Kenya whose financial results were available for the years 2010-2014.

Table 4.2: Descriptive Statistics

Descriptive Statistics			
	Mean	Std. Deviation	N
ROA	.6145	.51124	115
MUB	.0307	.05667	115
D.D	.5126	.54879	115
EPZ	.1544	.09084	115
DR	.6455	.99588	115
SEZ	22.0412	8.32149	115

This table summarised the descriptive statistics of custom incentives. The total number of observation N was 115.

The means of customs incentives are as shown in the table 4.3 below

4.3 Correlation analysis

		Correlations					
		ROA	MUB	DD	EPZ	DR	SEZ
Pearson Correlation	ROA	1.000	.408	.602	.54	.788	.301
	MUB	.408	1.000	.018	-.162	-.103	-.005
	DD	.602	.018	1.000	.008	.226	-.027
	EPZ	.54	-.162	.008	1.000	.103	-.076
	DR	.788	-.103	.226	.103	1.000	.079
	SEZ	.301	-.005	-.027	-.076	.079	1.000
N	ROA	115	115	115	115	115	115
	MUB	115	115	115	115	115	115
	DD	115	115	115	115	115	115
	EPZ	115	115	115	115	115	115
	DR	115	115	115	115	115	115
	SEZ	115	115	115	115	115	115

Table above showed a positive correlation between Custom incentives and the growth of tanneries within leather industry in Kenya. Basing on the Pearson's correlation coefficient, improving on customs incentives leads to an increase growth of Kenyan leather industries

From the table duty drawback had the highest correlation followed by duty remission, EPZ, Manufacturing under bond then special economic zones respectively. The therefore means that duty remission affects the ROA the most while special economic zone the least.

4.4 Coefficient of Determination

Model	R	R Square	Adjusted R Square	Durbin-Watson				
				R Square Change	F Change	df1	df2	df3
1	.529 ^a	.709	.246	.279	8.452	5	109	.896

Table above represents coefficient of determination (R Square) at 0.709 this means that 70.9% of the increase in growth of tanneries within leather industry for the period of this study was attributed to the custom incentives. The R value represents the simple correlation and is 0.529 it usually indicates positive degree of correlation among custom incentives and the growth of tanneries within leather industry in Kenya.

4.5 Analysis of Variance

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.325	5	1.665	8.452	.000 ^a
	Residual	21.471	109	.197		
	Total	29.796	114			

a. Predictors: (Constant), DD, MUB, DR, EPZ, SEZ

b. Dependent Variable: ROA

Table above indicates significance of the correlation between Custom incentives strategy and the growth of tanneries within leather industry in Kenya at 0.000%, which is a value below the 5% level of significance. Therefore, their relationship among the five customs incentives strategy are statistically significant. F-statistic value is 8.452 greater than F-tabulated which is 4.32 at 40 degrees of freedom. Hence, we reject null hypothesis and accept the alternative hypothesis that custom incentives strategy has an impact on the growth of tanneries within leather industry in Kenya

4.6 Significance and Regression Model

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.333	.152		2.192	.031
	DR	.743	.747	.082	.996	.032
	DD	.547	.078	.158	1.891	.006
	EPZ	.366	.467	-.065	-.783	.045
	MUB	.237	.043	.462	5.457	.000
	SEZ	.004	.005	.064	.777	.043

a. Dependent Variable ROA

Table above is used to derive the Regression Equation below:

$$Y = 0.333 + 0.743X_1 + 0.547X_2 + 0.366X_3 + 0.237X_4 + 0.004X_5$$

Where:

Y = Growth of leather industries

X_1 = Duty remission

X_2 = Duty drawback

X_3 = Export processing zones

X_4 = Manufacturing under bond

X_5 = Special economic zones

The regression equation above shows that with increase in Customs incentives strategies there is increase in the growth of tanneries within Leather industry in Kenya. Duty remission giving the highest contribution followed by duty drawback. Special economic zones being the least contributor.

Therefore, the government should work to increase more incentives.

4.8 Hypothesis

Duty remission has no effect on the growth of tanneries within leather industry in Kenya. From the study, it's now evident that duty remission has a significant effect on the growth of tanneries within leather industry in Kenya. Therefore, we reject the null hypothesis and accept the alternative hypothesis which states that duty remission has an effect on the growth of tanneries within leather industry in Kenya.

Duty drawback has no effect on the growth of tanneries within leather industry in Kenya. The study revealed that duty drawback is the second contributor in performance comparing the custom incentives strategies. Therefore, we reject the null hypothesis and accept the alternative hypothesis which states that duty drawback has an effect on the growth of tanneries within leather industry in Kenya

Export processing zones has no effect on the growth of tanneries within leather industry in Kenya. The analysis revealed that export processing zones and performance have a correlation. EPZ has a significant effect on the growth of Kenyan leather industries. We therefore reject the null hypothesis and accept the alternative hypothesis which states that EPZ has an impact on the growth of tanneries within leather industry in Kenya

Manufacturing under bond has no impact on the growth of Kenyan leather industries. From the study, manufacturing under bond has a significant impact on the growth of tanneries within leather industry in Kenya. We therefore reject the null hypothesis and accept the alternative hypothesis that states that manufacturing under bond has an impact on the growth of tanneries within leather industry in Kenya

Special economic zones have no impact on the growth of Kenyan leather industries. Although the impact was as low as from the correlation analysis but it was positive. Special economic zones have a low impact on the growth of tanneries within leather industry in Kenya.

4.9 Discussion of Research Findings

From the study, it's now evident that duty remission has a significant effect on the growth of tanneries within leather industry in Kenya. Duty remission had the highest contributing factor among the custom incentive strategies with a correlation coefficient of 0.737. A unit increase in duty remission impact to a 0.737 increase in the growth of tanneries within leather industry in Kenya.

The study revealed that duty drawback is the second contributor in performance comparing the custom incentives strategies. Therefore, we reject the null hypothesis and accept the alternative hypothesis which states that duty drawback has an effect on the growth of tanneries within leather industry in Kenya. Duty drawback has a significant correlation coefficient of 0.547.

The analysis revealed that export processing zones and performance have a correlation. EPZ has a significant effect on the growth of Kenyan leather industries. We therefore reject the

null hypothesis and accept the alternative hypothesis which states that EPZ has an impact on the Kenyan leather industries. EPZ has a significant correlation coefficient of 0.366.

From the study, manufacturing under bond has a significant impact on the growth of tanneries within leather industry in Kenya. We therefore reject the null hypothesis and accept the alternative hypothesis that states that manufacturing under bond has an impact on the growth of Kenyan leather industries. Manufacturing under bond had a weak positive correlation of 0.237

Although the impact was as low as from the correlation analysis but it was positive. Special economic zones have a low impact on the growth of tanneries within leather industry in Kenya. Special economic zones have a very weak impact on the growth of Kenyan leather firms. Giving a significant contribution of 0.004. Which is 0.4%

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter depicts key findings research study, conclusions and further recommendations based on research findings. It also give areas tackled during study for further research.

5.2 Summary of Findings

This research was undertaken with the aim of examining the effect of customs incentive strategy on the growth of tanneries within leather industry in Kenya. Secondary data was used in the analysis to study the variables. 5-year data was collected from the publications of the KNBS. To address the aim of the study, inferential statistics were conducted where correlation analysis was used to study the association between the variables and regression analysis undertaken to study the relationship between the variables.

A multiple regression analysis was conducted to develop the regression model relating the study variables. The significance of the results was tested at 5% level in a 2-tailed test. Custom incentives and the growth of firms in leather industry has a high positive correlation coefficient which is a high positive correlation coefficient. Also,

- i. Duty drawback and the growth of leather industries. The findings indicated that, the Duty drawback and the growth of leather firms has a strong positive correlationcoefficient. This therefore means that duty drawback has high positive influence on the performance of firms in leather industry in Kenya. The more government work to drawback the tax, the more the companies finds it easy in their operations and the more they produce.

- ii. SEZ and the growth of tanneries within leather industry in Kenya. SEZ was found to have a weak positive correlation with the growth of leather firms. It has a very minimum influence on the performance of firms in leather industry in Kenya.
- iii. EPZ was as well found to have a positive correlation with the growth of leather firms in Kenya. These zones help to improve the production
- iv. The model developed indicated that Duty remission was the most efficient method or strategy that can be employed to improve on the performance of firms in leather industry in Kenya while Special economic zones was the least efficient method.

5.3 Conclusion

The study unearthed that customs incentive strategy had a strong impact on the growth of tanneries within leather industry in Kenya. From the findings and conclusions, it was clear that adoption of custom incentives affect their performance. This study recommends that for tanneries to gain competitive advantage, modern technology needs to be employed for example working under specialised production areas such as EPZ. Technological innovations are key ingredients defining a society and civilization. Key role of custom incentives in the general expansion of companies and its impact to the economic growth of corporations has been widely documented.

The study concludes that Duty drawback, Duty remission, Manufacturing under bond, EPZ have a strong relationship with the growth of leather firms while Special economic zones have weak relationship with growth of leather firms in Kenya.

5.4 Recommendations

For Kenya as a nation to realize its economic targets envisaged under Vision 2030 it is expected of the government and firms to embrace custom incentive strategies in their commercial practices.

The eventuality is that as unit costs for firms under EPZ decrease with enhanced output, nations ought to obtain comparative advantage in enlarging industry and export more, this is so because commodities requiring for their production abundant incentives and minimal factors are exported in exchange for goods and services hence calling for factors in the opposite amounts.

There is need to continuously benchmark exports & industrial zones models abroad with an aim of keeping Kenyan EPZs at par with international standards and emerging business trends, Integrating industrial areas with commercial areas, service areas, residential areas and social amenity areas is proving to be the modern fashion for many export oriented economics, There is need to provide one-stop shop and comfortable living environment of the EPZ investors. Towards this end, fastening operationalization of Special Economic Zones (SEZ) may help address the above key issues, Kenyan external sector reforms need to be credible and sustained over time in order for the exporting leather firms to respond by increasing investment, production and exports.

5.5 Suggestions For Further study

Further research studies is such important mainly to emphasize on the determinants of financial performance of firms within leather industry in Kenya. There is need to address the contribution of EPZ and special economic zones on the country's industrial growth.

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APPENDIX I: INTRODUCTORY LETTER

KENYATTA UNIVERSITY

SCHOOL OF BUSINESS AND ECONOMICS

1st September, 2019

Joseph KamauKarugo

P.O Box 33515-00600

Nairobi.

Mobile No 0712222232

Dear Sir/Madam

RE: INTRODUCTION LETTER; YOUR VIEWS ON THE EFFECT OF CUSTOM INCENTIVE STRATEGIES ON GROWTH OF TANNERIES WITHIN LEATHER INDUSTRY, IN KENYA.

Purpose of this study is to establish effect of custom incentive strategies on the growth of tanneries within leather industry in Kenya. This study is conducted by the student mentioned above under the supervision of Dr.KinotiFrankline.

We kindly request your assistance in providing the necessary information to facilitate conduction of this research study. The reason for conducting the research on your organization is because of the integrity and reliability of the information in your custody.

The data collected will be private and confidential and will be used entirely for the purpose of developing thesis. Kindly allow and provide the researcher with the details required.

Assistance accorded will be appreciated.

Thank you in advance for your cooperation.

Karugo Joseph Kamau

Student

Kenyatta University

Reg No D53/CTY/28318/2014

Dr.KinotiFrankline

Supervisor

APPENDIX II: QUESTIONNAIRE

A: General information

Research study is for academic only and thereby handled with utmost confidentiality. Please tick where appropriate giving correct information as much as possible.

a. Gender?

Male Female

Job Title?

a) Finance Manager

b) Operations Director

c) Managing Director

d) Investment Manager

e) Tax Manager

f) Others (specify) _____

c. Age :(yrs.)

18-30 31-40 41-50 51-60 over 60

d. Highest level of Education: KCPE KCSE Diploma Degree

Doctorate & Other

e. How long have you worked for this company :

< 1 Yrs 2-3 Yrs 4-5 Yrs Over 5Yrs

B. Export Processing Zones(EPZs) on the growth of tanneries within leather industry in

Kenya

This part aims at ascertaining the impact of EPZs on the growth of tanneries within leather industry in Kenya

(a) According to you, does EPZs influence the growth of this leather industry?

Strongly agree Agree Neutral Disagree Strongly Disagree

(b) According to you, does Export processing zones increase the number of jobs for this industry?

Strongly agree Agree Neutral Disagree Strongly Disagree

(c) According to you, does Export processing zones increase the units of exports of this leather industry?

Strongly agree Agree Neutral Disagree Strongly Disagree

C. Manufacturing under bond on the growth of tanneries within leather industry in Kenya

This part aims at ascertaining the influence of Manufacturing under bond on growth of tanneries within leather industry in Kenya

(a) According to you, does Manufacturing under bond influence the growth of this leather industry?

Strongly agree Agree Neutral Disagree Strongly Disagree

(b) According to you, does Manufacturing under bond reduce the operational cost for this industry?

Strongly agree Agree Neutral Disagree Strongly Disagree

(c) According to you, does Manufacturing under bond increase the number of jobs in this leather industry?

Strongly agree Agree Neutral Disagree Strongly Disagree

D. Duty Remission on the growth of tanneries within leather industry in Kenya

This part aims at ascertaining the effect of Duty remission on the growth of tanneries within leather industry in Kenya

(a) According to you, does Duty remission influence the growth of this leather industry?

Strongly agree Agree Neutral Disagree Strongly Disagree

(b) According to you, does Duty remission increase level of the industries' assets?

Strongly agree Agree Neutral Disagree Strongly Disagree

(c) According to you, does Duty remission increase the units of exports of this leather industry?

Strongly agree Agree Neutral Disagree Strongly Disagree

E. Duty Drawback on the growth of tanneries within leather industry in Kenya

This section aims at establishing the effect of duty drawback on the growth of tanneries within leather industry in Kenya

(a) According to you, does duty drawback influence the growth of this leather industry?

Strongly agree Agree Neutral Disagree Strongly Disagree

(b) According to you, does duty drawback increase the number of jobs for this industry?

Strongly agree Agree Neutral Disagree Strongly Disagree

(c) According to you, does duty drawback increase the units of exports of this leather industry?

Strongly agree Agree Neutral Disagree Strongly Disagree

F. Special Economic Zones on the growth of tanneries within leather industry in Kenya

This part aims at ascertaining the effect of special economic zones on the growth of tanneries within leather industry in Kenya

(a) According to you, do special economic zones influence the growth of this leather industry?

Strongly agree Agree Neutral Disagree Strongly Disagree

(b) According to you, do special economic zones increase the number of jobs for this industry?

Strongly agree Agree Neutral Disagree Strongly Disagree

(c) According to you, do special economic zones increase the net capital in this leather industry?

Strongly Disagree Strongly agree Agree Neutral Disagree

APPENDIX III: REGISTERED FIRMS IN LEATHER INDUSTRY

No	Name of the Tannery	Postal Address	Emails	Location
1.	Abdulwadd tanners LTD	Po Box 41695 Nairobi	awt@kenyaweb.comawtanners@gmail.com	LungaLunga Rd, Makadara
2.	Adel de jak	Cloud 9 Collection	http://www.adeledejak.com	Mushroom Road off Kiambu Road, Nairobi
3.	African Lily	P.O Box 26015 – 00100, Nairobi	africanlilyenterprises@gmail.com	Ngong Road
4.	Alpharama Ltd	P.O Box 167 Athiriver	Info@alpharam.co.ke	Off Namanga Road, ATHI RIVER
5.	Amiin Tannery	amiintanltd@gmail.com	amiintanltd@gmail.com	Industrial Area, Nairobi
6.	Athi- River Tanneries	P.O. Box 503 00204 Athi river	md@athirivertanneries.co.ke	Off Mombasa Road – ATHI-RIVER
7.	Aziz Tanneries Ltd	P O Box 1363 Nairobi	aziztanneries@yahoo.com	Off Kangundo Road, Njiru Market
8.	Bata Shoe Limited	P O Box 23 00217 Limuru	Bata.kenya@bata.com	Limuru Town
9.	Dogbones Ltd	P.O. Box 78010 ,00507 Viwandani	ashwin@dogs.b.com	Dandora Market, NAIROBI
10	East Africa tanneries Ltd	P.O. Box 46227 – NAIROBI	ea_leather@yahoo.com	Off Kangundo Road, Njiru Market
11.	Escon Leather Company	essymumo@gmail.com	essymumo@gmail.com	13 Monrovia St, Nairobi
12.	Faaso Import and Export	P O Box 78010 – 00507NAIROBI	P O Box 78010 – 00507NAIROBI	LungaLunga Road – NAIROBI

13	Habib Leather Industry	P.O.Box 100848 (00101)	habibleatherindafrica@yahoo.com	Industrial Area, Nairobi
14	Kraw Leathers	P.O Box 7637-00300, Nairobi	Karuga.nganga@gmail.com	Industrial Area
15	Leather Industries of Kenya	P.O. Box 79 Thika	Likkenya@yahoo.co.uk	Off Garissa Road, THIKA
16	M.A.S Trading Company	Po Box 71460-00622 Nairobi	Mohamed-Abukar@yahoo.co.uk Mohamed-Abuker@mastrading.co.ke	Bunyala Rd, Nairobi
17	Nairobi Tanneries Ltd	P.O. Box 689 – SARIT CENTRE	chitti9aug@yahoo.com	Nanyuki Road, NAIROBI
18	New. Market Leather Factory	P.O. Box 14579 – NAIROBI	Ngombenmls@gmail.com	Nanyuki Road – NAIROBI
19	Reddamac Limited	robertnjoka@yahoo.com	robertnjoka@yahoo.com	Industrial Area, Nairobi
20	Rift Valley Leather	enquiries@riftvalleyleather.com	enquiries@riftvalleyleather.com	Tembo Road, Karen – Nairobi.
21	Sagana Tanneries Ltd	P.O. Box 94 – SAGANA	yassin.awale@gmail.com	Sagana Town
22	Sanabora Design House Limited	info@sanabora.com	info@sanabora.com	Muranga Rd, Opp K.I.E Third Floor, Nairobi. Aqua Plaza
23	Zeeban Designs	zeebaan@gmail.com	zeebaan@gmail.com	Yaya Centre, Nairobi.

APPENDIX IV: GROWTH OR RETURN ON ASSETS

FIRM	YEARS	ROA	DR	DD	EPZ	MUB	SEZ
1	2014	0.0467	0.713	0.3556	0.16	0.33	0.234
1	2013	0.0282	0.464	0.44	0.13	0.292	1.49
1	2012	0.033	0.431	0.52	0.14	0.288	2.9
1	2011	0.028	0.35	0.5	0.12	0.273	2.9
1	2010	0.021	0.322	0.43	0.1	0.26	4.12
2	2014	0.081	0.596	0.23	0.11	0.24	4.67
2	2013	0.0153	0.479	0.54	0.15	0.228	0.33
2	2012	0.007	0.466	0.53	0.13	0.222	2
2	2011	0.02	0.464	0.57	0.16	0.202	1.3
2	2010	0.007	0.44	0.44	0.11	0.194	1.43
3	2014	0.0565	0.185	0.06	0.15	0.226	1.81
3	2013	0.0324	0.145	0.41	0.11	0.22	4.35
3	2012	0.034	0.133	0.48	0.1	0.196	4.8
3	2011	0.033	0.13	0.45	0.1	0.19	2.4
3	2010	0.029	0.136	0.34	0.1	0.125	4.57
4	2014	0.0504	0.644	0.04	0.14	0.633	5.65
4	2013	0.0391	0.633	0.35	0.13	0.633	3.74
4	2012	0.05	0.636	0.37	0.14	0.637	4.1
4	2011	0.045	0.634	0.34	0.12	0.626	7
4	2010	0.029	0.577	0.34	0.11	0.552	4.18
5	2014	0.0624	0.202	1.52	0.18	0.681	5.04
5	2013	0.053	0.221	0.55	0.14	0.619	5.44
5	2012	0.047	0.203	0.63	0.12	0.52	5.8
5	2011	0.042	0.137	0.63	0.1	0.461	3.6
5	2010	0.044	0.137	0.5	0.1	0.367	7.18
6	2014	0.0196	0.11	0.28	0.09	0.442	6.24
6	2013	0.0135	0.103	0.46	0.08	0.3434	4.31
6	2012	0.015	0.102	0.52	0.08	0.307	4.1
6	2011	0.031	0.1	0.57	0.11	0.248	3.5
6	2010	0.21	0.101	0.47	0.09	0.213	2.23
7	2014	0.0245	0.84	0.22	0.08	0.241	1.96
7	2013	0.0242	0.838	0.51	0.09	0.226	3.08
7	2012	0.024	0.762	0.49	0.08	0.206	2.9
7	2011	0.03	0.874	0.57	0.11	0.181	2.7
7	2010	0.028	0.8111	0.57	0.15	0.167	2.33
8	2014	0.0464	0.572	0.02	0.21	0.208	2.45
8	2013	0.0592	0.568	0.41	0.21	0.189	5.22
8	2012	0.07	0.512	0.38	0.19	0.18	7
8	2011	0.03	0.3	0.54	0.12	0.143	10.4
8	2010	0.023	0.183	0.42	0.13	0.15	6.43
9	2014	0.0424	0.158	0.14	0.12	1.158	4.66
9	2013	-0.0126	0.244	0.35	0.61	0.793	4.43

9	2012	-0.005	0.299	0.33	0.55	0.712	3.6
9	2011	0.037	0.244	0.26	0.15	0.534	4
9	2010	0.034	0.168	0.27	0.14	0.4	3.58
10	2014	0.0246	0.359	0.99	0.14	0.215	4.24
10	2013	0.3	0.347	0.51	0.11	0.429	2.57
10	2012	0.033	0.374	0.51	0.1	0.408	-0.8
10	2011	-0.037	0.312	0.26	0.15	0.311	1
10	2010	-0.023	0.172	0.31	0.48	0.297	1.61
11	2014	0.0004	0.144	0.97	0.13	0.141	2.46
11	2013	0.0154	0.146	0.51	0.12	0.15	-1.82
11	2012	0.015	0.14	0.5	0.15	0.167	4.7
11	2011	0.035	0.134	0.4	0.11	0.18	4.8
11	2010	0.029	0.139	0.32	0.08	0.153	3.68
12	2014	0.0074	1.17	0.16	0.21	0.342	3.61
12	2013	0.0326	0.801	0.55	0.14	0.285	-1.02
12	2012	0.037	0.91	0.59	0.15	0.231	1
12	2011	0.005	0.772	0.42	0.14	0.2	1.3
12	2010	0.004	0.536	0.4	0.18	0.168	0.95
13	2014	0.0222	3.219	0.08	0.14	0.976	0.74
13	2013	0.0215	0.917	0.49	0.19	0.886	1.88
13	2012	0.021	0.527	0.48	0.18	0.73	1.8
13	2011	0.03	0.595	0.51	0.09	0.64	0.8
13	2010	0.016	0.47	0.36	0.6	0.539	1.37
14	2014	0.049	0.221	0.2	0.14	0.169	2.22
14	2013	0.0227	0.22	0.58	0.16	0.169	4.47
14	2012	0.026	0.189	0.52	0.19	0.155	4.9
14	2011	0.037	0.137	0.46	0.16	0.134	4.9
14	2010	0.034	0.119	0.54	0.2	0.115	4.19
15	2014	0.0018	0.659	0.23	0.32	0.271	4.9
15	2013	0.0344	0.57	0.64	0.13	0.211	0.21
15	2012	0.031	0.475	0.61	0.13	0.166	0.5
15	2011	0.031	0.362	0.5	0.23	0.135	-1.2
15	2010	0.034	0.265	0.42	0.28	0.107	0.9
16	2014	0.007	1.903	0.18	0.19	5.242	0.18
16	2013	0.0041	1.3	0.53	0.22	4.593	-1.09
16	2012	0.003	1.337	0.44	0.19	3.69	-3.3
16	2011	0.028	1.227	0.63	0.15	3.177	-4.8
16	2010	0.026	1.111	0.53	0.1	2.859	0.45
17	2014	-0.0032	0.486	0.46	0.09	1.446	0.7
17	2013	-0.0713	0.323	0.4	0.13	1.658	-2.78
17	2012	0.005	0.333	0.41	0.14	1.556	1
17	2011	0.006	0.32	0.34	0.18	1.41	-4.6
17	2010	0.012	0.311	0.44	0.23	1.29	0.55
18	2014	0.0695	1.739	4.63	0.21	4.28	-0.32
18	2013	0.0169	1.715	0.61	0.16	4.445	7.26
18	2012	-0.002	1.327	0.52	0.15	2.777	7.7

18	2011	0.01	1.208	0.44	0.15	2.431	7.4
18	2010	0.004	1.32	0.42	0.15	1.962	6.84
19	2014	0.0248	1.982	4.06	0.15	0.336	6.95
19	2013	0.0566	1.809	0.61	0.24	0.301	4.24
19	2012	0.061	1.245	0.52	0.15	0.292	4
19	2011	0.014	1.214	0.45	0.13	0.277	2.7
19	2010	0.023	1.124	0.58	0.15	0.26	2.01
20	2014	0.459	1.455	0.14	0.1	0.19	2.48
20	2013	0.025	0.833	0.56	0.14	0.179	1.8
20	2012	0.05	0.438	0.55	0.15	0.6	2.5
20	2011	0.043	0.274	0.4	0.27	0.135	0.9
20	2010	0.049	0.234	0.049	0.1	0.13	2.79
21	2014	0.0107	0.994	0.03	0.01	0.252	4.59
21	2013	0.0094	0.994	0.59	0.09	0.235	0.67
21	2012	0.017	0.9	0.63	0.1	0.21	1.8
21	2011	0.029	0.872	0.45	0.14	0.173	2.9
21	2010	0.01	0.698	0.55	0.11	0.261	1.28
22	2014	-0.025	1.121	0.21	0.09	0.355	-2.5
22	2013	0.0018	1.111	0.46	0.09	0.345	3.13
22	2012	0.008	1.012	0.61	0.11	0.33	2.8
22	2011	0.014	1	0.59	0.09	0.295	1.7
22	2010	0.017	0.98	0.44	0.11	0.246	2.79
23	2014	0.062	0.452	0.24	0.13	0.158	6.2
23	2013	-0.0342	0.395	0.51	0.15	0.15	2.08
23	2012	-0.096	0.378	0.27	0.24	0.136	1.6
23	2011	0.013	0.226	0.57	0.12	0.118	2
23	2010	0.01	0.201	0.53	0.09	0.111	2.12