

**EFFECTS OF NON TARIFF BARRIERS ON  
KENYA COMMERCIAL BANK LIMITED IN EAST AFRICAN  
COMMON MARKET**

**BY:**

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**DECLARATION**

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

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## **DEDICATION**

This research project is dedicated to my sister Anne. It is meant to inspire her to continue acquiring knowledge always in life.

## **ABSTRACT**

The banking industry in Kenya has been on the upward trend in terms of growth and development. This has led to an increase in the number of banks in the country and opened an environment for serious competition. Kenya Commercial Bank being one of the leaders in the market has not been left out in the competition. The bank has managed to expand its network not only in Kenya but also in the entire East African region. The East African Community (EAC) is a regional organization mandated by the Governments of Kenya, Tanzania, Uganda, Rwanda and Burundi to spearhead the East African economic, social and political agenda. The treaty for the establishment of the EAC was signed in November 1999 and entered into force in July 2000. The treaty sets out a bold vision for the eventual unification of the EAC Partner States. It sets a Customs Union (CU) as the first step of integration. Kenya Commercial Bank has been benefiting from the integration and growth momentum in the East African Community (EAC) which has become one of the most vibrant economic regions in the world. However, despite impressive increases in trade between the five EAC partners in recent years, there is still a large untapped potential. EAC trade could increase several-fold if unnecessary restrictions in trade-particularly non-tariff barriers (NTBs) were removed. Despite being one of the leaders in the industry, the bank has not been exempted from the challenges resulting from NTBs. The study sought to establish the effects of NTBs on Kenya Commercial Bank Limited in East African Common Market. The study adopted a case study approach. Qualitative data was collected from Head of Trade Services in Kenya Commercial Bank Head Office, Nairobi and was analyzed by use of content analysis. The research findings indicate that Kenya Commercial Bank benefits from the Common Market as there is free movement of all the factors of production such as people capital, goods, labour and services across borders and as result boosted the trade and investment and made region more competitive and productive. There is also free movement of workers between Kenya and Rwanda and it only takes 30 days for citizens to be given work permits. However, there are plans for citizens to start using their national identity cards as travel documents in bilateral arrangements that seek to motivate other EAC members to drop the use of passports. The findings also indicate that Kenya Commercial Bank also partnered with Visa and launched its MeCash prepaid card to allow users to make payments with more ease and to allow its customers to manage their finances by eliminating the need to carry cash. Furthermore, the findings indicate that Kenya Commercial Bank has regional business continuity blue print as a way of safeguarding its customers and regional business. KCB signed a Memorandum of Understanding with Uganda's Kenswitch, Rwanda's Rswitch, and Tanzania's Umoja. Its goal is to expand the entire African continent and move towards having a cashless economy. There is also the aspect of Real Time Gross Settlement system (RTGS), where settlement is made within a day as compared to the previous two or three days taken to receive money. The findings also indicate that Non-tariff barriers are said to be higher in Tanzania than any other EAC and this is because of Tanzanian bureaucratic system and government foreclosure laws that are highly in favor of the borrower thereby making banks such as KCB not to invest in housing market. The study concluded that Kenya Commercial Bank has managed to penetrate and expand within EAC in spite of the NTBs. However, there still needs to be harmonization of legal and regulatory framework within EAC in order for the bank to achieve positive results.

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## **ABBREVIATIONS & ACRONYMS**

BCR- Commercial Bank of Rwanda  
CBK- Central Bank of Kenya  
CSDs- Central securities depositories  
CU-Customs Union  
EABC-East African Business Council  
EAC-East African Community  
EACCU-East African Community Customs Union  
EPA-Economic Partnership Agreement  
EU-European Union  
ICT-Information Communication and Technology  
ITT-International Terms of Trade  
KCB- Kenya Commercial Bank  
LTD-Limited  
MRS-Marginal Rate of Substitution in Consumption  
MRT-Marginal Rate of Transformation  
NGOs-Non Governmental Organizations  
NTBs- Non-Tariff Barriers  
RTGS- real time gross settlement systems.  
SADC- South African Development Community  
SPS- Sanitary and Phyto-sanitary Standards  
TBT-Technical Barriers to Trade  
WTO-World Trade Organization



# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background to the Study**

The East African Community (EAC) launched a regional common market in July 2010 which was followed closely by the full implementation of the customs union, realized after a five-year transition period. While all the partners have been able to eliminate a significant proportion of tariffs on intra-EAC trade and agree on a common external tariff, there has been more limited progress in addressing trade restrictive non-tariff measures (NTMs), which are referred to as non-tariff barriers (NTBs). The EAC Customs Union Protocol makes specific reference to the need to eliminate NTBs and to refrain from imposing new ones. Recognition of the importance of reducing NTBs has resulted in Partner States and the EAC Secretariat devoting considerable time and attention to identifying specific measures of removing NTB. (Jensen, M. F, 2010)

NTBs on banking are generally understood to refer to any measure other than a tariff that causes banking charges distortion. A banking charge distortion exists where the price of a product/service at the border diverges from the domestic price and can result from regulations or administrative procedures which are imposed to serve a specific objective such as ensuring another country banking industry safety, or addressing banking product safety or economic issues. The pursuit of such domestic policy objectives is quite legitimate; however, in many cases the regulatory policies, procedures, and administrative requirements are implemented in a manner that effectively discriminates

against imports services relative to domestic products meant to be exported to other countries, constraining businesses. The rise in prominence of NTBs mirrors the reduction of tariffs in progressive rounds of trade liberalization at the multilateral and regional levels. For instance, the multilateral agreements of the World Trade Organization have focused on developing core principles for addressing NTBs, including transparency, non-discrimination, and proportionality.

### **1.1.1 Concept of International Business**

International business means carrying on business activities beyond national boundaries. These activities normally include the transaction of economic resources such as goods, capital, services (comprising technology, skilled labour, and transportation, among others.), and international production. Production may either involve production of physical goods or provision of services like banking, finance, insurance, construction, trading, and so forth. Thus, international business includes not only international trade of goods and services but also foreign investment, especially foreign direct investment. (Everist & Mugoya, 2009)

The nature of international business focuses on three broad areas mainly; participants (individuals, firms, governments or countries, NGOs and international organizations such as East African Community Customs Union), activities (exports, imports, Foreign Direct Investments, Capital provision, Licensing, contracting and Joint Venture) and Environment (political, social, cultural, legal, physical, technological, competitive and distributive forces. (Jepma and Rhoen, 2002).

International trade that is regulated through regional schemes affecting Non-Tariff Barriers can best be illustrated through a few examples. A good example can be seen where a truck from Mombasa destined for Kampala goes through eight weigh-bridges and that excludes the weighing done before the cargo leaves the loading zone. Each of them are characterized by lengthy traffic jams and delays with a truck spending at least one hour at more than three weigh-bridges between Mombasa and Kampala. These delays contribute to a major hindrance to East Africa international trade. (Odhiambo, 2010)

In some cases, maize and beef cattle traders are reported to be paying a bribe at any of the customs clearance points along the trading routes with the amount of the bribe determined by the consignment value. Bribes are usually initiated and paid to customs officials to shorten the process of clearance so as to have a quicker release of goods. Some customs officials may ignore some cumbersome processes if they are offered a bribe. Such fees do not only hinder trade facilitation but also undermine the spirit of East Africa Cooperation. (World Bank, 2008)

Moreover, there are varying requirements on commercial trucks used in transit traffic, bottlenecks in offloading imports at the Port of Mombasa and Dar-es-Salaam port, unrealistic grace period on imports before application of demurrage, and application of insurance bonds even on goods traded within the region. (Odhiambo, 2010)

Other barriers include police road blocks that are perceived by traders as very expensive in terms of time lost and monetary cost incurred. Even though road blocks improve security along major highways, the cumbersome clearance at such roadblocks is time

wasting and is coupled with corruption mainly in form of bribery. (Everist&Mugoya, 2009)

### **1.1.2 Non-Tariff Barriers (NTBs)**

By definition, any restriction imposed on the free flow of trade is considered a trade barrier. Trade barriers can either be tariff barriers, that is levy of ordinary customs duties within the binding commitments undertaken by the concerned country (in accordance with Article 11 of GATT), or non-tariff barriers, that is any trade barriers other than the tariff barriers. However, since NTBs appear in the form of rules, regulations and laws that have a negative impact on trade, the East African Community (through the East African Business Council-EABC), defines Non-Tariff Barriers as quantitative restrictions and specific limitations that act as obstacles to trade. They arise from policy interventions by governments and authorities in the form of government laws, regulations, policies, conditions, restrictions or specific requirements, procedures and processes, private sector business practices or prohibitions that affect trade in goods or protect the domestic industries from foreign competition. (World Bank, 2008).

Non-tariff barriers to trade include; import policy barriers, anti-dumping and countervailing measures, standards, testing, labeling and certification requirements, export subsidies and domestic support, service barriers, government procurement and lack of adequate protection to Intellectual Property Rights. Others include; import quotas, levies, embargos, sanctions, special licenses, unreasonable standards for the quality of goods, bureaucratic delays at customs, export restrictions, limiting the activities of state trading, and export subsidies. (World Bank, 2008).

### **1.1.3 East African Community**

There has been a relatively long tradition of attempts to integrate the economies in East Africa. Starting in 1948 with East African High Commission, several attempts have been made to foster deeper integration of Kenya, Uganda and Tanzania. With different reasons playing a confounding role, most of these efforts finally failed. However, the most recent attempt, the new East Africa Community (EAC) reaches far beyond the failed ones in the past. It was agreed on in 1999 and envisages first the establishment of a customs union, then a common market, monetary union and ultimately a political federation. The first step was the establishment of EAC customs union that was planned for November 2003. It aimed to eliminate all remaining intra-regional tariffs and to remove non-tariff barriers and introduce a common external tariff, World Bank survey (World Bank, 2008)

The East African Community Customs Union (EACCU) commenced its operations within Kenya, Tanzania and Uganda on 1 January 2005. Burundi and Rwanda acceded to the EAC in July 2007. At the end of 2007 the Eastern African Community-Kenya, Uganda, Tanzania, Rwanda and Burundi agreed on a region to region framework-Economic Partnership Agreement (EPA) with the European Union. (World Bank, 2008).

### **1.1.4 Banking sector in Kenya**

The history of Kenyan banks dates back to 1896 when the National Bank of India opened an outlet in Mombasa. Eight years later in 1904, the bank extended its operations to Nairobi, which had become the headquarters of the expanding railway line to Uganda. (Annual banking survey, 2013)

The next major change in the bank's history came in 1958. Grindlays Bank merged with the National Bank of India to form the National and Grindlays Bank. Upon Kenya's independence in 1963, the Government of Kenya acquired 60% shareholding in National & Grindlays Bank in an effort to bring banking closer to the majority of Kenyans. In 1970, the Government of Kenya acquired 100% ownership of the bank's shares to take full control of the largest commercial bank in Kenya. National and Grindlays Bank was renamed Kenya Commercial Bank. (Annual banking survey, 2013)

In the 1980's and early 1990's, several countries in developed, developing and transition economies experienced several banking crises requiring a major overhaul of their banking systems (IMF, 1998). Kenya has experienced banking problems since 1986 culminating in major bank failures (37 failed banks as at 1998) following the crises of; 1986 - 1989, 1993/1994 and 1998 (Kithinji & Waweru, 2007). Presently, several developed countries including the USA are experiencing a banking crisis. For example the Citibank group alone, has written off more than \$39 billion in losses (Elliot, 2010). Despite the problems facing the global financial market, Kenyan banks have remained relatively stable. Clifford (2012) attributes this to a combination of regulatory discipline and cultural growth strategy among Kenyan banks to East African common market.

Despite the considerable body of banking literature that has been conducted to examine the relationship between banking growth and impediments to that growth in various countries as well as industries (Sheridan, 1992), there is very little literature that recognizes Non-tariff barriers on banks within the context of a common market, particularly on how Non-Tariff barriers affect local banks in east Africa common Market.

Everist & Mugoya (2009) point out that NTBs stands as the center from which all other factors that impede common market success are derived. It is believed that Non-Tariff Barriers though might have been outlawed in the Treaty for East African Community (EAC) and the East African Customs Union protocol of 2006; their impacts greatly hamper the ease of doing business for both importers and exporters. Moreover, they often end up having a cost implication. This paper seeks to find out the extent to which Non-Tariff barriers affect Kenyan banks growth to East African Common Market by studying how it has impacted on KCB, East African largest bank in terms of assets and regional presence.

#### **1.1.5 Kenya Commercial Bank Ltd**

The Bank's vision is to be the preferred financial solutions provider in Africa with global reach. Its mission is to drive efficiency whilst growing market share in order to be the preferred financial solutions provider in Africa with global reach. The KCB Limited group is the largest financial services group in East Africa, with an asset base estimated at over US\$ 4.5 billion. As of March 2014, KCB group had the widest network of banking outlets covering Kenya, Uganda, Rwanda, Southern Sudan, Tanzania and Burundi backed by over 290 automated teller machine outlets. The bank has a wide network of correspondent relationships totaling to over 200 banks across the globe for a seamless facilitation of their international trade requirements. The history of Kenya Commercial Bank dates back to 1896 (KCB booklet, 2014).

KCB has experienced tremendous growth since then in both infrastructure and business volumes. Currently, the bank serves close to four million customers spread across the

region and boasts the largest balance sheet of any indigenous commercial bank in the region (over USD 4.5 billion). The Bank provides a wide range of banking services; from corporate banking and trade finance products through propositions for small to medium enterprises and individual clients, to mortgage finance and credit card facilities. The Bank reviews its products and services to tailor them to specific customer needs and add variety to their offering. As a regional bank, it is committed to working with other stakeholders to boost the region's capacity to conduct trade among members. This was realized by providing an improved information technology platform that facilitates online real-time one-branch banking, fast transmission of payments and easy access to funds wherever their customers may be in the region. The banks' ultimate dream is to be a Pan-African bank, supporting growth and development for a majority of people in Africa in the foreseeable future.(KCB booklet, 2014).

The management at KCB views Non-Tariff barriers as a critical impediment to East African Integration process. This is evidenced by the strategic objectives of the bank. KCB's senior management and regional board members critically value communities in which they operate in. For instance, KCB continues to sponsor peace talks in Sudan, automation of payment systems, sponsoring security initiatives and other initiatives geared towards reduction of NTBs to trade. (KCB booklet, 2014).

## **1.2 Research Problem**

Success of EAC integration occupies an important place in the list of main concerns of the member states governments'. This is because on one side it helps in strengthening economies and political structures of the members states and on the other it reduces both



tariff and NTBs which reduce trade within the common market. Researchers link strong common market with lesser barriers to trade. Much of early work on EAC tends to focus on broad factors impacting on EAC common market. There seem to be less research on NTBs and their impact on banking industry in the context of EAC common market, which this study seeks to investigate (World Bank Survey 2008).

For the Management at Kenya Commercial Bank, the concept of East African Community integration success is just as important as it is for any other organization keen on improving its performance through regional expansion. This is why the Bank has rolled out aggressive regional expansion and currently has branch operations in all the EAC members' states. The aim of this regional expansion programme is to fast track strengthening of EAC common market on one hand by appreciating their internal customer with businesses across the region and on the other serve the external customer better. There is a renewed energy in the company to revamp and be a leading Pan African bank. This therefore means that there is a genuine need to interrogate whether this renewed energy to transform KCB as a pace setter to EAC integration is justified. That is the very reason why this study is being conducted at this time. (KCB booklet, 2014).

The following studies have so far been done locally on trade in East Africa Community: (Shiluli, 2009) on the influence of EAC Custom Union on the operations of East African Breweries limited operations; Gachangi, 2012) on the Effects of EAC Common Markets on Cross Border Business for Kenya Association of manufacture's members; The closest studies so far were by (Kigen, 2012) on Factors Influencing regional Trade within the EAC Common markets.

Research findings keep changing with time such that what happened a year ago may not hold now (Opande, 2006). It is evident from the foregoing research Literature that no previous study, at least in Kenya, has explored the extent to which Non-Tariff barriers impact on Banking industry in EAC Common Market and more so in Kenya Commercial Bank. Even the foregoing studies that were done in different contexts do not clearly bring out the extent to which Non-Tariff barriers impact on banking industry within a common Market. Therefore, it is not in dispute that there exists a knowledge gap and this is an area worth further research, a research that would unearth the exact nature of the impact of NTBs on banking if at all there is any. The study aims to answer the question; what were the effects of Non-tariff barriers on Kenya Commercial Bank Limited in East Africa Common Market?

### **1.3. Research Objectives**

The main objective of this study was to find out the effects of Non-tariff Barriers on Kenya Commercial Bank Limited in East African Common Market.

### **1.4. Value of the Study**

Elimination of Non trade barriers within EAC was expected to promote regional investment levels, spur economic growth, scale up exchange of goods and services, promote socio economic cooperation within which would directly contribute to the improved political and trade relations. This is due to the fact that each country has something to produce and offer to others based on the theory of comparative advantage. (Odhiambo, 2010).

The study was of critical importance to empirically find out the extent to which NTBs impact on KCB Limited in EA common market. It sought to find out the extent of NTBs to trade in the context of banking in EA common market by looking at KCB as a case study.

The findings of the study are expected to benefit the Government, through the East African Community Customs Union (EACCU), European Union (EU) and Economic Partnership Agreement (EPA) in formulating international trade policies. The study will also form a basis for future researchers and academicians who may be conducting research on Non-Tariff Barriers to Trade and result in secondary data for other related studies.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews literature by previous scholars and authors on the topic of study. Section 2.2 covers theory of Regionalization. Section 2.3 covers advocating for free trade. Section 2.4 covers Trade Protectionism. Section 2.5 covers Barriers to Exportation and Section 2.6 covers Technical Standards and Health Regulations. Theoretical

#### **2.2 Theory of Regionalization**

For slightly over a hundred years, formal regionalization has been part of the East African political landscape. Regionalization commenced during the colonial period as an effective tool of colonial management. During that time, Britain and Germany perceived the region as one economic unit and sought to coordinate it as a regional bloc. They did this through the creation of the East African Common Market, which became fully functional in 1927 and stipulated the terms of a customs arrangement between British East Africa and German East Africa. Within this common market, the three East African states shared a common currency, a joint income tax board, a joint economic council, and a single East African high commission. There were also over forty East African institutions in the field of research, social services, education, training and defense (Kasaija, 2006)

As independence loomed, African leaders from the three East African states supported deeper integration in the region. For instance, President Julius Nyerere of Tanganyika

(Tanzania) was willing to delay the country's independence for a year so that the East African states could simultaneously gain independence and establish an East African Federation. In June 1963, discussions were held to map a way forward for the creation of a political federation in East Africa. During the meeting, the support for a unified East Africa was evident when key leaders of the region emphatically issued a joint declaration that "we believe a political federation of East Africa is desired by our peoples. There is throughout East Africa a great urge for unity and an appreciation of the significance of federation" (Kasaija, 2006).

The enthusiasm for political unity and its subsequent appeal for an East African federation diminished dramatically after independence. This was mainly because the newly independent states were reluctant to dissolve their sovereignties into the supra-national regional scheme. Moreover, ideological differences that emerged as a result of the alignment of African states with either the pro-capitalist West or the pro-communist East derailed and eventually led to the collapse of the East African Community (EAC) in 1977 (Delupis 1970)

Regionalization in East Africa reemerged in the wake of the end of the Cold War and the remodeling of the study of regionalization as "new regionalism". This new approach is characterized by several changes. While earlier studies focused on formal state initiated regionalization, new regionalism incorporates the role of non-state actors in regionalization processes. Furthermore, unlike previous studies that fell within the framework of a bipolar world, recent studies factor in the multipolar transformation that is taking place in international politics (Schultz et al. 2003; Hettne & Soderbaum, 2002).

This transformation has given rise to new security concerns, resulting in the assimilation of new regionalism and security studies (Turner 2009; Fawcett et al. 1998)

Within this context, new regionalism is seen as a strategy through which actors can cope with global security and development transformations, given that threats and challenges in today's complex and diverse world cannot be adequately addressed within the framework of the state-centric Westphalia system. Furthermore, the evolving multipolar international system has empowered all stakeholders involved in regionalization processes in Africa. The end of the Cold War ushered in a new era of freedom that enables both state and non-state actors to freely engage with those whom they could not have comfortably dealt with inside of the confining ideological and political constraints of the bipolar world. In spite of the post-Cold War developments, integration in East Africa has been at best lethargic and to a large extent manifests the characteristics of an anachronistic, state-centric, Cold War regionalization process.(Turner 2009; Fawcett et al. 1998)

### **2.3 Advocating for Free Trade**

Free trade also known as laissez-faire is a policy by which a government does not discriminate against imports or interferes with exports by applying tariffs (to imports) or subsidies (to exports). A free trade policy does not necessarily imply however that a country abandons all control and taxation of imports and exports.(Thompson, Henry, 2000).

### **2.3.1 Benefits from Free Trade**

In Franklin's case for free trade, he gives a strong argument of the benefits from free trade. The principle of comparative advantage demonstrates that for the world free trade leads to a higher level of output and income than no trade. Free trade also enables each nation to obtain a higher level of production and consumption than can be obtained in isolation. Under perfect competition, free trade achieves a worldwide allocation of resources that meets the requirements optimality. It is impossible to make anyone better off (through allocation) without making someone else worse off. Free trade achieves equality between each country's marginal rate of transformation in production (MRT) and its marginal rate of substitution in consumption (MRS) and the international terms of trade (ITT). In contrast, trade barriers prevent this equilibrium condition by creating divergences between the domestic and international prices of tradable goods. Hence, under protection,  $MRT=MRS \neq ITT$ . It follows, therefore, that trade barriers cause a suboptimal allocation of the world's factors of production and a lower world real income than would exist under free trade. (Thompson, Henry, 2000).

Comparative advantage is the foundation of international trade and one of the most universal principles in science. Nations, firms, or individuals that ignore their comparative advantage will be less efficient and ultimately not as well off as with specialization and trade. Protectionism restricts the ultimate beneficial effects of exploiting comparative advantage through free trade. Protectionism restricts international trade, lowering national income and distributing income more unevenly. Economists have yet to persuade governments to give up protectionism. (Thompson, Henry, 2000).

### **2.3.2 Extending market abroad**

As most nations and regions continue to become more involved in the world economy, it is critical that the states, in their economic development efforts, explore the foreign trade structure of their economies to obtain a clearer understanding of where their industrial comparative advantages lie. With this knowledge, a state will be able to maximize the benefits of foreign trade as it more efficiently targets its limited economic development resources. (Jepma and Rhoen, 2002)

Trade has played a vital role in the development of most economies. Trade is an engine of growth. The contribution of international trade is so immense that few countries could become self-sufficient even with the greatest effort. Contemporary economies have been shaped by the international trade and specialization of the past, and their continued viability is closely dependent on the world economy. (Cavusgil and Czinkota, 2001)

But even countries that are able to supply their own peoples with the basic necessities of life out of domestic production would be faced with an unbearable decline in living standards if they were cut off from international trade. Manufacturing industries would also face many difficulties. Without imports, many raw materials would no longer be available and inferior substitutes would replace them. Domestic supplies of other raw materials would no longer be supplemented by imports, and their prices would rise to increase costs of production all along the line. The loss of export markets would also cause severe dislocations in many manufacturing industries. (Root, 2000).



## **2.4 Trade Protectionism**

It is much more difficult to find the theories or scholars advocating trade protectionism through literature reviews compared to free trade. But there are still several arguments for protection, such as national security, infant industry, and diversification analyzed by Franklin.(Root, 2000).

### **2.4.1 National Security Argument**

One of the reasons to protect national industry is the need to maintain an ‘adequate’ national defense. Even Adam Smith, the venerable father of free trade, wrote in 1776 that ‘defense is much more important than opulence’ (Adam Smith, 1937). The problem lies in defining the specific requirements of national defense and the proper way to meet those requirements. Otherwise the national security argument may be used to justify complete self-sufficiency or the protection of any industry. Since most producers consider their activities essential to the defense of their country, the national security argument is particularly subject to abuse.

### **2.4.2 Infant Industry Argument**

In its traditional form, the infant industry argument asserts that a new industry which has a potential comparative advantage may not get started in a country unless it is given temporary protection against foreign competition. Most often, the argument stresses the necessity of protected domestic markets that will offer an opportunity for economies of scale in production. Protection would enable local manufacturers to get competitive with foreign manufacturers who already enjoy economies of scale. Moreover, it would also

afford local producers the time to improve their skills in management, production, marketing, and the application of technology. Once competitive strength was built up, protection would be abandoned for free trade. (SorenKjeldsen-Kragh, 2001)

The diversification argument for protection is actually two arguments that commonly masquerade as one. One argument urges import protection as a means to bring about a diversification of exports so as to lessen instability in export income. The second argument proposes import protection as a means to achieve diversification in the domestic economy and thereby promote economic growth. Both arguments are put forth mainly by representatives of the non-industrial, developing nations. (SorenKjeldsen-Kragh, 2001)

## **2.5 Barriers to Exportation**

Most nations have a distinctive linguistic and cultural identity in addition to a basic political identity. But in Franklin Root's opinion, this is not always true, for example the nations that have more than one official language and more than one cultural group in their populations. Moreover, several nations may share a common language and a common cultural heritage. Nevertheless, it is true that people tend to be like each other in more ways when they belong to the same nation than when they belong to different nations. Hence, international trade, unlike most interregional trade with nations, involves persons of different languages, customs, attitudes, values, and other cultural traits. (Root, 2000).

The policy instruments used by governments could have nature and economic effects to the flows of goods and service in the world economy. The traditional policy instrument is the import tariff. But government also resorts to a bewildering variety of measures to restrict imports or subsidize exports. These measures are collectively designated as non-tariff trade barriers (Root, 2000).

### **2.5.1 Tariffs Trade Barriers**

Tariffs may be designed to collect revenue for the government or to protect domestic industries against foreign competition (Root, 2000). In order to perform revenue function better, governments have to set the tariffs rates on proper level (not too high actually) to maximize tariffs revenue. Thus import tariffs applied by this purpose cannot be regarded as tariff barriers. As tools of national economics policy designed to regulate the international trade of a nation, normal tariffs collections are commonly acceptable methods also, especially in previous industries age. Actually only those extremely high and additional import tariffs as quantitative measures of restriction are the real tariffs barriers, i.e. surcharges with emergency, short-lived character. That is the real protection function of the tariff.

### **2.5.2 Non-Tariff Trade Barriers**

As the industrial countries have progressively cut tariff rates under the auspices of the GATT and WTO, non-tariff trade barriers have become more and more prominent, and are used more generally and frequently. (World Bank, 2008).

Quantitative measures of restrictions ordinarily take the form of import quotas that are administered by the issuance of import licenses to individual traders. Import quotas are applied in three major types throughout the world, i.e. unilateral quotas, negotiated bilateral or multilateral quotas, and tariff quotas. Import quotas are commonly regarded as restrictions on quantities, which are more efficient to limit importations. However international trade disputes rose more easily due to frequent applying this tool of trade protection. (World Bank, 2008).

According to the 'Agreement on implementation of Article VI of the General Agreement on Tariffs and Trade 1994' dumping exists 'if the export price of the product exported from one country to another is less than the comparable price, in the ordinary course of trade, for the product when destined for consumption in the exporting country.'(Jepma and Rhoen, 2002) Franklin describes dumping like, the practice of selling a product in one national market at a lower price than that for which it is sold in another national market. Dumping, therefore, is price discrimination between national markets. Although persistent dumping benefits the importing country by improving its terms of trade, governments consider all forms of dumping by foreign producers to be bad. Consequently, many governments have anti-dumping regulations that usually involve a remedial or punitive anti-dumping duty. It is widely recognized that anti-dumping regulations can easily be used for protection against foreign competition.

Dumping and anti-dumping have already been significantly global issues in recent years. As a type of legal tool to maintain impartial trade within the framework of WTO, anti-

dumping is frequently applied by many countries to protect domestic industries and markets. From economics perspective, when import country and export country have similar factor proportion, the competitive advantage on trade mainly depends on economies of scale, products differentiation and market structure (Yao, 1999). Due to the imbalance in developing industrialization, some developing countries with the same factor proportion import the products characterized with economies of scale and uniqueness, meanwhile the disputes on anti-dumping are more and more intense.

Many national governments, anxious to promote certain domestic industries, pay subsidies to domestic producers or exporters. Subsidies may be extended in the form of outright cash disbursements, tax exemptions, preferential exchange rates, governmental contracts with special privileges, or some other favorable treatment. The granting of subsidies results in a cost advantage to the recipient, so they are an indirect form of protection. Subsidized products that move in international trade tend to nullify the protective effect of a tariff in the importing country. To reinstate the intended level of protection, the importing country may impose, in addition to the regular tariff duties, a special surtax or countervailing duty, which is generally equal to the amount of the foreign subsidy. In this matter, the landed cost to the domestic importer is raised by the amount of the subsidy granted to the foreign producer or exporter by the foreign government. (Subatomic, 1999)

## **2.6 Technical Standards and Health Regulations**

Governments apply many regulations to imports with respect to safety, health, marketing, labeling, packaging, and technical standards. Although generally desirable on social grounds, such regulations may discriminate against imports by imposing greater hardships on foreign than on domestic producers. Because of the increasing technical nature of products, rising living standards, and social pressures, a continuing proliferation of technical and health regulations are expected. The above mentioned are several frequently used typical non-tariff barriers, furthermore, new non-tariff barriers are continually created as governments respond to changing circumstances. (World Bank, 2008).

The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The agreements were negotiated and signed by governments. The goal is to improve the welfare of the peoples of the member countries. (Subatomic, 1999)

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter covers the research methodology that was used in the study. Section 3.2 covers the Research Design. Section 3.4 covers Data Collection. Section 3.5 Data analysis

#### **3.2 Research Design**

The research was a case study on Kenya Commercial Bank's Ltd effects of non-tariff barriers in East African Common Market. According to (Kothari, 1990), a case study is a form of qualitative analysis that involves a careful and complete observation of a social unit.

#### **3.4 Data Collection**

The primary data was collected from the managing director at KCB-Kenya headquarters through an interview guide. The interview guide included both structured and unstructured interview questions. These questions were administered by the researcher interviewing at KCB. The information sought was related to the challenges faced when dealing with non-tariff barriers while venturing into new markets within East African common market and how they managed those challenges

### **3.5 Data Analysis**

Content analysis was used to analyze the data. According to Kothari (1990), content analysis consists of analyzing the contents of documentary materials such as magazines, books, newspapers and the contents of all other verbal materials which can either be spoken or printed. It is a technique of making inferences by systematically and objectively identifying specific characteristics of messages and using the same to relate to trends. Content analysis examines the intensity with which certain words have been used and systematically describes the form or content and or spoken material. (Kombo and Tromp, 2006)



## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

The objective of this study was to find out the effects of non-tariff barriers on Kenya Commercial Bank Ltd in East African Common Market. Primary data was collected from Head of Trade Services at the Kenya Commercial Bank at the bank's headquarters in Nairobi, Kenya. The data was analyzed by making inferences from the views expressed by the Head interviewed by the researcher. The findings were presented in the order of the questions as shown in the interview guide.

#### **4.2 Kenya Commercial Bank Subsidiaries**

In 1997, Kenya Commercial Bank (Tanzania) limited was incorporated in Dar-es-Salam, Tanzania to provide banking services and promote cross border trading. Since then the bank has 11 branches. In quest of his vision: In May 2006, KCB extended its operations into Southern Sudan to provide conventional banking services. The subsidiary has now 11 branches. The second last addition to the KCB family came in November 2007 with the opening of KCB Uganda which has 14 branches. In December 2008 KCB Rwanda began its operations with one branch in Kigali. Currently there are 9 branches. The newest addition to KCB family came in May 2012 KCB Burundi which started its operations with one branch in Bujumbura. Currently there are 2 branches.

### **4.3 Non-Tariff Barriers in East African Common Market**

The rationale for the East African Common Market is fascinating. It has the potential to build economies of scale, accelerate competitiveness and bring the region closer to achieving its dream of a single investment destination. The Common Market can enlarge opportunities for the private sector and uplift the living standards of its citizens in a way that no Partner State can do on its own. However, full execution of the Common Market is a challenging task. It calls for strong implementation by all parties, predominantly the Partner States so as to deliver the rights and freedoms enshrined in the EAC Common Market Protocol. This necessitates a robust enactment cycle which includes planning, implementation and monitoring of progress.

East African Common Market faces a number of NTBs among them being customs documentation and administrative procedures which include non-standardized systems for import declaration and payment of applicable duty rates; cumbersome procedures for verifying containerized imports; non-acceptance of certificates and trade documentation; incorrect tariff classification limited and uncoordinated customs working hours, different interpretation of the rules of origin and non-acceptance of the certificate of origin; application of discriminatory taxes and other charges on imports originating from member state.

Other NTBs that East African Common Market faces includes; immigration procedures including non-standardized visa fees, cumbersome and duplicated immigration procedures. Quality inspection procedures such as delays in inspection of commercial

vehicles, cumbersome and costly quality inspection procedures, unnecessary quality inspections (including of products certified by internationally accredited laboratories); non-standardized quality inspection and testing procedures and varying procedures for issuing certification marks.

Business registration and licensing which includes varying business registration procedures and lack of preferential treatment to EAC originating businesses versus foreign originating businesses, which makes cross-border registration of business a problematic process, cumbersome and expensive labor-intensive processes used in business names chase, registration and payment of pertinent charges, multiplicity of licenses used in production and distribution and sale of goods thereafter resulting to duplication and inhibitive cost of doing business in the region.

#### **4.4 Effects of Non-Tariff Barriers on KCB Ltd in East African Common Market**

The respondent was asked how CBK regulates and supervises Kenyan banks with subsidiaries and branches outside the country. It was established that Kenya Commercial Bank is regulated and supervised by Central Bank of Kenya (CBK). CBK's regulatory and supervisory purview spans athwart the entire group of corporations since risks that may affect the steadiness of the bank may emanate from any of the members of the group. Furthermore CBK in conjunction with the East African Community member states and other regional Central Banks have embraced the theory of supervisory colleges as part of the supervisory framework for regional banking groups. According to the respondent, a supervisory college is a forum of banking supervisors to share knowledge

and information on regional banks. Through supervisory colleges, CBK and other regional Central Banks are competent enough to promote the stability of the regional banking system.

The study established that Kenya Commercial Bank's legal requirement in compliance with Non-Tariff Measure is governed by the Companies Act, the Banking Act (Cap 488), the Central Bank of Kenya Act and the various prudential guidelines issued by the CBK. It was gathered by the respondent that CBK falls under the Ministry for Finance which is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system.

The study also established that Kenya Commercial Bank is one of the banks that took advantage of the Common Market and have since opened branches in other Partner States. The Common Market provides for free movement for all factors of production, namely free movement of goods, labour, people, capital and services across borders, which have significantly, boost trade and investments and made the region competitive, productive and prosperous. KCB is granted licenses to operate within East Africa Common Market and this is based on the Bank's cooperation to comply with all the necessary documentation procedures required by the country. These permits are renewed annually.

Furthermore, the respondent gathered that Kenya and Rwanda have fully freed movement of workers between themselves which has since seen exchange of labour in the two

states. Kenya took advantage of this by eliminating work permit fee for EAC citizens and this speeded up the process of applying for work permits to work in other EAC states which only takes 30 days. KCB adopted this by venturing within East African Community and deployed some of its employees in these regions for business continuity. Additionally, it was established that Citizens of Kenya and Rwanda will start using their national identity cards as travel documents in a bilateral arrangement that seeks to motivate other East African Community (EAC) members to drop the use of passports at their borders.

However, despite the achievements of the EAC common market, the respondent mentioned that the region is still facing implementation difficulties which have slowed down the full integration process. The biggest hurdle remains the implementation of the EAC Common market protocol where partner states are anticipated to domesticate institutional, legislative and regulatory changes. Also the region is faced with inadequate and weak legal and regulatory framework and in some instances; new laws have to be developed. Partner states are also grouchy of lack of a broad based regional services private sector platform to increase public private talks with service sector.

It was established by the respondent that language barriers also pose major challenges. Countries belonging to a regional economic community in most cases have different official and national languages. A good example is the EAC, the official language in Kenya and Uganda is English, in Tanzania is Kiswahili, while in Rwanda and Burundi it is French, which is based on the colonial heritage of the member states. If the Common

Market in the EAC region is to be fully implemented, then the region requires one common language at least for purposes of interaction and conducting business in the region. Nonetheless language is closely entangled with the culture of the people and therefore it would be difficult to force nationals of a particular member state to adopt a new language for communication purposes. However, for people seeking to trade within the region, there is a compelling cause for them to strive to learn the dominant language for trade in those respective partner states. The challenge nevertheless arises in cases where the language barrier becomes a problem to attain employment in the host country.

The respondent was also asked some of the regulatory barriers facing KCB. The Head of Trade Services Mr. John Langat said that for KCB the implication for political risk is that there is a measure of likelihood that political events (in countries where the Bank has branches such as Southern Sudan which is still politically unstable) may complicate the Bank's pursuit of earnings through direct impacts-such as taxes or fees-or indirect impacts-such as opportunity cost forgone. As a result, political risk is similar to an expected value such that the likelihood of a political event occurring may reduce the desirability of the Bank's investment by reducing its anticipated returns.

The respondent also said that Non-tariff barriers are higher in Tanzania than any other EAC state. The housing market remains quite risky for banks. The Tanzanian government has yet to address problems with foreclosure law which is highly biased in favor of the borrower. Contract enforcement is also a burden. KCB still faces the challenge of frustration with long lead times and protracted settlement periods. More accountability is

also needed from judges. These issues are endemic to the Tanzanian bureaucratic system, notorious for being generally slow, often corrupt and most always inefficient. Part of that inefficiency stems from the country's lack of skilled labour which has traditionally restrained private sector growth as well.

The respondent was also asked how KCB managed to penetrate within EAC in spite of the NTBs. The researcher gathered information that Kenya Commercial Bank acquired 80 percent shares from Commercial Bank of Rwanda (BCR). The Bank has since created employment opportunities for locals, enhanced the service sector through competitiveness and brought in new technologies. Moreover, the Bank has helped in generating and increasing domestic revenues as well as new knowledge and skills among the nationals.

The respondent also gathered that KCB partnered with Rwanda and launched a Developers club in 2009. The club was launched with the aim of providing a unique platform that allows both well-known and potential estate developers to explore opportunities to partner with local developers to bridge the gap in the real estate sector. The club has currently over 300 members and it is assisting developers to sell their units through KCB's network and corporate partners. KCB Rwanda launched its mortgage product in 2011 by offering a minimum of 10 per cent deposit for first time home owners, a minimum 20 per cent deposit for residential units under construction and 30 per cent deposit for non-residential commercial properties.

The respondent was also asked the main challenges facing KCB in the area of Non-tariff barriers. It was established that Kenya Commercial Bank has invested up to \$70 million (Sh 7 billion) in the regional market and wants speedy implementation of the key freedoms under the common market to ease exchange of factors of production. The Head of Trade Services Mr. John Langat said that the bottlenecks in financial services regulatory framework has slowed down the bank's expansion bid. Most of the difficulties KCB encounters in regional markets are due to different pace of implementing regional agreements but there is always a clear mechanism for handling them successfully.

In matters concerning trade facilitation and whether KCB participates in discussions with the private sector over the issue, the respondent gathered that indeed the bank does participate however not regularly. For instance Burundi has made good progress in implementing the matrix as far as trade facilitation is concerned. Trade facilitation action plan was prepared that makes a clear distinction between what Burundi can do alone and what it has to work on with its neighbors, especially at the port of Dar es Salaam and Mombasa-Mpulungu. Cooperation has concentrated in particular on improving road corridors and the creation of one-stop border posts. The issues of transit and movement of goods are now treated in the framework of regional integration within EAC and COMESA. Other issues discussed include compatibility of business rules across subsidiaries within the region. These discussions are useful as they improve turnaround times in terms of what the bank has set to do within a specified period.



The respondent was also asked whether Kenyan regulatory framework inhibit/enhance EAC common market growth. It was established that Kenya is regarded as a capitalist country unlike the other East African countries and as a result, Kenya imposes numerous rules and regulations across a wide variety of sectors on imports, particularly from EAC partner states. Where these rules and regulations are poorly designed or implemented, they become non-tariff barriers. The responded also argued that Kenya is in an excellent position to benefit from EAC integration and expand its trade in services. Kenya being a net importer of goods but a net exporter of services, it was established that Kenya's services have experienced dynamic growth and the sector has further potential for expansion. However, regulatory barriers restrict services, particularly in the banking, professional and business sectors. Service trade liberalization and regulatory reform are needed to enable Kenya to benefit fully from EAC integration.

The respondent was asked whether regionalization improves KCB performance and it was established that KCB has continued to play a pivotal role in COMESA and the East African Co-operation. It was particularly fulfilling to witness the signing of the Treaty establishing the East African Co-operation in Arusha by the Heads of States of the three East African countries. The treaty ushered in a new commitment to a common in East African guaranteeing the free movement of goods, capital and people as well as the removal of all tariffs and non-tariff barriers.

The respondent was also asked whether KCB has regional business continuity blue print as a way of safeguarding its customers and regional business. It was established that KCB

indeed has regional business continuity blue print. KCB signed a Memorandum of Understanding with Uganda's Kenswitch, Rwanda's Rswitch, and Tanzania's Umoja. Its goal is to expand the entire African continent and move towards having a cashless economy. The adoption of IT solutions to delivery services has enabled financial institutions to reduce spending on physical premises and on staff costs. This has brought in huge benefits for customers in terms of speed, reliability and costs of making payments.

Moreover, there is the East African Cross Border Payment System (EAPS) that uses the Real Time Gross Settlement system (RTGS), which has been operational since 2005 where settlements are made immediately unlike the previous two to three days taken to receive money. The respondent gathered that the system is expected to ease money transfers within the region, where regional trade volumes are growing. Unlike the previous system that involved using a third party correspondent bank, the new system allows someone to walk into any commercial bank in the region, and ask to transfer money across the border. The only challenge that exists is that there must be a currency conversion first. A monitoring system has since been installed to curb any risks involved. It was also established that following a recent EAC heads of state summit in Kampala, Ugandan traders will be able to transfer money across borders in the East African region within a day thanks to a new initiative that has inter-linked the region's central banks. The initiative which was part of the projects by the East African Community member states to grow their capital markets has taken effect in Uganda, Kenya and Tanzania while Rwanda and Burundi are expected to join later.

The respondent also gathered that Kenya Commercial Bank (KCB) in partnership with Visa has launched its MeCash prepaid card to allow users to make payments with more ease and to allow its customers to manage their finances by eliminating the need to carry cash. KCB and Kenya Bus Service unveil a cashless payment debit card for their commuters dubbed Abiria Card. The card is MasterCard enabled and allows commuters to pay their fare as well as use other banking services.

Kenya Commercial Bank is well-known for its diversity and growth in the region and is presently strengthening its support for group operations and business with the aim of maintaining best practice and at the same time responding to the growing business needs in order to support internal and external customer service delivery objectives and increase shareholder value. In doing so, the respondent gathered that the bank has since launched M-Benki services, which would enable customers to borrow and save money online. The M-Benki service is planned to utilize Safaricom's money transfer service commonly known as M-Pesa. The Bank hopes to reach an estimated 10 million unbanked Kenyans and more people across East Africa.

The respondent was asked the main difficulties that KCB experiences in achieving compliance with national standards. It was established that KCB experiences system challenges where the bank is unable to institute smooth IT operations especially during end month. This results to slow teller and ATM customer service and as a result the customers either change pay point or avoid making transactions on such dates. Also, it was established that there is the challenge of the bank having many local currencies with

different tax regimes that are involved while doing transactions within the six regions.(Kenya, Uganda, Tanzania, Rwanda, Burundi and South Sudan).The bank also uses same model and brand across countries which could pose as a barrier given different national standards.

The respondent also gathered that the main difficulties that KCB experiences in achieving compliance with regional standards was that the bank faces different regulatory requirements in different countries within East Africa Community. Also there is the issue of non-cooperation with certain countries that are not keen on the regulatory standards set aside such as Tanzania.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

The purpose of this study was to establish the effects of Non-tariff barriers on Kenya Commercial Bank Limited in East African Common Market. The researcher was able to interview KCB Head of Trade Services who gave his views on this subject. This chapter will present a summary of the findings of the study as well as suggestions for further research.

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

It was established that Kenya Commercial Bank is supervised and regulated by Central Bank of Kenya which spans across the entire group of companies. The banks legal requirement in compliance with non-tariff measure is governed by the Companies Act, Banking Act, the Central Bank of Kenya Act and the various prudential guidelines that are issued by the CBK. Kenya Commercial Bank took advantage of the Common Market and has since opened branches in other Partner States. The bank benefits from the Common Market as there is free movement of all the factors of production such as people capital, goods, labour and services across borders and as result boosted the trade and investment and made region more competitive and productive. There is also free movement of workers between Kenya and Rwanda and it only takes 30 days for citizens to be given work permits. However, there are plans for citizens to start using their national identity cards as travel documents in bilateral arrangements that seek to motivate other EAC members to drop the use of passports.

Nonetheless, the region also faces the challenge of implementation of the EAC Common market protocol where the partner states are expected to domesticate legislative, regulatory and institutional changes. Language barriers also pose major challenges in EAC. For instance if the Common Market in the EAC region is to be fully implemented, it then follows that the region would require one common language for purposes of interaction and conducting business in the region. However, the language is intertwined with people's culture and therefore poses as challenge for nationals to adopt a new language for communication purposes. There is also the challenge of political risk in a country like Southern Sudan where the country is currently unstable due to its recent political events.

Non-tariff barriers are said to be higher in Tanzania than any other EAC and this is because of Tanzanian bureaucratic system and government foreclosure laws that are highly in favor of the borrower thereby making banks such as KCB not to invest in housing market. However, retail banking is at the heart of KCB's expansion strategy in Tanzania. The bank has opened six new branches since 2006 with a total of nine that are currently spread across the country. Kenya Commercial Bank has managed to expand in spite of NTBs and has managed to acquire 80 percent shares from Commercial Bank of Rwanda (BCR). The bank has managed to create employment opportunities for locals and better yet has launched Developers club that has currently over 300 members which is assisting developers to sell their units through KCB's network and corporate partners. Kenya Commercial Bank has also invested up to \$70 million (Sh 7 billion) in the regional

market and wants speedy implementation of the key freedoms under the common market to ease exchange of factors of production.

Kenya Commercial Bank has regional business continuity blue print as a way of safeguarding its customers and regional business. KCB signed a Memorandum of Understanding with Uganda's Kenswitch, Rwanda's Rswitch, and Tanzania's Umoja. Its goal is to expand the entire African continent and move towards having a cashless economy. There is also the aspect of Real Time Gross Settlement system (RTGS), where settlement is made within a day as compared to the previous two or three days taken to receive money.

Kenya Commercial Bank also partnered with Visa and launched its MeCash prepaid card to allow users to make payments with more ease and to allow its customers to manage their finances by eliminating the need to carry cash. KCB and Kenya Bus Service unveil a cashless payment debit card for their commuters dubbed Abiria Card. The card is MasterCard enabled and allows commuters to pay their fare as well as use other banking services. Kenya Commercial Bank in its effort to expand regionally in spite of NTBs has recently launched M-Benki services, which would enable customers to borrow and save money online. The offering is planned to utilize Safaricom's money transfer service commonly known as M-Pesa. The Bank hopes to reach an estimated 10 million unbanked Kenyans and more people across East Africa.

### **5.3 Conclusion**

The effects of Non-tariff Barriers on Kenya Commercial Bank Limited in East African Common Market relates to administrative and bureaucratic inefficiencies together with standards and technical requirements which are based on trade regulatory barriers. However, Kenya Commercial Bank is renowned for its diversity and growth in the East African Community and is currently strengthening its support for group operations and business with the aim of maintaining best practice whilst also responding to the growing business needs to support internal and external customer service delivery objectives and increase shareholder value.

### **5.4 Recommendations**

#### **5.4.1 Recommendations with policy implications**

The study has established that there should be harmonization of legal and regulatory framework within EAC. Kenya Commercial Bank cited differential tax regimes and other regulatory discrepancies as a major hindrance to further integration. Further work therefore needs to be done to align regulatory and supervisory frameworks and reporting requirements to address this issue. There is also need to establish a trade regulatory committee and consult stockholders to assess existing rules and regulations and be able to remove those that cannot be justified and notify the design and enactment of new rules in the least trade restrictive manner without compromising legitimate public strategy objectives.



Moreover, there is the need to cultivate an effective monitoring mechanism with probable sanctions for non-compliance. The COMESA-EAC-SADC Tripartite online reporting and resolution system is currently showing signs of encouraging progress and good practice. The binding dispute settlement processes of the WTO, and the experience of the EU in establishing a lawfully binding mechanism with sanctions for non-compliance, provide additional relevant models for the EAC to consider.

Kenya Commercial Bank also cited single licensing as an important aid to further integration in EAC. Therefore, if introduced, single licensing should also be extended to other market participants such as brokers and insurance companies in order to significantly reduce cross-border transaction times and costs and barriers to entry.

KCB should also be in liaison with Kenya Bankers Association to develop industry standards and timeliness for implementation. The bank is currently focusing on service improvement through improved customer service, perception and satisfaction; service flexibility through increased accessibility via a single point of contact communication and information; improved usage of IT support resources and increased productivity of business personnel; better quality and faster turnaround of customer or user requests and last but not least, more meaningful information for decision support.

Building up regionally compatible financial infrastructure should also be adopted. Kenya, Uganda and Tanzania have already made substantial progress in integrating their real time gross settlement systems (RTGS). Rwanda and Burundi also need to align their

payments systems with the regional system. Similarly is also necessary to ensure that other parts of national financial infrastructure including central securities depositories (CSDs) and trading platforms for national exchanges are compatible at the regional level.

EAC financial institutions find themselves unable to support intra-regional trade mainly because of a weak capital base, limited knowledge and experience in managing counterparty risks, and limited correspondent banking relationships. The region has numerous and non-convertible currencies, customs guarantees, insurance requirements and inefficient payment mechanisms. Whereas currency exchange makes trade more expensive, the non-convertibility of some currencies makes several things extremely time consuming.

#### **5.4.2 Suggestions for further research**

There is need to conduct a study to establish why Non-tariff barriers are higher in Tanzania than any other East African Common Market and whether Kenya Commercial Bank participates in discussions with the private sector over trade facilitation in Tanzania and if so whether the discussions are undertaken regularly. Whether there are institutional mechanisms for ensuring regular discussions, the issues discussed and whether the discussions are useful in terms of defining issues or problems for new decisions and initiatives.

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## **Appendix 1: LETTER OF INTRODUCTION (UON)**

## **Appendix 2: INTERVIEW GUIDE**

### **Non-Tariff Barriers**

The following questionnaire will help policy makers and analysts conduct a regulatory review of non-tariff measures (NTMs) following some guiding principles along two dimensions in areas of design of the regulation and its enforcement/compliance:

1. Governance: Questions aim at checking whether measures are transparent (for instance, simplicity of the legal text and availability of the information to bankers) and whether there are issues with their implementation and enforcement.
2. Legal consistency: Questions aim at checking whether the measures are consistent with the country's World Trade Organization (WTO) obligation (in particular SPS [sanitary and phytosanitary] and TBT [technical barriers to trade] agreements), with the country's treaties, and with other domestic pieces of legislation.

### **Assessing the Regulation's Costs for Implementation/Enforcement**

1. How does CBK regulates and supervises Kenyan banks with subsidiaries and branches outside the country
2. What is the legal requirement of banks (financial institutions) in compliance with the measure?
3. How is compliance with the measure verified? Is there risk management at the boarder?
4. How long on average does it take to be granted a permit? Is there a transparent, publicly available timeline?
5. Are permits permanent or must they be renewed periodically? If renewal is necessary, on what basis?
6. What are the key procedural and regulatory barriers facing KCB?



7. What are the main challenges facing KCB in the area of non-tariff barriers? How do you address these challenges? Both in terms of issuing and responding to notifications
8. Does KCB participate in discussions with the private sector over trade facilitation? (*Note: Trade facilitation* refers to the implementation of measures leading to the simplification, standardization and harmonization of the formalities, procedures, documents and operations inherent to international trade transactions.). Yes. No
9. If the answer is YES, Are these discussions undertaken regularly?
10. Are there institutional mechanisms for ensuring regular discussion?
11. What are the issues/problems that are usually discussed?
12. Do you find these discussions useful in terms of defining issues/problems for new decisions and initiatives? Why?
13. Do you think Kenyan regulatory framework inhibits/enhance EAC common market growth? How?
14. Do you think regionalization improves KCB performance? How?
15. Does KCB have regional business continuity blue print as a way of safeguarding its customers and regional business? List the blue print/plans of regional business continuity.
16. What are the main difficulties that KCB experiences in achieving compliance with national standards? Please highlight both general and sector specific difficulties. What needs to be done to help the banking industries overcome these difficulties?
17. What are the main difficulties that KCB experiences in achieving compliance with regional standards? Please highlight both general and sector specific difficulties. What needs to be done to help the banking industries overcome these difficulties?
18. If you were asked to improve the trading environment (within the banking industry) by focusing on one non-tariff measure only, what would this measure be? Why?

19. What measure will you suggest such that the cost of complying with these barriers will significantly come down?
20. Are there any other policy issue(s)/concerns not covered by the study that you would like to highlight?