INVOICING METHODS, CURRENCIES AND TRADE CREDIT POLICIES
IN THE EXPORT BUSINESS IN KENYA

by

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A thesis submitted in part fulfilment for the degree of
Master in Business and Administration (MBA) in the
University of Nairobi.

1978
This thesis is my original work and has not been presented for a degree in any other University.

GEORGE MBUGUA NGUGI

This thesis has been submitted for examination with our approval as University Supervisors.

PROF. R. MIRUS

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The Institute of Development Studies.

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The following four hypotheses were considered in the conduct of this study.

1) The smaller the method of invoicing the exports, the lower the percentage of the revenue of a given sale is allowed to be on credit.

4) The risks in the method of invoicing and the period over which trade credit can be obtained to an important
ABSTRACT

The Institute of Development Studies, University of Nairobi, and the Ministry of Finance and Planning of the Government of Kenya have accumulated some literature on Kenya's external trade in the form of discussion papers and economic reviews, respectively. It is, however, noticeable that no study has so far been conducted to reveal how export trade is carried out by the individual export producing firms in Kenya. This research was conducted to find out which methods of invoicing for exports Kenyan manufacturers apply, which currency or currencies they invoice in, and what trade credit policies they adopt in this business.

A questionnaire was given to a sample of 37 firms dealing in exports in Kenya in order to provide data regarding the carrying out of export trade. Credit policies applicable to their local customers were also considered in order to afford some comparison.

The following four hypotheses were considered in the conduct of this study:

i) The riskier the method of invoicing for exports, the less the percentage of the amount of a given sale is allowed to be on credit.

ii) The riskier the method of invoicing applied the shorter the period over which trade credit can be extended to an importer.
iii) Kenyan exporters vary their methods of invoicing for exports according to the experience they have had with their customers.

iv) Kenyan exporters mainly apply foreign currencies when invoicing for exports.

That the Kenyan export manufacturers consider the business as one of considerable risk was one of the most outstanding findings. Although not many of the respondent firms indicated that they require the importer to pay in advance, most of them almost exclusively insist on the arrangement with the second lowest possibility of loss; the confirmed, irrevocable letter of credit. The riskier methods (Commercial Draft and Open Account) are only applied where the customer has proved quite reliable in the past dealings.

The period of trade credit extended to customers varies positively with the relative risk level of the invoicing method used. The producers, however, offer importers significantly shorter periods of credit than the local customers.

All the respondent firms had no pre-determined levels of sales that could be made on credit. This decision was taken by the sales executive according to his feelings about a particular customer. Thus, since data relating to actual sales of credit was not gathered, little could be written in connection with the third hypothesis.
The two foreign currencies commonly used by the respondent exporters were the pound sterling (£) and the U.S. dollar, the traditionally international strong currencies. Many firms are, however, abandoning these foreign currencies in favour of the Kenya Shilling in response to the drastic fall in the value of these foreign currencies in the recent past.
CHAPTER ONE

INTRODUCTION

1.1.0. Relationship between Exports and Economic growth

Developing nations desire to cultivate and maintain a rate of economic growth and development which is higher than which their indigenous resources can adequately support. These countries, therefore, have a high demand for imports in the form of capital funds and equipment, plus expertise to man technologically sophisticated machinery.

Imports are paid for in foreign currencies, collectively termed foreign exchange. A country earns foreign exchange by exporting its products to other countries. The importance of exports to developing nations, derived from their need for foreign exchange cannot, therefore, be overstressed.

1.2.0. Research Objectives

This research project was conducted with the following objectives in mind:

To find out: -

1) the methods of invoicing for exports applied by Kenyan exporters;

2) the currencies in which Kenyan producers bill their foreign customers;

3) the perception of credit risk by Kenyan producers with regard to export business. The perception will be measured by considering the methods
of invoicing and the accompanying trade credit terms;
4) the opinions regarding the assistance the Kenya government extends to export producers through the Kenya External Trade Authority (KETA).

1.2.1. Rationale of the Research Objectives:

To my knowledge no study has been conducted in the area covered in this project. The Institute of Development Studies, University of Nairobi, has come up with some discussion papers relating to Kenya's export business but which do not touch on the actual export business operations at the individual producers' level.

In Discussion Paper (DP) Number 165, Vinnal\(^1\) analyses Kenya's volume, categories, and trend of export and import trade as indicated by figures from official publications.

Porter\(^2\), in DP No. 171, by analysing official figures from the East African countries industrial production and external trade publications attempts to explain the disproportionately higher Kenyan exports to her neighbours. He describes the phenomena as a result of Kenya's relatively advanced state of industrialization. The figures also indicate the "decay"


of these exports as the other two countries develop industrial plants similar to those in Kenya.

In a Discussion Paper on the promotion of manufactured exports from Kenya, Hopcraft makes an attack on inward looking policies adopted by developing countries. He attempts to show how protectionist industrialization and trade policies hinder production of exportable manufactured goods by such countries because the policies emphasise import substitution products for internal consumption only.

The area covered by this project has thus been lying virgin in the past. Although this project is just a scratch on a very wide area of possible studies, it is hoped that it will serve as a contribution to the government export promotion policy makers and the export business community.

1.3. Plan of Material in Subsequent Chapters

The following Chapter will briefly present some literature relating to international trade while Chapter three will give an overview of Kenya's external trade and the endeavours of the Kenyan government to promote export earnings. Chapter four is concerned with the hypotheses that were applied to guide the writer in this project. The design

3Hopcraft, P. N. Outward looking Industrialization: the promotion of manufactured exports from Kenya; Discussion Paper No.141, Institute of Development Studies, University of Nairobi, Kenya.
of the research that was conducted is also discussed in this Chapter. The data that was collected during the research and the analysis thereof constitutes the material in Chapter five. The final Chapter is made up of the Summary of the thesis, conclusions and the recommendations.

Chapter Two

Trade between different countries developed where one country could produce something desirable to residents of other countries but which these other countries could not produce themselves. The Phoenicians became famous for their purple-dyed clothes which they obtained for other goods with countries bordering the Mediterranean Sea. International trade, therefore, owes its origin to the varying resources of different regions. Natural resources cannot commonly be worked only where they are found; many commodities can be grown only under particular climatic conditions or in certain soils.

If international trade took place only in cases where countries could produce something others could not, the total volume of world trade would not have reached the present day proportions. A glance through a list of products entering into any country’s trade will show that it imports many things it could, if it wished, produce itself.

INTERNATIONAL TRADE, THE
METHODS OF INVOLVING THE EXPORTS, AND THE FLOW INVOLVED IN EXPORT TRADE.

2. ORIGIN AND EXISTENCE OF INTERNATIONAL TRADE

Trade between different countries developed where one country could produce something desirable to residents of other countries but which these other countries could not produce themselves. The Phoenicians became famous for their purple-dyed clothes which they obtained for other goods with countries bordering the Mediterranean Sea. International trade, therefore, owes its origin to the varying resources of different regions. Natural resources cannot commonly be worked only where they are found; many commodities can be grown only under particular climatic conditions or in certain soils.

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CHAPTER TWO

THEORETICAL FRAMEWORK AND LITERATURE REVIEW

This Chapter presents some literature that relates to international trade and particularly export trade. The Chapter touches briefly on the origin and existence of international trade, the methods of invoicing for exports, and the risks involved in export trade.

2.1.0. Origin and Existence of International trade

Trade between different countries developed where one country could produce something desirable to residents of other countries but which these other countries could not produce themselves. The Phoenicians became famous for their purple-dyed clothes which they bartered for other goods with countries bordering the Mediterranean Sea. International grade, therefore, owes its origin to the varying resources of different regions: mineral resources can obviously be worked only where they are found; many commodities can be grown only under particular climatic conditions or in certain soils.

If international trade took place only in cases where countries could produce what others could not, the total volume of world trade would not have reached the present day proportions. A glance through a list of products entering into any country's trade will show that it imports many things it could, if it wished, produce itself.
Economists explain this phenomena by applying the theory of 'comparative advantage'. "One country has a comparative advantage vis-a-vis another in the production of the commodity in which it has a lower opportunity cost than the other country."\(^4\)

Even if a country has an absolute advantage over another - with a given amount of resources it can produce more of all possible products than can another country with identical resource amount - it will specialize in the production of products in which it has lower opportunity costs and import others.

Ordinarily, most firms would prefer home marketing to foreign trade. In the home country, the business firm is familiar with people's culture and languages, the legal system, and various types of environmental factors which give the firm a cost advantage at home.

There are, however, two types of forces that may induce a business firm to enter the international market.\(^5\) The first one is the size of the domestic market. The firm may find itself capable of advantageously producing more than the home


market can consume and, therefore, cast an eye on external markets. The other force may be a pull exerted by the existence of profitable markets abroad. In both cases, the firm usually continues to serve the domestic market as well as the external market. One way to serve an external market is to export from the home country.⁶

2.2.0. Methods of Invoicing for Exports

The time lag between despatch of export goods and the receipt by the buyer is generally longer than that involved in domestic trade. Thus, even if cash on delivery (c.o.d.) terms - the importer paying on receipt of the goods - are agreed upon, the seller has the funds tied up in the form of goods-in-transit for a considerable period of time. To facilitate the payment or invoicing for exports, the following arrangements are available for choice by the parties involved in the sale contract.

2.2.1 Cash Prepayments

Under this method of payment, the agreement stipulates either "c.w.o." (cash with order) or "c.b.d." (cash before delivery) terms. Prepayment arrangements are, however, rarely applied in normal conditions; "he would be a fortunate exporter in deed who could demand and receive payment on this (cash)

⁶For various ways in which a firm could enter International Markets, See ARVIND, V. P., Managing Multinational Corporations; Praeges Publishers, New York, pp. 6-9.
basis in the buyer's market prevailing today".  

Exporters who, however, feel that the buying market is of a significantly high risk class may insist upon prepayment terms. In a period of shortages in the buyer country, importers may offer such terms to induce supply.

In certain special cases, for example, where an importer orders the manufacture of a product to his own specifications, there may be an agreement to the effect that the buyer make some "progress" payments during the manufacturing process.

With the contract specifying prepayment for the products, the importer pays before acquiring the possession of the goods. Thus no trade credit is extended to him.  

2.2.2 The commercial draft

A commercial draft is equivalent to an invoice in domestic trade; a document listing the items involved in the sale agreement and the prices thereof request- ing the buyer to pay at the agreed date. Schubert and others defines a draft as "an unconditional order in


8 Trade credit is taken to mean allowing a buyer to have possession of the goods for some time before paying for them.
writing addressed by one party to another ordering him to pay to the drawer or to a third party a specified sum at sight of the draft or at a determinable future date". 9

A sight draft requests the importer to pay as soon as the goods arrive but before title is passed to him. The exporter sends the draft and the sale contract documents to a bank in the importer's country which (bank) acts as an agent to transfer the title documents to the importer and to collect payment simultaneously. The foreign bank then sends the payment to the exporter either directly or through a local bank. These bank services are done for a fee.

Thus, with a sight draft there is no trade credit extended to the customer. It is the equivalent of "c.o.d." in domestic trade.

A "time draft" stipulates that the buyer pays for the goods sometime after delivery. Title documents are passed to the customer on his acceptance of the obligation to pay at the agreed future date. Acceptance is indicated by endorsing the importer's signature on the draft.

The use of a time draft, therefore, indicates an extension of a trade credit for the period equal to the difference between the moment the buyer receives

the products and the date at which payment falls due.

2.2.3 **Letter of Credit**

A letter of credit is defined as "...... an undertaking given by a bank to a seller to honour the seller's drafts drawn on it if they comply with the restrictions as to terms and amounts contained in the letter of credit and are accompanied by the required documents".\(^{10}\) After concluding the sale contract, the importer instructs his bank to open a letter of credit in favour of the exporter and inform the latter about it. The credit worthiness of the buyer is thus replaced by that of the bank because the exporter will now claim payment from the importer's bank.

A letter of credit may or may not be revocable. A revocable letter is more risky to the exporter because revocation can be done by the bank (refusing to honour drafts drawn on the bank in line with the letter of credit) without consultation of, or notice to, the exporter. As a precaution against such a happening, an irrevocable letter of credit is requested by the exporters. An irrevocable L/C forms a legal contract between the exporter and the issuing bank, the terms of which can be altered only with the consent of all parties concerned.

When the exporter is dealing with the importer's bank through a local bank, the latter does not become a party to the agreement merely by informing the seller about the letter of credit arrangements. It then just serves as a communication channel. If, however, the exporter doubts the creditworthiness of the importer's bank, he may request his local bank to "confirm" such a letter of credit issued by that foreign bank. Once the local bank confirms the L/C, the bank becomes legally bound to pay the exporter, any cancellation by the foreign parties notwithstanding.

When a letter of credit is used by the parties in the contract of sale, whether or not a trade credit has been extended to the buyer depends on the dates on the letter indicating when the exporter is supposed to collect the payment. The importer enjoys a trade credit only if the exporter agrees to claim payment sometime after the title to the goods have been passed.

2.2.4. Open account

This method is similar to the one commonly used in domestic trade. There are no intricate and strictly legally enforceable documents involved. The exporter simply enters the amount of sale in his accounts receivable books and credits the accounts as payment is remitted by the importer. The period of trade credit extended to the buyer under the method is dependent on the terms of sale, expressed as p/q, net/y. The terms p/q, net/y means that p percent may
be deducted from the invoiced amount if payment is made within q days after delivery, or the net amount be paid within y days after delivery if the buyer fails to take the p percent discount advantage.

The lack of strong legal backing of open accounts makes the method risky to the exporter and hence, "open account is generally restricted to cases where there is an inter-company relationship between the seller and the buyer or where the exporter and the foreign buyer have had long and favourable dealings together and there is no exchange restrictions that might complicate settlement".11

2.3.0. Risks in Export trade

There are two major risks which are important and unique in export business; the risk of changing exchange rates of currencies, and the risk of a possible blockade of funds in the importer's country by a government's decision. The risk of default - credit risk - is relatively less unique in export trade.

2.3.1.0. Exchange rate risk

This risk to the exporter comes about when an exporter bills the foreign customer in a currency other than his (seller) home currency. Unless payment for these goods or services sold is received at the comple-

11 INTERNATIONAL TRADE CENTRE UNCTAD/GATT, op.cit. p. 190

tion of the sale contract arrangements, the exporter is uncertain as to how much he will receive in terms of his domestic currency. This is because the exchange rate between the currency in the invoice and the domestic currency may have changed by the time the payment is received. This risk disappears in a system where the exchange rates between the currencies concerned is firmly and truly fixed.

The exchange rate between any two currencies is the value of one in terms of the other. The exporter who bills in a foreign currency stands to reap an exchange rate gain if the value of that currency in terms of the seller's domestic currency rises; the exporter will get more than the expected domestic currency by converting a certain amount of the foreign currency. The exchange rate loss accrues to the exporter if the opposite happens with the values of the currencies.

To hedge against the uncertainty embedded in the possibility of exchange rate changes the exporter may either decide to be invoicing in his domestic currency only or to enter into a contract with a financial institution that will assure him of the amount of domestic currency to be received when the customer pays. The alternative of invoicing only in the domestic currency is the easiest to adopt.

The arrangement with a financial institution in order to ascertain the amount expected from a sale is termed as
'covering'. There are two alternatives; covering in the forward market, and covering through the money market.  

2.3.1.1. **Forward market cover**

Financial institutions such as banks have a market for currencies. They can buy or sell currencies for on-the-spot or future delivery. These institutions quote the 'spot' and 'forward' exchange rate to correspond with these delivery times.

The future delivery agreement is such that the price of the currency to be delivered is fixed at the time of contracting. That same exchange rate will be applicable when the currency concerned is delivered no matter what the exchange rate between the two currencies will be at that time.

An exporter who expects to receive foreign currency as payment for products at a specified date could, therefore, enter into a contract with a financial institution to deliver that amount of foreign currency and exchange it with his domestic currency at a determined exchange rate. In this way the exporter is assured of the amount of domestic currency he will receive when the customer will pay for the goods.

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There is a form of opportunity cost or gain that could accrue to the exporter from such a risk cover. If the forward value of the foreign currency (in terms of domestic currency) as quoted by the financial institution turns out to be lower than the value at the date of delivery, the exporter makes an opportunity loss equal to the difference in the values. He would have been better off without the contract. The opposite is the case when the currency value movement is reversed.

2.3.1.2 Money market cover

Under this alternative, the exporter borrows a sum equivalent to the amount of the sale from a financial institution in the customer's country. The loan repayment date is made to coincide with the date that the customer is expected to pay for the products. The exporter converts the loan amount into his domestic currency which he then invests in his home country.

At the time the customer pays, the exporter will have an exchange rate gain or loss depending on whether the foreign currency has gained or lost in value during the elapsed period. The gain or loss will, however, be offset by the loss or gain to be incurred by the exporter when paying back the loan.

The net cost of covering in the money market is equal to the difference between the interest rate the exporter pays on the loan and the one earned on the money invested locally. The exchange control regulations in Kenya prohibits private borrowing from foreign
countries, hence this alternative is not available to Kenyan exporters.

2.3.2 Political risk

This risk exists because of the possibility that government action in the importer's country may restrict or ban the outflow of money to the exporter's country. The willingness and ability of the customer to pay notwithstanding, the exporter will lose because of such a political decision.

In some countries, for example, the United States of America, the government undertakes to insure, for a fee, a great percentage of the political risk involved in the export business of their producers. The U. S. Eximbank insures political risks to the extent of 95%, in the case of short-term export transactions, and 85% for medium term ones.\textsuperscript{14}

2.3.3 Default (credit) risk

To a lesser extent, the credit risk is also peculiar in the export business. The distance between the seller and the buyer makes the information about the foreign buyer to be generally less readily available than that relating to a domestic customer. Although information about the creditworthiness of foreign customer may be obtained from commercial banks by the producer

\textsuperscript{14}Helping U. S. exports meet credit competition in International business Management, readings and cases by EWING J. S. and F. MEEISSNER, woodsworth publishing company, Belmont, (California).
directly or through commercial attaches, reliable details may not be forthcoming. Banks may regard disclosure of certain information about their clients as a breach of confidence.

Some countries have facilities through which their exporters can insure a certain percentage of their credit risk. The United States, for example, has a Foreign Credit Insurance Association (FCIA) formed in 1962 by a number of insurance companies which underwrites default risk in export business. The British have an overseas Trade Credit guarantee scheme, and the Kenya government is planning to establish an Export Credit Guarantee Scheme to be administered by the Kenya External Trade Authority.

2.3.4 Credit risk and Invoicing Methods

The methods of invoicing for exports differ in the credit risks they pose to the exporter. The least risky method is cash prepayment because the seller has the cash even before he despatches off the goods. It is followed by the letter of credit, the commercial draft, and the open account in that order of increasing risk. With the commercial draft the exporter relies on the creditworthiness of the buyer, while he (seller) depends on the bank's creditworthiness when a letter of credit

15 Helping U. S. exports meet credit competition, op. cit. p. 239.

16 Economic Survey (Kenya), 1978.
is involved; and banks are very good credit risks. The open account is the most risky from the point of view of the exporter.
CHAPTER THREE

KENYA'S ACTIVITIES IN EXTERNAL TRADE

3.1. General Comment

Kenya is one of the so called Less Developed Countries. These are in a rather unique position in the international trade sphere. On the one hand these countries have a highly price inelastic demand for imports and hence the foreign exchange to finance them. On the other hand, LDCs are faced with an inelastic supply of that foreign exchange.

The pattern of the demand for imports by LDCs is a result of these countries' growth policies and the nature of the products which they indigenously produce.

It was pointed out in the introduction that developing nations usually choose to cultivate and maintain a rate of economic growth higher than could be financed by their existing resources. In these countries domestic income is low and hence there is a low level of saving. Outside capital in the form of loans, grants, and direct private investments is, therefore, required to break the circle and to fuel the chosen rate of growth.\textsuperscript{17}

\textsuperscript{17} A low level of income results in a low level of savings and hence a low level of available investment funds; see DERNBURG and McDUGAL, Macroeconomics, the measurement, analysis, and control of aggregate economic activity, International Students edition, McGraw-Hill Kogakusha Ltd., 4th Ed., Chapter 5.
Kenya is a member of the Less Developed Countries class and it is no exception to the characteristics discussed above. As shown in Table No. 1 Kenya's imports are heavily dominated by industrial goods and capital equipment. These are the backbone of the industrialization process in the country.

Table 1  IMPORTS OF INDUSTRIAL AND CAPITAL GOODS AS PERCENTAGE OF TOTAL IMPORTS*

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SOURCE: ECONOMIC SURVEY, KENYA, 1978

* Lubricating fuels are excluded.

which is believed to result in a high rate of economic growth and developments. The dominant position of imports of these products in the balance of payment has been so all through the life of independent Kenya.

On the side of exporting, Kenya heavily relies on agricultural products, the two most prominent ones being Tea and Coffee. These two commodities, for example, saved the country from a position of recurrent
deficits(1972-1975) to that of surplus in 1976 and 1977 because of a price boom especially for coffee. Coffee and Tea sales constituted 56.7% of Kenya's total exports in 1977 and, while the sales volume of the other exported products declined, the country had a record K£12.7 million in the balance of payment account.

In Kenya, there are measures to conserve foreign exchange. Foreign exchange control is exercised through import licensing. The Central Bank of Kenya represents the Ministry of Finance as the sole authority over official foreign exchange transactions. Applications for foreign exchange are divided into various sectors for which exchange is granted within defined preferential limits, or for which exchange is refused. To enhance efficiency in dealing with exchange transactions, the Central Bank delegates some powers to some commercial banks and the Nairobi Stock Exchange as 'authorized' dealers.


21 Unofficial exchange rates quoted in Zurich can be seen in Newsweek Magazine.

22 See Notice No.35 of the Kenya's foreign exchange Control regulations and Instructions, 1977 edition, for list of authorized dealers.
Kenya needs to promote and diversify her exports. To serve this goal the government has set-up two organizations into which most of its export promotion efforts are concentrated; the Kenya External Trade Authority (KETA) and the Kenya Tourist Development Corporation (KTDC). KETA deals with the promotion of tangible exports, while the KTDC caters for the country's most important service export product, tourism. The following sections will briefly present the organization and operations of K.E.T.A., the relevant one in this study because exporters of services were not included in the project.

3.2.0. The Kenya External Trade Authority

Soon after independence the Kenya government realized that the process of economic growth and development of this country and the related virtue of raising the standard of living of the people will entail an expenditure of vast and rising amounts of foreign exchange. Foreign currency is required to pay for, among other things, investment in modern technology and essential imports. And a significant portion of the imports bill will have to be met by the revenue accruing to Kenyan exports. The government, therefore, set up, in 1966 an export promotion council within the Ministry of Commerce and Industry to stimulate the exports of tangible goods.

However, in those early years of independence there was not much to be exported from Kenya excepting
Tea, Coffee and Pyrethrum which are marketed by government statutory boards and which have international producers' associations to represent them in the world market. Further, the colonial government had left a considerable credit balance in the Kenya's balance of payment accounts\textsuperscript{23} and this, together with the fact that not many import consuming projects had come to light by then and that very few inhabitants had enough wealth to consume a significant amount of imports, made the question of foreign exchange earnings less pressing and the council's duties less important.

In the latter years, however, things took a different turn. More and more government import consuming development projects were earmarked and started, the money flow in the country encouraged private import consumption, private firms requiring foreign technology began to crop up, and the 1973/74 Oil crisis, all added to a tremendous inflation of the imports bill. In consequence the area of export earnings became very crucial. In response the Kenya Government in 1976 decided to reorganize the export promotion council into a separate more autonomous body, the Kenya External Trade Authority (KETA).

\textsuperscript{23}Economic Survey, Kenya, 1964-65
KETA is, broadly, still charged with the same responsibilities as the preceding council; to initiate, co-ordinate, and implement activities aimed at expanding, diversifying, and promoting Kenyan exports. More specifically the authority:-

(i) Identifies incentives for export trade development and assists the government in formulating and implementing trade policies;

(ii) Publicises Kenya's products abroad and carries out surveys of foreign markets for such products;

(iii) Provides technical assistance to manufacturers in improving production methods and development of new products; and

(iv) Advises upcoming businessmen on the mechanism of export trade.

KETA is all out to fulfil the primary objective of the Kenya government - to uplift the standard of living of its citizens - by ensuring the development of a buoyant export trade to earn foreign exchange necessary to lubricate the wheels of development.

3.2.1. KETA's Export promotion activities

The Kenya External Trade Authority functions by committees dealing with specific subjects. The committees have representation from the government and private sector. The committees forming the secretariat, are charged with studying and recommending appropriate policies and actions for implementation in the overall interest of the country's export trade. Under the
executive director, the secretariat is composed of the following sections, each one of them run by a committee.

**Marketing:**

This section undertakes market studies for Kenyan products in foreign countries. It is involved in collecting statistical information such as price ranges in foreign markets, competition levels and tactics in these countries, and hence the availability of markets for Kenyan produce. The section is also responsible for undertaking local supply studies in an effort to establish what exportable products are available and in what quantities.

**Trade Fairs:**

Organizes Kenyan participation in trade fairs and exhibitions in foreign countries in order to publicise Kenyan products. International trade fairs fall mainly into two groups; general (horizontal) and specialized (vertical) fairs. At a general fair the goods in display cover many different fields and industries. The specialized fairs concentrates on products of a particular industry or a group of related industries.

The trade fairs section, after determining what kind of fair to attend distributes invitation circulars to all Kenyan producers engaged in the appropriate line of production. All producers who qualify and accept the invitation are given sponsorship by KETA without charge. The
sponsorship includes freight charges, two way transit insurance for the products, and exhibition charges, if any. The participants are requested to send their representatives to the fair in order to give explanations about the products, otherwise, a KETA employee will officiate according to details supplied by the producer. A producer-representative who has the authority to negotiate and accept orders is preferred because the KETA official cannot execute such duties.

**Technical:**

This section advises manufacturers on quality improvements, better methods of production and capacity utilization, and development of new products. It also advises on industrial design and packaging, all aimed at facilitating efficient external marketing.

**Information and Publicity:**

Gathers, stores, and disseminates information on export trade, both on local and foreign markets. It operates a documentation service and maintains a small export reference library which members of the business community are encouraged to use. It also manages and distributes certain publications such as "The Kenya Export News", "The Economic Facts Sheet", "Kenya, Export Directory, and the "Plain Man's Guide to Exporting from Kenya". These are made available to producers at no charge.

These publications contain very useful information especially to export beginners. The "Plain Man's
Guide to Exporting from Kenya", for example, contains information as to how a business entity that has never exported could join that business. It explains how to analyse the potential of expansion and export and also how to go about insurance, transportation, bank facilities and other external trade formalities including abbreviation of trade terms. KETA has also compiled information to be included in Kenya's fourth development Plan 1979-83, the first time to have such a chapter in the plan.

**Trade facilitation:**

This section is geared to reduce the costs and complexities of international trade procedures and information flow associated with them. The two main areas of focus are communications and documentation. In communication, this section tries to co-ordinate services of ships, rail, air and road transport companies with the requirements of the producers. This section also negotiates for favourable freight rates where possible.

In documentation, there has not been a standard way of recording Kenyan export documents in KETA itself, the customs department, and in the local business community. After designing their own standard papers, KETA is now approaching the business community and the customs duty department to design similar papers to streamline the information flow.
This section is also responsible for recommending businessmen to the Central Bank for allocation of foreign exchange while undertaking export business tours abroad.

**Trade Policy Section:**

This is the major link between KETA and Government decision making circles. It assists the government in formulating and implementing policies that are conducive to export trade. Such policy matters include bilateral, international, and multinational trade agreements, tariff systems, and export incentives, plus a whole range of other trade policy measures to stimulate trade exchanges with foreign countries.

**Export Training:**

Organizes short courses on various subjects pertaining to export trade such as international marketing costing and pricing, and product adaptation to suit various market requirements. These courses are organized in conjunction with the University of Nairobi, Kenya Institute of Management, Kenya Institute of Administration, Kenya Management Advisory Council, and the Co-operative College of Kenya. Interested producers are accommodated into these courses at minimal charges.

**Commercial representatives:**

Commercial attaches of diplomatic missions assist Kenyan businessmen through introduction to foreign buyers, agents, importers and prospective investors. They provide display space for exhibiting
Kenyan goods in the missions and assist businessmen in promotional, selling and other business visits abroad. They generally carry out functions designed to assist KETA operations at home.

The Kenya External Trade Authority has, of late, started to cooperate with the Kenya National Trading Corporation, a local statutory company engaged in the distribution of certain products locally on behalf of the government. The KNTC is specially concerned with export business of small producers and acts as export marketing agent for them. Whereas KETA leaves the producer to execute actual selling transactions with the importer, KNTC is going to do this job for the small local producers who have no or minimum marketing expertise. Unless these producers engage consultants and/or agents they cannot run an export business. The services of the KNTC are at a minimal non-profit motivated charge.

3.3.0. Exporting procedures in Kenya*

Exportation of goods from Kenya is controlled by the government through an Act of Parliament. The Exchange Control Act, Section 25, requires that exporters and export agents be registered with the Exchange Control department of Central Bank of Kenya and have an account in a Kenyan bank to receive

*All information in this section was obtained from the Exchange Control Administrative Notices and Instructions, 1977, Notice No.13.
payment for the exports. The Act also prohibits the sale of goods outside the former members of the East African Community without the consent of the Minister for Commerce and Industry. The sale of such goods may also be legal if the Commissioner of Customs and Excise is satisfied by the seller's declarations made on a form code-named CD3 to the effect that:-

(a) Payment for the goods has been made in an "approved" manner to a person resident in Kenya, or will be so made within three months from the date of export;

(b) Payment represents a return for the goods which in all the circumstances is satisfactory in the national interest.

The Form CD3 shall be completed for all exports except:-

(a) Export of game trophies by tourists which include coats, jackets, stoles and capes from game skins and live animals provided that:

(i) They are accompanied by the owners as accompanied baggage,

(ii) Are of reasonable quantity and value,

(iii) Are of personal use or gifts,

(iv) The trophies have been purchased either with foreign currency or with Kenya Shilling from encashed foreign currency.

(b) Export of gifts in kind of an f.o.b. value not exceeding KSh.500;
(c) Exports of household and personal effects of an f.o.b. value not exceeding K.Sh.5,000;

(d) Export of goods where the exporter has a written exemption from completing the CD3 Forms, as granted by Exchange Control.

In all cases (except those quoted in the above paragraph) where there is to be no return payment for the exported goods, or if the payment is to be made through an unauthorized manner,\textsuperscript{24} Form CD3 shall be completed and submitted to the Exchange Control department as an application for the Minister's permission. The forms should be submitted through a bank which should affix an explanation as to why no return payment for the goods is expected or why the payment is to be in unauthorized manner.

An exporter who wishes to extend credit to a customer beyond three months from the date of export is required under the Act, to obtain exchange control approval in writing. The request for approval, together with an explanation as to why such an extension is needed should be sent through the exporter's bankers. The approval should be sought before any contract providing for such an extension is entered into with the buyer. In cases where an extension is required for

\textsuperscript{24} The authorized manner is to have the payment received by a bank in Kenya which should then inform the exchange control about it, especially the amount of foreign currency so involved.
anticipated delay in payment for goods already contracted for, the exporter must apply through his bankers in writing giving the reasons for the expected delay. It is an offence under the Exchange Control Act for an exporter to waive or delay the receipt of payment for exported goods unless special permission has been given by the Exchange Control authorities.
CHAPTER FOUR

HYPOTHESIS AND RESEARCH DESIGN

4.1 Hypotheses

With the consideration of the objectives of this study and the discussion in the last two Chapters, the conduct of this study revolved around the following hypotheses:

1. The riskier the method of invoicing for exports the less the percentage of the amount of a given sale is allowed to be on credit.

2. The riskier the method of invoicing applied the shorter the period over which trade credit can be extended to an importer.

The risk undertaken by a seller who extends credit to his customers increases with the amount of money involved in the trade credit and the period over which the credit is extended. Thus large amounts of credit and/or long periods of credit extension can be expected to be found where the more secure methods of invoicing are in use.

3. Kenyan exporters vary their methods of invoicing for exports according to the experience they have had with their customers.
The risk perceived in a given situation increases with the increasing amount of uncertainty therein. Sellers can, therefore, be expected to be very cautious when dealing with new foreign buyers. In that case the exporters would apply the invoicing methods that are associated with the lowest level of risk. Since these methods also involve more costly arrangements especially to the buyers, exporters may be expected to adopt less complicated (but riskier) methods as favourable experience is gained with customers. This is the crux of this hypothesis.

4. Kenyan exporters mainly apply foreign currencies when invoicing for exports.

Exports can be invoiced in either the currency of the source country, or that of the importing country, or even in any other third currency. Since the seller undertakes no risk of exchange rate changes when the invoice is in his home currency, there could be a tendency of sellers to invoice in their home currencies. If, however, the exporter's currency is not internationally convertible, its applicability in billing importers in various countries is limited.

The Kenya Shilling is not internationally convertible. It could, therefore, be expected that Kenyan exports are mainly invoiced in the internationally convertible currencies no matter the country of destination.

4.2 Sampling Unit

The Kenya government's major effort in the promo-
tion of tangible exports from Kenya is concentrated in the Kenya External Trade Authority (KETA). Because of the highly subsidised promotional service offered by KETA to Kenyan exporter, it is logical to conclude that most exporters do take advantage of these services and especially the sponsorship to trade fairs. For this study then, a sample of firms from a list of all the Kenyan firms that participated in international trade fairs through KETA in 1976 and 1977 was interviewed. The list of the firms was obtained from KETA files.

4.3 Sample Size and Sampling procedure

A sample of thirty seven (See Appendix I) firms involved in export business was considered for this study. The list of firms obtained from KETA files contained 104 firms in all that took part in the 1976 and 1977 fairs. The firms were spread out all over the country's urban centres but the greatest number, 84 per cent, was situated in the capital city.

The method used to select the sample was that of sending letters to all the 104 firms in the list and then considering those that replied as members of the sample.

A question may be raised regarding how representative a sample drawn in such a seemingly statistically unsound method is. This is one of the limitations of this study and the results thereof. The researcher was, however, in such a position that no other alternative method was feasible. In the first place, it was not
possible to trace Kenyan firms involved in exporting otherwise within the time and resource limits allowed for this study.

In the second place, the writer was suspicious of the rate of positive responses from Kenyan exporters to the requests for audience with management. The researcher therefore feared to select a sample before sending the requests lest a negligible percentage of firms respond in the affirmative. The suspicion was proved right: only 28 firms replied to the first letter of request, and 9 more accepted the request in the second round of contacts.

A sample of 37 firms was considered adequate because:

(a) There were strict time and resource limitations imposed on the carrying out of the project;

(b) It is common among statisticians to consider a sample of 30 or more to be large and adequate. Therefore with a sample of 37 valid conclusions were expected from the study.


4.4 Research instrument

To collect data for this project, an administered questionnaire was used. Interviews were held with company officials who are directly responsible for effecting export business transactions.

Although personal interviewing requires more technical and administrative planning, it was selected for this study, as against telephone and mail questionnaires because:-

(a) The questionnaire used was long and would therefore be cumbersome to fill out over the telephone;

(b) it gives the interviewer a chance to supplement the questions with observations in the respondent's work place;

(c) with a mail questionnaire, one has no chance to explain questions which may not be quite clear to the respondent.

(d) it is possible, in a personal interview, to enquire about some information that comes to light during the interview but which never occured to the researcher when formulating the questionnaire. Mail questionnaires will not allow this.

(e) Finally, the return rate is usually low and/or slow with mail questionnaires.
4.5 Data collected

The questionnaire was divided into two parts:

Part I: This part presented a brief introduction of the interviewer and the project to the respondent.

Part II: This part contained the questions to be answered. Questions were divided into three sections, A, B and C.

Section A

This section contained questions relating to the firm's behaviour in export business. The issues touched included whether or not the firm does export, methods applied to invoice for exports, and the trade credit extension policies. Other questions related to the utilization of foreign exchange forward markets to hedge against the risk of exchange rate changes.

Section B

This section collected data concerning the attitudes and opinions of the respondents as regards export business. Opinions and attitudes looked for are those concerning the riskiness of export trade, the assistance obtained from the Kenya government through KETA, and the additional governmental help that would be desirable by Kenyan exporters.

Section C

This section of the questionnaire dealt with the demographics of the respondent firms. It is here that data relating to the firm's age, size in terms of total yearly sales value (1976 and 1977), number of employees,
and the value or percentage of total 1976 and 1977 export sales was recorded.

4.6 Profile of the firms interviewed

Thirty seven firms were interviewed during this research project. A broad classification of the respondents according to their products is given below. An attempt is also made to fit these firms in various categories of exports as classified in the Kenya government economic survey reports.

Table 2  PROFILE OF RESPONDENT EXPORT PRODUCERS

<table>
<thead>
<tr>
<th>PRODUCT</th>
<th>NO. OF FIRMS</th>
<th>PRODUCT CLASS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sisal</td>
<td>1</td>
<td>I/C</td>
</tr>
<tr>
<td>Foods - including meat</td>
<td>13</td>
<td>F</td>
</tr>
<tr>
<td>Household items</td>
<td>5</td>
<td>C</td>
</tr>
<tr>
<td>Tannery - including tanning extract</td>
<td>2</td>
<td>I</td>
</tr>
<tr>
<td>Paper</td>
<td>1</td>
<td>I/C</td>
</tr>
<tr>
<td>Industrial metal</td>
<td>2</td>
<td>I</td>
</tr>
<tr>
<td>Plastics</td>
<td>2</td>
<td>C</td>
</tr>
<tr>
<td>Textiles</td>
<td>4</td>
<td>C</td>
</tr>
<tr>
<td>Office supplies</td>
<td>2</td>
<td>I</td>
</tr>
<tr>
<td>Hand crafts</td>
<td>3</td>
<td>Other</td>
</tr>
<tr>
<td>Drinks</td>
<td>1</td>
<td>B</td>
</tr>
<tr>
<td>Vinel Tiles</td>
<td>1</td>
<td>I &amp; C</td>
</tr>
</tbody>
</table>

Key:

I - Industrial goods
C - Consumer goods
F - Foods
B - Beverage
The three classes of exports into which most of these firms can be fitted; Foods and Beverages, Industrial supplies and consumer goods, contributes the greatest percentage of the value of Kenya's exports. In the past three years, their contribution to the total Kenyan exports have been as shown in table 3

Table 3  CLASS CONTRIBUTION TO KENYAN MANUFACTURED EXPORT, (1975 to 1977)

<table>
<thead>
<tr>
<th></th>
<th>1975</th>
<th>1976</th>
<th>1977</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foods and Beverages</td>
<td>35.8</td>
<td>47.6</td>
<td>65.6</td>
</tr>
<tr>
<td>Industrial supplies</td>
<td>28.2</td>
<td>23.4</td>
<td>13.5</td>
</tr>
<tr>
<td>Consumer goods</td>
<td>6.1</td>
<td>5.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Total Percentages</td>
<td>70.1</td>
<td>76.0</td>
<td>82.1</td>
</tr>
</tbody>
</table>


The data relating to the number of firms in each class in Kenya could not be obtained so that we do not know the relative market power of respondents in their respective industries. The sample in this project is, however, felt to have been drawn from the most important export producing sectors of the Kenyan economy. The failure to have other classes included, and the subsequent weakness in the conclusions drawn from the analysis should, nevertheless, not be overlooked.
CHAPTER FIVE

RESULTS OF THE QUESTIONNAIRE

5.1 Hypothesis one

The riskier the method of invoicing for exports, the less the amount of sale will be allowed to be on credit.

Trade credit is taken to mean allowing a customer to have ownership of the goods for some time before requiring payment for them. It is a tool for competition in the market. Since the buyer can use the products during the credit period, the seller has in effect acted as a financier to the customer. If all the other terms of sale offered to a customer by two producers are identical except the amount and/or period of credit extension, the rational buyer will chose the source with the greater amount or period of credit allowance. The attractiveness of a trade credit policy of a firm to its customers, therefore, depends on two aspects; the amount of trade credit allowable, and the period over which credit can be extended. This hypothesis concentrates on the first aspect, the second one is picked up by the next hypothesis.

The information relating to this hypothesis was obtained from answers to questions concerning the amount that can be extended on credit under each method of financing. The information obtained was not, however, adequate to test this hypothesis conclusively. This is
because none of the respondent firms had an explicit policy regarding the maximum amount that could be extended to a customer as credit. These decisions were left in the hands of the export sales executive. Since no data was obtained about the actual amounts extended to customer, no conclusive analysis could be carried out.

It was found out, however, that the exporters applied different methods of invoicing to different customers according to the experience held with the customer. This could, therefore, tend to balance the risk associated with different customers and hence minimize the role of amounts extended on credit in weighting the customer risk.

Comment

None of the respondent firms had explicit rules governing the amounts or percentage of sale that could be on credit. The author holds the opinion that this is largely a result of lack of formalized technique to grade customers into risk classes according to the information available about them. None of the interviewed firms had such a technique. Maximum amounts of credit cannot be fixed without first identifying the risk levels of customers and then matching these with the company's risk classification. The lack of such a formal techni-
que leaves the decision to personal judgement of the export sales executive. Three things could result from such a situation. The first one is variations in the company's trade credit policies depending on the changes of export sales top personnel. In such a case, customers will be in an uncertain situation every time the personnel switches.

Another possible result could be disagreement between the export sales executive and his salesmen because of the differences in the risk aversion of the people. For example, the executive may be more risk averse than a salesman. If such a salesman is paid on commission basis (which is the normal practice), he will resent the executive's refusal to accept an order on the basis that it is secured under risky credit terms unless objective evidence is presented.

The third possible result of lack of a quantitative method of analysing the customers' creditworthiness is delays before the right terms are offered to the right customer. A seller's opinion about a foreign buyer will most likely depend on the experience they have had in their past relations. When a new customer with a strong credit standing but which is unknown to the export sales executive applies for a credit extension through, for example, the commercial draft method of invoicing, the seller who follows a "well known customers" policy may not agree to the request. The period necessary to know the customer well may never
materialize because a more responsive supplier elsewhere may snatch the opportunity and offer the acceptable terms. Experience is a good teacher but the cost of delays in terms of lost customers should as well be considered.

5.2 Hypothesis two

The riskier the method of invoicing for exports, the shorter the period over which credit can be extended.

This hypothesis deals with the second aspect involved in the attractiveness of a firm's trade credit policy; the period of extension of credit.

The information regarding the hypothesis was obtained through questions concerning the policies governing the period over which credit can be granted. The maximum period allowable to local and foreign customers was recorded. In case of foreign customers the maximum period allowable with respect to the different methods of invoicing was obtained.

Of the thirty seven respondent firms, 24 did extend credit to their customers and six of them did so only to local customers. Eighteen firms, therefore, do extend credit to both local and foreign buyers. Of these eighteen firms only four extended credit through the commercial draft method of invoicing. The rest of the respondents considers this method as too risky to be applied for credit extension. All the four firms did specify that the commercial draft is only used to
grant credit to very well known customers, otherwise, the letter of credit is the common arrangements.

The hypothesis was supported by the results of the questionnaire. Taking into account all the firms that were willing to extend credit to foreign buyers, the shortest period that was extended under the commercial draft and open account can be said to be zero. By this it is meant that some firms (77.8%) were willing to extend credit beyond zero days only under the Letter of Credit. If, however, we consider only the firms that did extend credit under the three methods, table No. 4 shows the data that supports the above hypothesis.

Table 4  CREDIT PERIODS UNDER DIFFERENT INVOICING METHODS

<table>
<thead>
<tr>
<th></th>
<th>L/C*</th>
<th>C/D*</th>
<th>O/AC*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Longest period</td>
<td>180</td>
<td>60</td>
<td>15</td>
</tr>
<tr>
<td>Shortest period</td>
<td>30</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Mode</td>
<td>90</td>
<td>60</td>
<td>15</td>
</tr>
</tbody>
</table>

* L/C - Letter of Credit  
* C/D - Commercial Draft  
* O/AC - Open Account

The longest periods for which credit could be extended under the letter of credit and commercial draft were 180 and 60 days respectively, and the corresponding shortest periods were 30 and 15 days. The mode, that is, the most common credit periods under these methods were 90 and 60 days respectively.
As regards the open account method, only one firm did extend credit under the method and for only 15 days.

The information on trade credit extension to local customers was sought for comparison purposes. Credit extension locally mainly relies on trust. There are no intricate documents to support the deal, local buyers normally have open accounts with their suppliers. Thus a credit extended to an importer through the confirmed and irrevocable letter of credit is more secure than the one extended locally. In case of the letter of credit, the seller expects to be paid by a bank which is normally a good credit risk. Logically then a seller should be willing to extend credit through confirmed and irrevocable LC for a longer period than to local buyers, subject to the limits set by the exchange control authorities.

Most Kenyan exporters were, however, found to be doing the opposite. Only six of the eighteen respondents that extended credit to both local and foreign buyers realized the security involved when a confirmed and irrevocable letter of credit is applied. These six firms allowed longer periods of credit to importers than to local buyers. Since the main reason given by the other two thirds of the firms for extending shorter or zero periods of credit to foreign customers was risk of default, one can then only conclude that most Kenyan producers do not evaluate their export business variables objectively.
5.3 Hypothesis three

Kenyan exporters vary their methods of invoicing for exports according to the experience they have had with their customers.

This hypothesis was analysed by using the information obtained relating to the methods of invoicing used and the reasons why these methods were used.

All the four methods of invoicing were being used by all the firms interviewed. The confirmed and irrevocable letter of credit was, however, common to all the firms while only three firms applied the open account. The latter method and the commercial draft were applied for very well known customers who have had considerable and favourable dealings with the exporter in the past. The cash with order arrangement was used where either the buyer offers that alternative or where previous experience has proved the buyer or his country to be unreliable. An example of the latter case is the switch by exporters from other methods to cash with order for customers in Zambia and Zaire in the last 1½ years because of these governments' blocking of funds going outside the countries. Cash with order was also applied by some firms where previously unknown buyers make their very first few orders.

The past dealings with a customer were given prominent importance in deciding in which method to invoice him. All the respondent firms did not have a
formal method of determining the credit worthiness of a customer prior to starting actual business with him. All these firms applied the letter of credit to their new customers and changed for some customers according to how reliable they proved subsequently.

Further considerations of default risk

That the risk of default by importers was viewed as the most crucial by most Kenyan exporters was also indicated by their ranking of the three risks: default, exchange rate, and government action.

Table 5 RANKING OF THREE RISKS BY EXPORTERS

<table>
<thead>
<tr>
<th>TYPE OF RISK</th>
<th>FIRMS' RISK RANKING</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Customer Default</td>
<td>14</td>
</tr>
<tr>
<td>Exchange Rate</td>
<td>2</td>
</tr>
<tr>
<td>Government (Political)</td>
<td>10</td>
</tr>
</tbody>
</table>

Nine firms could not give a ranking of these risks and two others gave other items as important risks; risk of goods perishing in transit (a food company), and risk of losing money used in contacting foreign markets.

Table No. 5 shows how the 26 firms that did rank the risks felt the importance of each risk. 53.8% of the firms felt that the risk of customer default is the most crucial — ranked number one. 30.8% of the
firms indicated the default and political risks as number two in importance.

The ten respondent firms that listed the risk of government action as number one in importance seem to be reacting to an unfavourable experience they have had in the business. All of them indicated that the Zambian government has blocked the flow of funds from that country to Kenya as payment for goods supplied to Zambian buyers. They all have outstanding cash in Zambia although their customers there claim to have paid to the Zambian central bank.

The risk of exchange rate fluctuations was rated lowest by 53.8% of the respondents. It was observed that the two firms that listed this risk as number one in importance are the only ones that do forward selling to hedge against this risk. Six of the firms who ranked the exchange risk as second in importance had their invoices expressed in Kenya Shillings to avoid that risk.

5.4.0 Hypothesis Four

Kenyan exporters mainly apply foreign currencies to invoice for exports.

The possibility of fluctuations in the exchange rate between different currencies is one of the risks peculiar to export trade in comparison to domestic trade. The risk may fall either on the exporter or on the buyer or both, depending on the currency used in the invoice.
The exporter who agrees to a sale contract which is expressed in terms of the buyer's home currency shoulders the resultant risk of a possible change in the exchange rate between his home currency and the one in the bill. The buyer undertakes such a risk when the currency in the invoice is the seller's home currency. The exchange rate risk befalls both parties if the invoicing currency is one other than their respective home currencies. In the latter case, the risk shouldered by each party depends on the relationship between the currency of billing and the respective home currencies. The risk increases with increasing possibility of changes in the rate between the currency in the bill and the party's home currency.

The foreign exchange risk disappears when the currencies involved in the sale contract have fixed rates of exchange between them or if the payment for the goods is effected immediately when the sale agreement is finalized. In the latter case, it is the ruling spot rate at the time of signing the sale contract, which is known to both sides, that determines the amount of money that changes hands.

This hypothesis was included in this study for two reasons: to find out what currencies Kenyan exporters use to invoice their foreign buyers, and to find out how much choice they allowed the importers as regards the currency to be invoiced in.
5.4.1 Currencies used in invoicing importers

Before discussing the currencies that are used by Kenyan exporters that were interviewed in the study, I will first look at the currencies in which Kenya exporters can bill their foreign buyers according to the foreign exchange controls of this country.

Alternatives available*

The exchange control regulations in Kenya do not place any serious limitations over the currencies in which Kenyan exporters can bill their foreign customers. Although the Central Bank limits the number of currencies in which it is dealing on each day and advise the authorized dealers accordingly on a daily basis, the dealers are free to sell or purchase other foreign currencies in the money market against any of the currencies currently bought and sold by the Central Bank. Thus a bank can exchange Kenya Shillings for a foreign currency in which the central bank is not dealing and then sell the currency for one of those in which the Central Bank is dealing.

In case of forward market covering, the exchange control does not as well seriously limit the possibilities available to Kenyan exporters. Authorized dealers are free to deal in any currency in the forward market except that all forward dealings will have to be reported to the Central bank in terms of US dollars or

*Information in this section is obtained from Exchange Control Notice No. 35.
pound sterling. Dealings involving other currencies, therefore, must be covered through forward transactions against these two currencies.

Thus Kenyan exporters can be serviced by their bankers so long as they deal in currencies that are circulating in the international money markets. The only disadvantage the exporters could have when they deal in currencies other than those in which the Central Bank is dealing could be a lower rate of exchange with Kenya Shillings because of the additional costs that dealers may incur when reselling these currencies.

Currencies used by Kenyan exporters:

The following currencies were found to be in use in Kenya's export business transactions; Kenya Shillings, US dollars, Pound Sterling, and the German Deutsche Marks. Table No. 6 shows how the various currencies were applied by the firms interviewed. The

Table 6

<table>
<thead>
<tr>
<th>CURRENCIES USED BY KENYAN EXPORTERS TO INVOICE CUSTOMERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Application</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>No. of Firms</td>
</tr>
</tbody>
</table>

Kenya Shilling was used as the only currency of billing by 16.2% of the firms, and an equal percentage similarly
applied the US$. The remaining 67.6% of the firms used a combination of two, three, or four of the currencies. There was no pattern indicating as to what size or industry applied which currency in billing.

Kenyan exporters were found to be responsive to the changes in values of internationally traded currencies. Two of the firms that used KSh. only indicated that they changed from US$ to KSh in 1977 due to fall in the value of that currency. The other four, who pointed out that they used KSh. to avoid uncertainties about other currencies, started export businesses after 1975. This could be interpreted to mean that these four firms were aware of the problems faced by the traditionally hard currencies - £ Sterling and US$. Seven of the 19 firms that use KSh in combination with US$ and/or £ Sterling indicated that they are now mainly billing in KSh. due to fluctuations of the value of the other two currencies. Two other respondents apply KSh. in high risk areas where delays in payment are expected.

Kenyan exporters thus show a one sided reaction towards currency value changes; that of opting for their home currency only. The exporters ignore the other two possible alternatives;

a) billing in strength-gaining foreign currencies and,

b) utilizing the forward market.
Only four firms applied the German Mark, a currently hard currency, in billing their customers and two of these used it to invoice customers in Germany only. Generally, Kenyan exporters bills in the traditionally hard currencies which have been losing value to other currencies in recent years. As regards hedging against the risk of exchange rate changes, only two firms did practice forward selling of foreign currencies.

Choice of currencies by customers.

About one third of the respondent firms gave customers a chance to choose between certain specified currencies. 13.5% allowed their customers choice between the KSh and the US$, and 16.2% added the British pound to those two as options. The remaining firms allowed a choice between £ Sterling and the US$ only.

5.5. Assistance given to Kenyan Export producers.

This section deals with matters regarding the assistance obtained by Kenyan export producers from the Kenya government and any other such help that the exporters would like to be provided to them. This information was obtained mainly from the answers to the questions; a) what assistance have you got from the Kenya External Trade Authority and b) what additional assistance do you think would be beneficial to you in the export business.
Assistance given:

In addition to its efforts through the Kenya External Trade Authority, the Kenya government has enacted certain Acts of Parliament to serve as inducements to private producers to enter the export field.

i) Local Industries Act, which enables exporters, under certain conditions, to claim a refund of custom duties on raw materials subsequently used in the production of goods for export.

ii) Sales Tax Act 1973; enables exporters to claim a refund of Sales Tax paid where taxable goods have been manufactured or imported and tax paid and the goods have been subsequently re-exported.

iii) Local manufacturers Act, 1974, enables exporters to claim compensation payment of 10% of the f.o.b. (free on board) price if goods are either wholly made in Kenya or if locally added value is at least 30% of total value.

With respect to KETA's assistance to export producers, Table 7 shows how exporters recognized these efforts. Since KETA's information and publicity department makes known to producers, at no cost, whatever services KETA can offer them in their export trade, the writer assumed that the importance of any activity to the Kenyan exporters could be indicated by the number of firms that sought that particular service.

The sponsorship to international trade fairs proved to be the most popular effort among the exporters.
Table 7

RECOGNITION OF K.E.T.A.'S EXPORT PROMOTION EFFORTS

<table>
<thead>
<tr>
<th>KIND OF EFFORT</th>
<th>NO. OF FIRMS</th>
<th>KIND OF EFFORT</th>
<th>NO. OF FIRMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fairs Sponsorship</td>
<td>37</td>
<td>Communication</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>facilitation</td>
<td></td>
</tr>
<tr>
<td>Technical Advice</td>
<td>5</td>
<td>Seminars</td>
<td>2</td>
</tr>
<tr>
<td>Market Information</td>
<td>25</td>
<td>Commercial Attaches</td>
<td>6</td>
</tr>
</tbody>
</table>

It was cited by all the firms as the most important one mainly because of the chances it allowed them to get into contact with potential foreign markets.

The provision of information about foreign markets came second in recognition. Over 67% of the firms did recognize it as a valuable assistance. This tends to justify the existence of the department that deals with market research, publications, and library services in KETA.

Technical assistance was sought by only five firms. This is contrary to what would have been expected. New comers to export business would be expected to consult such a department more, and especially on matters relating to packaging of export products. All the firms interviewed had less than twenty years of experience in export trade. It can, however, be argued that the years that a firm has practiced export trade do not matter as much as the experience the managers could be having.
It was noted that the five firms that sought technical advise were food producing companies.

The four producers that contacted KETA on grounds of communication assistance were producing either bulky or perishable products and are situated far away from the main communication centres; Nairobi and Mombasa. The two government owned transport firms, Kenya Airways and Kenya Railways could greatly assist Kenyan export producers by charging lower rates for export goods compared to other cargo.

Another odd result is displayed by the producers' recognition of KETA's effort in arranging export instructions seminars. Although KETA officials claim significant attendance in these Seminars, only two firms indicated this as a valuable approach to promote exports.

**Assistance required:**

The most common assistance asked for by the firms interviewed in this study was an increase in the compensation to exporters from the 10%. They also pointed out at the delay involved before the exporters gets this refund. Twenty one firms pointed out this aspect and they all indicated that it takes a minimum of one year for the refund to reach the exporter after the date the goods are despatched. In this case then, when one considers the short-term (1 year) money borrowing interest rates in Kenya (between 7 and 10%), this compensation is in effect worth very little to the exporter.
A good example of the inadequacy of the 10% flat rate of compensation is demonstrated by firms that have a significant percentage of their products being made up of sugar. The international free market price of sugar is about KSh.1.70 per kilogram, while the wholesale price in Kenya is controlled at K.Sh.4.30 per kilogram. This makes such producers to be quite uncompetitive in the world markets and so reduces the gains from exports which induce such producers to undertake more of export producers.

The cloth and fabrics producers that were contacted pointed at insurmountable competitive forces posed by similar producers in South East Asian countries where the compensation rates are as high as 25% of the f.o.b. cost of exports.

The other most popular government assistance wanted by Kenyan exporters is insurance against the risks of default and blocking of funds by governments of importing countries. Twenty one firms pointed out the need for such an insurance, although twelve of them so indicated only after the workings of such a system were explained to them by the researcher. The other firms seemed to be unaware of what could be done to reduce the risks in export trade. This shows that an export credit guarantee system would be very welcome in Kenya. In addition to minimizing the risks in export business, the credit guarantee facilities would allow exporters to discount their bills and to
continue utilizing the capital tied up in the exported products during the time taken for the payment from the importer to be effected. A campaign should, however, be carried out to educate Kenyan producers as to the benefits of such a facility.

Comment

On an overall basis there is a need for a strong representation of as many industries as possible in the management of KETA. A major benefit from such a situation would be the ability to identify the obstacles to be removed and the stimulants to be applied to induce increase in export trade in different industries. An example to be cited here is that of technical assistance requirements. Why is it that from a sample of 37 producers, only food preservation companies sought technical assistance from KETA?

The Kenya External Trade Authority should consider the psychological distances of foreign markets from the Kenyan producers when inviting or sponsoring them in-trade fairs. Intuitively, a local producer who has never had dealings with another country will find it more difficult to respond to a potential market which is in another continent than one who has had such an experience. A market in a nearer country would be easier for a new exporter to respond to. Research in Australia indicated that a greater percentage of firms that were already involved in the continent's
inter-regional trade responded to more distant foreign markets more easily than those who had not engaged in such trade.27

In the case of Kenyan newcomers to export business, the logical place to start would be the nearest African countries. Sponsoring a Kenyan stranger in export business in a trade fair in Europe could easily end up being a waste of resources.

The level of the export compensation should be determined according to various industries. As pointed out in the example of the producers using sugar as a raw material, a flat rate of compensation is bound to be very fair to some producers and quite unfair to some others. Needless to say, the export compensation should reach the exporter within a short time after the goods are despatched.

CHAPTER SIX

SUMMARY, CONCLUSIONS, AND AREAS OF FURTHER STUDY.

6.1 Summary and Conclusions

This study represents the first survey of export practices in Kenya. Primary data was collected from thirty seven exporters. Through a questionnaire (see appendix), information relating to the following aspects was obtained:

(a) The currencies used by Kenyan exporters to bill their foreign customers.

(b) The trade policies of Kenyan firms with respect to export sales.

(c) The use of the various methods of billing for exports.

Following the introductory chapter, chapters 2 and 3 reviewed the literature on export management and particularly its importance to the less developed countries. The risks involved in export trade and the alternative ways of billing for exports were also discussed there. The remaining chapters deal with the research project proper; its design, data collection and the analysis.

It was found that Kenyan exporters invoiced mainly in the U. S. Dollar, Kenya Shilling, and the British Pound Sterling. A small percentage of the firms contacted are also using the Deutsche Mark. A large proportion of the firms indicated that they used the
Kenya Shillings to avoid the risk of exchange rate fluctuations especially in these times when the U. S. Dollar and the £ Sterling have been chronically weak.

Kenyan export businessmen are quite responsive to changes in the values of foreign currencies but their reaction is one-sided. Although the facilities for selling foreign currencies forward are available, and again there are some foreign currencies that are gaining "strength" in terms of value, the exporters chose to revert to K.Sh. for invoicing. Only two firms, for example, practice forward selling of currencies, and only four applied the German D. M. to invoice foreign buyers.

About one third of the respondent firms allowed their customers some choice of the currencies to be invoiced in. The alternatives were, however, confined to K.Sh., US $, and £ Sterling.

Kenya's exporters' policies regarding the currencies of invoicing does not appear optimal. By invoicing in Kenya Shillings, they shift the whole risk of exchange rate changes to the importer. This reduces the attractiveness of the terms of sale.

The ignorance shown by the Kenyan exporters towards the possible consequences of their currency-of-invoicing policies could be reduced by seminars organized by the Kenya External Trade Authority or any other Government department to educate local exporters on money market dealings.
There are four methods of billing for exports; letter of credit, commercial draft, open account, and the cash on order. All of them are used in Kenya but with varying degrees of application. The letter of credit — confirmed and irrevocable—was considered by the exporters as the basic method and was applied by all of them.

The commercial draft and the open account arrangements were applied by seventeen and three companies respectively. These two methods are applied to customers who have proved to be good credit risks in the past dealings with the producers. Eleven firms used the cash with order method mainly for new customers.

Kenyan exporters offer their foreign customers credit over periods ranging from 15 to 180 days. The length of the credit period depends very much on the method of invoicing involved which, in turn, depends on the nature of past business acquaintances between the parties. Most credit allowances and the longest credit periods were associated with the confirmed and irrevocable letter of credit which is the safest of all the alternative methods of billing under which credit can be extended.

In comparison to the credit policies on local trade, most of the firms contacted allowed longer credit periods to local buyer than to the foreign customers even when the confirmed and irrevocable L/C, which is safer than the open accounts held with local buyers, is being used.
The respondent firms did not have fixed amounts of credit or percentage of sale to be allowed on credit. This decision was left to be taken by the sales executive with respect to his/her judgement about the risk involved in a particular case.

Most of the export producers contacted during the project seem not to be evaluating the export business with particular scrutiny. In the first place, none of them had an objective method of estimating the risk level associated with a potential customer. It was only after some time of dealing with the customer that the risk involved could be estimated according to the experience so gained. During this period the producer applies the most stringent terms of sale — invoicing methods and credit period — which are not quite attractive to most buyers. There is, therefore, a possibility of losing potential customers to sellers who can estimate the customer's risk beforehand and hence offer the right terms immediately.

In the second place, most of the producers did not realize the security involved in a confirmed and irrevocable letter of credit. This method of billing is far safer in terms of risk than the open account normally used in local trade. Two thirds of the firms, however, allowed importers shorter periods of credit through the letter of credit than the local buyers on open accounts. This was so even where the credit periods were well within the 90 days limit normally allowed by the exchange control regulations.
Kenyan export-producers, according to the evidence obtained from the activities of the firms interviewed, need further training in the business. They seem to be carried away from objective evaluation of the variables involved by the psychological and physical distance of the foreign markets.

In this study an attempt was made to obtain the reaction of exporters towards the assistance given to them by the Kenya government, either directly or through the Kenya External Trade Authority, as far as this business is concerned. Sponsorship to international trade fairs and the provision of foreign market information to producers were viewed as the two most valuable government activities by the exporters. Although Kenyan export producers' practices demonstrated a need for training in this trade, the seminars organized by KETA did not draw a lot of popularity from the producers. Only two firms cited this as a useful government assistance. This indicates a strong case for a reorganization of these seminars, particularly the content of the matters discussed.

All of the firms interviewed had a negative feeling towards the 10% rate of export compensation given by the government. It is inadequate and it takes too long to reach the producer, up to 2 years in some cases. This flat rate is not likely to have a considerable impact on export promotion. It is particularly unfair to producers whose raw materials have prices fixed by the government at levels above the international prices.
The 10% rate is also far lower than those given to producers in other developing nations and whose products compete with Kenyan exports.

The general conclusion from the analysis of the information collected in the research project is that Kenyan exporters require a considerable amount of coaching in this business. This is not, however, a strange observation considering the short lives of most of the firms in Kenya, leave alone their short experiences in export trade. The exporters tend to over-emphasize the risks involved in the business and particularly the risk of default, mainly because of the distance between them and the markets.

The author's main recommendation is, therefore, that government sponsored training programmes be given emphasis in the efforts to promote exports from Kenya. Some of the topics that should be included in the programmes are:

(i) The use of, and the dealings involved in forward money markets.

(ii) The flexibility that various arrangements for export invoicing afford the parties to the sale contract.

(iii) Methods of assessing the risk level of a potential customer.

(iv) The value of an export credit guarantee scheme that the government is proposing to institute here in Kenya.
It is also recommended that in order to reduce the psychological "fear" of the producers, less distant foreign markets be given preference particularly when producers are being sponsored to trade fairs. Those who have had some transactions with less distant markets could then qualify to be introduced to the relatively far off markets.

The 10% flat rate of compensation should also be replaced with rates that are flexible depending on the industry concerned and also the competition faced in the international market. The opportunity cost to the society should, however, be considered when fixing these rates.

6.2 Areas for further study

It is not possible to carry out exhaustive research on a given area of study through a single project. Such a research project will almost always bring to light some additional areas in which further study could be conducted. This study project is no exception.

The following areas of possible research were identified during the course of this project:

1) The currency of billing and the importing countries. Since four currencies are used in the export trade in Kenya it would be interesting to know whether there is any relationship between the application of a particular currency and the countries or regions importing products. The dependence, if any, of the choice of
currency of billing on the product involved in the transactions could also be studied.

2) What relationship could there be between the behaviour of the firms (in terms of billing methods and credit policies) and the industry to which the exporter belongs. Since the project covered only a few firms in different industries it was not possible to give industrywide conclusions.

3) Whether actual amounts allowed on credit have any relationship with the different methods of invoicing and/or various currencies of billing. Firms interviewed in this project had no fixed amounts or percentages of sale that could be allowed a customer on credit, and the data relating to the actual credit extended was not obtained. Thus such a relationship, if any, could not be established in the study.

4) The relationship between the size of orders and the methods of invoicing. The risk undertaken by a seller who extends trade credit to his customers increases with the amount of sale involved and the period of credit. Since the different methods of invoicing are associated with different risk levels, it would be worthwhile to find out whether the exporters' decision when choosing the method of invoicing are affected by the order size.
## APPENDIX I

### LIST OF FIRMS INTERVIEWED

<table>
<thead>
<tr>
<th>NAME</th>
<th>LOCATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Ambica Foods Limited</td>
<td>Nairobi</td>
</tr>
<tr>
<td>2. African Heritage</td>
<td>&quot;</td>
</tr>
<tr>
<td>3. E.A. Bag and Cordage Limited</td>
<td>Ruiru</td>
</tr>
<tr>
<td>4. Cremex Limited</td>
<td>Nairobi</td>
</tr>
<tr>
<td>5. Craft Industries</td>
<td>&quot;</td>
</tr>
<tr>
<td>6. Cottage Industries</td>
<td>&quot;</td>
</tr>
<tr>
<td>7. Dawa Pharmaceuticals Co. Limited</td>
<td>&quot;</td>
</tr>
<tr>
<td>8. East African Industries Limited</td>
<td>&quot;</td>
</tr>
<tr>
<td>9. East African Fine Spinners Limited</td>
<td>&quot;</td>
</tr>
<tr>
<td>10. East African Publishing House Ltd</td>
<td>&quot;</td>
</tr>
<tr>
<td>11. Finlay Industries Limited</td>
<td>&quot;</td>
</tr>
<tr>
<td>12. Frismil Inks Co. Limited</td>
<td>&quot;</td>
</tr>
<tr>
<td>13. Glaxo East Africa Limited</td>
<td>&quot;</td>
</tr>
<tr>
<td>14. Gilbeys East Africa Limited</td>
<td>&quot;</td>
</tr>
<tr>
<td>15. House of Manji Limited</td>
<td>&quot;</td>
</tr>
<tr>
<td>16. J.K. Industries Limited</td>
<td>&quot;</td>
</tr>
<tr>
<td>17. Kenya Engineering Industries Ltd</td>
<td>&quot;</td>
</tr>
<tr>
<td>18. Kenya Meat Commission</td>
<td>&quot;</td>
</tr>
<tr>
<td>19. Kenya Breweries Limited</td>
<td>&quot;</td>
</tr>
<tr>
<td>20. Kenya Orchards Limited</td>
<td>Machakos</td>
</tr>
<tr>
<td>22. Kenya Salt Industries</td>
<td>Nairobi</td>
</tr>
<tr>
<td>23. Longmans Kenya Limited</td>
<td>&quot;</td>
</tr>
<tr>
<td>24. Meta Meta Africa Limited</td>
<td>&quot;</td>
</tr>
<tr>
<td>25. Maridadi Fabrics</td>
<td>&quot;</td>
</tr>
<tr>
<td>26. Maendeleo ya Wanawake</td>
<td>&quot;</td>
</tr>
<tr>
<td>27. P.J. Products Limited</td>
<td>&quot;</td>
</tr>
<tr>
<td>28. Pan Plastics Co. Limited</td>
<td>&quot;</td>
</tr>
<tr>
<td>29. Regal Printers Limited</td>
<td>&quot;</td>
</tr>
<tr>
<td>30. Stainless Steel Products Co. Ltd</td>
<td>&quot;</td>
</tr>
<tr>
<td>31. Sagana Tanneries</td>
<td>Sagana</td>
</tr>
<tr>
<td>32. Trufoods Kenya Limited</td>
<td>Nairobi</td>
</tr>
<tr>
<td>NAME</td>
<td>LOCATION</td>
</tr>
<tr>
<td>-----------------------------------------------------------</td>
<td>----------</td>
</tr>
<tr>
<td>33. Thika Cloth Mills Ltd</td>
<td>Thika</td>
</tr>
<tr>
<td>34. Uplands Bacon Factory</td>
<td>Uplands</td>
</tr>
<tr>
<td>35. Victoria Industries Limited</td>
<td>Nairobi</td>
</tr>
<tr>
<td>36. Wrigleys Co. Limited</td>
<td>&quot;</td>
</tr>
<tr>
<td>37. Zimmermann Limited</td>
<td>&quot;</td>
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</tbody>
</table>
APPENDIX II

INVOICING METHODS, CURRENCIES AND TRADE CREDIT POLICIES IN THE EXPORT BUSINESS IN KENYA

QUESTIONNAIRE

1978.
PART I

INTRODUCTION

My name is George M. Ngugi, a Kenyan postgraduate student in the Faculty of Commerce, University of Nairobi. Today I am conducting a survey of how Kenyan producers carry out their exporting business. The aim is to acquire necessary data for my Master of Business and Administration (MBA) Thesis. It is also my hope that this research will be valuable to many exporters. I would be grateful if you spare sometime and answer the survey questions. Rest assured that whatever information you give will be treated as most confidential.

PART II

SECTION A

Methods of Invoicing

1. Do you do export business
   Yes [ ]
   No [ ]

2. When did you start exporting? Year ..............

3. Which of the following methods do you use to invoice your foreign customers?
   1. Cash with Order
   2. Letter of Credit
   3. Commercial Draft
   4. Open Accounts Receivable
   Other(s) [ ]

4. Which method do you most commonly use?
   1 [ ]  2 [ ]  3 [ ]  4 [ ]  5 [ ]
5. Why do you use the Method(s)? (don't prompt)
   (a) Convenience (no specific reason)
   (b) Least risky
   (c) The only one known
   (d) Dependent on customers riskiness
       (explain)
   (e) Other

Currency of billing

6. In which currencies do you bill your foreign customers?
   (a) Kenya Shillings
   (b) U. S. Dollars
   (c) British Pounds
   (d) Others

7. (If more than one currency is indicated in Q. 6), how do you determine the currency to apply for a particular customer?

8. How does the foreign exchange regulations in Kenya affect your decision when choosing the currency of billing?

9. (If a currency other than K.Sh. is applied), do you sell foreign exchange earnings receivable "forward" to avoid loss from currency exchange rate fluctuations?
   Yes
   No
10. Which of the currencies is generally more costly to sell forward in terms of high discounts or low premiums? (Rank them with No. 1 being the most costly)

(a) U. S. Dollars
(b) British Pounds
(c) Others

Credit extension

11. Do you extend trade credit to your customers?

Local customers

Yes
No

Importers

Yes
No

12. Do you have limits on the amount or percentage of sale that a customer can take on credit?

Local customers

Yes
No

Importers

Yes
No

13. What is the maximum limit for a local customer on open accounts?

K. Sh. ......................... % ......................
14. Does the maximum amount or percentage allowable to an Importer differ depending on the method of invoicing applied?

Yes [ ] No [ ]

15. What is the maximum limit for importers?
K.Sh. ................................ % .............

16. What is the maximum limit under these invoicing methods?

(1) Letter of Credit K.Sh. ........../% ........
(2) Commercial Draft K.Sh. ........../% ........
(3) Open Account Receivable K.Sh. ........../% ........
(4) Other

17. Do you have limits fixed on the maximum period over which trade credit can be extended to a customer?

Local customers Importers

Yes [ ] Yes [ ]
No [ ] No [ ]

18. What is the maximum limit applicable to an importer under the following methods?

(1) Letter of Credit Days .............
(2) Commercial Draft Days .............
(3) Open Account Days .............

Others
19. What is the maximum period over which trade credit can be extended to a local Customer on open account? Days .........................

20. What major factor(s) cause the differences in the credit amounts (percentages) and periods allowable to local and importing customers? (do not prompt).

   (1) Risk of default by customer
   (2) Risk of Exchange rate fluctuations
   (3) Risk of Government action in the importers country blocking transfer of Money

21. From where do you obtain information about the creditworthiness of a new potential customer?
   (a) Importer
   (b) Local customer

22. Do you have a formalized technique to weigh the creditworthiness of different customers according to the information obtained?

   Yes [ ]  No [ ]

23. Briefly describe the technique.

24. Is the technique applied both to local and importing customers?
SECTION B

Risks and Assistance

25. What do you consider to be the most crucial risk in export trade? (Rank the risks, No. 1 being the most crucial).

(a) Default by customers
(b) Exchange rate fluctuations
(c) Government blocking the transfer of money from the importer's country
(d) Others

26. What assistance do (did) you get from the Kenya External Trade Authority? (do not prompt)

(1) Fair sponsorship
(2) Technical Advise
(3) Information about foreign markets
(4) Transportation and Communication smoothening
(5) Use of commercial attaches
(6) Others

27. What additional assistance would you like to be provided by KETA (or Government) in the field of exporting from Kenya? (do not prompt).

(1) Insurance against risk of default
(2) Insurance against political risk
(3) Other
28. How could such assistance affect the terms of trade that you offer to importing customers?
   (a) Trade credit amount/percentage allowable?
   (b) Trade credit period allowable?
   (c) Invoicing methods applied?
   (d) Other

SECTION C

General Information

29. When was this Company started? Year.............

30. What are its major products?

31. How many people does this firm employ (workers plus managers)?

32. How many employees are directly involved in export trade?

33. About how much was your company's sales net of allowances for sales returns and damages?
   1976 KSh ....................... 
   1977 KSh ....................... 

34. About how much of these sales were export sales?
   1976 KSh ....................... 
   1977 KSh ....................... 
35. Is your Company a Partnership
   Limited Company
   Sole proprietorship

36. How many branches does your firm have?

THANK YOU
BIBLIOGRAPHY


