

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

by

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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.