INTERNATIONAL TRADE.

International trade refers to trade between countries.

- If the trade involves only two nations it's known as bilateral trade.
- Multilateral trade is trade involving more than two countries.
- International trade includes export and imports of goods and services.
- Trade of tangible goods is known as visible trade.
- While invisible trade includes tourism and services offered by expatriates.

Advantages of International Trade.

- It enables a country to acquire what she may not be able to produce.
- It enables a country to dispose off her surplus produce.
- It offers a greater variety of goods and services for consumers.
- It allows for specialization on best-suited fields to members of a given country.
- It leads to certain dependency, which creates humble relations to the parties involved.
- Creates and promotes a healthy competition between local and foreign produce.
- At times of calamities supply can be from other countries.
- Movement of people between countries involve in trade promotes international understanding.
- Import of capital goods promotes economic development.
- It's a source of revenue to both the individual involved and their government.
- It creates employment.

Disadvantages.

- Risks attached to specialization: in case of exhaustion or resources or loss of market for the commodity the economy of the country will be affected. It may result into unemployment, waste of resources and loss of revenue to thee government.
- Import goods are known to be a threat to the local produce.
- Some imports pose negative effects to the citizen of anther country.
- Advance nation may take advantages of poverty in developing countries to dump expired goods.
- Depending on a particular country for an important commodity may force the dependant to tolerate some undesirable gestures from such countries.
- Supply of imports is not always guaranteed and it may fail during emergencies.
- Changes in world prices may have drastic effects to home industries.
- Too much reliance on import goods may hamper the development of similar industries at home.

Nations involve in international trade due to:

- SCARCITY OF RESOURCES. No country is gifted with all the resources required to produce goods and services to satisfy their wants.
- The surplus produce has to be disposed off to avoid wastage.
- For a country to earn any foreign currency it must involve in trade with others countries.

TERMS OF TRADE.

Terms of trade refer to the rate at which a country's exports are exchanged for her imports.

Balance of Trade.

- This refers to the difference between the values of visible imports and visible exports of a country within a defined period of time; usually one financial year.
- Visible trade is trade in tangible goods e.g. Tea tools and etc. on the other hand invisible trade refers to trade in services e.g. Tourism services offered by expatriate's etc.
- If during a given period the value of imports is greater than that of exports, the balance of trade is said to be unfavorable. If the value is equal then it is at equilibrium or zero.

Balance Of Payment.

- This refers to the differences in value paid between a country visible export against her visible and invisible imports within a given period of time.
- The balance of payment is charged on a country's current account. If the exports of both visible and invisible imports a country is said to have a trade surplus. The opposite results to trade deficit.
- Trade deficits and surpluses are an ascertained by calculations shown in the current account.
- The current account imports are credited while exports are debited. The surplus or deficit obtained in the current account is transferred to the capital account.

Capital Account.

- The capital account is maintained by the central bank. The account shows how the trade surplus is disposed off and how the deficit is financed.
- The surplus is disposed off by; financing capital development projects in a country, keeping some of it in the reserves or fund against future payments. Sometimes lending to another country or investing in I.M.F.

THE DEFICIT CAN BE FINANCED IN THE FOLLOWING WAYS;

- Borrowing from another country.
- Receiving gifts and donations.
- Deferring payment through the IMF.
- Selling foreign investments.
- Using foreign exchange reserves.
- Devaluing an own currency.
- Importing on credit.

To correct an adverse balance of payment.

- It can be done by controlling imports and boosting export of goods and services.
- Imports may be controlled through licensing imposing heavy import duties or total ban. To improve (promote) exports. Through exports compensation; a scheme where an from the government. The government of Kenya offers 10%. Customs drawbacks; this is a case where a refund of charges of the custom duties paid on certain imported goods which are to be re exported is done by the government.

  Establishment of export promotion bodies e.g. K.E.T.A (Kenya External Trade Authority) for details refer to page 19 of volume one of these in diplomatic missions abroad headed by commercial attaches. Forming trade consuls to advise the mother country on international trade matters. Through deflationary policy; reducing the value of an own currency. Encouraging foreign investment. Giving bounties; A subsidy given by a government to exporters as an incentive to promote their participation in export trade. It may be given in form of funds or tax relief.

- Setting up an export guarantee department; the department offers insurance cover to exporter's goods. The insured pays lower rates. The cover is meant for bad debt, delayed payments and charges of the government's policy in the importing country.
- Using government promotions; by appealing to, and persuading producers and manufacture to and persuading producers and manufactures to enter external trade.
- Using government promotions; by appealing to, and persuading producers and manufactures to enter external trade.

Factor that may cause an adverse balance of trade.

- Low exports
- Increase in imports
- Unfavorable terms of trade.
- Shortage of capital
- Climatic situation.
- Devaluation policy by other countries.
- The flow of capital goods.
- Structural disequilibruim resulting from fundamental changes in growth of a country.

INTERNATIONAL TRADE PROCEDDURE AND DOCUMENTATION

For a trader to import goods, first he has to make inquiries from potential exporters, information can as well be got from reference documents/books relevant to business matters like;

a) Trade journals
b) Catalogue
c) Business directories.

- Other sources of information are mass media, exporter must get an import license from the government. Obtaining an import license (F.A.A.L) an import license in Kenya is known as Foreign Exchange Allocation License. (F.E.A.L) before apply for a license the importer must first obtain a proforma has to show: prices description of the goods qualities ,place of shipment and the names off the parties involved. Seven copies of proforma invoice together with the original and sent to the department of trade and supplies (DTS). A banker cheque of 1.5% off the value of goods shown in the proforma invoice is also attached
- The application is varified by the import management committee. (I.M.C) at the department of trade and supplies. If approved the I.M.C forwards six copies of the F.E.A.L. forms to the central bank of Kenya. DTS retains one copy. Also sent to the bank are two copies and the original of the proforma invoice including the banker cheque. If the bank authority is satisfied it is license. Three copies including the bank authority is satisfied it is then allocated a number become a license. Three copies are then sent to the importer. Two copies are sent to the Society General Surveillance (S.G.S)
- The importer then qualifies to place to an order with overseas supplier. The importer then sends an indent (order). The importer then sends an indent are; description of goods, duality and prices expected data of delivery, terms of sale packing instruction, marking and labeling of the consignment and means of transport. The port of destination and terms of payment are included.
- There are two types of indent; closed indent- sent direct to the importer of the importer's own choice direct. The importer of the importer's own choice. The importer's agent who selects a suitable exporter on behalf of the importer.

THE PROCESS OF EXPORTING GOODS

- After receiving an indent or order document from the importer, the exporter has to acquire an export license from his government. When the exporter is ready goods must be inspected

by SGS team or nay other authorized government agents in FEAL, the SGS team files a clean report of finding (C.R.F)

- Goods cannot be accepted by the government authority if the clean report of finding is received by the central bank before the consignment is delivered. If all the documents are complete the transporting firm. If the means to use is a ship, then delivery may be at the dock gate, the Wharf or directly to the ship. Once goods are at the ship the shipping company issues a freight note. The notes give details of shipping charges. The captain prepares a bill of lading a document that contains prepares a bill of lading, a document that contains a contract between the shipping charges. The captain a contract between the shipping company and the consignor. It is also a document of titles , only the person named in the bill of lading can claim the goods.

The bill of lading shows that;

- ➢ Goods have been received by the shipping company for transportation.
- ➢ A contract or agreement has been signed for carriage goods.
- ➢ Legal ownership has been given to the person named on the bill.

- A bill of lading is negotiable, the person named in the bill of lading can transfer the ownership to another person named on the bill.
- The exporter prepares a commercial invoice. (an accounting document which holds importer liable to pay for the goods) I F the commercial invoice is verified by the embassy, it then becomes a consular invoice. It then shows that by the prices charged are fair or correct. It is used by the government authority to determine the correct amount of custom duty to be changed if duty to be is based on their value.
- The exporter has also to obtain a certificate of origin. It has to be signed by an authorized person in the ministry concerned with trade in the exporter's country.
- The following are some of the documents an exporter has to send to the importer.
  - ➢ Packing list
  - ➢ Commercial invoice
  - ➢ Copy of C.R.F.
  - ➢ Copy of bill of landing.
  - ➢ Certificate of origin
- The documents may be sent directly to the importer or through his bank.

RECEIVING GOODS BY THE IMPORTER.

- It's a condition that all goods imported must be insured.
- To collect goods at the port, the importer requires the services of clearing and forwarding firm.
- On arrival of his document he notifies his clearing and forwarding agents, giving him the following documents;
  - ➢ Two copies of commercial invoice.
  - ➢ All packing lists
  - ➢ A copy of the proforma invoice.
  - ➢ Certificate or origin
  - ➢ Certificate of insurance and a copy of the F.E. A.L.

- The clearing and the forwarding agent then prepares and import entry document which has to be approved by the custom department before the consignment is released.
- Ones all charges have been paid, the port's authority issues a port release order document. Goods are then released from the on duty paid or in bond basis.

Payment for imports.

- Payment in advance is not accepted by the Kenya Government. In a case of documentary credit; the importer draws a bill of exchange on an exporter who then accepts it. The importer pays for the goods on maturity of the bill. In this case the two parties must be known to each other, for security purpose.
- In case of letter of credit; the importer opens a letter of credit in the exporters favour, at a reputed bank will open a letter of credit on his behalf.
- The issuing bank communicates to the corresponding bank through a letter of credit. There are revocable and irrevocable letters of credit.
- On irrevocable and irrevocable letters of credit payment is guaranteed.
- Open credit; This applies in case where a mother co. is exporting goods is sent without strings attached and payment transacted later. In Kenya most international payment are done through the Central Bank of Kenya. Other documents used in the international trade; Letter of hypothecation; sent by the exporter to his bank abroad requesting it to sell his goods on his behalf. The bank all costs incurred out of sells and sends the exporter the difference.
- The exporter insures goods against risks of loss or damage while in transit. An insurance policy is sent to the importer to enable him claim compensation should be incurs any losses or damages.

Middlemen in the international trade:

- Imports merchants; Imports goods in bulk in their own names and arrange for distribution. They act as international wholesalers. Export merchants also collect goods from different producers and sell to overseas customers.
- Stockiest distributors; Merchants specialize in stocking goods of a particular type.
- Manufacturers representative in most cases the representatives forms subsidiary Co.'s in foreign countries. They involve much in selling of technical goods which require after sales services.
- Marketing boards: (see Vol. 1 page 20) The boards assist business to collect and market certain commodities and also import certain others for distribution locally.
- Commission agents:

a) Forwarding agents; deals with clearing and forwarding and shipment of goods.
b) Brokers (sole indent agents) They do not handle goods but assist in arranging deals between buyers and seller. They earn commission known as brokerage.
c) Factor: They sell goods on their own names, and then remit the returns to the principle who then pays a commission on sales made.
d) Travelling agents: Appointed by the manufacturer to promote their goods and collect orders.

PROTECTIONISM AND ECONOMIC INTERGRATION.

Reasons why a country may find it necessary to control its international trade:

- To protect infant and key industries against foreign competitions.
- To avoid entry of harmful commodities in the country.
- To avoid dependency in other countries.
- To eliminate dumping of foreign goods, which may jeopardize the local market.
- To create the employment opportunities through economic growth.
- To correct the balance of payment deficit.
- To determine the necessary and unnecessary goods and services.
- To fight against possible monopoly by super firms.
- To raise revenues for government projects in the country.

The international trade restrictions may be:

a) Natural barriers.
b) Commercial barriers, result of poor infrastructure.
c) Man made barriers, which means political differences, trade policies, custom duties quotas and exchange controls.

Free trade and protectionism.

- In free trade importers and exporters do not need the government consent.
- Free trade;
  - Promotes production.
  - Expand trade among members countries.
  - Abolishes refraction on movements of goods and factors of production in member's countries.
  - Establish uniform custom policy in members countries.
  - Help members countries to raise their stardand of living.
  - Help to achieve full employment level.
  - Helps to develop for a greater variety of goods and services.
  - Creates economic of scale.
  - More supply in member's country. Market help to reduce prices.

Negative effects;

- It reduces efficiency in production of different commodities.
- Country involved remains less developed since more industries are not established and harmful commodities may be imported.
- The major disadvantages for protectionism is that it gives way to inferior goods to enter the market and may pave way to monopolies.

Common markets and economic blocks.
P.T.A (Preferential Trade Area) The market has 21 members countries.

THE OBJECTIVES OF PTA ARE;

- To eliminate tariffs on certain products and to reduce on certain others in order to facilitate easy trade in members countries.
- To enable member country's citizens to interact and exchange ideas that can be beneficial to all.
- To reduce the problem of limited market.
- To enable members country bargaining power in the world market. That is in all matters relevant to commerce and matual interest.
- It facilitates infrastructure on inter state transport and communication among members countries.

Others are:

- E.E.C. (European Economic Community) Aimed at facilitating and promotion trade relations between European members countries.
- O.P.E.C. (Organization of Oil Exporting Countries.) The organization caters for interest of the member oil producing nations.
- E.F.T.A (European Free Trade Area)
- G.A.T.T. (General Agreement on Trade and Tariffs) This is aimed at reducing tariffs as an aim of increasing international trade. Over thirty developing nations including Kenya are signatories to the agreement. Its headquarters is in Geneva.

- E.C.O.W.A.S. (Economic Community of West Africa, Caribbean and the pacific. The major aim is to negotiate for better terms with the industrialized nations, in trade. This is necessary since the members countries are basically producers of raw materials.

METHODS OF PROTECTIONISM.

1. By imposing tariffs: this are taxes charged on imports to make them expensive hence discouraging consumption in the local market.
- The tariffs can be inform of custom duties (import duties) This is a source of revenue to the government although it is used to discourage imports.
- A specific duty is levied on commodities according to quantities purchased. While Advalorem duty's is charged on goods according to their value.
2. Preferential Duties; This are discriminatory duties meant to favour countries that are affiliated to the common market. Like import surcharged is imposed temporarily to reduce the balance of payment deficit.
3. Interference with exchange rates(devaluation);- A country may lower her currency value to make her exports cheaper, thus increasing the quantities of export. It is a risky move though in a case where competition is high.
- The effects of this move are that;- imports will become more expensive. It is a risky move though in case where competition is high.
4. Quotas and total ban; Quotas are aimed at controlling supply to the world market to keep price stable.
- Importers and exporters under quotas are aimed system must obtain a license from the government showing the qualities allotted and the period the license is valued.
- Total ban has a major disadvantage in that it encourages smuggling.

Some firms which regulate International Trade.

a) The I.M.F. (International Monetary Funds)
   - It was established in 1944 aimed at restructuring international trade international trade transactions.
   - To case debt payment among member countries.
   - To settle trade imbalances and advances.
   - To provide short term loans to member countries.
   - I.M.F. uses special drawing rights (SDR) to assist members countries to settle their deficits, and short terms loans. Its done out of the members pooled funds. Each member country is required to subscribe a define amount and is expected to maintain the sum in order to qualify for short term loans in need be.

b) World Bank. (International Bank of reconstruction and development) I.B.R.D. all members of world bank (I.B.R.D) must be members of I.M.F.
   - Provide funds for capital development
   - Give loans to be paid back within a period of 5 to 25 years.
   - Encourage free trade and international cooperative through investment.

c) U.N.C.T.A.D. –United Nations Conference on Trade and Development. It advocates for developing countries international trade benefits . e.g. Price stability, reduction of tariffs etc.

AIDS TO TRADE.

1. **TRANSPORT.**

Transport as a commercial service, which involve movement of goods and persons from one place to another. It's the most important commercial activity aimed at bridging the gap between a producer and a consumer.

Importance of transport:

- It promotes Agricultural activities.
- It reduces wastage of goods and services.
- It facilitates short operation circles.
- It facilitate faster movement of goods and services.
- It promotes specialization and mass production.

ELEMENTS OF TRANSPORT:

- Unit of carriage: Refer to the organ or container in which goods and persons are moved e.g. lorry, carf. train e.t.c
- The way: These may be road, sea, air etc.
- Method of propulsion: Type of engine used to move the carrier.
- The terminals: The loading and off loading points must be relevant to the requirements of a terminal.

FEATURES OF AN EFFICIENT TRANSPORT SYSTEM:

- Safety for both goods and persons on transit is necessary.
- A good system should be flexible enough to fully serve the needs of user.
- The cost to be incurred should be fair and affordable, to reduce effects on prizes of goods.
- Punctuality: A means that runs on time schedule is more reliable for a businessman who is also operating on schedule.

FACTORS TO CONSIDER BEFORE MAKING A CHOICE OF THE MEANS TO ADOPT.

- Nature of goods to be transported.
- The cost to be incurred.
- The terminals and the loading and offloading facilities facilities.
- Value of the consignment and security requirement.
- Urgency of the goods.
- Distance to be covered.
- Reliability of the means.
- Quantities of the goods to be transported.
- Availability of the means.

<u>ROAD TRANSPORT</u>.

Commercial transport is carried out mainly by public carriers; which include common, private and contract carriers; Common carriers are those that are run by private firms. They can be hired to transport goods from one place to another on contract. A common carrier may refuse to transport goods if.

1. There is no room in the vehicle.
2. Goods are not properly packed.
3. The goods do not fall within the carriers services.
4. Goods to be transported are dangerous or explosive.

MATATUS:

Advantages:

- Little capital invested compared to other passenger vehicles.
- They are flexible in that they can act request to deliver goods or passengers at their premises.
- They supplement other means of transport.
- They are accessible as they are currently the most reliable and most available means.

Disadvantages:

- Careless driving and parking habits cause traffic congestion.
- They are prone to accidents.
- They have no fixed schedules which cause unecessary delays to passengers
- Their fare is not fixed and tend to be higher whenever their demand goes up.
- The youths are a nuisance to passengers as they gramble for passenger.
- At times they change routes without considering the plight of passengers and therefore inconveniencing.

Advantages of road transport.

- Flexible and can serve up to ones premises
- Faster within a short distance.
- Cheap and open to haggling.
- Its convenient due to lack of a fixed schudule.
- Low construction and maintenance cost.
- Over feeder and distribution services to and from air, water and rail terminals.
- Offer special design services.

Disadvantages of road transport.

- Not suitable for goods over a long distance.
- Carry a small volume of goods.
- Possible delays due to traffic jams.
- Open to highway robbery and pilferage.
- Expensive over a long distance.
- Prone to road accidents and creates high road maintenance costs.

PIPELINE

- Pipeline services are meant for transportation of oils and gasses efficiently underground.
- They are safe from accident and are more reliable.
- They accord the required speed and urgency.
- They are safe from accidents and are more reliable.
- They accord the required speed and urgency.
- They are cheap in the long run.
- Maintenance and operation are low.
- It's a source of revenue to the government.
- It's safe since pilferage is minimized.
- In case of leakage the damage is quickly detected through computerized flow detection.
- Its economical in terms of labour.
- Pipelines can be installed where roads can't be.
- A large volume is transported within a short period.
- It assist in easing traffic congestion in form of oil tankers which have proved to be destructive to roads.

Disadvantages of pipeline.

- Heavy costs are incurred during construction and installation of pipes and machines.
- Leakage's can result into heavy losses.
- Pipeline is susceptible to sabotage.
- Only a small range of products can be transported through pipeline.
- The direction of movement can not be reversed.
- It does not generate employment opportunities.

In Kenya pipeline services are controlled by the Kenya Pipeline Services are controlled by the Kenya Pipeline Company established in 1973 although its real operations started in 1978. It serves between Nairobi and Mombassa. Extensions are on to extend the services to Western Kenya and into Uganda.

RAIL TRASPORT.

The railway transport in Kenya are controlled by the Kenya railway Corporation. Its under the state due to high costs of installation and maintenance. It has a high carrying capacity and wagons are designed to suit variety of goods. The Kenya Railways calculate their freight of charges according to distance to be covered, weight of goods, class and type of the goods, and nature and degree of risk involved in carrying the goods.

- Rail – Tainer: Is the transportation of containerized cargo. A daily railtainer service are offered between Mombassa and Nairobi. It carries goods of high value and quality; Container deports in Mombassa, Nairobi and Kisumu are open to serve as terminals.

Advantages of Rail Transport.

- Quite economical over long distance for goods transportation..
- The cost of transporting goods does not increase with proportion to the load, carried by adding the number of wagons.
- Can handle container traffic through rail-tainer services.
- Rail firms are not profit oriented but do provide essential services.
- Trains follow a regular schedule which helps business plan the movement of their goods.
- Railway stations provide warehousing services on goods awaiting dispatch or collection.
- Accidents are minimal.
- Its not affected by traffic jams.
- Its suitable for bulky commodities.
- The railway corporation is willing lay rail track up to the door of an industrial complex if the volume of the goods justify the initial outlay cost.
- Railway stations have facilities for handling making loading and offloading easy.

Disadvantages:

- Rails are not widely distributed hence reducing flexibility.
- Rails have to bear heavy overloads expenses and running costs irrespective of the amount of traffic carried.
- It's a slow form of transport compared to road and air.
- Very uneconomical over a short distance.
- It operates as a not-profit making organization, and therefore causing severe financial shortfalls.
- It serves only towns with railway stations.
- Delays and pilferage are common.
- Delays and pilferage are common inconvenience businessmen.

AIR TRANSPORT.

In Kenya air transport is offered by Kenya Airways, Air charter firms and foreign air transport company.

- Air transport is independent off physical barriers.
- It's relatively flexible. Landing problems can be solved by fitting skid or floats to enable them land on ice or water respectively.
- Its most efficient for passengers travelling on a long distance.
- Its sufficient for transport perishable and urgently needed goods
- It's fast and convenient.
- In air transport there is little handling of cargo, reducing possibilities of damage and pilferage.
- Adequate security is provided to goods on board.
- Its suited for delicate and fragile goods.
- The cost of documentation, insurance and packing is quite low, accident rates are also low.
- Its regular and reliable since it keeps time.

a) They are hermetically sealed and have their own supply of oxygen.
- It has excellent connecting system between air lines making its easy for travelers to move all over the world with convenience.
- Goods are dispatched so fast that there is always space in their warehouse.

Disadvantages;
- Its expensive and therefore suitable for goods of high value and light.
- They have a limited carrying capacity and therefore not suitable for bulky commodities.
- Its sensible in that a small faul or bad weather can disrupt fights.
- Construction and maintenance cost of airports is high.
- Air transport requires trained personnel.

WATER TRANSPORT.
- Water as the way and vessels as carriers.
- Kenya's main harbour (sea port) is Kilindini in Mombassa on the Indian Ocean. Smaller ones are; Lamu, Malindi, Kilifi and shimoni. Sea transport is carried out by two types of ships.

A) **liners:**
- May be passenger or cargo liners.
- They follow a regular timetable
- They follow a regular route even if they do not have enough cargo.
- They are owned by established shipping campanies.
- Owner from liner Conferences to safeguard their interest.

B) **Tramps:**
- Do not follow regular routes or time tables (operate like matatues)
- They charge lower rates compared to liners but in most cases their charges depend on their demand.

Other vessel for special tasks;
- Charter parties- ships that are on hire.
- Dredges, dig and deepen coastal waters.
- Tugs help to maneuver other ships.
- Lighter either assist in loading, or unloading in hallow water.
- Coasters link ports on the coastal reqeions. That is to deliver goods or passengers on short distances along the coast region.

Advantages of water transport.

- Cheapest for bulky and low quality goods.
- Fragile goods like glass can be transported with maximum safety.
- Where the ports of dispatch are in the water the cost of delivery and collection is covered.
- Minimal time is wasted in traffic control.
- A great majority of countries are boarded by the sea.
- Special ships may be constructed to serve special purposes e.g oil tankers for crude oil.
- The sea being a gift of nature the way is free.

Disadvantages.

- Its so slow and therefore unsuitable for perishable goods or those that are urgently required.
- Cannot serve land locked countries.
- Provision of facilities at the port is very expensive.
- In the event of accident the loss is relatively high.
- Port congestion results into delay of goods and at times distorting they quality and flavour.

Lake transport.

- In East Africa the most important is lake Victoria, a waterway linking Kenya, Uganda and Tanzania, with ports at Kisumu in Kenya Jinja and Entebe in Uganda and Mwanza in Tanzania.
- Lake Tanganyika provides traffic facilities between Tanzania and Zambia.

Kenya Ports Authority. (K.P.A)

The Kenya port Authority runs all pot services on behalf of the state. The corporations **Main Functions** are;-

- To provide for the required facilities at the ports in Kenya.
- To take precautions to ensure safety of the ships and cargo while in port.
- To make appropriate programs for the outflow and the inflow of sea traffic in order to avoid congestion and accidents in the port.
- To provide for warehousing facilities, repair and servicing of ships and the provision of dry docks.
- Supervising and maintaining other ports (small ports)
- To provide navigation services to incoming ships , and outgoing on Kenya waters and ports.

Problems Facing the Transport Industries in Kenya.

- Lack of enough resources to cater for the transport sector.
- Problem of construction on irregular landscape.
- Unsuitable fuel prices that render the sector rather expensive.
- The sector is heavily affected by weather changes.
- Inadequacy of knowledge and skills to modernize and expand the sector.
- Expenses involved in the running of the sector are too high.
- Its prone to accidents causing deaths to human life and loss of property.

II WAREHOUSING.

Warehousing is the prices of receiving storing and release of goods when need arises.

Importance of warehousing:

- Provide protected for goods from weather conditions.
- Goods are protection and secured from theft and pilferage.
- Facilities continuos supply of goods into the market.
- Allows producers space for further production.

- Assist in maintaining stock for seasonal produce.
- Keep factors of production in full employment.
- Allow the government to collect the duties and check on dangerous imports.
- Helps to stabilize prices of commodities by facilitating continuos supply.
- Bridges the gap between producers and consumers.

Essential (Features) of warehouse.
- Should be located at a terminal.
- Should be linked to good communication network.
- Should be will ventilated.
- Should be safe and free from rodents and destructive insects.
- Should have both loading and offloading facilities.
- Should have qualified personnel to run it.
- If it's meant for raw material, it should be located near the factory.
- It should have an administration and goods department.

Types of Warehouses;

a) Private Warehouses.
- Owned by businessmen for the purpose of storing and distributing their products. They include wholesalers, supermarket and producers warehouses.
- They facilitate immediate availability of goods to meet the consumer's requirement.
- Highly qualified (specialized) facilities are availed to accommodate the technical requirements of marketing a particular commodity.

b) Public warehouses.
- Provide services on rental basis to the general public.
- Used by businessmen do not have private warehouses and requires supplementary storage facilities.

Apart from storage, warehouses also offer the following services:
- Placing order with suppliers.
- Inspecting incoming goods.
- Processing payment for goods bought.
- Grading or coding goods.
- Keeping petty cash funds.
- Providing facilities required for proper storage.
- Providing the equipment required for movement of goods like forklift track or for weighing goods and measuring.
- Provide staff to care for goods.
- Keep complete record of all movement of goods in and out of the warehouse in form of bin card or other stores document.
- Carrying out periodic stock taking exercise to ensure safety of goods.
- Releasing goods to user when required.
- Prepare goods for release by suitable packaging in appropriate containers.
- Inspecting goods before release to ensure that goods that are not needed by the users are sent out.
- Carrying out necessary documentation before release.
- Arranging for transport where it is required.
- Keeping records of outgoing goods and notifying the accounts and other related departments so that buyers may be appropriately invoiced.
- Attending to any complains from users of the goods.

- A public warehouse is located near the sea port, airport or railway station. Import goods may be stored in a public warehouse on arrival and sold while still there.
- The new owner assumes ownership without any physical movement of the goods.
- For the purpose of exchange the owner signs a warehouse warrant asking the warehousing to keep the goods at the disposal of the new owner.

Bonded Warehouse.
- Used to keep imported goods until duty against them is paid.
- The owners of such warehouses have submitted a bond guarantee to the customer.
- Department to ensure that goods will not be released before the duties are paid.
- Goods are held in a bonded warehouse where they are paid to be in bond or under bond.
- In certain cases goods are re- exported out of a bonded warehouse in which case no duty need be paid.
- In some bonded warehouse with relevant facilities raw materials imported may be turned into finished goods and re-exported.
- Bonded warehouse generally has resident custom officers who monitor and control the movement of goods into and out6 of the warehouse.
- Goods may be held for a period of one year, which the warehouse management may take legal action against owners whose goods remain uncollected after that period.
- Free warehouse may be a section of a bonded warehouse where goods whose duty has been paid are transferred to awaiting collection.

Places suitable for location of a warehouse.
- At a port, airport or a railway terminal.
- At manufacturer's premises.
- At the distributors or wholesalers place.
- At the retailer's place.

III. SALES PROMOTION.

- Selling is the creation and development of demand for an article and the satisfaction of that demand from which both the seller and the buyer benefits.
- Sales promotion is the creation of demand for goods and services through scheme to increase sales. Sales promotion involves:

1. Advertising;- to inform consumers of the available products and to encourage frequent use of a product.

a. Advertisement may be direct or indirect. Direct meant for a given class of people while indirect may be general.

b. It many be informative, competitive or persuasive.
   - Competitive aims at knock out market other competitors producing similar commodities.
   - Persuasive claims difference and superiority over similar products of other producers.
   - Be it competitive or persuasive the information relayed may not be true of the product since their main objective is to ensure big sells.

Advertising Media:- Means used to relay the message)
- The press: include Newspapers and magazines, radio, television cinema e.t.c.
- Audiovisuals, outdoor publicity, window display, trade fairs and exhibitions.
- Appeal of selling points
- Use of slogans.

Advantages of advertising;

To consumers.

- Educates the public by informing them what is available f or purchase.
- Enable the consumers to know where to find their wants.
- It informs the consumers to know where to find their wants.
- It informs the consumers of price, quality, size and other features of their products.
- It gives and opportunity for one to compare prices and their feature in making a choice forcing the producers to improve their products.

To producers:

- Enables producer to reach people who may not be accessible to salesman.
- Creating awareness of the commodity to potential buyers.
- Increase sales of an already existing product.
- It may encourage a more frequent use of his products.
- Help in maintaining or building a company's reputation.
- Acts as a reminder to customers about his products and promotes sales where consumption may be declining.

To others:

- Creates more jobs to advertising agencies.
- Revenue to the agencies and the government.

Disadvantages.

- They may lure one into unnecessary buying or consumption of inferior goods.
- Some advertisers end up with high cost and fail to achieve the objective of high sales.
- May be misleading or desertfull since some shortfalls of the product are ignorable.

Choice of the medium.

- The social class which the medium appeals to.
- The age group target for the advertisement.
- The geographical area to be covered.
- The number of people to be reached.
- The cost of the medium.
- The economic group to which the medium appeals.
- Audio visual impact.

Personal selling- Application of personal touch.

- Used to make customers feel wanted.
- Apart from selling in the shops sometimes salesmen are deployed in the field to carry out personal selling.

Qualities of a salesman.

- Must have full knowledge.
- Must have the ability to assess the customer.
- He should be neat, attentive and be courteous to customers
- Should have attractive personality and be polite.
- Should be familiar with social and cultural sensitivity of his customers.
- Should be familiar with the taste of his customer, as this can lure them into buying more.
- A seller has a chance to demonstrate practically how some items are used or how they work.
- A buyer is given chance to ask questions or if possible test the cantaloupe.

- Details like difference in branding, or after sales services can be discussed thoroughly.
- It caters for both literate and illiterate.

Methods of personal selling.
- The seller needs to attract the prospective customer's attention.
- He should be able to hold the prospective buyer's attention and arouse his desire. That may be done 'canned' sales talk i.e. a given presidgeral set speech.
- Assuming that the prospective buyer is convince the seller should try to find out the customers interest and choice and any other service he/she may be interested in.

Merits of Personal selling.
- Its flexible in that seller can adjust to the needs of customers.
- There are high chances of the seller to achieve his objectives.
- This becomes easy since a company identifies a market target before sending out the agents.
- In personal selling there is immediate feedback.
- The agent if keen may gather some valuable out of duty information, which may be very important to the trader.

Demerits.
- More time is wasted in haggling.
- Some agents are not honest/sincere.
- The cost of developing and operating a sales force is high.
- Personal selling can be applied to limited areas only.
- It's always limited by company inability to get people of the required caliber to offer the service.

After sales services.
- After sales services may include.

A) free of charge repair for a specific period.
B) Servicing of the equipment at regular intervals free or at a very reasonable rate.
C) Provide technical advice regarding the use of the equipment if the customer has some problems in handling.
D) To ensure availability of spares.
E) To provide transport if required.

Advantages of after sales services.
- Encourage customers to buy more goods from their suppliers.
- Enables people without much technical know how to own and operate fairly sophisticated equipment and machinery.
- Offer of guarantees are an indirect saving (cut cost) and safe investment.
- After sales services earns the media goods reputation.
- It also creates personal relations with customers.

Limitations after sales services.
- Its provided for very expensive items only.
- Its time wasting if the distance covered is big.
- It increases the overheads off a selling company.
- Customer are charged a higher price on the basis of after sales services.
- Customers tend to be tied to one trader.
- Its quite expensive since the trader concerned has to employ skilled manpower for maintenance. Creates greater problems due to carelessness within the guaranteed period.

- Services charges can be unrelated to the actual work done posing high costs to a customer.

Advertising agencies.

The advertising agencies offers the following services.

- Selling techniques and promotion policies.
- Offer expert advice on medium of advertising to be used.
- They are arranging for publication or broadcast of the advertisement at very short notice and competitive prices.
- Have art sections that design the advertising material.
- They design and make cinema and television slides. Large firms undertake to prepare short films and arrange for printing of posters, leaflets, e.t.c and handle all arrangements for promotion.
- They design and arrange for installation of neon signs and signboards.
- They serve space, and time in various media services for advertisement on behalf of their clients.

Other methods of promoting sales.

- Publicity through sponsored.
- Trade fairs and exhibitions.
- Credit facilities.
- Displays
- Direct mails where samples are sent to prospective buyers.
- Specialty advertising; used to re-enforce the past, present and future advertisement. In these cases slogans are printed on calendars pencils, paper bags, match boxes, shopping bags, ashtrays and key holders.
- Free gifts; given to induce customers to buy the commodity in large quantities.
- Luring the customers to purchase and try a new product to influence customers to remain loyal to specific products.
- Discounts and allowances.
- Loss leader (psychological selling) this referee to a situation where a given commodity on display may sow a reduced price to lure a customer into the shop.
- Branding. Creating attractive simples(logos or Jingos)
- Trade samples sent free to prospective customers.
- Coupons; entitling one to buy the said goods at less that quoted prices.

Market Research.

Market research involves collection of data or information and compiling analysis and finally interpreting the findings. Its carried out to determine consumers demand for a given goods.

Objectives of Market Research;

- To find out if there is market for the new product.
- To established the extent of the market.
- To create a market for the product.
- To establish the suitable method of distribution as possible channel.
- To establish the most attractive form of presenting the product.
- To establish the degree of competition from similar goods and to study the selling techniques of rival procedures.
- To gauge the most suitable, effective, cheap and convenient method of promoting the product.
- To determine the best price.

- To find out the abnormalities and peculiarities of demand as affected by social, religious and economic factors and how to overcome them and / or operate within them.

Market research can be carried out through.
- Field investigation
- Statistical data collection
- Test marketing
- Feedback from distributors.

Limitations of market research.
- Selected population sample may be too small to give the true picture of required.
- Information collected depend on reliability of the source
- Statistics are based on quantitative method in arriving at a solution.

IV. INSURANCE.

- Insurance is on activity in which a group of people, who are all subject to certain risks, contribute a special amount (based on anticipated occurrence) towards a common pool out of which compensation can be paid to a member of the group who suffer a loss from the risk covered. The purpose of insurance is to provide compensation for any loss resulting from the risk covered.
- A concerned businessman can safely avoid the bitter consequences of an unfortunate event by getting himself and his property adequately covered.
- Those who suffer a loss are paid compensation out of the pool thus the loss is spread over a number of people each bearing only a small proportion of the total loss.
- For the purpose of efficiency, the insurance firms should be able to ascertain:
  a) The sum that will be required to compensate the sufferers.
  b) The number of people likely to apply for the insurance
  c) What kind of money should be contributed by each person taking out insurance.

Importance of insurance.

- Since it provides security, it encourages businessmen to venture into risky projects associated with good returns.
- The pool of funds from the insured is invested to assist in the development of commerce and industry.
- Tax collected from insurance help the government to offset foreign debts, hence improve the balance of payment
- Compensation of losses ensures business continuity.
- Insurance creates both direct and indirect job opportunities.

Principles of insurances.

Insurance firms operates on five principles.

a) Indemnity: - This is the principle that aims at restoring the insured back to his original financial position through compensation ie. His position as at the time he incurred the loss. Therefore insurance only indemnifies the insured.
b) Insurable interest: - One has to insure an item that if destroyed would result into a financial loss. Therefore what is insured is the interest one has in the property.
c) Utmost good faith (Uberrima Fidei):- The principle requires that all parties to the contract must deal honestly and openly with each other. If the person taking insurance contribute in the loss through carelessness or malice, hiding information etc he stands to loss compensation.

d) Doctrine of approximate cause:- the cause of the loss and the risk insured must be closely related.
e) Subrogation:- If the loss is compensated the insurer assumes ownership of the remains. That is to ensure that insured does not gain out of the remains.

The difference between insurance and gambling.

INSURANCE	GAMBLING
- Insurance is aimed at an unfortunate person who has suffered a loss. It assist a person to restore his financial position. The insured does not gain anything. - In insurance the event covered may never happen. - One must have insurable interest in the property insured. - Insurance is a great help to businessmen and individuals. - Insurance is legal - No gains and losses instead one gets protection - There is documentation and a signed contract.	- In gambling the money gained is out of a win which improves the winners financial position. The winner gains every sent he wins. - In gambling the event speculated must happen to decide the winner. - There is no such condition to gamblers - Gambling is a great curse to the society. - Gambling is illegal - When a person lays a bet he either losses or gains - There is no such condition as to bind the parties involved in gambling.

Classes of insurance.

a) Life insurance / Assurance.
- Offered by life department.
- A person can insure a life in which he has an insurable interest
- Whole life policy requires payment of premiums through out the life of the insured or for a specified period.
- The sum insured is only paid after the death of the insured
- The aim in this policy is to provide financial assistance to the beneficiaries if the bread earner is dead. It acts as a form of savings.
- It qualifies the insured to insurance firm loans.

b) Endowment policy.
- Requires payment of premiums for a specified period.
- Sum insured is paid at the end of the period of contract or if the holder dies.
- They are basically savings and more beneficial to individuals than businessmen.

Other types of life policies.
- **Annuities**: In this case the insured pays a lumpsum amount or periodic payments to the insurance company. On receiving the total sum assured, the insurer undertake to pay a fixed regular amounts during the life time of the annuitant.
- **Pension schemes:** These are arranged by employers on behalf of the employees. The sum is paid to the employee by the insurance firm if he is retiring or leaving employment. If the employee dies before retiring the sum assured is paid to his beneficiaries.
- **Suplimentary policies.**

- **Family income policy**:- Meant to provide income to the family of the bread winner incase of death.
- **Group life policy:** - taken by employees to cover employees under him.
- **Education policy:** For child's future education costs. If a child dies before benefiting from the funds then the sum is paid to the parents of the child.
- **General insurance:** - Under general department. Cover events that may or may not occur.
- **Accident department:** Includes motor vehicle insurance.
- **Third party**: Cover damages caused to other parties other than the vehicle itself.
- **Comprehensive policy:** provide comprehensive for both the vehicle and the third party.
- **Properties insurance**: Is a policy that is taken to cover household goods against vendalism.
- **Fire insurance:** - Covers damages caused by fire to property. In a case where fire has damaged or interacted trade activities, a consequential loss policy covers the loss of profits. Therefore consequential loss is based on anticipated profits.
- Personal accident policy: Covers death or injury resulting from an accident. If the injured is hospitalized he is paid an equivalent of his salary for the entire period he is in hospital.
- Employee liability – Workmans compensation: This offers security to workers in an organization. The term of contract depend on the wages of employees and the amount of risk in the work involved.
- Public liability: Covers risks/ injuries sustained by people at the premises of the insured.
- Products liability: This comes out of an arrangement between the producer and an insurance firm to cover injuries sustained as a result of consuming contaminated foods.
- Fidelity guarantee: This is a policy taken by employers to cover dishonest employees.
- Mortgage guarantee: This is a policy cover for financial institution against the purchasers who may fail to keep up his mortgage repayment.
- Burglary and theft: it's a policy taken to cover the holder against breakages into his premises and theft of goods in transit including cash, glassware, crops and livestock.
- Marine department: Marine insurance provides a cover for ships and goods in transit.
- It covers losses of fire, storm, coalition and sinking.
- It covers a ship irrespective of its voyage
- Time policy and voyage policy is meant to cover a certain journey.
- Specific policy is meant to cover cargo if the consignment is insured under its policy.
- Floating policy is based on estimated value of the consignment.

Marine losses:

- Actual total loss: if a ship is lost or cargo is completely destroyed.
- Constructive total loss: If a ship has to be abandoned or goods seriously damaged.
- Average loss: If the ship is partially destroyed or cargo is partially destroyed.
- Particular average loss: these arise out of sea perils. A situation may arise in the course of a voyage that may prompt the need to reduce the consignment on transit to save the ship from sinking. The insurance will compensate such a loss if the goods were insured for its total loss.

- General Average Consignment: The condition to verify the loss must be out of logic. The aim in causing the loss must be to save cargo.
- Taking out insurance:

a) Fill in a proposal form disclosing all material facts on the property to be insured.
b) On the receipt of the proposal form, the insurer calculates the premiums.
c) The insured pays the premiums and is issued with a cover note which is valued for 30 days within which a policy must be issued.
d) Before issuing the policy the insurer may want to inspect the property before accepting the premiums.
e) A policy is the main document of insurance and it constitutes the contract between the insurer and including warrantees of the contract.
f) If the event insured happens the insurer contracts the firm and fills in claim forms.
g) The insurer arranges to inspect the property on receipt of the survey report. If satisfied the insurer pays compensation.

Differences between endowment and whole life policy:

Endowment policy	Whole life policy
- Premiums are paid for a fixed period of time. - Sum assured paid after expiry of the fixed period. - The insured can decide maturity. - Acts as a saving for insured or his dependant. - Premiums paid are higher than those paid for whole life policy. - Can be used as collateral security for a loan - Beneficiaries can earn it as a regular income - The surrender value is higher.	- Premiums are paid throughout the life of the insured. - Sum assured paid after the death of the insured. - Maturity is determined by death can only benefit the dependants. - Premiums paid are lower. - Its not accepted as security for a loan - The compensation is paid once. - Indemnity (surrender value) is low.

Co-operative insurance:

- These is an insurance company which caters for members only.
- The premium paid form an individual share capital
- All profits made by the company loss claims and administrative expenses are shared as dividends at the end of a financial year.

State insurance scheme:

- They are set up by the government e.g N.S.S.F. It operates under the ministry of labour.
- All employees are required to pay 10% of their wages.
- The employer is required to contribute a similar amount.
- The fund caters for all those employees who are not entitled to any other pension scheme.

Benefits of the schemes:

- Provides retirement benefits at the age of fifty. Lumpsum payment when an employee withdraws from the scheme having attained the age of fifty.

- Offers payment benefits to a contributor who becomes incapacitated.
- Pay beneficiaries of the deceased all the amounts contributed.

National Health Insurance Fund (N.H.I.F)
- Operates under the ministry of health
- The monthly contributed is on pro-rata basis
- The scheme meets part of members hospital bill for in patients cases.

Co-insurance:
- Spreading of risk among several companies
- The company with the biggest share of the risk known as the leader company.
- The leader company carries out all the documentation on behalf of co-insurers.
- The leader company also receives the premiums and divides it accord to the percentage covered by each company.
- It handles claims and collects compensation to pay the insured.

Re-insurance:
- Re-insurance firms are against organizations caressing other insurance firms.
- In Kenya the services were offered by the then Kenya Re-insurance corporative. (its no longer in operation)

Insurance Agents:
- These are representatives authorized by insurance firms to sell their services.
- They are paid a commission ranging between 10 to 20% of premiums received.

Terms:
- Over-insurance: A situation where a businessman over states the value. In the event of a loss he will be paid the sum assured less than the real value of his property.

Ways in which the insurance industry promotes the growth of business enterprises.
- The insurance industry mobilizing savings which the business community borrows to start or expand business. They give loans to policy holder.
- The industry creates confidence in the business community enabling them to take risks. The various policies provided by the industry can be used as collateral security to obtain a bank loan.
- The industry provides compensation to the business community if the risk covered occurs. That enables them to continue with business.
- They educate the business community on the most convenient policies that suits them.
- They act as underwriters ie. Buy underwriters ie buy under subscribed shares.

Calculation of under-insurance;
- Given sum assured as 90,000 and the items real value as 120,000. Sum insured as a percentage of the real value will be:

  $^{90,000}/_{120,000} = {}^{9}/_{12} \times 100 = 75\%$

- If the value of the item destroyed (value of loss) is 60,000. the compensation will be worked out as:

  $60,000 \times {}^{75}/_{100} = 45,000/=$

- In this case under-insurance has cost the businessman a 25% value loss. That is an equivalent of 15,000.

Terms:
Assurance is taken for events that must occur.
Insurance is for events that may or may not happen

- **Actuary:** A professional who applies his mathematical knowledge of probability to the problems of life insurance.
- **Adjusters:** Assessors of marine losses.
- **Suspect:** A person who has made up his mind to be insured
- **Prospect:** A person who has made up his mind to be insured.
- **Average:** A term used to describe the distribution of other risks or losses.
- **Days of grace:** Refers to the period following expiry of a policy. During this period the insured is covered for a maximum of 14 days.
- **An underwriter**: This is an insurance official who accepts risks on behalf of his company.
- **Insurance brokers:** an appointed individual who transacts insurance business on behalf of an insurance company.

BANKING.

- A bank is an institution which accepts deposits, safeguards it and makes it available to its true owners if need be. In addition it advances loans and performs other banking services.
- In short a bank be defined as, an institution which borrows money to lend.
- There are two main types of a bank, Viz commercial and Central Bank.
- The services of a commercial bank are particularly important to businessmen.
- They are usually owned by share holders and run as a joint stock company.
- The commercial banks came into being as successors to goldsmiths who in the past were used to safe keep people wealth and who in the process starting lending out peoples money to needy merchants who paid bank with interest.

Functions of a bank.

- Safe keeping money deposited with them in various accounts and availing it to the owner when required.
- Provide excellent means of payment in form of a cheque, credit transfer, standing orders and bank draft.
- Advance loans through: overdraft to current account holders. Discount bill of exchange, promissory noted. Offer direct loans for capital and business development.
- Acts as reference to their clients
- Offer advice on tax and general trade matters
- Acts as agents of the stock market. They buy shares and debentures of different Ltd companies on behalf of their clients.
- Offer advice on tax and general ltd companies on behalf of their clients.
- They often act as custodians of valuable items by providing safety locker services for item such as, jewellery, Diamonds, land title deeds and certificates.
- They assist in international money transfer. Businessmen involved in international trade pass their transactions through commercial banks.
- They provide foreign exchange services and also issue travelers cheques etc.
- They provide investment services in form of advice in relation to purchase of security in stock market.
- They facilitate in financing and controlling the rate and level of a country's economy.
- They give confidential financial reports on their customers.

Advantages of commercial banks.

- Development of trade and industry through provision of development loans.
- Assists in capital accumulation through credit facilities
- Promote saving habits. They induce savers with reasonable interest.
- Promote rate of economy growth.
- They facilitate easy transactions between parties locally and on international basis.

Bank account services.
- There are three types of accounts a customer can open. These are current account, savings account and fixed account.

How to open and operate bank accounts.

Current account.
- Its best for businessmen whose funds flow frequently in and out of the bank.

To open the account.
- Two reference letters are required. The referees must be account holders in the same bank. It its an employed person then one of the referees must be his employer.
- Identification documents must be produced.
- If it is a partnership or a joint stock company a registration certificate, partnership deed or certificate of incorporation will be required. Evidence of appointed signatories to the account will be required.
- If the bank management is certified it will provide the application form to be filled by the applicant. The signatory card will be completed by the applicant.
- The applicant is then allotted an account number, which will always appear on all cheque signed by him.
- After depositing the initial amount, the account holder then apply for a cheque book.
- To deposit money the account holder has to fill in a pay-in-slip or deposit slip in duplicate. The original is retained by the bank and the copy is given to the account holder.
- For withdrawal purposes, the account holder has to draw a cheque for the party to be paid or cash it as a personal cheque across the counter.

Features of a current account.
- There is no minimum balance required to maintain in the account.
- The account holder can deposit or withdraw all his money at anytime.
- The account earns no interest
- Cheques are issued to account holder is allowed an overdraft on arrangement with the bank management.
- They are free to use other banks facilities eg credit transfer, standing order etc.
- The account holder is offered advisory services relevant to business matters.

Advantages of a current account.
- It's a faster convenient and cheap means of settling indebtedness between debtors and creditors by use of cheques and other means.
- Withdrawal is on demand and with special arrangements at any bank branch attached to the main bank.
- Overdraft facilities can be easily arranged
- The account holder can receive regular payments by direct credit from debtors and clients.
- A current account makes it easy to effect regular payments at stated in intervals
- Opening a current account is a safe way of keeping money while at the same time making sure that it is readily available whenever wanted.

- Bank statements are issued regularly to account holders and this makes it easy to the holder to update his books of account.

Disadvantages.
- No interest is earned on the credit balance in the account but instead the account holder pays ledger fees to the bank.
- The cost of some services provided in the current account such as clearing of cheque deposited in the account and withdrawals made at other branches is expensive.
- Payment by cheque is not always possible as creditors may not trust cheque as they may be dishonored creating unnecessary inconveniences.

Cheques.
Meaning and uses.
- A cheque is an order to a bank to pay a stated amount to a specific person or bearer.
- The person who signs a cheque is the drawer his bank is drawee and the person to receive payment is the payee.
- A cheque is negotiable. The payee can transfer his legal right to receive payment to another person. The payee signs at the back of the cheque and write the name of the endorsee.

Types of cheques.
- Open cheques: These may be in form of cheque, bearer cheque or other order cheque. They are cashed across the counter.
  - In an order cheques to payee is named. If the person presenting the cheque is the same drawer then the cheque is a cash cheque.
  - The order cheque is safer than the other two since it can only be cashed on strict identification of the holder.
- Crossed cheque: Crossing on a cheque are drawn transversely on the upper left hand corner of a cheque. A crossed cheque cannot be cashed across the counter. It must be deposited in a bank account giving time to the bank to trace the drawer or the payee.
  - Some crossing may have some words between the lines. While others are just lines without any words. The former are known as special crossings while the latter are general crossings.

  - A and B are examples of general crossing. While C to E are special crossings.
  - Words between the crossings are conditions attached to cashing of the cheque.

Advantages of paying by cheque.
- Its convenient and time saving.
- Its safe if crossed as it rendered worthless to any body other than the rightful owner (payee)
- Its an evidence or transaction.

Dishonoring a cheque.
A cheque may be dishonored due to following reasons.
- If the drawer do not have sufficient funds in the account.
- If the drawer is bankrupt.
- If the drawer is dead or insane.

- If the cheque has following errors.
  a) Amount in words different for that in figures.
  b) If the signature on the cheque is different from that on the specimen card at the bank, or if there is no signature at all.
- If the cheque is stale or postdated.
- If the drawer has closed his account
- If the cheque is defaces or mutilated.

Savings account.
- It's a facility offered by commercial banks and postbank for safe keeping of money mainly by small savers. It encourages deposits to be made but restricts the frequency of withdrawal.
- Banks offering these services have a better chance of investing funds that are in their customers savings accounts and therefore it pays attractive interest on such savings.

To opens the savings account.
- One has to complete the application forms and pay the initial deposit which varies from one bank to the other.
- He then provides a specimen of his signature to the bank and then he is issued with a pass book.
- The book has to be presented to the bank whenever he deposits or withdraws.
- His account balance is shown in the pass book after each transaction.
- Deposit is made with a deposit slip and withdrawal with a withdrawal slip.
- Deposit can be made at any official working hours while withdrawal is restricted to seven working days.
- A large sum of money can be withdrawn only on notice. Otherwise the drawer is charged for any short notice withdrawal exceeding a certain amount.
- The account holder must always present himself at the bank whenever a withdrawal is to be made.
- A minimum book balance is required to be maintained.

Advantages of saving account.
- Interests is paid on the deposits.
- No book charges are levied on the account.
- It's a convenient method of accumulating small savings.
- The book balance may be used as a security to acquire a loan.

Disadvantages.
- The frequency of withdrawal is restricted, limiting the account holders on the use of their money.
- If a large sum of money is to be withdrawn, the notice has to be given this denies the customer immediate use of his money.
- Withdrawal is not permitted bellow a certain minimum balance irrespective of the customers pressing needs.
- The account holder must present himself in person whenever a withdrawal is to be made.
- There is no provision for overdraft facilities in a savings account.

Fixed deposit account.
- In fixed deposit account a sum of money is kept for a specified period.
- A high interest rate is paid on the account. The interest paid varies the amount and the contract period.

- The account is suitable for people with money without immediate use.
- These facilities are offered by both commercial banks and other financial institutions.
- A person intending to run a fixed deposit account is to approach a bank. Complete and sign form which required details and conditions for keeping the money.
- The amount to be kept is paid to the bank and a receipt is given.
- The receipt has to be presented on withdrawal of the fund.
- Withdrawal is not allowed until the account matures.
- If the holder demands his funds before the end of the contract period then he has to notify the bank is seven days before withdrawal. He therefore looses the would be interest as a fine for breaching the contract.
- Fixed deposit account may be used as a security to obtain a loan and overdraft from banks or financial institutions.

Advantages.
- It earns high interest rates compared to a savings account.
- No charges for handling the deposits
- The account can be mortgaged against credit facilities offered by banks and financial institutions.

Disadvantages.
- Withdrawal only allowed on maturity.
- Interest is forfeited incase a withdrawal is effected before the end of the contract period.
- A notice has to be given to the bank for early withdrawal
- Advantages of paying through banks
- Most means of payment provided by the banks are safe.
- Bank remittance provides a cheap and convenience method of making payments. A transaction involving a large sum of money and a great distance can be passed easily. The use of credit transfer in paying a number of creditors is an example of an efficient and cheap service.
- Various documents used in making bank remittance act as evidence of payment.
- Bank payment are easy to trace their origin and the payee.
- Urgent transactions can be facilitated by a bank in no matter how great the distance might be between the parties involved.

Disadvantages;
- Some of the methods of making payments to or through bank such as special clearance of cheques, and special arrangement to withdraw money from branches of the same bank other than the customer branch are costly.
- Banks are not widely spread in the rural areas and therefore the number of people served is limited.

Some important terms in banking.

- **Bank statements:** This is a list of all transactions made by the bank with or on behalf of the customers of the account holder. It is issued at the end of each month to current account holders. It enlists all deposits made by the account holder, all cheques paid by the bank out of his account holder, all cheques paid by the bank out of his account and any charges made by the bank.
- **Credit transfers:** This is the process where an account holder draws a cheque carrying a wholesome amount to be paid to various people and attaches it to a list of names of the

people to be paid. The cheques and the list are presented to the bank and the bank takes up the responsibility of transferring payments to payees who must be account holders.

- **Standing orders:** its an arrangement between the account holder and his bank to pay a specific amount to a named party at a regular or specific intervals for a given period of time until the agreement is cancelled by the drawer. The system serves best in payment of salaries, rent and rates insurances. A fee is charged by the bank for these services.
- **Travelers cheque:** Issued to a person after paying for them in advance they are in fixed denominations. It is important to businessmen always on transit.
- **Credit cards:** mainly issued by banks. It gives authority to the holder to buy goods and services up to an agreed amount. The selling party then presents the card to the issuing organization for payment.
- **Cheque guaranteed card:** its issued by banks to reliable current accounts. The guarantee card if attached to a personal cheque it guarantees payment against the personal cheque. In other wards it cannot be dishonored.
- **Clearing house:** it's a central place where different banks meets to settle amounts that become payable to each other as a result of their clients transactions. The transfer of payments is done by the central bank since it holds all commercial banks accounts.

The central bank.

A central bank is the government banks which controls all monetary activities in the country.

Functions of the central bank.

- It's a notes and coins issuing agency.
- It controls the amounts to be printed and released.
- It controls the proportional reserve system.
- It's the government bank
- It's the custodian of the foreign exchange
- It manages the public debts.
- It's the credit controller ie it regulates the flow of money into the local and foreign market.

Methods of credit control.

The bank rate policy:

- During inflation the Central Bank increases the bank rates on loans making borrowing expensive and during deflation the rates are lowered thus promoting borrowing.
- Increased rates decrease the amount of currency in circulation while a decrease in rates increase the amount of money in circulation.

Open market operation:

- This refers to sale and purchase of securities in the stock market. During inflation the central bank sells government securities to withdraw an amount of money from the general public and during deflation it buys back the securities to increase currency in circulation.

Reserve requirements:

- This is meant to decrease or increase money in the commercial bank reserves.

Rationing of credit:

- This is based on the size of loans a commercial bank is allowed by the central bank.

Margin requirements:

- The margin refers to the difference between a loan and a collateral security.
- If the margin is big loans will be expensive and if the margin is small the loans will be cheap.

Consumers selective control:

- The Central bank may encourage or discourage the purchase of commodities on instalment. To discourage it, the payment period is decreased and deposit fraction raised to discourage buyers.

Direct action, Moral persuasion and publicity:

- Directs the commercial banks to advance loans to a given amount. Directs the commercial banks to behave in a defined way. Reports on financial matters related to commercial banks encourage banks to change their policies.

Non Banking financial institutions:

- These are financial institution formed to serve a given purpose.
- They serve long term investors.
- They receive deposits and channel it into productive aspects through loans to individuals and businessmen for capital expenditure

Classification of non-banking institutions.

- Savings banks and savings societies eg. Post bank.
- Finance house and hire purchase firms eg D.F.C.
- Housing finance companies and building societies.
- Long term finance companies eg I.C.D.C. I.D.G., A.F.C.
- Insurance companies and pension funds e.g Kenya National Assurance, N.S.S.F.

BUSINESS FINANCE.

Business finance is the study of the problems encountered by the private sector in acquiring funds for the business purpose. It includes initial and operating capital.

Source of finance:

- Equity finance: It's a permanent source. Its contributed by the real owners of the firm – owners input.

Features of equity:

- It's a source of permanent fund which can only be paid back on liquidation of the firm.
- It has no normal costs. Dividends payment depend on the firms performance.
- The holders are only entitled to residual profits
- The holders are entitled to all company properties after all other classes of capital have been paid off.
- The equity holders have a voting right.

Advantages of equity capital:

- No interest is charged on equity capital
- The strength of the firm depends on the amount of equity capital
- Distribution of dividends depends on the directors declaration.
- The shares have no fixed maturity date.
- They do not require any form of security to be provided by the firm receiving.
- Can be sold more easily than debentures.

Disadvantages.

- Its not dependable as an available source of finance, since the amount raised are subject to market value of shares, prosperity of the company and economic climate.
- The share holders may not ban dividends in a case a lean season.

- Its costs of underwriting is high
- Ordinary shares extend powers and control to additional share holders.
- Dividends paid are not allowance expense for tax purpose:

Quasy equity:
- Quasi equity referes to preference shares.
- They combine both features of equity and debt.
- Its long term source of finance to a firm
- It forms part of company share capital.
- They are paid dividends out of profits and do not have a nominal cost.
- Their claims on a company property comes after the creditors but before equity holders.
- Their claims are restricted to nominal values of their holding.

Quasy equity resembles debt in the following ways.
- Dividends are fixed and accumulative.
- Certain preference shares are redeemable.
- Their claims come before equity holders
- They have no voting rights
- In decision making purpose quasy equity can be treated as debt.

Types of preferance shares.
- Cumulative: receives full payment of dividends in arrears before any other share holders are paid.
- Non-Cumulative: The holders receive a fixed dividend when sufficient funds are available
- Participating preference shares: Apart from the dividend paid they also earn an additional fraction out of the surplus profits meant for ordinary share holder.

Redeemable preference shares:
- To the insurer: Obligation to pay a fixed rate of dividends is not bonding. Voting and control of the firm is not affected. Its more flexible than debentures if redeemable.
- To investor: Provide reasonable steady income. Have preference over ordinary shares on liquidation.

Disadvantages.
- To the insurer: Not allowable expense for tax purpose. The cost of issue is higher than that of debentures.
- To the investor: returns are limited.
- Luck unforeseeable rights on dividends.
- Yields at times are lower than on debentures
- Dividend arrears may not be paid in full
- Dividends cannot be secured against the firms assets.

Debt Capital.

Debt capital is provided by the creditors of a firm.

They comprise funds borrowed from persons other than its owner. Debt capital may consist of:
- Debentures (long term loans)
- Long term loans from financial institutions.
- Borrowing against bills of exchange.
- Bank overdraft and trade credits.

Characteristics of debt (Loan capital)

- Fixed rate of interest, which must be paid.
- Interest and principle are refundable
- Interest is considered as allowable expenses for fax purpose.
- In certain cases, where security is provided for debt requires an insurance cover, additional costs are incurred.

Advantages:

- Lenders have no say in company management.
- Lenders have a first right on the companys property.
- The cost of a debt is limited
- Sale of debenture does not affect the shareholders equity.
- It is an allowable expenses for tax purpose ie the debt to be paid including interest has to be paid off before the relevant tax amount is worked out.

Disadvantages:

- Debt date of maturity is fixed.
- Debenture holders may call for a firms bankruptcy if there is a fault in interest payment.
- Funds can be raised within certain limits only.
- The fixed interest charges can be a burden during a lean season
- Incase of mortgage debentures, the borrower may lose the property secured against it, on default to pay owing amounts.

Sources of permanent finance.

- Ordinary share capital
- Irredeemable preference share capital
- Retained profits: ones they are capitalized by issue of bonus shares or script shares.
- Sources of long term finance are financial institutions.

Sources of medium term finance:

- Bank loans
- Overdrafts
- Invoice discounting
- Bills of exchange
- Trade credits
- Factoring
- Funding.

Internal sources of finance.

- Retained earnings
- Provision for depreciation ie funds set aside for depreciation.
- Provision for corporate tax. Usually 45% of profits. If this fund is not paid for some given period it can be incorporated into the business.
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