

**ANALYSIS OF THE PROBLEMS OF VENDOR
PAYMENT IN RELATION TO PROCUREMENT
PROCEDURES: A CASE STUDY
OF THE MINISTRY OF ENVIRONMENT.**

BY:

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DECLARATION

This research project report is my own original work and has never been submitted to any other university for consideration .

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This management research project has been submitted for examination with my approval as the university supervisor.

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DEDICATION

In memory of my late Daddy Colonel Oiro Bwogore who passed while I was doing my degree course on 13th march 2005, Mum, Wife (Esther), children Calovine, Christine, John, Delvine and Panteleo. Their encouragement-motivated my class study, hence high achievement.

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May Our Almighty Father reward them abundantly.

I am responsible for any error and shortcoming in this research paper.

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LIST OF ABBREVIATIONS

GOVT. - Government
C.F.R -Circular of Fund Requirement
EDI - Electronic data exchange
JIT - Just in time
LM - Logistic management
TQM -- Total quality management
MV - Money velocity
PT - Price transaction
QR - Quick response
MRP- Materials requirement planning
ISO - International Standards Organization
KBS – Kenya bureau standards
FOR - Free on board
CFR - Circular fund regulations
RMA Return material authorization
PPOA – Public procurement oversight authority
APD - Account payable department

ABSTRACT

This research project presents an overview of payment systems in the ministry of Environment and transitional socialist economies. The research project does not intend to make the reader an expert in payment systems. The paper intends to raise awareness of the challenges faced by suppliers and commercial banks and the buyers in developing or modernizing payment systems. The project paper addresses the following questions, which is the causes of the problem:

A payment system is actually quite simple; it defines the procedures, rules, standards and instruments used to exchange financial value between two parties discharging an obligation. Although the purpose is simple, payment systems evolve over a period of years. The different conditions in each ministry i.e. size, legal systems, business practices, communications and infrastructure make each payment system unique.

Emerging economies do not have to "re-invent the wheel" to develop their own payment systems. They can adapt successful systems and practices from more developed government ministry to suit their own needs. Emerging ministry can learn from the mistakes made in other ministries and avoid them by introducing preventive measures early in the processing procedures. What are the key attributes of a successful payment system?

Payment transactions have two parts the flow of information providing payment instructions and the flow of funds. These two flows are always related, but may follow different paths and have different timings. Each payment transaction has four common elements: an obligation to discharge; a party to make the payment i.e. payer and a party to receive the payment i.e. payee, a payment instrument, such as cash or a check, to convey the information about the transactions; and one or more financial intermediaries (usually banks) to transfer the value by drawing funds from the payer's account depositing funds into the payee's account. Sometimes a third party i.e. commercial bank facilitates exchanges of value between the two participants banks. Each transaction has different

requirements depending upon the customers i.e. consumers / vendor, the nature of the financial obligation (bill payment or purchase at the point of sale) and the speed, security and cost required for the transaction. Developed countries (and many emerging ones) use several different payment instruments and processing systems to satisfy the country's payment system needs.

Study further attempted to find the causes of delayed payment in the ministry of Environment, in relation to its vendors after the delivery of goods and services, taking into consideration the lead-time posed by the delayed payment causing unnecessary tension.

The research took the form of inquiry. Questionnaires were used to solicit information from the respondents i.e. ministry staff and vendors' employee. The data collected was analyzed using percentages tables; pie charts and figures were necessary. All these were perceived to be important when it comes to compare with the factors identified in the literature review.

The data collected proved right the research alternative hypothesis that states 'Without reliable, efficient and timely payment systems, companies cannot conveniently acquire raw materials, pay wages and promote economic growth'.

CHAPTER ONE

1.0 INTRODUCTION

1.1 THE BACKGROUND TO THE STUDY

A purchasing / procurement objective is to purchase the right price, the right quantity of material, at the right time in the right quality from the right source. But this is rather hackneyed statement, as some as rather superficial and simplistic criticizes it. A good objective should be miserable in some way, but who is to say, for example, what prices is right? For present purposes, remembering the need to work as an effective function in the management team, the following broad statement of objective is suggested: to supply the organization with a steady flow of materials and services to meet its needs, to ensure continuity of supply by maintaining effective relationships with existing vendors and by developing other sources of supply either as alternatives or to meet emerging or planned needs, to buy efficiently and wisely, obtaining by an ethical means the best value for every shilling spent, manage inventory so as to give the best possible service to use at a lower cost, to maintain sound cooperative relationships with other departments, providing information and advice as necessary to ensure the effective operation of the organization as a whole, to develop staff, policies, procedures and organization to ensure the achievement of the foregoing objectives and specific objective such as to select the best vendor in the market, to help generate the effective development of new products, to protect the company's cost expenditure structure, to monitor supply market trends, to negotiate effectively in order to work with vendors who will seek mutual benefits through economically superior performance and to ensure vendor payment is done as soon as goods and services are delivered(David Farmer, 1985).

To select one or more vendors capable of working to the specification of the procurement officer, five methods used in assessing supplier/ vendor capability in this connection are best on i.e. past performance, reputations, visit and appraisal, third party participation certification and evaluation of sample products. Vendor appraisal, supplier evaluation and vendor rating, are procedures used in this connection. Vendor appraisal is the term used when the performance of potential supplier is assessed before an order is placed with him. Supplier evaluation refers to assessments after

orders have been placed. Supplier rating refers to the calculation of an index of actual performance.

According to the 1990 accounts journal, many of the differences between the way procurement is organized and carried out in the government ministries and elsewhere are not significant. As differences also exist between one ministry and another, just as the people are free to decide whether or not to buy.

Accountability is not confined to the public service/ ministry. Purchasing staffs are accountable to their managers, who in turn are accountable to the directors. Board of directors are accountable to shareholders, as well as accountable to any member of the public whose money they may have spent, including disappointed tenderers and potential suppliers who did not get the order.

This can produce elaborate procedures and records, capable of supporting explanation, justifications for every purchase decision. The elaboration is some times excessive but the intention is sound. Gross abuses in public procurement have occurred, and still occur in some parts of the world. Money contributed by taxpayers has been diverted to enrich private individuals who are corrupt instead of going to the legitimate public purposes. The primary purpose of public accountability and audits is to prevent such abuses. A secondary purpose is to show, or let it be seen, that they have been prevented (Sheth, 1982).

Public accountability and auditing is essential in a free society, but the way in which it is implemented may scope for improvement. The secondary purpose may lead to simplistic procedures designed for show rather than substance, which do not necessary further the objective of obtaining what is needed at the right time, hence delay and in such a case / way as to ensure the best value for money spent. Professional procurement staff rightly presses for better procedures if they find existing methods a handicap, due to conflict of interests, but the situation is complicated and difficult due to mistrust (David Farmer, 1985).

The general problem in the integration system area is the lack of use of electronic data interchange EDI with other functions and generating of all documentation by computer by use of IT system, thereby releasing the buyer and vendor to spend more of their time on other more

effective purchasing and tracking of goods activities such as negotiation, supplier and buyer development, and cost reduction. Eventually both the customer and vendor databases will be linked with each other, hence timely payment of vendors.

Increasingly routine communication such as orders, schedules and invoices goes direct from the vendor's computer to the buyer's computer rather than by typed document sent by post. By the use of EDI data is transferred by electronic means, using the agreed standards methods, such as trade data, technical data, query response and monetary data. After looking at both the members of staff from both procurement, accounts and internal audits in the government ministries to disclose whether they are the cause of the vendor payment problems, by using their authority / office for personal gain and are not upholding and enhancing the ethical standards required in order to, maintain an impeccable standard of integrity in all their business relationship with vendors who are supplying goods and services to government ministry (David Farmer, 1985).

Foster the highest possible standards of professional competence among those for whom they are responsible to provide the maximum benefit to their employing ministry. Comply with the letter and spirit of, the law of the country in which they practice, such guidelines on professional practice as may be issued by professional bodies from time to time. Reflect any business practice, which might reasonably be deemed improper.

In applying these precepts, try whether the members of these professional groups were following the guidelines as set out below, we tried to know as far as ethics is concerned whether declaration of interest is the cause of impinge or might reasonably be deemed by others to impinge on the staff's impartiality in any matter relevant to his duties should be declared to resolve the problem of delayment of vendor payment (Sheth, 1982).

Confidentiality and accuracy of information in the course of duty should be respected and should never be used for personal gain, by speculating, frauding document which courses delays payments, information given in the course of duty should be true and equity and never designed to mislead or course problem. Competition among the procurement, accounts and audit personnel while bearing in mind the advantages to the members / staff's employing organization of maintaining a continuing relationship with supplier / vendor, any which might, in the long term prevent the effective operation of equity competition should be avoided. Business gifts other than

items of very small intrinsic value such as business diaries / calendars should not be accepted as it might result bribery.

Hospitality is an accepted curtesy of business relationship. However the recipient should not allow him or herself to reach a position whereby he she might be deemed by others to have been influenced in making a business decision as a consequence of accepting such hospitality such as the frequency and scale of hospitality accepted should not be significantly greater than the recipient's employer would be likely to provide in return e.g. inviting them for Christmas / donation to induce /influence a decision. When it is not easy to decide between what is and is not acceptable in terms of gifts or hospitality, the offer should be declined or advice sought from the members' ministry management (Reck, 1978).

He dyadic approach argues that buying is an interactive process which cannot be studied in isolation from selling and that the buyer and seller /vendor dyad should be that basic unit of analysis to system models (Bonama, et al, 1978).

The system view goes further it takes the dyad as a sub document and assist that buying behavior can only understood as a total process influenced by all inputs and outputs affecting the whole the whole organization. Traditionally, buyer behavior has been examined with the aid of stimulus response models. Another assumption sees buying behavior in term of interactive constructs for example, in term of independence. Significant criticism of the traditional literature is relationship and in nearly all models that a buyer acts rationally what is rational in the short term may not be so when looked at through the institution perspective.

In the early 1990's the institute of purchasing was granted a Royal charter. This was a landmark in the development of the purchasing/procurement and supply function, and it's now more widely regarded as a true professional activity. The institute has appended considerable time and an effort at national level demonstrating the importance and contribution of effective purchasing in both the public government and private sectors. Its examination scheme and courses have done much to enhance the status of the purchasing function, and it now represented on many government workshop and seminars ministry workshop and seminars where procurement issues are discussed. This heightened awareness of purchasing and supply function in certainly factor in improving the general development of a activity across the buyer and the vendor (Syson, 1989).

This has resulted to many published booklets on the benefits of a proactive purchasing function and, organized "road shows" to increase awareness. It has also offered consultancy services to those ministers who wish to improve the expertise in mutual relationship between the buyers and sellers. This has enhanced the concept of the following as an important impact on improving purchasing; just in time [JIT], total quality management [TQM], electronic data interchange [EDI], logistic management [LM] and flexible and quick delivery and settlement of debts for the improvement of mutual relationship between the seller and the buyer ministry (Armstrong and Jackson, 1992).

The November 1989 Act of parliament statute, which was addressing the crisis in the industry that was precipitated by collapse of number of institutions in financial matters. Monetarist economist also agreed Fisher's view that money was only used for medium of exchange to settle transaction involving the demand and supply of goods and services. The money velocity must be equal the price of transaction. $MV = PT$ The equation of exchange is an identity since for any given period of time money payment must be equal money receipts. The total value of transaction made is equal price transaction PT and on the other hand the value of money bought is equal to the nominal value of money supply. In bid to improve the enterprises new policies and the programs were set by the government. A credit scheme with easy loan terms and conditions for example, the one, which was set to administration by the Kenya Commercial Bank (Ikiara, 1991).

The attributes of a good vendor comes from the service they are giving to the government ministry, such as delivery of goods and service on timely basis, providing consistent quality, giving good prices, having a stable background such as financial capability, providing good service backup, keeping and honoring promises, providing technical support to his buyers and keeping the buyer freely informed of any progress often (Stock, 1986).

Information technology implementation may be difficult if the management does not see it as an important factor in breaking down the concept of supply chain system as a discrete function and emphasizing the order, more integrative material management and logistics approaches in which the interrelationship of marketing, production purchasing and transportation is recognized. It is also an important factor in relation to improving the competitive advantage provided by the supply chain functions in an organization. Developments such as MRP, JIT, QR, which require

on-line data transmission between suppliers and customers for the automatic tracing transit online, replenishment of stocks, also highlight the importance of EDI in supply chain operations. The trend in electronic office technology is also towards the integration of office equipment, process, and procedures relating to communication computer information storage and retrieval, reprographics mailing, fax and text messages using online. The personnel involved should have the IT system knowledge to enable them take full advantage of the benefits, which the systems can provide. Hence the problem of developing staff with the ability to manage supply chain effectively within a computerized environment without becoming subservient to it has important implication for supply chain education and training, have a high level of expertise in a problem solving (Ikiara, 1991).

1.2 PROBLEM STATEMENT

Purchasing is one of the most important function of an enterprise, industrial, or public entity concern. Which means it involves many intricate decisions on what to procure, how much to pay and how much to stock in return for an organization to make profit. According to procurement magazine of 31st December 1987, about 70% of an organization's budget/expenditure goes towards procurement of goods and services.

This study evaluated the cause of the problem that arise in vendor payment procedures. i.e. The study tried to answer the question as to what causes delays in vendor payment from the point the claims are forwarded to the point at which payment is made.

1.3 OBJECTIVES

- i) The objective of this study was to evaluate the process of vendor payment in the ministry of environment.
- ii) To establishing the causes of payment delays in the ministry.

1.4 RESEARCH JUSTIFICATIONS

The research project was to enable both the vendors and the ministry of environment to build mutual relationship, hence understand the importance of timely payment to boost the modern business; this is one way of creating employment to the young vendors who are joining the industry. This entailed the collection of the data from the respondents through structured and semi-structured questionnaires and analyzing the field information for effective payment. The research came up with the causes of late payment, and the problems of processing vouchers in the ministry of environment. The resolution was the use of the modern system (electronic) and upholding ethical integrity between and two partners who are in business to enhance quick response payment.

1.5 DEFINITIONS OF TERMS

Capital products and equipment: all the materials that are only bought on special orders for projects. It also means the tools and the machines used by the organization and they are bought after along period of time (assets).

Purchasing procedures: This is the process of acquiring and obtaining of supplies as per the user's specifications, in the most economic price, by the time scheduled, delivered to the collect destination and packaged for better handling and storage.

Buyers: These are the purchaser of goods and services from the vendors i.e. either for resale or consumption purposes.

JIT: This means just in time or quick response to the needs of the buyers Materials handling is the efficient way of being cost effective to avoid wastage of resources to achieve high profitability.

TQM: This refers to the total quality management in the system to enhance efficiency. The TQM is based with the focus in product improvement from the customer's viewpoints.

Revenue: Revenue is earned when goods are delivered or services are rendered. The term sales in a marketing, adverting or a general business context often refers to a contract in which a buyer has agreed to purchase some products at a set time in the future. From an accounting standpoint,

sales do not occur until the product is delivered. "Outstanding orders" refers to sales orders that have not been filled.

Sales: A sale is a transfer of property for money or credit. In double entry bookkeeping, a sale of merchandise is recorded in the general journal as a debit to cash or accounts receivable and a credit to the sales account. The amount recorded is the actual monetary value of the transaction, not the list price of the merchandise. A discount from list price might be noted if it applies to the sale.

Letter of credit: A letter of credit is a well-established commercial instrument used to effect payment for all sorts of transactions. It remains an effective means to ensure that documentation of the transaction is available should it be needed by the paying bank. Issuing an irrevocable letter of credit also requires the importer's bank to assess the importer's financial capabilities.

Vendor: A vendor is a person or a firm, which is in business of providing goods/service to the buyer in exchange of payment either by cash or credit. The buyer may be a government /private entity.

Credit: An arrangement that you make with a shop/store to pay later for what you buy i.e. allowing you to take goods and pay later, without any extra charges on top.

Entrepreneur: A person who makes money by starting or running businesses, especially when this involves taking financial risk.

Contractual agreement: For clarity, all signed "agreements" or "contract agreements" with suppliers or partners will be referred to simply as "agreements."

Supplier: Any provider whose goods and services may be used at any stage in the production, design, delivery and use of their own or another company's products or services. Suppliers include businesses such as distributors, dealers, warrantee repair services, transportation contractors, franchises and services suppliers such as health care, training and education. Internal suppliers provide materials or services to internal customers. Vendors and contractors are considered suppliers by definition.

Materials Management: Materials managements is a concept which brings together under one manager the responsibility for determining the manufacturing requirements, scheduling the manufacturing process, and procuring, storing and dispensing materials. As it is concerned with

the controls activities involved in the acquisition and use of all materials employed in the production of finished products.

Equity: This means fairness when handling the payment process in connection to the procedures in ministry of Environment, to enhance transparency and accountability in the whole process.

Dyad: Something that consists of two parts i.e. vendor and buyer.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 INTRODUCTION

The chapter covers the literature review of vendor payment problems after they have supplied goods and service to the buyers i.e. government ministries/private sectors. It analyzed the scope of the review and literature review and tried to do analysis the situation on the background in relation to what is happening and then compare the same with the collected information to achieve the intended objective of the study. The review covered the literature on the purchasing procedures for efficient prompt payment to suppliers. It included research work on the payment procedure to various vendors in the Ministry of Environment, for the purpose of determining the reasonableness, or otherwise, of the proposed change required (Kenneth Lysons, 1985).

2.2 CAUSES OF DELAYMENT

Agencies report that the three major causes for late payments are; Problems in the commitment process, including contract execution, funding methods, and issues involving vendors. These three areas account for 61 percent of the problem (Haxac and Majluf, 1982).

The commitment process refers to the procedures and paperwork necessary to set aside appropriated funding for paying vendor claims. According to the agency survey, difficulties in this area are responsible for about 28 percent of late payments. The process of putting funding in place to pay vendor claims is complicated and time consuming. Survey responses indicate problems associated with this area account for nearly 13 percent of late payments. This category ranges from misunderstandings among vendors about when to expect payment to price discrepancies and incomplete paperwork. Each type of problem can delay the payment process. When these issues arise vendors often make call to check on the progress of their claim. Staffs are then tied up "fighting fires" instead of processing vendor claims. The project team estimates vendor issues are responsible for approximately 20 percent of late payment problems.

An agent's willingness to pay for a unit of good from the Supplier depends on its probability of selling that unit in the market. Consequently, different starting inventories imply different willingness' to pay for further stock. Therefore the model is a variant of the hidden information models. Results from this literature tell us that the Supplier may not be able to extract full surplus

from the Retailer and must solve the optimal contract in order to maximize its profits. We now outline different versions of this problem, and the solutions in these environments. The intention is to provide the baseline level of comparison (the 1st best outcome), and to clearly show how the adverse selection problem affects the incentives of the competing parties. In this contract the supplier charges the retail price for each unit of the good. The agent is willing to pay the full price for these goods as they are guaranteed of selling them (demand is certain). Consequently the principal extracts the full surplus from each sale. Obviously the agent is indifferent between buying each unit as it can't sell them in the market for any more than the supplier's charges (however, the principal strictly prefers that the agent buys up to D). Thus, the incentive constraints of the retailer to follow the specifications of the contract are satisfied, but only weakly. If such indifference is unsatisfying then the agent's incentives can be made strict by offering them and share in the principal's business, where can be arbitrarily small. Then the preferences of the Supplier and the Retailer are perfectly aligned and the agent strictly prefers to follow the requirements of the contract (Haxac and Majluf, 1982).

This shows that, unexpectedly and unusually, the adverse selection problem does not arise solely from the asymmetric information in the model, but (as will be shown in the next section) is a consequence of both the asymmetry of information and the uncertainty of demand. If either or both of these characteristics are removed then the tension between agent and principal can be overcome and the principal can extract full social surplus with an appropriately specified contract. This trait of optimal contracts will become very significant when we consider return policies in later sections. As mentioned previously, the problem for P in this environment is that the willingness to pay differs across the different types of agents. What we also notice is that, in contrast to standard models, all agents do not have the same reservation utility. This is because the types $X > 0$ already own some inventory. Consequently, if they reject the P 's offer they can go to market and realize the value of these units, and this amount is determined by their starting inventory X . To deal with this problem we will normalize each agent's reservation utility to zero and adjust his or her utility function accordingly (Sheth, 1982).

A further observation is that it is the lower type X 's that have the higher willingness to pay for the goods, and from whom the P will be able to make the greatest profit. This is the reverse of standard models of hidden information (e.g., optimal auctions), and implies that the incentive constraint on all lower types will be binding upwards rather than the usual downwards, and that the participation constraint of the highest type was to be binding rather than that of the lowest

type. As mentioned earlier, situations may arise in which contracts can be offered before the agent knows its type (before inventories are known). That is, even though the agent's type will be private information when it is revealed, the contract can be formed when information is still symmetric. This information environment captures the problem faced by a monopolist introducing a new product, or of a producer offering long-term contracts for future periods in which the retailer doesn't yet know its own private inventory. We will show that contracting in these environments avoids the adverse selection problem and leads to the supplier extracting the full surplus and offering first best contracts. However, we will further show how this power can lead to problems of renegotiation and commitment that may preclude their implementation.

The optimal contract extracts all expected rent from A intuitively; this is because there is effectively only one type of agent now (an uninformed one). Therefore, the Supplier can implement any function it wants and use the transfers to extract all expected surplus. Contracting at this time relaxes the constraint posed when agents are of many different types at the contracting stage. This contracting game differs from the interim game in that there are two information stages: the ex-ante stage in which either the agent or the principal knows X , and the interim stage at which time the agent has learnt its type. Consequently, a transfer can be extracted from the agent at each information stage (though technically the money need not be paid until later in the game it makes it easier to think of the payments being made at the time they are calculated). We shall start, as usual, with the IC constraint. This constraint must be satisfied when the agent is announcing its type, which is at the interim stage. So we shall assume that point has been reached, possibly after an initial transfer, and determine the quantity and transfer functions that can be implemented (Haxac and Majluf, 1982).

2.3 TIMING OF PAYMENTS

A striking feature of the ex-ante contract specified above is that the transfer payment contains a large lump sum component in addition to a per unit component which depends on actual demand by the retailer. The lump sum component is equal to expected profit and is calculated ex-ante. The per unit component is charged at the interim stage after the agent has discovered its true type and ensures that the agent chooses the profit maximizing inventory level. This is in contrast to the interim contracts where the contracting and the single payment were all done at the interim stage (Ikiara, 1991).

This breakdown of the transfer function means that the transfer payment can be made in several ways. Obviously the per unit component has to be made at the interim stage or later, but the lump sum component can be made at any time. Consider if both payments are made at the interim stage. As the expected profit was calculated ex-ante then when some of the agents discover their true type they will be facing a loss if they follow through with the requirements of the contract (and some others a gain). It will then not be optimal for these agents to continue with the current contract. Instead they would rather implement the interim contract of the previous section. Thus, this ex-ante contract is not renegotiation proof. A further series of options is for either of the components to be paid at the ex-post stage. However, at this point the agent is just giving the principal money and obviously would rather renege on this payment. This leaves the only option to be that the lump sum payment is made ex-ante and the per unit component at the interim stage. However, when the interim stage is reached the principal is making no further profit as it is selling to the agent at cost. Consequently, it would rather abandon the current contract (after extracting the lump sum payment, of course) and instead implement the interim (Oakland J, 1993).

All of the above deviations assume that contracts can be broken at no cost. However, even if this wasn't the case, and contracts were enforceable, an ex-ante contract may not be implementable. The reason being that the derivation of the optimal contract implicitly assumed that if the agent rejects the current contract then there is no possibility of a future alternative offer. Because of this, the agent is happy to accept an ex-ante contract that provides it with no additional utility. However, if it were to reject the ex-ante contract then when the interim stage was reached we would be in the same situation as covered by the interim contract. And as the principal receives positive surplus from that contract it would be happy at that stage to accept this contract, even if its ex-ante offer had been rejected. Consequently, we may find the agent rejecting the ex-ante contract, as it would rather wait until its private information was revealed and then sign the optimal interim contract.

2.4 PURPOSES OF AUDITING

The primary purpose of the audit is to review the quantum (amount of the monetary adjustment) aspect of an equitable adjustment to determine if the proposed or claimed costs, resulting from an asserted Government caused delay or disruption, are acceptable as a basis for negotiation or settlement. This audit is performed under the assumption that the allegation of entitlement may be proven valid. As part of the audit of quantum, the auditor should determine if the contractor's records show whether the contractor experienced any losses, such as increased costs or unabsorbed overhead, as a result of the asserted delay/disruption. This program is intended to provide the proper planning, performance, and reporting on the review of a contractor's delay disruption proposal or claim. The audit steps in the program should reflect a documented understanding between the auditor and supervisor as to the scope required to comply in an efficient and effective manner with generally accepted auditing standards and its objectives. The program steps are intended as general guidance and should be tailored to determine audit risk (David Farmer, 1985).

2.5 DELIVERY QUANTITIES

When a complete order is shipped, it is expected that the quantity of material delivered was to match exactly the quantity designated on the purchase order. Delay in payment can result when material is short, over, incorrect or damaged. Delivery discrepancies often require considerable extra handling by the receiving location, purchasing representative and accounts payable. To prevent delays in payments, the supplier should provide the ministry representative with the name of the individual responsible for handling delivery discrepancies. The suppliers should also continually stress to its shipping department the importance of concentrating on accuracy in packing list quantities and weights. Recurring instances of delivery discrepancies will affect perceptions of the supplier's service capabilities and will be reflected in the supplier's annual evaluation rating. If a material discrepancy occurs, within 30 days the supplier should furnish the information requested to meet ISO/KBS requirement for resolution. Responses not received within 30 days may result in automatic issuance of a credit. Unless notified by the purchasing representative, replacement shipments should not be made against the purchase order in question. In cases where a applicable (Plank and kijewski, 1991).

Trying to see the best way the government was doing to instill faith with the suppliers for enhancement of future quality service delivery and what will be the benefits out of it. Trying to know whether little effort from the government is the cause of the problems the suppliers are encountering. Trying to know the way forward and if necessary recommend further research on these areas. In search for high profits and (competitive prices) the function is often over looked, yet reduction in the purchasing goes straight to the bottom line. The purchasing function always acts as a drain in profits, if it operates in every active program of study management like (MRP) material requirement planning and just in time (JIT) (Calid, 1993).

According to Lyons's (1996), he identify three important developments that have contributed the enhancing of purchasing status in both public and private sectors, contribution of purchasing status in both public and private sector, contribution of purchasing to profitability and added value, the evolution of purchasing professionalism and the recognition of the strategic importance of purchasing research. Amnar (1968) compared the contribution to the product and the profitability of the materials managers and non-material mangers.

Seller shall promptly submit correct and complete invoices or other agreed billing communications with appropriate supporting documentation and other information reasonably required by buyer after delivery of products and/or performance of services, and buyer may withhold payment until a correct and complete invoice or other required information is received and verified. Vendor shall accept payment by check or other cash equivalent, including electronic funds transfer. Buyer may setoff or deduct from sums owed to seller under this agreement those sums owed by seller to buyer. Unless seller consents in writing, buyer may not setoff or deducts amounts owed to buyer by seller's affiliates or others who are not parties to the Agreement (Plank and kijewski, 1991).

2.6 INSPECTIONS OF GOODS AND PROCESSES

All goods and/or work supplied under the order shall be subject to buyer's rights of inspection and rejection. Buyer shall have a reasonable time, but not less than fourteen (14) business days after delivery, to inspect delivered goods or products prior to accepting or rejecting the same. Buyer reserves the right, upon reasonable notice, for buyer, buyer's customers and buyer's designated agents to inspect the material on seller's premises and seller agrees to provide access and facilities suitable for such inspection (Jessop and Morrison, 1994).

After buyer inspects delivered goods, rejected goods will be held for seller's instruction and at seller's risk for a reasonable time. If requested by seller, or after a lapse of reasonable time, the rejected goods may be returned to seller at seller's expense for credit or refund or setoff at buyer's option. No returned material shall be replaced without prior authorization from buyer. Buyer shall have the right to make use of defective material in such manner, as it deems advisable where necessary to meet buyer's contractual obligations to its customers, without waiving any right or remedy, which buyer may have with respect to such material. Payment prior to inspection shall not be deemed a waiver of buyer's rights to inspect and reject, and neither inspection, testing, acceptance nor use of normal material (or the absence thereof) shall be deemed a waiver of buyer's right to revoke acceptance. In addition payment prior to inspection shall not release seller's responsibility for latent defects, non-conformities, and/or warranty claims (Griffiths, 1993).

2.7 PERFORMANCE DELAYS

Timely delivery is essential; however, neither party shall be liable to the other for any delay or failure to perform where such delay or failure is caused by events beyond the control of the affected party, subject to reasonable notice by the affected party to the other party. If seller is unable to perform for any reason, buyer may, without waiving its right to seek damages caused by delay, purchase products and/or services from other sources and reduce its purchases from seller accordingly (Perry, 1987).

According to ISO standards of 2000. Whenever seller has knowledge of any actual or potential cause or event which delays or threatens to delay the timely performance of any order, seller shall immediately give buyer written notice thereof, including all relevant information. Seller shall notify buyer in writing of any actual or potential labor dispute delaying or threatening delay timely performance of this order. Seller shall notify buyer in writing six (6) months in advance of the expiration of any current labor contracts. Buyer may thereafter direct Seller in writing to manufacture up to thirty (30) days of additional inventory of products, specifying the quantities of Products required and any packaging and storage requirements. Seller will use commercially reasonable efforts to comply with buyer's written directions prior to expiration of the current

labor contract and until the current labor contract has been extended or a new contract completed. Shipment of such orders shall be at seller's Plant.

Confidentiality and intellectual property rights: Trade secrets, specifications, drawings, notes, instructions, engineering data and analyses, compositions of matter, financial data, and other technical and business data which are supplied or disclosed by buyer to seller (Confidential Information) will be deemed confidential and proprietary to, and remain the sole property of buyer. Without buyer's written approval, Seller agrees not to disclose to third parties any information regarding buyer or its business or customers, including the existence and terms of any order, or use such information for any purpose other than performing the order. Seller shall not disclose confidential information or use confidential information for any purpose other than as contemplated under the agreement without the written consent of buyer. Confidential information shall not include information which has been or is hereafter publicly disclosed without a violation of this agreement, as already in the public domain as is established by reference to published text books, articles, issued patents and the like, or is known to seller prior to disclosure from seller as is established by reference to buyer's business records in existence prior to such disclosure (Imai, 1986).

Buyer does not transfer to seller any patent, trade secret, trademark, service mark, copyright, mask work, or other intellectual property right (collectively intellectual property right) of Buyer in information, documents, or property that buyer makes available to Seller other than the right to use buyer's Intellectual property rights to produce and supply Products and Services to Buyer. If the agreement is terminated, seller shall grant to buyer a nonexclusive right and license to use seller's intellectual property rights to obtain from alternate sources products and services similar to the products and services covered by the terminated agreement for the balance of the agreement term at the termination effective date. There will be no fee for this license if such, buyer terminates the agreement for seller's default or seller terminates the agreement other than for buyer's default. Otherwise, the parties shall negotiate a reasonable fee for use of seller's intellectual property rights (Haxac and Majluf, 1982).

Table 2: 1 vendor/Purchasing staff

Level of education	Number of vendor respondents	Number of staff respondents	percentages
			%
Senior managers	8	5	27.083%
Middle level	4	6	20.83%
Tactical level	5	5	20.83%
Operational level	8	5	27.083%
Total	{ 48	}	100%

SOURCE: (David Baily and Farmer, 1998).

The prompt payment Act was enacted on May 21, 1982, and amended on October 17, 1988, as stipulated herein. The prompt payment Act (the Act), as amended, requires executive departments and agencies to pay commercial obligations within specific discrete time periods and to pay interest penalties when those time constraints are not met. The "standards for prompt payment" section has been redesigned Section 3 and retitled "Prompt payment standards and required notice to vendors." several changes have been made to this section.

The revised circular clarifies when an invoice are deemed to be received, for invoices that are mailed or received electronically, or when a delivery ticket serves as the invoice. The revised circular provides that agencies may use computer-related media in place of paper documents to expedite payment transactions, as long as there are adequate safeguards and controls to ensure the integrity of the data. "Starting the payment period" has been reorganized to include all discussion related to calculating the start of the payment period. Section 3.f. combines the discussions found in the current circular "receipt of invoice and starting the payment Period. This provision also includes the addition of an acceptance document or delivery ticket as the basis for starting the payment period (Imai, 1986).

"Determining the payment due date has been expanded to include payments due when discounts are taken and when accelerated payment methods are used. "Mixed invoices for commodities now includes the provision that the entire invoice may be paid on the due date for the commodity with the earliest due date, if it is considered in the best interests of the agency.

Agencies must make payments for commercial obligations on properly submitted invoices on payment due dates set by the attached implementing procedures. Unless otherwise specified in this Circular or agency regulations, payments cannot be made until proper invoices have been received for goods or services that have been received and accepted by the agency and contract terms have been satisfactorily performed or fulfilled. Payments under certain accelerated payment methods may be made before the specified due date. Payments made later than the payment due date or later than the discount due date if a discount is taken, may be subject to interest penalties and possibly additional penalties. Valid interest penalties will be paid by the agency automatically and additional penalties will be paid after receiving a written request from the vendor. These penalties will be paid from funds available for the administration of the program for which the penalty was incurred. Agency implementation must be consistent with sound cash management practices, related Treasury regulations and the Federal Acquisition Regulation or appropriate agency regulations.

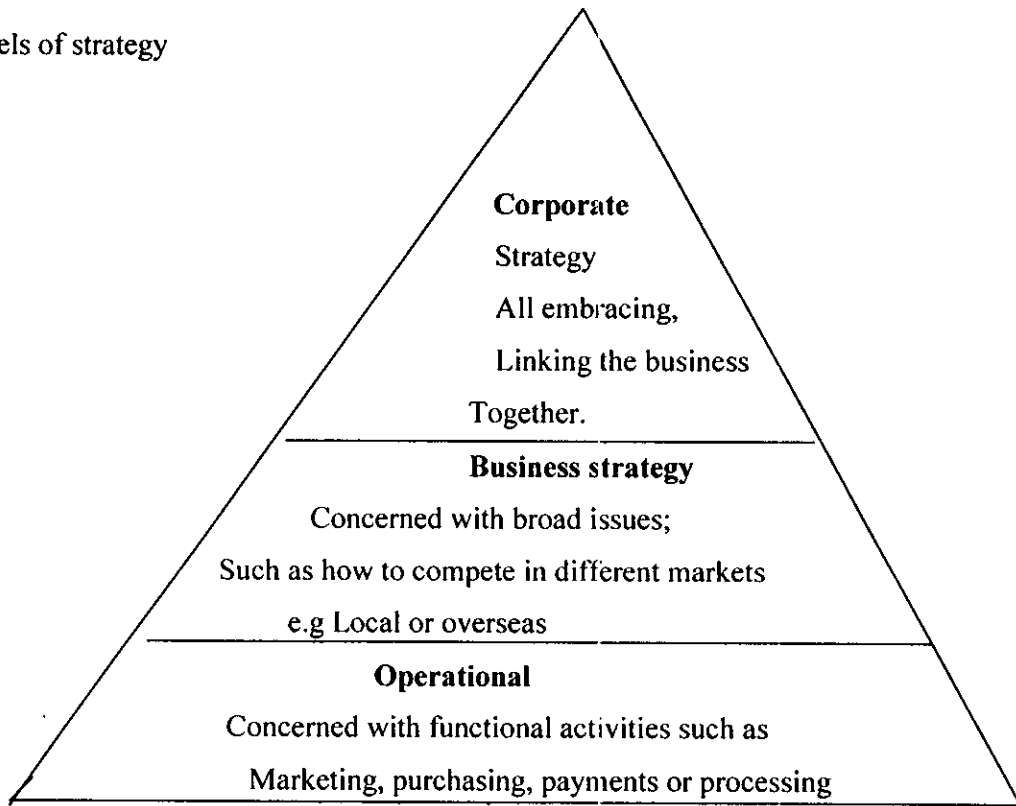
The debt collection improvement Act of 1996 requires all federal agencies to make payments electronically after January 1, 1999, except for internal revenue service tax refunds and except as waived in 31 CFR Part 208. The Act also requires the collection of the taxpayer identifying number for purposes of debt collection. This circular requires that banking information for purposes of making electronic payments and on an invoice unless this information has been previously provided to the agency through other procedures.

Starting the payment period: The period available to an agency to make timely payment of an invoice without incurring an interest penalty shall begin on the later of late payment interest penalties such application and calculation, agencies will use the following procedures in calculating interest due on late payments such as interest will be calculated from the day after the payment due date through the payment date at the interest rate in effect on the day after the payment due date, adjustments will be made for errors in calculating interest; for up to one year, interest penalties remaining unpaid at the end of any 30 day period will be added to the principal

and subsequent interest penalties will accrue on that amount until paid, when an interest penalty is owed and not paid, interest will accrue on the unpaid amount until paid, except as described in of this section (Calid, 1993).

Limitations of Bank's liability: If we failed or delayed in making a payment or transfer pursuant to your instructions, or if we made a payment or transfer in an erroneous amount which is less than the amount per your instructions, unless otherwise required by law our liability.

Levels of strategy

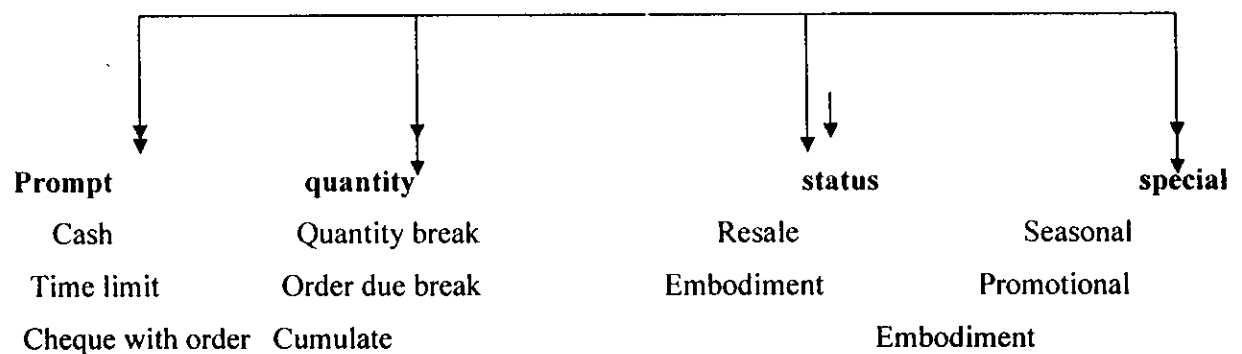


Source: Baily and Farmer, 1998.

Figure 2: 1 LIMITATION OF BANK'S LIABILITY

Shall be limited to interest on the amount, which we failed to timely pay or transfer, calculated from the date on which the payment or transfer was to be made until the date it was actually made or you canceled the instructions. We may pay such interest either to you or the intended recipient of the payment or transfer, but in no event shall we be liable to

both parties, and our payment to either shall fully discharge any obligation to the other. If we make a payment or transfer in an erroneous amount which exceeds the amount per your instructions, or if we permit an unauthorized payment or transfer after we have had a reasonable time to act on a notice from you of possible unauthorized use as described above, unless otherwise required by law our liability shall be limited to a refund of the amount erroneously paid or transferred, plus interest thereon from the date of the payment or transfer to the date of the refund, but in no event to exceed 60 days' interest. If we become liable to you for interest compensation under this Agreement or applicable law, such interest shall be calculated based on the average federal funds rate at the Federal Reserve Bank in the district where the Bank is headquartered for each day interest is due, computed on the basis of a 360-day year. Unless otherwise required by law, in no event will the Bank be liable to you for special, indirect or consequential damages including, without limitation, lost profits or attorneys' fees, even if we are advised in advance of the possibility of such damages. Bank liability for unauthorized use is further limited by other sections of this agreement. These accounts must comply with all other terms of this agreement that apply to individual accounts.



Source: Baily and Farmer, 1998.

Figure 2:2 DELIVERIES OF GOODS

CHAPTER THREE

3.0 RESEARCH AND METHODOLOGY

3.1 INTRODUCTION

This chapter describes in details on how the study was conducted. It showed how the research design used, sampling framework, population and sampling techniques, sample size methodology of data collection and analysis.

3.2 RESEARCH DESIGN

The research design, which was used in this study, was descriptive in nature where the individuals' respondents' key attributes were detailed and described in detail so as to be adequately compared with those of the other ministry.

3.3 POPULATION AND SAMPLING TECHNIQUES

3.3.1 POPULATION

This comprised all the staff in both the vendors place and the ministry of environment with 2500 members of staff.

3.3.2 SAMPLING FRAME/PROCEDURES

Since all the employees in both organizations are regarded equally, a random sampling technique was used.

Table 3.1 Number of respondents

Education Level	vendor's Employees	Staff in the Ministry	% of Respondents
Primary Level	5	2	14.58%
Secondary Level	4	6	20.83%
College Level	8	10	37.5%
University Level	9	14	47.92
Total		48	100%

Source: David Baily and Farmer, 1985.

3.3.3 SAMPLE SIZE

The sampling size was used to select 48 from both the vendor and ministry to provide information for use in this study. Trying to show the source of the data collected and how it was administered to differed groups people who were targeted in my research project to ensure 99% response rate.

3.4 DATA COLLECTION METHODS

A combination of techniques was used in the study, first survey methods where a questionnaire were be given to the respondents and picked later for analysis. In each edit, key personnel like managers in charge of procurement, marketing, finance, corporate affairs and directors were requested to assist in answering the questions. Also the study was structured and semi-structured questionnaire and in data collection, the research will use personal interviews.

3.5 DATA ANALYSIS PROCEDURES

The collected data from this study were organized in frequency distribution, tables, figures and pie charts to provide a quick insight and easy understanding of the trend in the study. Then descriptive statistical measures of central tendency measures of the analysis were computed to provide a deeper understanding of underlying trends.

CHAPTER FOUR

4.0 FINDINGS

4.1 INTRODUCTION

This chapter covered the experience encountered while on the field collecting data, the general findings and the analysis of the data collected. The information solicited from the field was subdivided into two parties i.e. Part one was meant to evaluate the general background of the vendor's payment problems and to ensure that the process of payment has improved and a number of reputable suppliers was reached, while part two was meant to know the causes of delays in the ministry of Environment and the best way to enhance efficiency and effectiveness in the system.

4.2 GENERAL FINDINGS AND ANALYSIS OF DATA.

4:2:1 Objective 1: Professionalism Applied in Processing Payment.

Table 4:1 shows that of the forty eight both vendors and staff examined, 29.167% had there records outlay of below 40% properly kept in form of manual, while 25% had there records between 40-70 in form of IT ACCPAC module system and the remaining 45.833% had both manual and IT record keeping.

Table 4: 1 PAYMENT PROCESSING PERCENTANGE

Record %	Vendor Respondents	No.	Staff No Respondents	% of Respondents
> 40	6		8	29.167%
40	10		2	25%
< 70	13		9	45.833%
Total		48		100%

Source: Field Data

As per the information given in table 4:1 above the type of payment processing which was in place was both manual and IT and that means great attention must be given to these processing procedures to enhance timely payment, care and caution right from the start of raising vouchers to the time of payment.

4:2 Causes of delayed payment.

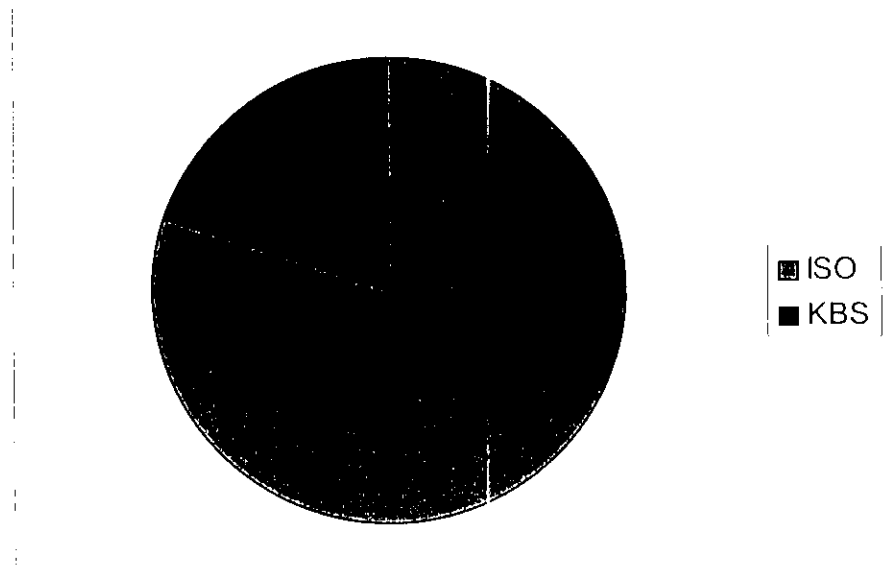
Table. 4:2 REASONS FOR LATE PAYMENT

Lack of or Due to	Vendor Respondents	No	Staff Respondents	No.	% of Respondents
Proper training	10		6		33.333 %
Ethical code	7		8		31.25 %
Bribes/Corruption	8		9		35.417 %
Total		48			100 %

Source: Field Data

The data collected on evaluating as to why late /delayed payment to suppliers occur and the causes from the background shows that there are problems with the way vouchers are processed, hence causing late payment to vendors after the delivery of goods and services. Table 4.2 indicates a high percentage was on bribes and corruption being the main cause of late payment followed with professional skills of the personnel who are always involved i.e. Account Payable Department. This implies that those who have acquired jobs must avoid unnecessary multi-practices, which is abad reputation to their profession.

This means procurement and payment are major draw back of the total 48 respondents interviewed (table 4:1). Only 45 .833 %? had record keeping, which was well documented while the remaining over 50 %, had no proper records. Written policies and record keeping are very essential when it comes to reference for decision making, as different personnel are involved. A table 4:1 implies those delays were caused by non professional personnel, on ethical and bribery/corruption as other profession view procurement process as any ordinary job where written policies are not used nor professionalism.



Source: Field Data

Figure 4.1 PROCUREMENT STANDARDS

In figure 4:1 above 70% of the total respondents do not apply ISO standards while documenting their vouchers, but they apply 30% of KBS standards, which is a small margin. 20% of the respondents deliver their goods on demand; i.e. when a buyer has come with a requirement on a certain goods that is when materials are packed for the purpose to enable the entrepreneurs to give customers service; the remaining 10% of the respondents already do partial deliver of goods when they receive orders from buyers, and in reality this is not supposed to be the case as customer service is paramount to any business entity concerned. The respondents said though supplier's keep on complaining for payment delayed while they are the cause of the problem themselves, hence the should try to change on service fulfillment to their customers/ clients.

Table 4:3 SOURCES OF PURCHASES

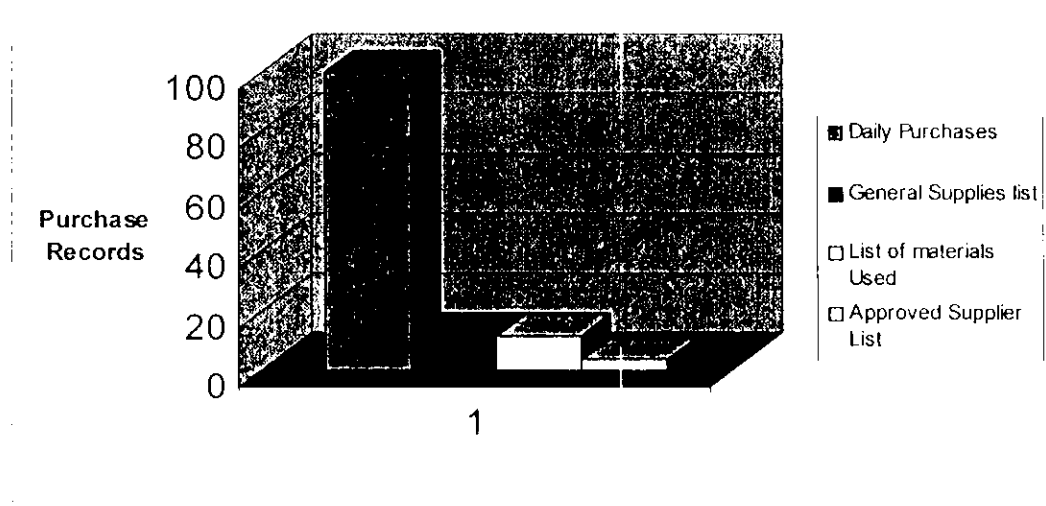
Source	Terms of payment	Respondents	% Respondents
Internal	Cash	15	31.23%
External	Credit	22	45.83%
Both	Credit/Cash	11	22.92%
Total		48	100%

Source: Field Data

In the table above very large vendors supply their goods on credit facilities with an hope to receive payment on time as its stipulated in the terms of contract but do their surprise they keep on waiting for too long or end up going to a court to get their payment. These are the suppliers who are able to give goods on credit as their financial capability can support it, while on the same issue the customers are the government ministries, which fail to honor their promises. None of the vendors interviewed will hastate to supply goods once given an order, as there are a lot of competitions from other vendors in the market, giving challenges to others by supplying goods on credit. Otherwise 65% of the vendors had supplied goods on credit waiting for payment for a number of months while the remaining 35% were tracing their vouchers without knowing whether they where received for processing or not, hence doing personal visit in order to expedite their payment as they urgently needed the money for other transactions in their business.

Most of the respondents said that customer were not willing to pay in cash as only 31.23% of the customers preferred this method of payment against credit, as cash was good for small quantity of goods delivered, as their capital is also small and easy for transaction than large quantity with large capital involvement, where a lot of documentation are required before payment to a vendor as audit queries may arise in future for clarity.

The respondents said that the main cause of delayed payment was the bureaucracy on the procedures, which is in place, where a voucher requires a lot of signatures before payment is made against it, hence time consuming.



Source: Field Data

Figure. 4.2 PURCHASING RECORD KEPT

In table 4.4 80% of the respondents obtain their raw materials from local source while the remaining 20% obtain from both local and abroad the reason given from most of the respondents is that they preferred local suppliers than foreign vendors because its easy do deal with the local when it comes to problem solving or any disoute than the suppliers in foreign as far as procurement is concerned, hence there is on many letter of credit when transporting goods. When purchasing goods from foreign country you also need to use different modes of transport for the consignees to arrive at its final destinations, such as roads, rail. water and Air. The modes also require the tracking of goods by online computers for it to be effective in service delivery and the need for bill of exchange, certificate of inspection. and insurance certificate among others.

Table 4:4 SOURCING POLICIES.

Types	Vendor No. of Respondents	Staff No. Respondents	% Respondents
Open tendering or Other alternatives e.g.	3	2	10.42%
Restricting tendering	6	3	18.75%
Direct procurement	5	4	18.75%
Request for tendering	1	4	10.42%
Request for quotations	0	5	10.42%
Procedure for low value procurement	5	3	16.67%
Specially permitted procurement procedure	3	4	14.58%
Total		48	100%

Source: Field Data

The appropriate action to take in case of receipt of sub standard materials. Table 4.4 15% of the respondents would reject them; while 25% will simply accept them; and the remaining 60% said they would accept and negotiate for price reduction. Most of the respondents were preferring direct procurement as cash payment is highly used in type of purchase than the other purchase methods, hence comfortable by both the vendor and the ministry staff making 18.75%, although restricted has the same rating, but more preferred by vendors than procurement agents in the ministry.

Table 4.5 ACTIONS ON SUB- STANDARD GOODS.

Action	Respondents	% Respondents
Reject them	8	16.67%
Accept them	14	29.17%
Re-negotiate the price	26	54.17%
Total	48	100%

Source: Field Data

The cost of sub standard material may be adverse. In the above (table 4.5) on a small % of buyers (16.67%) would be willing to prevent the cost that may be associated with substandard goods and the 54.17% were willing to negotiate before accepting the goods to their warehouses. The remaining 29.17% would accept substandard materials delivered to them and this shows that they would voluntarily accept the costs associated with substandard materials, such as loss of customer's goodwill, rejecting the product and loss of profits.

All the interviewed respondents settle their raw material debts within 30 days if it was possible without any constraints. In fact, they make their purchases in cash. This implies that they did not negotiate for any credit facilities with suppliers. Most of these entrepreneurs would work for customers and wait for the payment to be made after work and collection of goods.

Table 4: 6 CONSIDERATIONS IN BUYING CAPITAL EQUIPMENT

Factor	Respondents	% Respondents
Cost of equipment	24	50%
Technology	10	20.83%
Hire Purchase	12	25%
Total	48	100%

Source: Field Data

Table 4.6 shows that a relatively small portion of vendors considers the technology with which the equipment was required for before the purchase of capital equipment. A person may buy equipment at a relatively cheaper cost and end up incurring too much cost of maintaining the same. Hire purchase terms are like sugar coated quinine which though sweet while swallowing is bitter. This is because before the last cent is paid the machine is not yours. At the end total amount paid is higher than cash price of the machine.

On the class of customers targeted by the goods table 4.7 14.58 % of the respondents had everybody as their target group, while 25 % had middle class income earners as their targeted group, while 54.17% had higher income earners and was the targeted group with potential of financial capability to pay after the purchase of goods and the remaining 6.25% vendors had low

income earners as their target group.

Table 4.7 CLASSES OF CUSTOMERS TARGETED

Class	No. of respondents	% respondents
Low income earners	3	6.25%
Middle Income earners	12	25%
High Income earners	26	54.17%
Everybody	7	14.58%
Total	48	100%

Source: Field Data

On the method used in costing for the raw material when made available to the place of use as the table above indicates, (table 4.7). 72% of the total vendors apply the standard price methods, while 20% use simple average price method and 8% of the vendors were applying the cost price method in their material issue from store.

CHAPTER FIVE

5.0 DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter covered the research summary, discussions, conclusions and recommendations while analysing the problems of late payment to vendors in the ministry of environment.

5.2 SUMMARY

A payment system is actually quite simple: It defines the procedures, rules, standards and instruments used to exchange financial value between two parties discharging an obligation. Although the purpose is simple payment systems evolve over a period of years. The different conditions in each country (size, legal systems, business practices, communications, infrastructure, stages of development of instruments and institutions) make each payment system unique.

Therefore, it is impossible to use one country's payment system as the sole model to be copied in emerging countries. Emerging economies such as former socialist republics do not have to "re-invent the wheel" to develop their own payment systems. They can adapt successful systems and practices from more developed countries to suit their own needs. Emerging countries can learn from the mistakes made in other countries and avoid them by introducing preventive measures early in the development process.

What are the key attributes of a successful payment system? Payment transactions have two parts the flow of information providing payment instructions and the flow of funds. These two flows are always related, but may follow different paths and have different timings. Each payment transaction has four common elements: an obligation to discharge; a party to make the payment (payer) and a party to receive the payment (payee); a payment instrument, such as cash or a check, to convey the information about the transactions; and one or more financial intermediaries (usually banks) to transfer the value by drawing funds from the payer's account depositing funds into the payee's account. Sometimes a third party (the central bank or a settlement bank) facilitates exchanges of value between the two participants banks. Each transaction has different requirements depending upon the customers (consumers or businesses), the nature of the financial obligation (bill payment or purchase at the point of sale) and the speed, security and

cost required for the transaction. Developed countries (and many emerging ones) use several different payment instruments and processing systems to satisfy the country's payment system needs. Cash is the simplest example of a payment instrument. Cash is still used for most payment transactions (in number, not in value) in developed countries.

The physical standards to protect cash from forgery vary by country and might have the following features: unique size and color, denomination, special paper and security features (ink, watermark, security thread, latent image, micro text, see-through features, silver-lustrous surface, protective line structures). The legal and regulatory standards include backing from the government, convertibility into other currencies and transferability to other parties. Because cash is transferable.

From a credit risk standpoint, the credit payment is generally superior because funding can be verified before the transaction is initiated (funds are in the customer's account before the payment is made). However, from a convenience standpoint, a debit transaction may be preferable in certain cases. All developed countries use a mix of debit and credit payment. In general, credit payments have increased in usage because they eliminate the risk of a payment made against insufficient funds and the cost and time delay that a returning for insufficient fund payment would entail. This is particularly important for high volume payment, for which almost all countries are using a credit transfer system. Payment processing methodologies fall into two broad classes. On-line processing accesses the customer account for each transaction when the payment is processed making the entries to the customer account simultaneous with the processing of the transaction. Batch processing groups transactions and makes the posting to the custom account at a later time.

On-line processing tends to reduce the risk of payment failures and increases the speed of payment. However, on-line systems tend to be more expensive for high volume applications because each transaction is handled individually, rather than in bulk. On-line systems require sophisticated data communications, which can be a problem if a country's telecommunications infrastructure is inefficient and unreliable. Settlement finality (immediate or provisional) refers to the method and timing by which settlement takes place. Payment can carry immediate finality; that is, the funds are immediately and irrevocably available to the customer or the funds can be provisional until a later date. Provisional payments are generally used with batch processing or

with debit payment to allow time to confirm funding. Immediate payments are used most often with credit payment when the funding can be validated before the transaction.

Immediate finality payment presents less credit risk to the payer and payee, but more risk to the banking industry. Settlement is guaranteed with little opportunity for verification because of the speed at which these transactions take place. Notwithstanding the risk, immediate finality is a virtual requirement for high value systems where the ability to transfer (and retransfer) funds rapidly is a necessity. There are many reasons why an efficient system is necessary in advanced and emerging countries: Promotion of economic activity. Payment systems promote economic activity, particularly domestic and international commerce and trade. Without reliable, efficient and timely Payment systems, companies cannot conveniently acquire raw materials, pay wages and promote economic growth. Payment delays (called debit or credit float) increase intermediation costs and reduce economic welfare. The problems increase if the country experiences high inflation. The more funds are tied up in clearing and settlement, the fewer funds are available for productive use.

Improved controls of monetary aggregates: Large and unpredictable float levels (which add or subtract reserve money) influence short-term liquidity in the economy and introduce additional uncertainty in controlling monetary aggregates. Many countries counter the lack of available financial resources by printing more money such as the case in Zimbabwe, which leads to higher inflation and large swings in the money supply. An ideal payment system would minimize delays (within economic reason) in the transfer of funds. The ability of central banks to manage and enforce reserve requirements efficiently and use indirect policy instruments to conduct monetary policy (through open market operations) depends on a nationwide integrated and reliable payment system reduced transaction costs.

Efficient Payment systems minimize transaction costs: An expensive Payment system only drains resources from more productive use. Thus the development of a national Payment system must consider the total cost of labor and capital to operate the system.

Capital resources in emerging economies usually have a higher opportunity cost than in developed economies because of the scarcity of capital and hard currency. On the other hand, labor is plentiful and inexpensive in many emerging economies. Thus a nation's Payment system

must be subjected to a cost-benefit test. State of the art systems are not always the optimal solution, particularly in emerging economies.

Economists address the importance of an efficient Payment system from two different perspectives and levels of aggregation. At the macroeconomic level their concern is the relationship between the Payment system's efficiency (reflected in the velocity of the circulation of money) and the supply of money for a given level of aggregate economic activity. At the microeconomic level, economists look at the efficiency of the Payment system indirectly as part of their broader interest in the welfare losses resulting from higher transaction costs.

Credit risk control: Unless the transfer of value is complete in a reasonably short time, outstanding obligations expose counter parties to the failure of others hence an efficient Payment system evolves, its reliance on cash as a Payment instrument lessens. In many countries, engraving and currency handling costs can be high. As a nation's Payment system evolves, its reliance on cash as a Payment instrument lessens.

Financial sector development: The Payment system is a basic component for a country's financial sector infrastructure and can facilitate the development of new financial instruments, products, institutions and markets such as debt and equity markets. This is particularly true for former communist countries where government ownership of businesses obviated the need for efficient Payment systems.

Security and reliability: Emerging countries (and developed ones) can be skeptical about new technologies and lack faith in financial instruments other than cash. New systems (non-cash or cash) must win the user's confidence by being dependable and reliable. Consumers must be protected against unauthorized access and fraud. Products. An efficient Payment system not only opens the door to increased competition through better service and cheaper transaction costs, but also enables financial institutions to develop new products (card-based consumer systems, bank remittances), which can become important sources of fee income. The efficient transfer of funds combined with increased competition would eliminate or greatly reduce the incentive banks in many transitional socialist economies have to delay Payment and follow other rent-seeking behavior detrimental to the users of financial services.

Given how weak intra bank Payment systems are in many emerging countries and socialist economies in transition, banks cannot manage their treasury operations efficiently. For example,

bank branches must post reserve requirements in innumerable correspondent accounts at the central bank regional offices, creating nightmarish management problems for the head offices of the central and commercial banks. Banks cannot compensate for excess liquidity in a branch with deficiencies in other branches.

Market: An efficient Payment system supports privatization efforts. It provides impetus to the development of the interplant and money markets facilitating the transfer of funds across highly compartmentalized economies (region and sectoral). These markets will improve monetary control, develop open market operations and rationalize liquidity and treasury management across the economy and institutions. A payment system would help develop the capital market and the Government Securities market. Money, bond and equity markets will benefit from a modern, reliable payment system. Business privatization requires that payment for goods and services be made promptly and accurately to enable them to operate profitably.

Inefficiency in payments operations processing: To provide tight controls, each transaction is presented twice, by manually sorting and transporting the original paper document, and by manually entering the document data for electronic transmission. The customer entries are based on the receipt of the physical document and the electronic notification is used only for control. This process could be streamlined by using machine-readable documents, and passing regulations that would legalize electronic transfers. Laws governing electronic entries do not exist in most cases. Compounding the processing problem is the banking system's lack of automation and telecommunications facilities.

Payments system risk and managing balances for settlement: The central bank and the commercial banks lack real time information to employ efficient cash management practices. The increased use of correspondent balances held between commercial banks increases systemic risk and suggests that Central Bank as settlement agent is inefficient.

Most payment must flow through the Central Banks. Competition is healthy and tends to promote efficiencies. In a system where the Central Bank competes in the payment arena, regulations should not favor the Central Bank. Nonetheless, the Central Bank must be able to guard the payment system from risks. Competition should be based on transaction processing and payment services, not on settlement alone, because the Central Bank has a natural desirable operational and risk advantage. Each bank, including the Central Bank, must review its internal

account management and intra-branch systems. Improved settlement techniques, such as local clearinghouses with Central Bank net settlement, will reduce the Central Bank settlement bottleneck created by the gross settlement system now employed.

Independent automation paths for internal systems designs: Consistent integrated solutions for the national (and perhaps international) payment systems will avoid incompatibly and wasted investment. Speed is important as individual banks, recognizing the importance of automation to attract customers, are developing their internal systems rapidly.

The risks are real because the banks are under-capitalized and weakly supervised. Some may have highly concentrated loan portfolios and high lending levels. The economic environment is highly uncertain. Economic adjustment will probably result in enterprise closures and bankruptcies. It is unclear whether the state will provide banks with protection in such cases.

5.2 DISCUSSIONS

This study was aimed at analyzing the various causes of delays in connection to payment to vendors after the delivery of goods to their customers and the current processing procedures do disclose the reasons of late payment to vendors after the delivery of goods and services to the ministry of Environment. The investigation further evaluated how these processing procedures and policies affect the supplier of goods; hence forcing them to use other means to achieve their objectives of payment after the delivery of goods, in modern business as far as payment is concerned.

The research study further evaluated how these problems are affecting the suppliers of goods, with the processing procedures which was in place and the results obtained from the study showed how its important to pay in time, quality management of voucher payment, upholding professional ethics and hence the use of modern system of payment.

5.2.1 OBJECTIVE 1

THE EVALUATION OF THE PAYMENT PROCEDURES

The data collected from the respondents from the ministry of environment, analyzed as do why there is delay when processing the vouchers by asking frequently asked questions and at the same time suggested resolution, such as:

Why they have we not received payment on a past-due invoice? The respondents said invoice has not been received by personnel in Accounts Payable Department in the ministry, There is missing information or contains inaccurate information, The invoice price does not match the pre-negotiated price on the Purchase Order, The invoice is not approved by an authorized officer or his representative, the ordered material wasn't delivered to the correct location, the quantity of goods received does not match the quantity of goods invoiced, Delays in the routing of the packing list/shipping documents from outlying (remote) locations to the main inventory (receipting) location, The shipment is lost, damaged or incorrect, Material is shipped against a cancelled or expired Purchase Order?

Resolutions to these are i.e. the personnel in Accounts Payable Department will ask the vendor for a copy of the invoice and. Once the invoice has been matched with all appropriate back-up material such as a receipt of goods, required approvals, the payment should be processed, personnel's Accounts Payable Department will attempt to obtain missing information or correct the inaccurate information and If attempts to gather the required information are not successful, the Accounts Payable Department may return the invoice to the vendor for clarification.

The personnel in accounts payable department will contact the appropriate buyer to determine which price is accurate based on set blanket order pricing or vendor quotation, If the purchase order price is accurate (and the invoiced amount is inaccurate), invoice total will be adjusted to reflect purchase order pricing and If invoice amount is accurate (and the Purchase Order price is inaccurate), the payment will be issued for the amount specified on the invoice and the purchase order will be adjusted accordingly.

The personnel in Accounts Payable Department will request that the vendor supply a proof of delivery, Based on information provided on the proof of delivery, an Accounts Payable Representative will determine the location to which the material was delivered and provide that information to the receipting storeroom and The receipting storeroom will verify the receipt of the goods and process a receipt, which will facilitate the payment process.

The personnel in accounts payable department will contact the receiving storeroom for verification of the quantity received and perhaps request proof of delivery from vendor to

justify the invoiced quantity, If the invoiced quantity is inaccurate, the Accounts Payable department will authorize for payment only the amount associated with the correct amount of received goods and If there was an error by the storeroom staff in receipting for the goods, the receipt of goods will be adjusted to reflect the correct amount and payment will be processed accordingly.

Because material is sometimes delivered directly to a job site instead of a receipting storeroom location, it is important that all invoices specifically outline the location to which the goods are shipped as well as the name of the buyer's contact, if available. This was to ensure that, if the necessary paperwork is not forwarded properly within the stipulated time, the Accounts Payable Department can provide that information to the receipting storeroom and The receipting storeroom will verify the receipt of goods at the "remote" location and process a receipt, which will facilitate the payment If incorrect material is received, personnel in storeroom will contact the vendor to obtain a Return Material Authorization (RMA) and return instructions and If a shipment is lost or damaged and the shipping terms indicate the responsibility belongs to seller, the storeroom will acknowledge the receipt of the goods and initiate a freight claim with the carrier. Once the storeroom has receipted for the goods, the payment process will continue. If responsibility belongs to the shipper payment will be delayed until the replacement shipment is received.

If an order has been placed against a canceled or expired Purchase order, personnel in accounts Payable department will contact the storeroom to determine whether the material will be accepted or returned to the vendor.

If the order is accepted, personnel in accounts payable department will either contact the appropriate buyer to issue a replacement purchase order or will approve the payment of the invoice by treating it as a "non order (generally only done under specific circumstances). In either event, the payment to the vendor will be issued as appropriate and c) If buyers determines that the shipment made against the invalid purchase order will not be accepted, the storeroom will request a return material authorization from the vendor.

Why did buyer deduct sales tax from its payment to our company? In certain instances, buyer has received approval from the tax authority to pay sales tax directly to the specific state and/or locality. In such instances, buyer will not pay sales tax through its vendors (even

though the payment might include sales tax).

Why did buyer not pay the entire invoiced amount? If the short pay was not related to personnel "direct pay" arrangement (as described in Question 2), the short payment could have been the result of a discrepancy between the invoiced price and the pre-arranged price outlined in the original Purchase Order. In that case, personnel in accounts payable department (APD) will contact the appropriate buyer to investigate the discrepancy. To resolve this issue, the buyer can either revise the (PO) purchase order to reflect the correct price or advise the accounts payable department to short pay the invoice.

Why did buyer deduct freight charges from payment? When the purchase order (PO) is initiated it outlines the Free On Board (FOB) and other shipping terms. If the vendor does not follow the terms outlined on the purchase order, personnel in buyer may advise vendor accounts payable department to deduct all non-approved freight charges from the payment. If a "collect" freight bill was already paid directly to the carrier by an agent for a particular shipment, the buyer also may advise the accounts payable department (APD) to deduct from the payment any added freight charges for that shipment.

Who can I contact to check the status of a payment? All telephone inquiries should be directed to personnel in Accounts Payable. In the event the call centre cannot provide payment information, the attendant will direct the inquiry to a team member for investigation and resolution.

The results obtained from the study are outlined below:

The data collected from the study tried to analysis Procedures in the system when processing payment as in the reviewed literature, procedure was said to have a critical influence on the organization's performance. Most of the vendors respondents interviewed seem to have problem relating to payment procedure, hence the time consuming before a voucher is paid. The ministry employees kept vouchers in tray for long time as they use manual system and sometimes they are hidden under locked drawers with an expectation of kickbacks or bribery from the vendors when expediting their payments (Table 4.2). This fact would result to processing fraud in an organization.

Some of the interviewed vendors used customer demand to trigger raw material to arrange for delivery. Such procedures would not encourage buyers who want the delivery of service to be as

quick as possible to achieve just in time delivery of goods at its destinations. Multiple sourcing may also act as a drain to the profits if not well thought out. This is because of the fact that it does not encourage good relationship between the buyer and the supplier. As the supplier will not be willing to offer fair terms of trade such a discounts, credit, transports and other things without supplier partnership.

For effective payment there must be control, which requires guidelines set for processing of all vouchers once receipted at the buyers premises and it must be adhered to. Most of the respondents were using the old system of processing vouchers, hence causing delayed payment. The best system is where there is electronic data exchange (IDE) such as just in time or quick response, where payment is made within the stipulated time to achieve efficiency and effectiveness on payments. Goods must be supplied when required, from the right source at the right price, of the right quality and right quantity, but must not exceed minimum stock level where stock is not supposed to go beyond. Also keeping in mind the re-order quantity, lead-time known, buffer stock must be maintained at all times. As overstocking may mean extra cost of maintaining the stock, through rent, security power, personnel, etc. Under stocking may result idle labour, inefficiency to customers, loss of customer's good will, and loss of profit and even closer of the business all together?

Most of the respondents were applying restricted tendering and direct method for buying goods. These methods sometimes are very expensive if not exploitative, since the buyer does not have enough time to do quotation for price comparison and even giving the whole business to a single firm there is not competitive in supplier selection. Alternatively, a tender to supply a certain commodity for a given duration may be awarded to a supplier after a thorough negotiation if open tendering is used and it's the most recommended method as per the Public Procurement and Disposal Act 2005.

Quality Management: In most cases quality of the end product is determined by the quality of the raw material used among other factors. Across section of buyers would simply accept the substandard materials used, while only a few of them would reject them (Table 4.5). Substandard raw material may result to substandard end product, which may prove difficult to sell. More so, if the product was for a specific buyer, then he may reject it or vow never to buy anything in

future from the vendors' shop. This would result to loss of customer and profit hence closing of the business and vice-versa.

Though direct buying may not be associated with sub standard materials, the buyer may be entangled by the supplier to take an alternative of what he wanted hence building the partnership relationship between the two entity. This also may result to sub standard raw materials being obtained.

All the respondents interviewed said they preferred debts to be settled immediately buy receive goods. Only a few vendors were considering the technicality of equipment before purchase (Table 4.6). A machine may require very little to purchase but very expensive to maintain the same machine. It may also not be able to produce the desired quality result.

Any business concern must consider the Money payment diversification before entering into the market. As per the survey most of the vendors interviewed the greatest problem came from delayed payment after the delivery of goods to the ministry of environment.

The data collected from respondents showed that, invoices are based on a transfer of property or the provision of services. The question of when payment is due is a matter of agreement between the parties involved. Monthly statements are common practice for expecting payment on multiple invoices, but if the invoice does not specify that the payment terms be based on a monthly statement, the payment terms stated on the invoice prevail (10, 15 or 30 days, usually). A monthly statement is a summary of the month's invoices which allows for one payment on all invoices for that month.

The research showed that, requisition number in every order purchase would receive an automated requisition number. This number is very important to orders given to vendors. We ask that suppliers place this number on all correspondence with order. Invoices will be matched to requisition numbers during the processing of payments. Purchase order numbers also are important and may be included, however, it is the requisition number that drives many internal procedures involving order centralized purchasing (i.e. 2% of 15) This means order will guarantee net 15 day payment in return for a 2% discount off the invoice or statement. If this is agreeable to you, or if your company offers a similar program, please contact the order-purchasing department to participate. This arrangement enhances the supplier partnership and

increases the opportunity to become a preferred order Supplier. Suppliers invoices must reflect discount, invoice date and will be stamped date received.

The study showed that the national criteria for performance excellence in relation to purchasing ethics. The statutes governing environment ministry purchasing impose criminal penalties for violating the provisions of the various such as Public procurement and Disposal Act 2005, which was enacted by the legislature to oversee purchasing. In addition, many local governments impose sanctions for violation of local ordinances on purchasing. Any misuse of a local government's purchasing power carries consequences, and many such misuses arise from a lack of clear guidelines about what constitutes an abuse of office. This section of the purchasing manual suggests the implementation of a code of ethics for government purchasing offices.

Establishing a code of ethics should be done in three stages: develop and formally adopt the code, train all the government employees in the provisions of the code by i.e. posting the code in a prominent place in the purchasing office and elsewhere in the government offices, providing instruction to purchasing personnel on the provisions of the code, and requiring all persons directly engaged in purchasing or contracting in any department to periodically certify by signature that they have read and understand the code of ethics and that they will abide by its provision. This requirement should be included in their work contract, and a copy of the signed certification should be included in each person's employment file, establish regular internal and external audit programs to detect non-compliance with the code.

The governing body should use these elements to formulate a code for its own purchasing function. The government also should require ethical conduct from those who do business with the government. Contracts should contain a clause stating that any effort to influence an employee to violate the standards of the code is grounds to void the contract. The government should require vendors to certify that they will not attempt to influence any employee to violate the code.

The research showed that when it comes to payment of invoices, Seller should submit separate invoices, in duplicate, on each purchase order after each delivery. Invoices shall indicate the purchase order number, shall be itemized and transportation charges, if any, shall be listed separately. A copy of the bill of lading, and the freight weigh bill when applicable, should be attached to the invoice. . Suppliers should keep the finance department advised of any changes in your remittance addresses. Buyer's obligation is payable only and solely from funds available for

the purpose of the purchase. Lack of funds shall render this contract null and void to the extent funds are not available and any delivered but unpaid for buyer will return goods to vendor.

The research showed that, invoices might be rejected when one or more problems with the invoice prevent payment from being made. If the invoice is rejected a letter is issued explaining why the invoice could not be paid. If you receive a rejection letter follow the instructions on the invoice return notification memo. If you are a registered supplier with access to invoice using the EDI you can find your rejected invoice notifications in your notifications box on the supplier website page.

Clearing: Clearing includes the physical exchange of payment instruments between the payer's bank and the payee's bank or their agents. Clearing process can be centralized in a clearinghouse. Alternatively, the clearing can be distributed between the originating and receiving banks deal directly with each other on a pair wise basis. Clearinghouses simplify the procurement exchange process.

For paper payment (checks) there may be multiple clearinghouses, one in each major city within the country to minimize the document shipping time and costs. Electronic Payment may be subject to a single nationwide clearinghouse or many geographic or competitive clearinghouses. Because payment i.e. consumer payment, which occurs within narrow geographic areas, paper items are often processed locally or regionally to avoid lengthy transportation delays to and from a central point, or to reduce message traffic and telecommunications costs for electronic payment settlement. The settlement process transfers the transaction value between the originating and the receiving banks. To settle payment transactions, the two participating banks must have account relationships with each other or each must have accounts with a common third party. Transaction accounts at banks on behalf of banks are called correspondent accounts or clearing accounts.

5:2:2 OBJECTIVE 2

5.2.2 OBJECTIVE 2

CAUSES DELAYED PAYMENT

The data collected from the respondents showed that improper invoice is one that does not meet the conditions established by the contract clause. Take special notice in the clause of the requirement for the prompt payment certification, where the contractor attests to the amounts requested for performance, makes timely payments to subcontractors and suppliers, and does not withhold or retain any amounts from a subcontractor or supplier in accordance with the terms and conditions of the subcontract. If the prompt payment certification contractor invoice, summary tables or supporting data is not submitted, reject the invoice. An invoice is also improper when it incorporates a modification to the contract that has not been finalized or includes the Consent of surety, when applicable. Do not finalize any modification for payment until the Government receives the executed consent of surety. Do not transmit an improper invoice for payment. When an invoice is found by the Resident Engineer to be improper or defective, the following actions must occur.

Disagreement between the Government and the contractor over the payment amount, issues of contract compliance, or retain age does not form the basis for finding the invoice defective and requiring resubmission.

However, since the (PPOA) Public Procurement Oversight Authority states that interest penalties are not required on payment delays due to disagreement, it is imperative that written evidence be submitted with the payment estimate. The prompt payment certification and supporting data for the contractor payment invoice will be annotated to document the delay and to alert the designated payment office not to pay interest during the delay period. The ideal position is to avoid this situation by substantiating and documenting agreements prior to the contractor submitting the invoice.

In order to ensure that your payments are properly received and processed, ministry requires a sample invoice that can be processed by ministry accounts payable. Please note that while the sample invoice should not detail items or the actual need for payment, it must clearly state your company name, as it should appear on the payment check. Additionally, the sample invoice must

If ownership of your company changes and the new owner is not an approved buyer/ supplier, your company will be treated as a new supplier. This means that the acquiring company will be required to complete the new supplier and item set-up process, and obtain ministry approval, to retain its "approved-supplier " status. Delay in providing the required documentation for new suppliers may cause payments to be delayed. The research showed that order date i.e. this is the date the order was issued by the buyer. It appears in the upper left-hand order. This date is to be used to determine pricing. We request that you base all pricing on order date. We cannot use ship date. Any invoice that does not agree with the current price schedule on the purchase order may experience a delay in payment processing. Any changes in cost must be confirmed in writing with at least thirty (30) days notification prior to the effective date.

The research from the respondents showed that the arrival date i.e. we ask that you take a proactive role in notifying us when orders are not shipped on time. It is imperative that product arrives at our warehouses on the date specified. If there are any problems with on-time delivery, we must be contacted.

The research study showed how important it's to show item description so as to be Printed on each order is the item description, pack size, cost, total cases and total weight. Please take a special note of the buyer number as we could have the same five-digit item number with two different manufacturer numbers.

The study showed how important is to indicate the order number, this is the date the order was issued by ministry. It appears in the upper left-hand corner. This date is to be used to determine pricing. We request that you base all pricing on order date. We cannot use ship date. Any invoice that does not agree with the current price schedule on the purchase order may experience a delay in payment processing. Any changes in cost must be confirmed in writing with at least thirty (30) days notification prior to the effective date.

Arrival date: We ask that you take a proactive role in notifying us when orders are not shipped on time. It is imperative that product arrives at our warehouses on the date specified. If there are any problems with on-time delivery, we must be contacted.

Item description: Printed on each order are the item description, pack size, cost, total cases and total weight. Please take a special note of the item number as we could have the same five-digit item number with two different manufacturer numbers.

Quantity to ship: If you cannot supply the quantity ordered for whatever reason, please call this office immediately as this will give us the opportunity to adjust the order as needed prior to shipment and notify our customer accordingly. If an order has shipped and the quantity differs from what was indicated on the purchase order, this office needs to be notified no later than the morning following the ship date. This will enable us to advise the receiving warehouse prior to arrival.

Contacts : If orders are changed for any other reason, please contact the replenishment buyer listed on the purchase order.

Quality control: All product shipped should have our quality assurance department approval. Quality assurance procedures should be covered with them and they will be in contact with you separately.

Rebate and other program checks: All consumer brands and vendor supplier operations rebate or other program checks should be sent to the lockbox address well known by the vendor or on the contract form. These checks should not be hand delivered or mailed but use EDI system.

The reviewed literature indicated that there is a reciprocal relationship between a buyer and a seller. An effective payment strategy requires that immediately goods are delivered to the buyers' place, then action must be taken to process the invoice in time and avoid the vendor from trepidations situation, hence just in time payment, but the way things are done manually in the ministry making the whole process taking an articulated time is not justifiable.

Most of the vendors interviewed seemed not to understand their targeted customers (Table 4.7). High priced products would be probably targeting the lower income earned. Furthermore, very few buyers would be willing go abroad to acquire goods that can be obtained from the local business dealers.

Capital are also another phenomena as most of the vendors have ventured into business recently had and to give goods on credit makes them financially unable to continue with their daily business. Most of the interviewed vendors had a set standard price for the raw materials issued from the store. This method of pricing raw material issue is rather good because it ensures price stability for stipulated a period. It is however impossible to apply it in all situations where the raw materials are seasonal and the prices vary frequently. And to this therefore, the best method to apply in raw material issue would be the market price approach that considers the ruling price in the market at a particular time.

5.3 CONCLUSIONS

OBJECTIVE 1

As mentioned early, modern business has captured the attention of scholars, vendors, government and non-governmental organizations, becoming the focus of development programs especially with respect of employment problems. However, little has been done to improve the process of delayed payment to vendors after the delivery of goods to their customers.

Delivery without payment is useless as far as business concept is concerned. Before one delivers materials to the buyer he/she must be aware of their payment. With the targeted customers who will be able to buy the goods delivered at a given time. The vendor is therefore supposed to do a thorough customer survey and market study in order to know how much the customer is ready and willing to pay for a given product once delivered to his premises with properly stipulated time span for their payment. This will assist him to know the cost of availing goods in order to earn some profits.

The current survey/research on the analysis of delayed payment to the vendors of who supply goods and services to varies entity, either to the government ministry like the case of the ministry of environment has provided an insight into the payment procedures and policies applied by the various buyers in their daily business activities. More especially, how such payment procedures influence the entry of new vendors into the business ventures.

OBJECTIVE 2

On the causes of delayed payment procedures applied in the ministry, the research established that the vendors would not compete well in the market due to lack of enough capital when there is delays in payment after the delivery of goods and services. This was mainly due to the level of ethical skills applied and hence lack of much knowledge on processing payment to achieve timely payment. The quality of trust should be commensurate with its credit delivery of goods and service. Quite a number of buyers had no proper processing management strategy and would even leave vouchers bending for payment for too long on their desk, hence lowering their credibility of receiving goods and service for credit in future from reputable vendors.

The research also disclosed the greatest competition and challenges was posed by well established firms, lack of modern information and better quality management of personnel responsible for processing payment. Such shortcoming came mainly from the Account Payable Department.

The field study has also proved right the alternative research hypothesis that states, "delayed payment procedures/policies applied by the government ministry are the major contributor to the problems vendors are encountering in their daily life as they wait for too long before receiving their money, which is not prudent". This study was however limited in depth and scope due to time span, money resources involved, and more so the professional personnel who were expensive to hire. Finally the research, requires an oversight body like the government /PPOA authority or the central bank to enforce rules and resolve disputes between basic payment system providers.

Reliability: The system must be reliable to obtain and retain vendor confidence. No system will operate as designed all the time, but it must have adequate contingency provisions and controls to ensure reasonable access to historical records for audit trail. Systems must be designed with adequate back up capabilities if one or more major processing stations fail. This is critical in emerging countries where the reliability of basic infrastructure needs (electricity, telecommunications, transportation for workers and physical documents and technical maintenance staff) may not reach developed country standards.

Record maintenance: Each party to a payment transaction must be able to prove their role in the transaction to prove payment has been made and provide tax information. The integrity of transaction records must be maintained, and the time frame for record retention must balance cost and access requirements.

Convenience: The payment system must be convenient for users or they will use cash or other instruments. If the system requires automation for each participant or it requires one or more banks visits each time a payment is made, it may not be usable in developing countries.

Costs: The design must be the lowest cost to all using parties subject limits on speed, certainty, reliability, safety and convenience and not just the lowest cost. These competing considerations lead to multiple systems to respond to the different transaction needs. For example, a system for handling time critical, high value payment requires greater speed and security (at a higher cost) than a system for handling bill payment. It is often cheaper to develop multiple systems than to try to use the most functional system for each payment, regardless of need.

In emerging countries, these elements of an efficient each payment system tend to be incomplete in one or more critical ways, be they too slow, lack certainty and reliability and/or have significant security and risk problems. In responding to these inadequacies may need short-term fixes to the current payment system to deal with the most serious problems before an entirely new system, which may take years to implement, is operational.

Originator processing: The originating bank receives payment instructions i.e. debit or credit from its customer and performs certain basic functions, regardless of the type of payment The bank must verify the customer's and the item's authenticity, post the transaction to the customer's account (debit the customer's account for a credit item, credit for a debit item) and set up the appropriate offsetting accounting entry to the counterpart bank or clearing agent. The bank must sort the item by clearing agent and transport the item to the clearinghouse. The transportation can be physical for paper payment or telecommunications for electronic items. If items are sent in batches, a covering paper or electronic transmittal register provides control totals and listings for account reconciliation. With electronic items, security precautions must be taken to prevent access or alteration of the data. The originating bank must also establish archival records of the transactions for account reconciliation.

5.4 RECOMMENDATIONS

OBJECTIVE 1

Further research should therefore be undertaken in depth to determine the best payment method/ procedures to be applied by the account payable department in the ministry of environment, in order to achieve high standard processing strategy in relation to timely payment vouchers after the delivery of goods and services to the buyer /purchasers by ensuring;

Payment speed: Each Payment need not be transferred between payee and payer instantaneously. While modern technology would permit such rapid movement, it would be cost prohibitive to move all Payment in this way. Even in developed countries, few time critical Payment are made in real time. However, the problem in many underdeveloped countries is that Payment may take as long as 30 days to be made. These delays create uncertainty about the eventual completion of the transfer (risk), and limit the beneficiaries' ability to reinvest the funds in raw materials and capital expansion.

In developing a national Payment system, final Payment transfers must occur in no more than 3 to 5 days to make routine Payment between two parties within the country. The system should transfer time critical (often high value) Payment no later than the same day.

Payment certainty: Users must be confident that once a Payment has been initiated, it will be completed to the right party for the correct amount within a prescribed time. If users are not confident about the certainty of final payment, they will continue to use cash to make payment or demand cash for receipt of payment, rather than use non-cash payment instruments. Payment certainty requires a structured operating capability with good controls. It needs rules and regulations governing not only the basic payment flows, but also the resolution of errors and disputes.

Fraud control: The system must be designed with adequate controls to ensure against unauthorized access or tampering with payment system data. This requires the ability to identify the payee and payer properly and to ensure that amounts or beneficiaries of transfers cannot be altered to the benefit of either party to the transaction or to a third party.

Credit risk control: Payment systems move funds between two parties, often without the receiving party knowing whether the funds exist in the payer's bank. This creates credit risk between the two parties to the transaction, between the two banks and, perhaps, between the central bank and one or more banks. Credit risks should be understood and managed (if not eliminated) for each transaction.

Confidentiality: Payment system users must be confident that their payment system data will not be available to unauthorized sources. Data should be protected from access during the transaction and after the payment is processed.

5.4.1 RECOMMENDATIONS

OBJECTIVE 2

Further research should also be carried in depth to determine the causes of delayed payment, in order to improve on the causes of late payment, so as to meet the (ISO and KBS) International Standards Organization and Kenya Bureau Standards. Which governs the procedures to follow in relation to the purchase of goods and services and more so the Public Procurement and Disposal Act 2005, which instill the ethical values in the cause of late payment and its penalties.

After analyzing all the information from the data collected through the survey; the following are some of the recommendations on delayed payments that would be put into practice in order to improve the processing procedures applied by the ministry personnel, as there is need to pay in time, as money is precedence to any business entity.

The first and foremost step to a successful and efficient purchasing is to have written policies on purchasing procedures to be applied. This may be of great assistance when it comes to delegation of related purchasing work. The written policies must include information to sourcing, tendering, adjudication of quotation, verification; stock levels, selecting the best supplier and payment, etc.

A professional purchasing officer, must be able to get the right materials at the right time, from the right source, of the right quality, of the right quantity, an at the right price. This would be achieved if all the paying personnel from the ministry were to attend seminars/courses where they would get training before the processing of invoices for payment.

For any business to be effective and efficient, there has to be sufficient record for every transaction-taking place in the business. Such records should be in a way to suit the intended purpose. The use of computer technology may be very efficient to enhance just in timely payment to vendors. The document, which the vendor must keep record are, the number of invoices, number of orders from buyers, payment due, debts, which require quick response and list of buyers.

Certain payment procedures assist in cost reduction, which result to discount on early payment to vendors. Such procedures include thorough negotiations for fair terms with the supplier, credit facilities from the supplier, transport services by the supplier, competitive buying, tendering and reciprocity trading, etc.

5.5 SUGGESTIONS FOR FURTHER RESEARCH

Purchasers were to balance the need to keep ministry programs effective by retiring measures that are no longer useful against the concern that ministry programs provide some stability so that providers can undertake larger investments with the expectation that the reward structure will not be dramatically altered in the short run, hence a reasonable return on investment can be expected. To this end, explicitly including providers in the decisions about measure selection and retention may be desirable. One approach that has been adopted by some programs, including the public procurement and disposal Act 2005, is to commit to medium-term plans (2 or 3 years) with regard to measure sets and introduce measures in a "testing set" prior to their full inclusion.

To the extent possible, purchasers should use their ministry programs to promote continuous innovation rather than institutionalize a single approach to delivering high-quality care. This concern might be addressed by rewarding, at least in part, outcome measures. Vigorous attempts to keep structure and process measure targets up-to-date with the latest technology will also reduce system rigidity, but political and bureaucratic barriers to change will be inherently limiting.

Targeting specific performance measures may focus provider attention on the conditions or care processes for which there is measurement and payment, to the detriment of performance in other areas. At a minimum, this problem suggests the need for careful measure selection and attention to interrelationships among targeted and untargeted domains of performance. Rewarding

providers for performance on some broader measures of outcome, such as patient experience and pain scores in ministry, would mitigate this problem as well.

Widening performance gaps: This may be particularly likely to occur if the purchaser chooses to reward only providers that meet a high standard of performance or those that are the highest ranked among peers. If ministry results in a substantial redistribution of resources then some providers may actually worsen with respect to quality of care. This will be a particular concern if those providers serve large numbers of beneficiaries/enrollees or are part of the safety net, and/or if there are not enough suitable choices for the population that receives care from these poor-performing providers. If these adverse consequences are anticipated or noted, purchasers can consider the solutions described in.

These examples give important clues about what evidence to seek in evaluating programs for unintended consequences. Buyers' feedback should be sought about unexpected problems with the measures used, including difficulties with both accesses to care and pressure to offer inappropriate care. Since such data would come from data surveys (and unhappy respondents would be expected to be motivated to respond), getting this feedback should not be too burdensome. Similarly, purchasers should consider tracking a set of performance indicators that are outside of the ministry program to better understand both negative and positive spillover effects from the program onto untargeted clinical domains. Finally, evaluation of the program should not just look at average performance but at the effects of ministry on different parts of the delivery system including providers with high and low baseline performance.

At a minimum, purchasers should collect baseline data on the targeted quality measures, this will be a critical part of implementation too, of course, because providers without a clear understanding of their performance can hardly be expected to respond optimally to ministry. Then, as performance data are collected for payment purposes, the main effect of the program can be evaluated in terms of the change in performance, preferably compared either to some comparable but unaffected population or the trend in performance prior to implementation.

Purchasers will have to decide how rigorous an evaluation needs to be to ascertain whether a program is working and how to improve it. To adhere strictly to scientific standards of evidence may be too costly and produce evidence too late to be useful for decision-making. On the other hand, erroneous conclusions that may be drawn from anecdotal or incomplete information may have substantial costs as well.

The research showed the programmatic issues for Ministry of Environment in relation Programs while considering pay for performance i.e. The method by which a ministry may choose to accomplish its quality-based purchasing program can vary greatly because of the variety of approaches available to a ministry machinery to administer its performance cycles and the resources allocated to its Programs. In general, ministry have broad flexibility, within established government regulations, to decide on necessary work services that will be covered and rates that will be paid to providers or planners to achieve quality. Ministry may review these plans through a State annual plan or planned demonstration project application or amendment and through various other mechanisms available.

In general, if the pay-for-performance program is a part of a fee-for-service delivery system, a ministry may include its initiative in its ministry plan. While the requirements for payment for managed service delivery are somewhat more complicated, ministry will work with its professional personnel to determine the proper method to implement such an initiative. Any act which motivate may be necessary when the initiative will not be ministry wide; will impact the amount, duration, and scope of benefits; will affect the comparability of benefits across the eligible population; or will restrict beneficiary choice of provider.

Purchasers could tailor a ministry initiative in a variety of ways i.e Purchasers could make the reward larger for some providers either those providers with the lowest performance ratings or, for example, safety-net providers. One argument for increasing payments that the costs of improving care will be greater for some providers because of geographic, linguistic, financial, and other barriers that they or their patients face or a lack of infrastructure and poor human resource capacity for quality improvement.

Purchasers could provide capital grants and/or technical assistance to poor-performing providers again as a way of offsetting their presumed higher costs of complying with performance standards, such as assisting vendors in meeting buyers request.

A final strategy for tailoring ministry would be for purchasers to set lower performance standards for certain kinds of providers that have lower performance or fewer resources for example, small suppliers or local vendors.

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APPENDIX I

Anthony Osoro,
P.O. Box 20412, 00200
NAIROBI.
22nd May 2008.

Dear Respondent,
QUESTIONNAIRE ON THE PROBLEM ON THE VENDOR PAYMENT IN RELATION TO
PURCHASING PROCEDURE/POLICIES

I am a student at Jomo Kenyatta University of Agriculture and Technology (J.K.U.A.T) pursuing a degree in Purchasing and Supplies management. For my course requirement am expected to undertake a research project to be submitted to the Jomo Kenyatta University as a partial requirement for the award of the Degree.

The information will be treated with utmost confidentiality. Please take your time to answer the questions.

I sincerely thank you in advance.

Yours faithfully,

Anthony Osoro

APPENDIX II
QUESTIONNAIRE

Department:

Name of the employee (Optional).....

Instructions:

Tick [✓] the question where appropriate and for others fill in an appropriate.

(The information given will be treated with utmost confidentiality).

Part 1:The following questionnaire should be completed by the vendors' employees only.

1. Gender:

Male

Female

2. What is your position in your organization?

Senior Management

Middle/Technical staff

Support Staff

3. How do you sell your products?

Cash

Credit

Pre-payment before collection

Cash and credit

all the above

7. Type of vendors.

Manufacturers

wholesalers retailers

8. Number of employees

5-10

More than ten, specify

9. How do you grade the payment process?

Give your comment please

10. What percentage of capital is in form of stock?

- Less than 40%
- 40-70%
- More than 70%

11. Does your institution have written policies on your procedures?

- Yes
- No

12. Where do you obtain your raw materials?

- Local sources
- Abroad sources
- Both local and abroad sources

13. Are you affected by late payments?

- Yes
- No

14. How do delayed payments affect you?

- Give your suggestion

15. How do you source your goods/materials? Through;

- Open tendering or other alternatives e.g
- Restricted tendering
- Direct procurement
- Request for proposal
- Request for quotations
- Procedure for low value procurement
- Specially permitted procurement procedure
- All of them

16. What do you take into consideration before purchasing capital item (Buyer)?

- Credit facilities
- Life span of the equipment
- Technology
- Cost of the equipment
- Cost of maintaining the machine

17. How do you cost the raw-material issue for quick payment purposes?
- Cost price method
 - Standard price method
 - Average price method
 - Market price method
18. Are you happy with the system in place?
- Yes
 - NO
19. How can the system be improved?
- Please give your recommendation
20. Does your company /organization use IDE system in relation to payment?
- Yes
 - No
21. Do you deliver your goods on time with complete order package or partially?
- please explain how
22. What kind of challenges to face? Please explain
23. How can we improve the system, which is in place?
- Give your comment.
24. Does the personnel in your organization keep customer service? Explain how
25. DO you suspect malpractices in the system of voucher payment? Please say how.
26. Do you get credit facilities from commercial banks to boost your organization when you are affected by late payment? Please say how
27. Please can you suggest on areas the ministry need improvement to enhance timely Payment.

Part 2:The following questionnaire should be completed by the ministry of environment employees only.

1. Gender:

Male

Female

2. What is your position in your ministry?

Senior Management

Middle/Technical staff

Support Staff

3. How do you purchase your products?

Cash

Credit

Pre-payment before collection

Cash and credit

all the above

4. Do you get your goods direct from?

Manufacturers

wholesalers retailers

5. Number of employees

5-10

More than ten, specify

6. How do you grade the vendors?

Give your comment please

7. Do you give budgetary allocation to all purchases?

Please explain how

8. Does your ministry have written policies on your processing procedures?

Yes

No

9. Where do you purchase your raw materials?

Local sources

Abroad sources

- Both local and abroad sources
10. Are you affected by late payments disputes?
- Yes
- No
11. How do delay payment affect your relationship with your vendors?
- Give your suggestion
12. How do you source your goods/materials? Through;
- Open tendering or other alternatives e.g.
- Restricted tendering
- Direct procurement
- Request for proposal
- Request for quotations
- Procedure for low value procurement
- Specially permitted procurement procedure
- All of them
13. What do you take into consideration before purchasing capital item (Buyer)?
- Credit facilities
- Life span of the equipment
- Technology
- Cost of the equipment
- Cost of maintaining the machine
14. How do you cost the raw-material issue for quick payment purposes?
- Cost price method
- Standard price method
- Average price method
- Market price method
15. Do you purchase your goods in bulk? How?
- Please explain
16. Do you receive invoices in time? If the answer is No, why?

17. How can the system be improved?
[] Please give your recommendation
18. Does your ministry use IDE system in relation to payment?
[] Yes
[] No
19. Do you receive your goods on time with complete order package or partially?
[] please explain how
20. What kind of challenges to you face? Please explain
21. How can we improve the system, which is in place?
[] Give your comment.
22. Does the personnel in your organization keep customer service? Explain how
23. Do you suspect malpractices in the system of voucher payment? Please say how.
24. Do you get goods on credit from your vendors to boost your organization?
Please say how.
25. Does the employees in your ministry uphold Ethical Standards? Please say how.
26. Does your ministry use (MRP, JIT or QR) Material Requirement Planning, Just In Time, or Quick Response when placing orders to your vendors? Please say how.
27. Do you keep list of all approved vendor? If Yes, how long?
28. Please can you state briefly on areas missing which can be researched to enhance effective payment.

Thank you