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AN INVESTIGATION INTO THE IMPACT OF FUND TRANSFER AGENCIES ON LIQUIDITY OF FIRMS (A CASE OF KENYA POWER & LIGHTNING COMPANY LTD)

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Abstract

Purpose: The main objective of this study was to investigate the impact of fund transfer agencies to liquidity management of KPLC.

Methodology: A descriptive case study research design was used. The population for the study included all the 82 employees in the KPLC Mombasa Branch. A sample of 57 respondents was selected from the population using a stratified random sampling technique. A questionnaire was the preferred data collection instrument. The data was analyzed by use of descriptive statistics such as mean, mode and median.

Results: The study findings showed that there was a gradual decline in the average collection period. This implied an improvement in the average collection period of KPLC Mombasa over the year 2002 to 2010. In addition, the number of fund transfer transaction increased over the study period. This implied that the fund transfer transactions may have impacted on the average collection period. Further, according to this study it was possible to infer that there was a gradual increase in the acid test ratio. This implied an improvement in the acid test ratio of KPLC Mombasa over the year 2002 to 2010. In addition, the number of fund transfer transaction increased over the study period. This implied that the fund transfer transactions may have impacted on the acid test ratio.

Unique contribution to theory, practice and policy: The study recommended that KPLC should engage more fund transfer agents in facilitating bill payments. Specifically, KPLC should engage more banks, Saccos, western unions and mobile operators. This is because such an approach would improve the average collection period and acid test ratio further. The study was purely descriptive; it therefore lacks the statistical rigor that would establish causation between fund transfer agencies and average collection period as well as the acid test ratio. Therefore, the study recommends a regression analysis to establish causation between dependent and independent variables.

Keywords: *Fund Transfer Agencies, Liquidity, Acid Test Ratio, Average Collection Period*

1.0 INTRODUCTION

Fund transfer agencies are firms that are contracted by utility firms to facilitate cash collections with an aim of improving the cash management for the contracting company. The idea of utility firms entering into strategic relationships with fund transfer agencies stems from the realization that utility firms can reduce the time float between collection and banking of the customer payments. In addition, fund transfer agencies eliminate the long queues witnessed in the head office of the utility firm. Therefore, the aim of fund transfer agencies does not differ from what firms have in mind when instituting cash management systems such as lock box systems and concentrated banking.

Fund transfer agencies include banks, post offices, Saccos, western union, money gram. The most commonly used transfer agency is the Bank. For instance, Cooperative Bank, Equity bank, Housing Finance, National Bank are among the banks that have entered into a strategic relationship with firms such as Kenya Revenue Authority(KRA), primary and secondary schools, universities, colleges, insurance companies, utility companies.

Mobile money transfer services are money transfer services offered by telecommunication companies where mobile phone users can use their handsets to send and transfer electronic money to another mobile phone user or electronic gadget user. The inception of mobile money transfer systems such as MPESA, ZAP, Orange money, YU money have been hailed as a major breakthrough in facilitating financial access for the unbankable population in Kenya. One of the practical uses of the mobile payments system in Kenya has been to facilitate payment of bills by customers of utility companies such as Kenya Power and Lightning Company Ltd, Nairobi Water and Sewerage Company, Bank loan repayments, Insurance Premium payments among others. Not only has the new form of bill payment improved the working capital of the firms in questions, it has reduced customer complaints and effectively facilitated customer relationship management.

Liquidity is ability of current assets to meet current liabilities when due. The degree of liquidity of an asset is the period of time anticipated to elapse until the asset is realized or is otherwise converted into cash. A liquid company has less risk of being unable to meet debt than an illiquid one. Also, a liquid business generally has more financial flexibility to take on new investment opportunities. The need for liquidity management and maintaining an adequate working capital can hardly be questioned. Just as circulation of blood is very necessary in the human body to maintain life, the flow of funds is very necessary to maintain business. If it becomes weak, the business can hardly prosper and survive (Padachi, 2006). Working capital starvation and illiquidity is generally credited as a major cause if not the major cause of business failure in many developed and developing countries (Rafuse, 1996).

The success of a firm depends ultimately, on its ability to generate cash receipts in excess of disbursements. The cash flow problems of many businesses are exacerbated by poor financial management and in particular the lack of planning cash requirements (Jarvis, Kitching, Curran, & Lightfoot, 1996). Liquidity management implicates the administration of current assets as well as current liabilities. It is the main part of a firm's short-term financial planning since it encompasses the management of cash, inventory and accounts receivable. These three components and the way in which they are managed determine some of a company's most vital financial ratios, such as the 'inventory turnover', the 'average collection period' and the 'quick ratio'.

The Kenya Power and Lightning Company (KPLC) is a limited liability company which was incorporated in 1922 as the East African Power & Lightning Company Ltd after the merging of two private utilities in Nairobi and Mombasa. KPLC is currently the only licensed distributor of electricity and operates an electricity network of more than 43,000 kilometers throughout the country. KPLC is listed on the Nairobi Stock exchange (KPLC Right Issue Memorandum, 2010).

The power industry in Kenya is controlled by two main companies. KPLC owns all transmission and distribution assets, buys electricity in bulk from generating companies for transmission, distribution and retail to customers. KenGen is the other key player generating almost 75% of the country's power demand in competition with independent power producers. Growing demand for electricity has seen the government trying to diversify generation, distribution and transmission of electricity. The Kenya Transmission Company was formed in 2009 to develop new transmission lines while Geothermal Development Company was also set up to undertake geothermal resource assessment and steam production for power generation purposes (KPLC Annual Report, 2009).

1.1 Problem Statement

The inception of fund transfer services has changed the way of doing business in Kenya. For instance, companies used to rely on direct payments from customers which were made at the firms head office. This practice has its own demerits as it resulted in long queue at the firm headquarters. In addition, the practice led to poor collection of company dues. It was not surprising to find a customer who had come to clear his bills at the company's office turn away without paying and citing lack of customer sensitivity and inefficiency on the part of the firm. This situation led to a pile up of huge debts and the deterioration of the average collection period. In addition, the going concern of majority of firms was threatened as they became illiquid and could not meet their current and foreseeable future financial obligations. Firms such as the former Nairobi Water Company and the former Telkom Kenya, United Insurance, Standard Assurance are good examples of firms who underwent financial distress due to poor collections of company dues.

The introduction of fund transfer agencies and mobile money transfer services such as banks, post offices, Saccos and western union money transfer service, MPESA, ZAP, Orange Money and YU money has facilitated the collections of dues owed to companies in Kenya. One of the practical uses of the mobile payments system in Kenya has been to facilitate payment of bills by customers of utility companies such as Kenya Power and Lightning Company Ltd, Nairobi Water and Sewerage Company, bank loan repayments, insurance premium payments among others. Not only has the new form of bill payment improved the working capital and liquidity of the firms in question, it has also reduced customer complaints and effectively facilitated customer relationship management.

However, research on the impact of fund transfer agencies on firm's working capital and liquidity management is scarce. The probable reason why studies on the area are scarce is because the fund transfer agencies are a new concept in Kenya. For instance, mobile money transfers such as Mpesa only started in the year 2006. Fund transfer agencies such as banks only became effective in collection of firms dues in the year 2002. This study therefore bridged this research gap by attempting to establish the impact of fund transfer agencies to firm's liquidity and a case study of KPLC Mombasa was taken.

1.2 Research Objectives

i. To determine whether the use of fund transfer services has impacted on the average collection period of KPLC.

ii. To determine whether the use of fund transfer services has impacted on the acid test ratio of KPLC.

2.0 LITERATURE REVIEW

2.1 Theoretical Framework

Liquidity/Cash Management

According to Pandey (2006), cash is the important current asset for the operations of the business. It is the basic input needed to keep the business running on a continuous basis. Cash Management is concerned with the management of cash flows into and out of the firm, cash flows within the firm and cash balances held by the firm at a point of time by financing deficit or investing surplus cash. The following cycle (Figure 1 below) by Pandey (2006) shows clearly the cash management cycle.

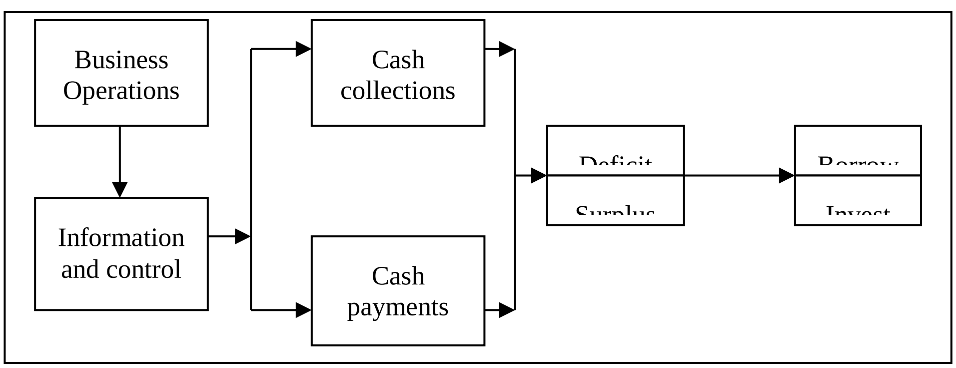

Figure 1: Cash Management Cycle. Adapted from Pandey (2006)

According to Pandey (2006) cash management cycle, sales generate cash which has to be disbursed out. The surplus cash has to be invested while deficit has to be borrowed. Cash management seeks to accomplish this cycle at a minimum cost, and still achieve liquidity and control. Cash management assumes more importance than other current assets because cash is the most significant and the least productive asset that a firm holds, in the sense it is used to settle firm's obligations and at the same time very unproductive as it does not produce goods for sale unlike fixed assets or inventories. Therefore, the aim of cash management is to maintain adequate control over cash position to keep the firm sufficiently liquid and to use excess cash in some profitable way.

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According to Weston and Copeland (1986), cash management has emerged from the relatively high level of interest rates on short-term investments [*which*] has raised the opportunity cost of holding cash. According to Van (1985) cash management involves managing the monies of the firm in order to maximize cash availability and interest income on any idle funds. In order to achieve this, cash management encompasses the following functions, as established by Van Horne: Managing Collections, Control of Disbursements, and Electronic Funds transfers, Balancing Cash and Marketable Securities and Investment in Marketable Securities. Cash budgeting – although not being a part of cash management but rather an element of short-term planning – constitutes the starting-point for all cash management activities as it represents the forecast of cash in- and outflows and therefore reflects the firm's expected availability and need for cash (Ferreira & Vilela, 2004).

According to Pandey (2006), a firm's need to hold cash may be attributed to three motives, i.e., transaction motive, precautionary motive and speculative motive. The transaction motive requires a firm to hold cash to conduct its business in the ordinary course, i.e., to make payments for purchases, wages and salaries, expenses, taxes etc. There is need to balance between cash inflows and outflows. Precautionary motive is the need to hold cash to meet contingencies in the future and provides a cushion or buffer to withstand some unexpected emergency. Speculative motive relates to the holding of cash for investment in profit-making opportunities as and when they arise, i.e., the opportunity to make profit may arise when security prices change. The firm will hold cash when it is expected that interest rates will rise and security prices will fall. The firm may also speculate on materials' prices and if it is expected that prices will fall it can hold cash and postpone purchasing the materials to a future date when the prices fall. However by and large business firms do not hold cash for speculative motives and therefore the primary motives for holding cash are the transactions and precautionary motives(Pandey, 2006).

Acid test ratio

The acid test ratio formula is used to indicate the liquidity position of a firm.The acid test ratio is another name for the "quick ratio". It is used to measure how easily a company could be liquidated, and therefore help financial institutions decide upon how credit worthy the company is. This test also indicates if a firm has enough short-term assets (without selling inventory) to cover its immediate liabilities. It is similar but a more strenuous version of the "working capital" ratio, indicating whether liabilities could be paid without selling inventory.

Acid Test (Quick Ratio)

$$= \frac{\text{(Cash + Accounts Receivable + Short-term Investments)}}{\text{Current Liabilities}}$$

Credit Management

Credit management deals with the firm's decision on whether to grant credit to its customers and if so to determine the credit policy as well as the collection policy (Brealy, 2003). In this respect, decisions regarding credit management will have an impact on the selling firm's level of accounts receivable. This is due to the fact that the terms of credit have an impact on its

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customers' with less generous terms leading to decreased payment delays and thus augmented investment in accounts receivable and vice versa (Maxime, 2008).

Credit Policy

Trade credit arises when a firm sells its products or services on credit and does not receive cash immediately. It is an essential marketing tool, whereby the firm grants trade credit to protect its sales from the competitors and to attract potential customers. Trade credit creates accounts receivable or trade debtors that the firm is expected to collect in the near future. A firm can loosen its credit policy and hence increase sales or tighten its credit policy which leads to lost sale opportunities. There are costs associated with credit policy, such as administration costs (credit investigations, collection costs) and bad debts costs where a firm in unable to collect its accounts receivable. This is all dependent on the Credit policy that a firm pursues (Pandey, 2006).

Credit policies can vary significantly depending on the industry sector, the country of origin or the business' seasonality. The terms of sale feature the due date for net payment and an optional cash discount for payments within a certain period (Ross, 2008). For instance, terms of sale stated as '2/10, net 30' imply that either a 2 percent cash discount can be taken advantage of by the buyer if payment occurs within 10 days from the invoice date or net payment should occur within 30 days. The longer the payment target and the higher the cash discount, the more generous the terms of sale. The terms of sale therefore reflect the selling firm's credit policy and its generosity. The selling firm's motivation for granting cash discount in this respect is to accelerate collections in order to optimize cash availability (Brealey, 2003).

Optimal Credit Policy

Granting credit will have a positive impact on the firm's turnover by stimulating sales but it will also generate costs of holding accounts receivable and create the risk of losses due to bad debts (Justitia, 2005). The more generous the credit policy, the stronger the positive impacts on the firm's sales as well as on the associated costs. Therefore, the financial manager's task is to find the optimal credit policy which minimizes the total costs of credit. The total costs of credit are defined as the addition of opportunity costs which arise from lost sales and carrying costs of accounts receivable (Maxime, 2008). Opportunity costs decrease when credit is extended to customers as more and more customers are attracted to the company which generate increasing sales and therefore decrease opportunity costs of foregone sales (Brealey, 2003).Carrying costs, however, increase in line with the credit extension since these costs incur due to the cash collection delay, the relative cost of capital tie-up, the increased probability of bad debt losses and the costs of managing credit, all of which are positively related to credit extension. In this respect, the EOQ model is applicable to credit management by relating credit policy to associated costs (Ross, 2008). Similarly to the model for inventory, the illustration shows decreasing opportunity costs and increasing carrying costs for increasing level of credit policy generosity (Brealey, 2003). The optimal credit policy can be found at the minimum point of the total costs curve. The following graph illustrates this relationship in a way similar to the models for inventory and cash:

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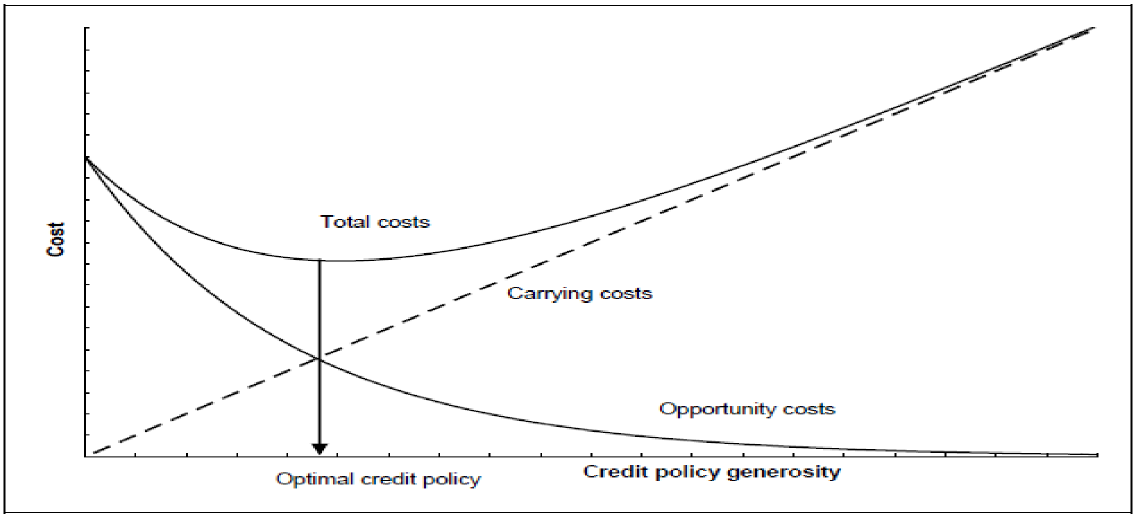

Figure 2: Graphic Determination of the Optimal Credit Policy: Adapted from Ross et al. (2008).

This graph demonstrates the basic relationship between credit policy generosity and associated costs which once again reflects the trade-off between risk and return which is common to all three types of current asset which are administered in working capital management. It should be noted that credit policy can influence several aspects of working capital management which are not contained in this simplified model and that the actual interrelation between the different variables is far more complex than this model suggests. Different and more elaborate models which can incorporate many more aspects are at the disposal of the financial manager in order to decide on the firm's optimal credit policy. However, the purpose of the above illustration is merely to demonstrate the basic effect of credit policy on the associated carrying and opportunity costs and hereby establish a relationship between these costs (Weston & Copeland, 1986).

Collection Policy

Collection policy deals with the issue of collecting overdue receivables. This aspect copes with monitoring receivables and taking appropriate actions when the account is overdue. If a firm has an effective collection policy, this will reduce the probability of bad debts and decrease the cash collection period, hence decreasing the carrying costs of accounts receivable (Ross,.etal,2008). This again will have an impact on the optimal credit policy. In other words, if the firm collects its accounts receivable efficiently, it can resort to a more profitable credit policy .The 'average collection period' or 'day's sales outstanding' is a financial ratio which reflects the collection policy effectiveness by measuring "the average amount of time required collecting an account receivable". By comparing the average collection period to the terms of sale the firm can keep track of its collection policy.

According to Pandey (2006), the collection policy should lay down clear-cut collection procedures, the responsibility for collection & follow up should be explicitly fixed, individual cases should be dealt with and a firm should decide about offering cash discounts for prompt payment. Further, Pandey (2006) observes that in practice, some firms take certain precautions vis-a-vis collections, whereby they require their customers to give pre-signed cheques or they do bills discounting. Further, some firms provide a penal rate of interest for debtors who fail to pay in time. For effective credit management a firm is required to evaluate credit of individual accounts through review credit information contained in financial statements or through bank or trade references, credit investigation and analysis and carrying out an analysis of business and its management.

The independent variables in this conceptual framework are the HR factors, personal factors and firm level factors. The dependent variable in the conceptual framework is the firm performance. Human resource factors which have a strategic fit with the business strategy (competitive strategy) are responsible for superior firm performance. In addition, firm level factors which are aligned to the business strategy are also responsible for superior business performance. Personal factors which possess strategic fit with the business strategy are responsible for superior business performance. The relationship between the various factors and how they affect business performance is as discussed in the sections that follow.

The Managing Director of KPLC has in the recent past made several speeches aimed at acknowledging the importance of strategic arrangements between KPLC and banks to facilitate the payment of bills. For instance, Speaking following signing of the agreement on Friday 9th 2009, KPLC Managing Director & CEO, Eng. Joseph Njoroge, said the partnership with NBK will provide an excellent and convenient bill paying point for the company's 1.3 million customers in addition to helping KPLC decongest its banking halls and maximizing on its revenue collection.

Eng. Njoroge said KPLC was increasingly building alliances with other progressive enterprises with countrywide networks to collect revenue on the company's behalf to give electricity customers more freedom, flexibility, convenience and choice when paying their bills. In the recent past, KPLC has partnered with Postbank, Safaricom, Zain and Barclays bank in an attempt to diversify options for its growing number of customers across the country, to enable them pay their bills on time. Under the deal, NBK will receive over-the-counter bill payments from electricity consumers on behalf of KPLC at no extra cost to the customer.

To make a payment, a customer visits any NBK Branch with their account number and amount of cash to be paid which they present to a receiving cashier after which they are issued with a receipt. The amount paid will be credited the customer's account within 24 hours. Electricity customers have the options of using Ebill 5551 SMS or email service to confirm the amounts paid have been effected.

According to business wire (2008), more Americans than ever, an estimated 63.1 million households or three-fourth of those online, are paying their bills online rather than writing paper checks and through queuing , according to a survey sponsored by Check Free, now part of Fiserv, Inc. a leading provider of information technology services to the financial industry. The 2008 Consumer Banking and Bill Payment Survey, the eighth conducted by Check Free since 2002, highlights Americans' growing use of online banking and bill payment services to help manage their personal finances.

Mobile money transfer services facilitate the safe storage and transfer of money. As such, it has a number of potential economic effects. First, it simply facilitates trade, making it easier for people to pay for, and to receive payment for, goods and services. Electricity bills can be paid with a push of a few buttons instead of traveling to an often distant office with a fistful of cash and waiting in a long queue; consumers can quickly purchase cell phone credit ("airtime") without moving; and taxi drivers can operate more safely, without carrying large amounts of cash, when they are paid electronically (Chattopadhyay &Duflo, 2004).

3.0 RESEARCH METHODOLOGY

A descriptive case study research design was used in the investigation of the impact of fund transfer services to the average collection period and the liquidity of KPLC Mombasa. The population from which the conclusions for the study were made included all the employees in the KPLC Mombasa Branch. The departmental registers obtained from the human resource department were used as the sampling frame. According to the Human Resource Department, there were a total of 82 employees who form our population. A sample of 57 respondents was selected from the population using a stratified random sampling technique. A questionnaire was the preferred data collection instrument. The data was analyzed by use of descriptive statistics such as mean, mode and median. The findings were presented in the form of graphs and charts.

4.0 RESULTS AND DISCUSSIONS

4.1 Response Rate

In this study successful responses meant the count of those questionnaires which were returned fully filled. Unsuccessful responses refer to those questionnaires which were unreturned or were not fully filled. The successful responses were 63% while the unsuccessful responses were 37%.

Table 1: Response Rate

	Response Rate	% Response Rate
Successful	36	63%
Unsuccessful	21	37%
Total	**57**	**100%**

4.2 Demographic Characteristics

Study findings indicated that 39% of the respondents were from the credit department, 17% were from customer service, and 44 % were from finance department. The finding implied that the responses were well distributed across the three departments.

Table 2: Respondents' Department

	Frequency	% Response
Credit	14	39%
Customer Service	6	17%
Finance	16	44%
Total	**36**	**100%**

Findings from the study indicated that 67% of the respondents were male while 33% were female. The findings implied that the workforce at Kenya Power is male dominated.

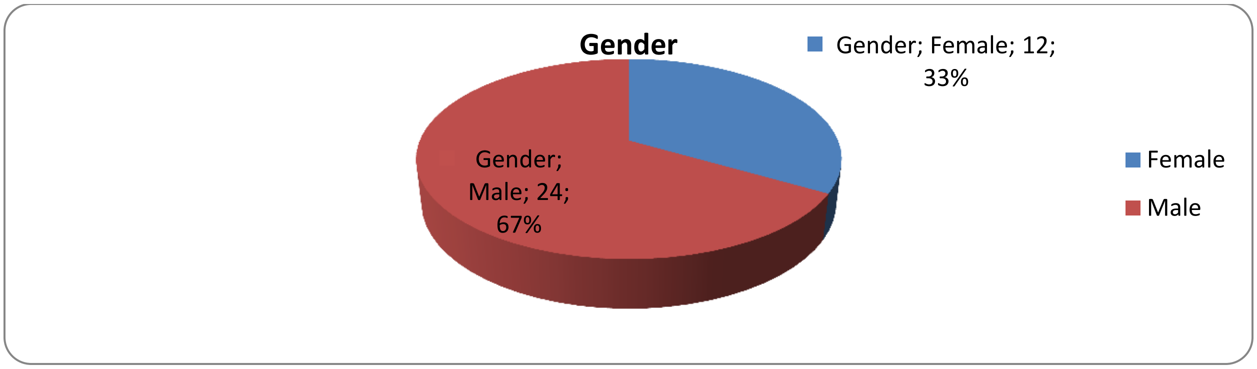

Figure 3: Gender Response

According to the study, 70% of the respondents were university graduates, 22% were college graduates while 8% were post graduates. The finding implied that the workforce at KPLC Mombasa ws highly educated.

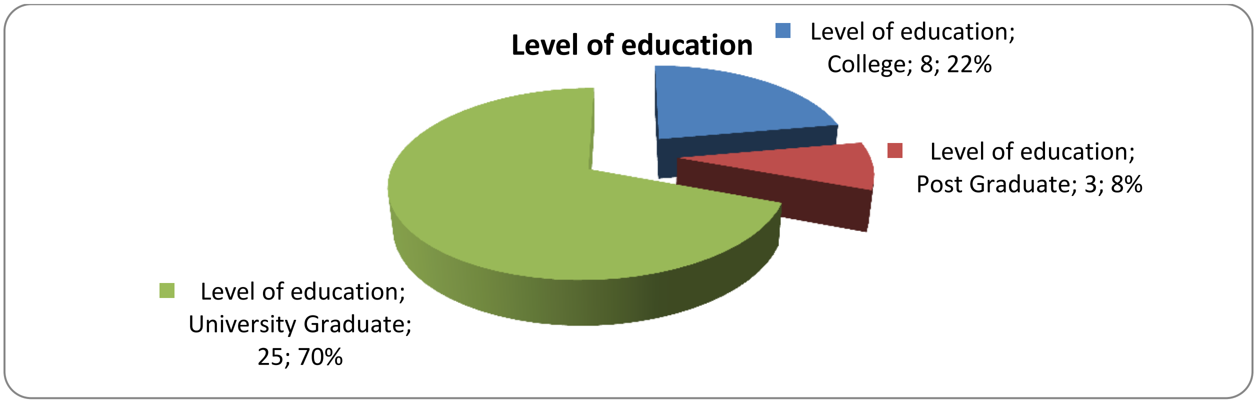

Figure 4: Education Level

According to the study, 61% of respondents had worked in current employment for1 to 5 years. 6 % had worked in KPLC Mombasa for 5 to 10 years. 19% had worked in KPLC Mombasa for less than one year. 14% had worked in KPLC Mombasa for over 10 years.

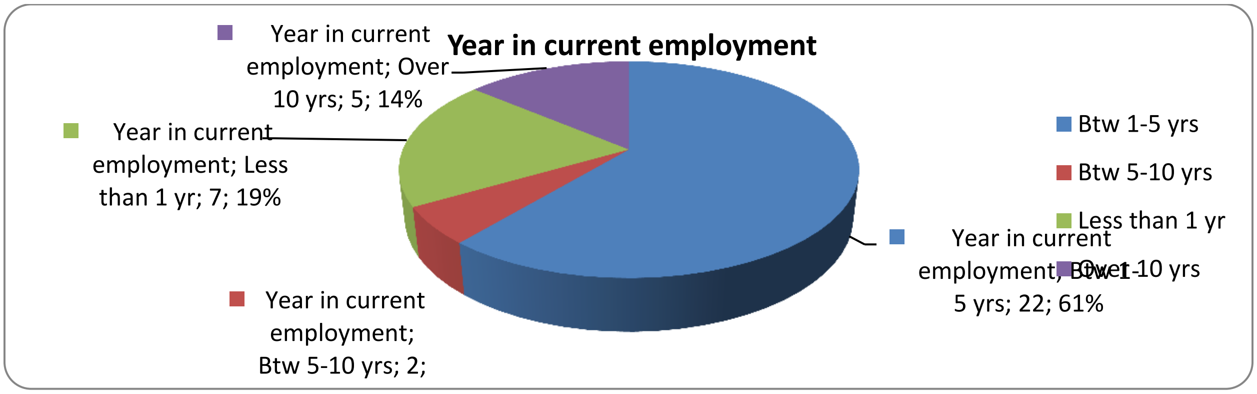

Figure 4: Years in Current Employment

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4.3 Trend in Fund Transfer Transactions

A linear graph indicated that the number of fund transfer agency transactions gradually increased from the year 2002 to the year 2010. In addition, the number of Mpesa, Zap, Yu, and Orange Money transactions also increased from the year 2008 to the year 2010.

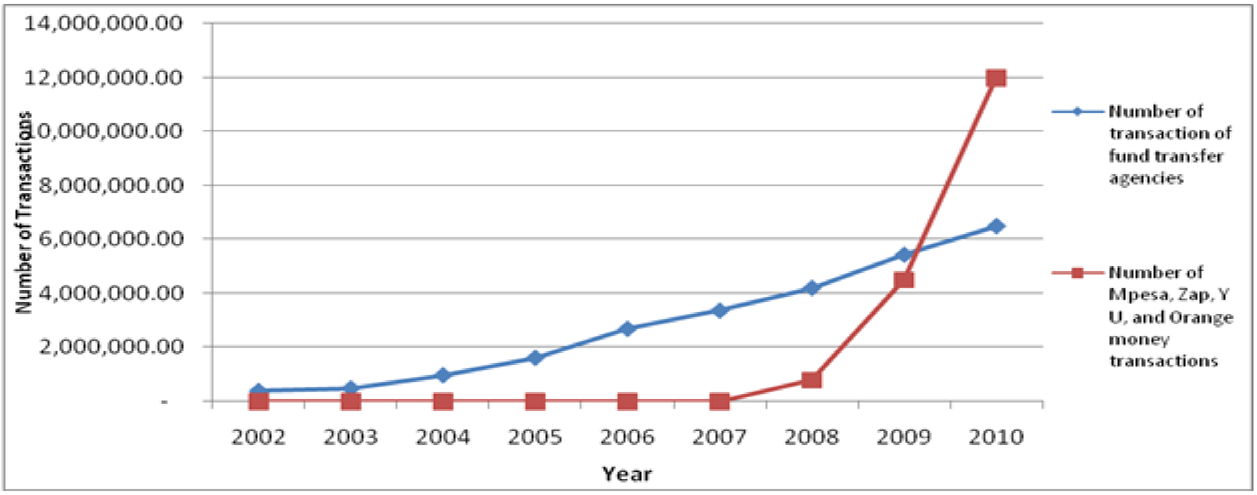

Figure 5: Fund Transfer Agency Transactions

The combined agency transactions showed a steady increase over the year 2002 to 2010.

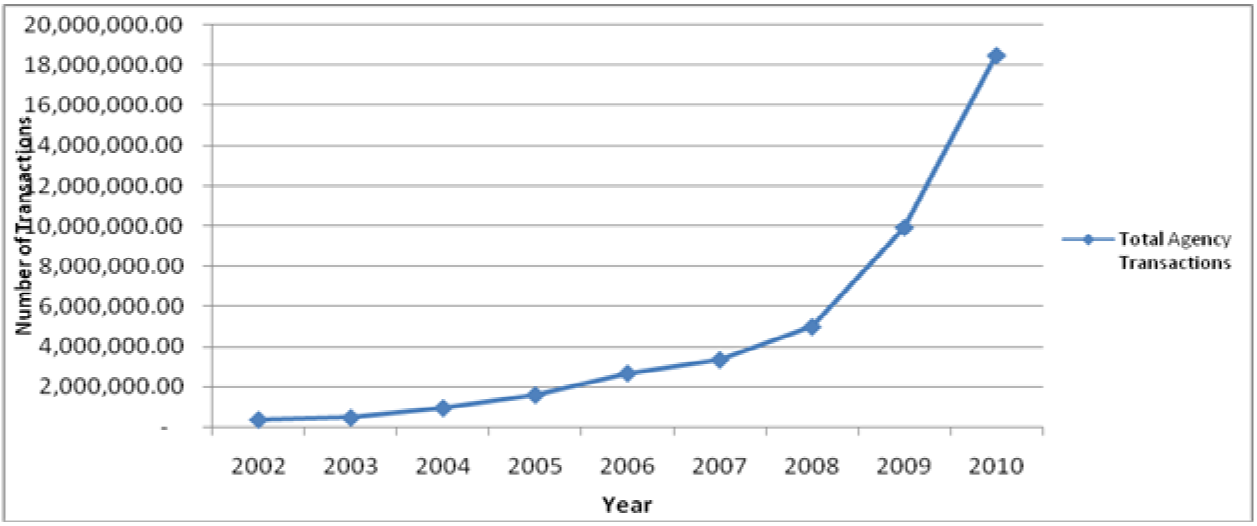

Figure 6: Total Transactions (Agency and Mobile Transfer)

4.4 Impact of Total Agency Transfers on Average Collection Period

One of the objectives of the study was to determine the impact of fund transfer agencies on Average Collection Period. Study findings indicate that 50% of respondents strongly agreed with the statement that use of fund transfer agencies had reduced the 30,60, and 90 days outstanding account receivables. 36 % agreed with the statement, 11% were not sure while 3% disagreed with the statement.

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Table 3: Reduction of Days Outstanding

Row Labels	Reduction of 30, 60, and 90 days outstanding account receivables	% Response
Agree	13	36%
Disagree	1	3%
Not Sure	4	11%
Strongly Agree	18	50%
Grand Total	**36**	**100%**

Study findings indicated that 61% of respondents strongly agreed with the statement that the use of fund transfer agencies had led to a redcution in the Average Collection Period. While 28% agreed with the statement, 8 % were not sure while 3% disagreed with the statement.

Table 4: Reduction of ACP

Row Labels	Count of Reduction of ACP	% Response-Reduction of ACP
Agree	10	28%
Disagree	1	3%
Not Sure	3	8%
Strongly Agree	22	61%
Grand Total	**36**	**100%**

According to the study 56 % of the respondent strongly agreed with the statement that since the inception of fund transfer agencies services, KPLC collection costs have declined. 28% agreed with the statement, 14% were not sure while 3% disagreed with the statement.

Table 5: Decline of Costs

Row Labels	Decline of collection costs	% Response-Decline of collection costs
Agree	10	28%
Disagree	1	3%
Not Sure	5	14%
Strongly Agree	20	56%
Grand Total	**36**	**100%**

Study findings indicated that 47% of the respondents strongly agreed with the statement that since the inception of fund transfer agencies/ services, KPLC bad debt costs have declined. 39 % agreed with the statement, 8% disagreed while 6% were not sure with the statement.

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Table 6: Decline of Bad Debt Costs

Row Labels	Count of Decline of Bad debt costs	% Response- Decline of Bad debt costs
Agree	14	39%
Disagree	3	8%
Not Sure	2	6%
Strongly Agree	17	47%
Grand Total	**36**	**100%**

The findings of this study indicated that 47 % of the respondents strongly agreed with the statement that since the inception of fund transfer agencies/services, the opportunity and management cost of account receivables have declined. 53 % agreed with the statement.

Table 7: Decline of Opportunity and Management Costs

Row Labels	Count of Decline of opportunity and management costs	% Response- Decline of opportunity and management costs
Agree	19	53%
Strongly Agree	17	47%
Grand Total	**36**	**100%**

A linear graph plotted above indicated that in this study there was a gradual decline in the average collection period. This implied an improvement in the average collection period of KPLC Mombasa over the year 2002 to 2010.

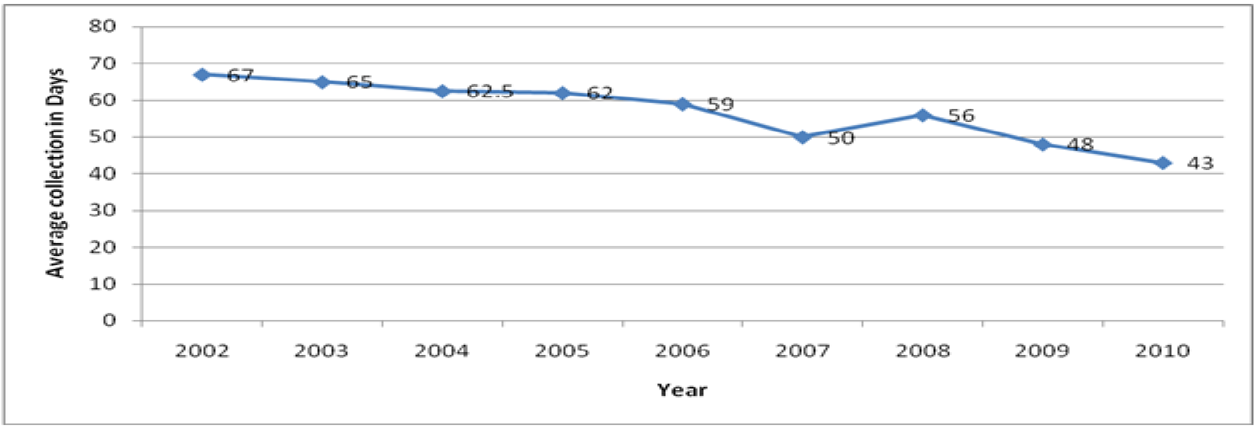

Figure 7: Average Collection Days

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4.5 Impact of Total Agency Transfers on Acid Test Ratio

One of the objective of the study was to determine whether the use of fund transfer services has impacted on the acid test ratio of KPLC. According to this study 39 % strongly agreed with the statement that the use of Fund transfer agencies have increased the cash reserves available to the bank. 44 % agreed with statement, 11% disagreed while 6 % could not make up their mind.

Table 8: Increased Cash Reserves

Row Labels	Count of Increased the cash reserves	% Response-Increased the cash reserves
Agree	16	44%
Strongly Agree	14	39%
Disagree	4	11%
Not Sure	2	6%
Grand Total	**36**	**100%**

Study findings indicated that 50 % agreed with the statement that the use of Fund transfer agencies have reduced the amount of borrowing and overdrafts. 42 % strongly agreed with the statement while 8 % disagreed.

Table 9: Reduced Borrowing and Overdrafts

Row Labels	Count of Reduced borrowing and overdrafts	% Response-Reduced borrowing and overdrafts
Agree	18	50%
Disagree	3	8%
Strongly Agree	15	42%
Grand Total	**36**	**100%**

According to this study, 33 % strongly agreed with the statement that the use of Fund transfer agencies have made it possible to pay suppliers and employee salaries in good time. 28 % agreed, 22 % disagreed with the statement while 17 % were not sure.

Table 10: Pay Suppliers and Employee Salaries in Good Time

Row Labels	Count of Pay suppliers and employee salaries in good time	% Response- Pay suppliers and employee salaries in good time
Agree	10	28%
Disagree	8	22%
Not Sure	6	17%
Strongly Agree	12	33%
Grand Total	**36**	**100%**

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Study findings indicated that 44 % strongly agreed with the statement that the use of Fund transfer agencies have led to an increase in income from short term securities. 42 % agreed with statement while 14 % could not make up their mind.

Table 11: Increase in Income from Short Tern Securities

Row Labels	Count of Increase in income from short term securities	% Response-Increase in income from short term securities
Agree	15	42%
Not Sure	5	14%
Strongly Agree	16	44%
Grand Total	**36**	**100%**

According to this study, 44 % agreed with the statement that the use of Fund transfer agencies have reduced borrowing costs to the company. 22 % strongly agreed, 19 % were not sure while 14 % disagreed with the statement.

Table 12: Reduced Borrowing Costs to the Company

Row Labels	Count of Reduced borrowing costs to the company	% Response-Reduced borrowing costs to the company
Agree	16	44%
Disagree	5	14%
Not Sure	7	19%
Strongly Agree	8	22%
Grand Total	**36**	**100%**

The study findings indicated that 58 % of respondents strongly agreed with the statement that since the inception of Fund transfer agencies, the liquidity ratio and the acid test ratio has improved. 25 % agreed with the statement while 17 % could not make up their mind.

Table 13: Liquidity Ratio and the Acid Test Ratio has Improved

Row Labels	Count of The liquidity ratio and the acid test ratio has improved	% Response-The liquidity ratio and the acid test ratio has improved
Agree	9	25%
Not Sure	6	17%
Strongly Agree	21	58%
Grand Total	**36**	**100%**

A linear graph plotted above indicated that there was a general rise in the acid test ratio. This implied an improvement in the liquidity of KPLC Mombasa over the year 2002 to 2010.

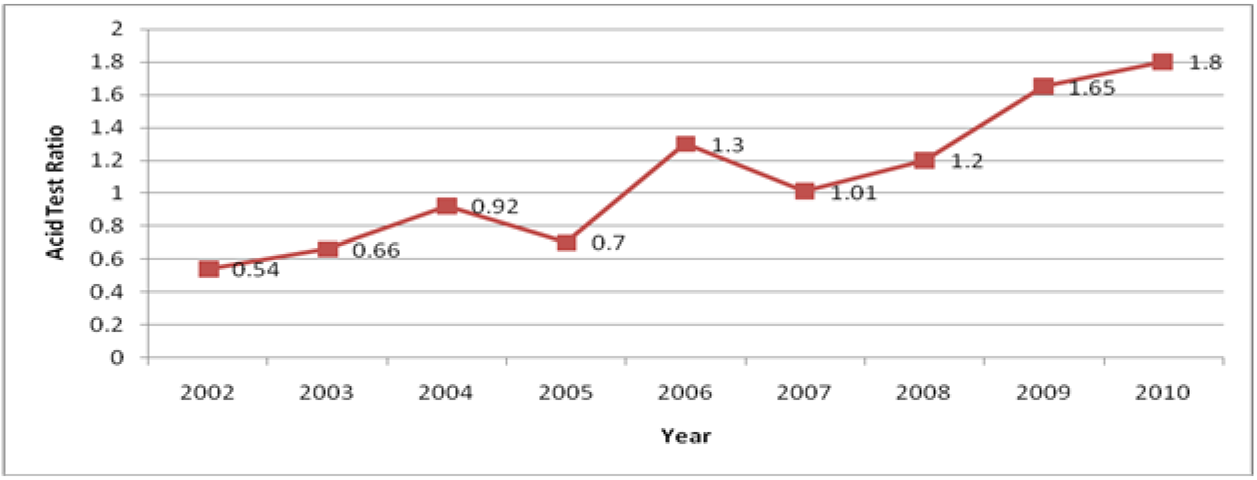

Figure 8: Acid Test Ratio

5.0 DISCUSSION CONCLUSIONS AND RECOMMENDATIONS

5.1 Findings

Study findings indicated that 50% of respondents strongly agreed with the statement that use of fund transfer agencies had reduced the 30,60, and 90 days outstanding account receivables. 61% of respondents strongly agreed with the statement that the use of fund transfer agencies had led to a redcution in the Average Collection Period. 56 % of the respondent strongly agreed with the statement that since the inception of fund transfer agencies services, KPLC collection costs have declined. According to the study, 47% of the respondents strongly agreed with the statement that since the inception of fund transfer agencies/ services, KPLC bad debt costs have declined. 47 % of the respondents strongly agreed with the statement that since the inception of fund transfer agencies/services, the opportunity and management cost of account receivables have declined. Furthermore, a linear graph plotted indicated that in this study there was a gradual decline in the average collection period.This implied an improvement in the average collection period of KPLC Mombasa over the year 2002 to 2010.

According to this study 39 % strongly agreed with the statement that the use of Fund transfer agencies have increased the cash reserves available to the bank. 50 % agreed with the statement that the use of Fund transfer agencies have reduced the amount of borrowing and overdrafts,33% strongly agreed with the statement that the use of Fund transfer agencies have made it possible to pay suppliers and employee salaries in good time. Study findings indicated that 44 % strongly agreed with the statement that the use of Fund transfer agencies have led to an increase in income from short term securities. 44 % agreed with the statement that the use of Fund transfer agencies have reduced borrowing costs to the company. 58 % of respondents strongly agreed with the statement that since the inception of Fund transfer agencies, the liquidity ratio and the acid test ratio has improved. A linear graph plotted indicated that there was a general rise in the acid test ratio. This implied an improvement in the liquidity of KPLC Mombasa over the year 2002 to 2010.

5.2 Conclusions

From this study it was possible to infer that there was a gradual decline in the average collection period.This implied an improvement in the average collection period of KPLC Mombasa over the year 2002 to 2010. In addition, the number of fund transfer transaction increased over the study period. This implied that the fund transfer transactions may have impacted on the average collection period. Further, according to this study it was possible to infer that there was a gradual increase in the acid test ratio. This implied an improvement in the acid test ratio of KPLC Mombasa over the year 2002 to 2010. In addition, the number of fund transfer transaction increased over the study period. This implied that the fund transfer transactions may have impacted on the acid test ratio.

5.3 Recommendations

The study recommended that KPLC should engage more fund transfer agents in facilitating bill payments. Specifically, KPLC should engage more banks, Saccos, western unions and mobile operators. This is because such an approach would improve the average collection period and acid test ratio further.

5.4 Suggestions for Further Studies

The study was purely descriptive; it therefore lacks the statistical rigor that would establish causation between fund transfer agencies and average collection period as well as the acid test ratio. Therefore, the study recommends a regression analysis to establish causation between dependent and independent variables.

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