



**KENYA FORESTRY RESEARCH
INSTITUTE**

**CREDIT MANAGEMENT
POLICY**

AUGUST 2018



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

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ACRONYMS AND DEFINITIONS

Account Receivable (debt)	Money due to KEFRI for products or services supplied in arms' length transactions either through receipt of the products and/ or services or by conditionally assuming their obligations.
Alternative Dispute Resolution (ADR) Scheme	Scheme where parties in a dispute ask an independent person to look at the problem and try to find an amicable solution.
Bad Debt	Debt that is not collectible or cannot be recovered.
Bank Guarantee	Promise from a bank that the liabilities of a debtor will be met in the event that debtor fails to fulfill their contractual obligations.
Cash Flow	Total amount of money being transferred into and out of a business, especially as affecting liquidity.
Credit	Mode of trading where customers buy and receive products or service up front and pay later.
Credit Facility	Arrangement where an individual or organization can access products or services from KEFRI without paying for them on receipt.



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Credit Hold	Holding back further deliveries of products or provision of services to customers on credit terms until the customer settles all outstanding payments plus any accrued interest.
Credit Limit	Maximum value in Kenya shillings of approved credit extended by KEFRI to a customer.
Credit Management	Process of granting credit, setting terms it is granted on and recovering this credit when it is due.
Credit Risk	Risk of default on a debt that may arise from a borrower failing to make required payments when they fall due.
Customer	Organization or individual that buys goods or services from KEFRI as defined under Schedule 1.
Customer Account	Record that holds critical data about a customer, including the standard data such as name, order data, billing information, interaction information, and credit information.
Customer Delinquency	Failure by a customer to pay an obligation when due or as agreed.
Debt Collection	Collecting payments from customers the money they owe the Institute for products or services already received.



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Debt Collection Agency	Company or agency with whom the Institute has entered into a formal contract to collect on its behalf money owed on delinquent accounts at an agreed fee.
Delinquent Account	Account on which the customer has failed to make the payment by the due date.
Dispute	Disagreements between a customer and the Institute.
Due Date	Date on which payment of a customer's bill falls due.
DD-F	Deputy Director Finance
KEFRI/ Institute	Kenya Forestry Research Institute.
Letter of Credit	Letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount.
Local Purchase/ Service Order	Commercial document issued to a seller by a Ministry, State Department, State Agency or County Government when buying products or services indicating types, quantities and agreed prices, when funds have been committed and set aside for the purchase.
Past Due	Payment from customers granted credit facilities that has not been made as of its due date.
Payment Plan	Plan for paying any outstanding debts.



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Resolution Mechanism	Structured process that addresses disputes or grievances arising between a customer and the Institute.
Return on Investment	Performance measure used to evaluate the efficiency of an investment.
Risk Tolerance	Degree of variability in returns that the management of KEFRI is willing to withstand.
Sale	Act of selling; transfer of ownership of products and provision of services by the Institute to another for a price.
Staff	People employed by the Institute.
Working Capital	Resources of the Institute used in its day-to-day operations, calculated as current assets minus current liabilities.
Write Off	Cancellation from a customer's account of a bad debt.



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1.0 FOREWORD

KEFRI is adopting this policy as a critical tool for aligning credit management activities throughout the Institute. It provides clear, written guidelines in setting terms and conditions for supplying products and services on credit, customer qualification criteria, procedures for debt collection and steps to be taken in case of customer delinquency.

The policy supports KEFRI's strategic objectives, clarifies authorization levels, defines expectations and responsibilities and enhances cross-functional cooperation especially between Finance Division and Enterprise Unit. It will be the basis for reconciling divergent functional interests by assigning explicit responsibilities, setting limitations and providing for arbitration when need arises. Responsibility for implementation of this policy will be shared between Finance Division and Enterprise Unit.

Extension of credit facilities to customers is a deliberate marketing strategy designed to stimulate business and give the Institute a competitive advantage. With this policy, KEFRI will do "good" sales strategy, commercial stakes and financial issues (credit risk, cash flow, return on investment, working capital improvement). KEFRI will ensure extensive bookkeeping, invoicing and collection procedures are maintained for credit sales.

KEFRI has developed a well-written and comprehensive Credit Management policy to communicate a consistent standard to our customers. It has been developed from existing policy and procedural instructions applicable within the Institute, as well as best practices, standards, laws and regulations from external sources.



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KEFRI is striving for stability, efficiency and effectiveness in credit management through the establishment of a solid, repeatable framework supporting staff to understand the Institute's values and work flows. This will ultimately create a structured environment that safeguards one of the Institute's important assets – its accounts receivable.

2.0 CREDIT PHILOSOPHY

2.1 CREDIT MANAGEMENT MISSION

To provide flexible mechanisms to sell to quality products and services to a broad range of customers while ensuring that only prudent credit risks are taken and cash flow is maintained.

2.2 CREDIT MANAGEMENT POLICY

KEFRI's credit management policy is to ensure collection of all income due within agreed payment terms, by effective management and consistent application of the policy to minimize credit risks and maximize available resources within the Institute, to support quality service delivery.

The Institute has adopted a conservative level of risk tolerance. KEFRI will be conservative on credit but liberal on collections, which means that the bulk of our credit management efforts will be spent in determining who will be offered credit facilities. Though this may result in fewer credit customers and more cash customers, our credit customers, if vetted properly, for the most part will pay their bills on time and we will not have to devote too much effort on the collections side other than utilizing best invoicing and billing practices.



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2.3 CREDIT MANAGEMENT OBJECTIVES

The Credit Management policy's objective is to promote sales and simultaneously ensure that:

- i) Credit is extended only to credit worthy parties.
- ii) No credit is extended outside the approved credit policy.
- iii) The credit amount is recovered within specified time limit as per the Credit policy.
- iv) Books of accounts reflect a true and fair view of the status of debts at any given point in time.

3.0 ROLES, RESPONSIBILITIES AND AUTHORIZATION LEVEL

In order for the Institute to keep operating smoothly, there is need for clarity on roles, responsibilities and authorization levels of staff within Finance Division and Enterprise Unit. The workflow of the sales process encompassing the way customers and orders will be analyzed, processed, invoiced and collected, has been taken into consideration in the formulation of this policy.

3.1 ROLES AND RESPONSIBILITIES

3.1.1 FINANCE DIVISION

The Finance Division (FD) is responsible for maintaining a high quality of accounts receivable records while ensuring that credit sales made to customers represent prudent credit risks. The FD will provide for a flexible mechanism to protect the Institute's



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receivable investment. It is the Head of Finance Division's (HoF) responsibility to ensure that no unwarranted risk is taken by Enterprise Unit and that outstanding payments are received within agreed credit terms. Specifically the DD-F's role will include:

- i) To act as a facilitator in the implementation of this policy.
- ii) To provide guidelines to focal persons nominated by General Manager Enterprise (GME) at Regional Centres and revenue generating units and sections.
- iii) To issue and document any subsequent procedural amendments in proper indexed form.
- iv) To ensure that monthly consolidated account receivable position in respect of each revenue generating Unit, Centre, Sub-Centre and section is circulated to appointed supervisors within Enterprise Unit.
- v) To monitor chronic account receivables and circulate their overdue status on weekly/ monthly basis to respective appointed supervisors within Enterprise Unit.
- vi) To supplement Enterprise Unit in determining and evaluating the credit worthiness of customers on the basis of a duly filled Credit Approval Form (CAF) (**Annexure 1**).
- vii) To monitor credit limits of customers based on price escalations and actual credit utilization and give feedback on proposed changes to management on a semiannual basis.
- viii) To monitor concentration of credit in a particular Centre, Sub-centre or section and report to management on a semi-annual basis.

3.1.2 ENTERPRISE UNIT

Specifically, the role of Enterprise Unit will include the following:

- i) To initiate credit request through duly filled CAF.



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- ii) To ensure approvals are granted as per the authorized limits.
- iii) To ensure completeness of documentation and compliance with specified criteria while forwarding customers credit extension/ enhancement forms.
- iv) To ensure recovery of account receivables by due dates.
- v) To review customer account statements on a regular basis for timely reconciliation of accounts.
- vi) Follow up with customers on settling of delinquent account receivables.

4.0 CREDIT PROCEDURES

These procedures will apply to all customers seeking to buy products or services from the Institute on credit terms and they are to be consistently enforced.

4.1 EVALUATING NEW CUSTOMERS' CREDITWORTHINESS

A credit application should be fully completed by every new customer and signed by a duly authorized officer of the Institute. Sources of information to help in determining credit risk include: industry credit groups, credit reference bureau (CRB) reports, financial statements, audited financial accounts, credit references, public records, and information provided by applicants.

These sources are not conclusive and the HoF may require informational from additional sources to guide in making informed decisions on customers' creditworthiness. Evaluation of customer applications will be guided by the matrix shown below:



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Portfolio	Requested Credit Limit (Kes.)	Credit Application Completed and Signed	Check References	Obtain Credit Report	Initial Terms	Credit Limit (Kes.)	Approval
Portfolio A	Up to 250,000	Yes	Yes	No	Prepaid then Net 30	Up to 250,000	Regional Accountant
Portfolio B	250,000 – 750,000	Yes	Yes	Basic Report	Due on Receipt then Net 30	250,001 – 750,000	Head of Finance
Portfolio C	750,000 – 2,000,000	Yes w/signed personal guarantee & financials	Yes	Full Report	50% on 1st order then Net 30	750,001 – 2,000,000	Enterprise Revenue Committee
Portfolio D	2,000,000+	Yes w/signed personal guarantee & audited financial accounts for last three years	Yes	Full Report	50% on 1st order then Net 30	2,000,001+	Board of Management

The matrix above assumes that the customer was found to be creditworthy. However, it is the GME's job in liaison with the DD-F to look for new and innovative ways to sell to customers with marginal accounts.

4.2 RE-EVALUATING THE CREDIT-WORTHINESS OF EXISTING CUSTOMERS

KEFRI will establish regular customer re-evaluation to promote timely and effective response to any emerging changes in the level of risk of its account receivables portfolio. The Institute will appropriately adjust its policy to reflect the prevailing economic conditions.



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DD-F will ensure that credit histories of existing customers are re-evaluated on a regular basis – at least semiannually. DD-F will also provide appropriate guidelines on exactly what needs to be reviewed i.e. credit report, financials, credit group information, credit limit etc.

4.3 TERMS AND CONDITIONS OF SALE

Terms and conditions of sale protect the Institute's rights as a seller and should be included on all its sales documents i.e. sales contracts, orders and invoices, even emails related to the sale. They should also be included on the credit application together with this statement requiring a signature: **"I have read and agree to the terms and conditions as stated on this document."**

In addition, Portfolio C and D customers will be required to sign annual Credit Facility contracts, which will include the Institute's terms of sale and their credit limit.

4.4 INVOICING

All invoices should be issued within 24 hours of products being shipped or services being provided. Invoices must contain:

- Customer's name and address;
- remittance address or electronic transfer information;
- Institute's contact information for inquiries/questions;
- Terms and conditions of sale;
- Invoice number, order number, customer's PO number;
- Description of products or services;
- Unit prices, total amount due;



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- Shipment date and method of shipment (if applicable);
- Due date; and
- Discounts (if any).

The aging report of all invoices must be kept updated on a daily basis by the revenue generating Unit, Centre, Sub-centre and section Accountant or Accounts Clerk as appropriate. A consolidated aging report must be checked once per week by an officer nominated by the HoF to ensure accurate aging information. Aging information should then be provided to the GME for appropriate handling.

4.5 COLLECTIONS

All customers' accounts have to be settled within a period 30 days from the date of invoice or delivery. Any customer whose undisputed account remains outstanding in full or partially after 30 days shall not be given further credit, even if they are within their authorized limits.

However, the Institute is aware that even with its best efforts to carefully and consistently manage the account receivables, there may be some accounts that do not get paid on time. The Institute will put in place a plan for handling these accounts quickly and actively to increase the likelihood of collecting the past due amounts. In fact, HoF will ensure that the Institute starts contact with the customer before the invoice actually becomes due being guided by the Collections Matrix on Net 30 terms, outlined below:



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From Oldest Invoice Date	Portfolio A	Portfolio B	Portfolio C	Portfolio D
0-20 days	Status: Current	Status: Current	Status: Current	Status: Current
20-30 days	Status: Current Action: Follow up Call	Status: Current Action: Follow up Call and Email	Status: Current Action: Follow up Call and Email	Status: Current Action: Follow up Call and Email
37-40 days	Status: Past Due Action: Follow up Collection Letter/ Email; Credit Hold	Status: Past Due Action: Follow up Collection Letter/ Email; Credit Hold	Status: Past Due Action: Follow up Collection Call; Credit Hold	Status: Past Due Action: Follow up Collection Call; Credit Hold
45-50 days	Status: Past Due Action: In-House Demand Letter #1	Status: Past Due Action: In-House Collection Call #1	Status: Past Due Action: In-House Collection Call #1	Status: Past Due Action: In-House Demand Call #1
55-60 days	Status: Past Due Follow up: In-House Demand Letter #2	Status: Past Due Action: In-House Collection Call #2	Status: Past Due Action: In-House Demand Call #1	Status: Past Due Action: Escalation to GME for collection call
65-70 days	Status: Past Due Follow up: Final Demand Letter	Status: Past Due Follow up: Final Demand Call	Status: Past Due Action: Escalation to GME; Final Demand Call	Status: Past Due Action: Review by HoF; Final Demand Call
75-90 days	To Debt Collection Agency	To Debt Collection Agency	Review by HoF; To Debt Collection Agency	To Debt Collection Agency



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Notes:

- Calls and letters at 20-30 days should ask: if shipment was received, if there were any issues with the products or service, if invoice was accurate, remind the customer of payment due date and ask if there is any reason that invoice might not be paid on time.
- Follow-up calls, letters and emails at 37-40 days are to be cordial reminders of invoice due date and determine if the customer has any problems with paying.
- Collection calls, letters and emails at 45-50 days should be firm requests for payment.
- Subsequent contacts should request immediate payment or, if the customer instigates, discuss payment plans.
- Officers appointed to call customers must maintain a record of these calls in a prescribed format.
- All calls should be followed up with written communication within 24 hours detailing agreed action points and timelines.

Any amount outstanding after 75 days shall accrue interest at a rate equivalent to or slightly above the negotiated fees payable to a Debt Collection Agency contracted to collect on the delinquent account on behalf of the Institute.

Depending on the outcome of calls, letters and emails to customers on outstanding payments, the HoF may either defer or escalate a customer account along the above matrix in the interest of the Institute.



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The DD-F shall give status of outstanding debtors every quarter in the Finance and Administration Committee meetings.

4.6 SECURITY

Credit shall be granted against adequate and valid security instruments. A customer (Public, Private companies and Private Owned Enterprises) wishing to apply for credit facilities will be required to obtain either a letter of credit or bank guarantee in favor of the Institute.

Ministries, State Departments, State Agencies and County Governments will deposit duly signed Local Purchases/ Service Orders as security before delivery of products or provision of service.

5.0 MISCELLANEOUS PROVISIONS

5.1 CREDIT HOLDS

Customers will be placed on credit hold when they are late in making due payments or have been identified as a bad risk. The Institute will suspend trading with the customer immediately regardless of their credit limit, exposure or risk, until the account is regularized. All pending customer orders will be placed on hold immediately to prevent further processing.



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5.2 PAYMENT PLANS

Designated staff in Enterprise Unit tasked with following up on recovery of outstanding arrears may advise customers, after careful consideration, to make regular partial payments.

Customers unable to make full payment of outstanding arrears may propose a payment plan under the guidance of the Enterprise Unit, for consideration by the HoF. Every situation is unique and the customer's ability to pay, amount unpaid, payment history, length of time they have been a customer and specific reasons why the account is past due will be taken into consideration when working out a payment solution.

Customers must be made aware that the payment plan or agreement is not something that is to be done all the time, but has been necessitated by current unique and unforeseen circumstances limiting their ability to honor their payments when due. Every agreement shall be in writing with an effective start and end date.

5.3 WRITE OFFS

In case a customer dies, becomes insane, ceases operations, is dissolved or is declared bankrupt, the DD-F will present a detailed report recommending write off of the debt to the Board of Directors through the Finance and Administration Board Committee for approval.

Upon receiving approval, the DD-F will make the necessary entries to reduce the book value of the account receivable to zero and recognize the one-off expense.



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5.4 DEBT COLLECTION AGENCY

The Institute will use every possible means at its disposal to ensure that outstanding arrears are collected through internal collection mechanisms. However, KEFRI appreciates that sometimes there may be need to hire a professional to collect some bad debts on its behalf.

DD-F will determine which cases to refer to third party Debt Collection Agencies and develop terms of reference for prequalifying competent firms for the provision of debt collection services. Sourcing will be carried out in accordance with KEFRI's Supply Chain Manual and Public Procurement laws and regulations. KEFRI will enter into a formal agreement that clearly specifies terms and conditions, with the selected Agency.

Critical factors that the DD-F should consider include the amount unpaid and Institute's current relationship with the customer. The Institute should also strongly consider an Agency that has taken out insurance to cover its clients for hiring them in case a debtor feels the Agency acted in bad faith. Fees payable to the Debt Collection Agency will be based on interest levied on unpaid receivables after 75 days of delinquency.

5.5 DISPUTES AND RESOLUTION MECHANISMS

The Institute values its customers and is committed to providing quality service. To support this, it has established an effective customer care framework compliant to ISO standard on Quality Management System.

However, disputes and conflicts are bound to happen in any relationship due to miscommunication and misunderstandings. To resolve any arising conflicts, there will be



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a clause included in the CAF and the Credit Facility contract detailing applicable dispute resolution mechanisms.

All customer complaints and disputes shall be dealt with in accordance to the KEFRI Public Complaints policy. However, in instances where the Institute and customer have failed to find an amicable solution, the first recourse shall be to seek for an Alternative Dispute Resolution scheme before going to court.

5.6 INTERNAL DEBTORS

These are debts incurred as a result of transactions that occur internally between the enterprise unit and other sections within the Institute. Individuals and sections incurring such debts by either consuming the goods or services chargeable at given rates shall settle such debts through the usual Institute procedures within the allowable period of 30 days. Section or divisional heads will be required to fill in the relevant forms before the services or goods are given. Finance and Accounts division will verify availability of funds in the relevant cost centre before service or goods are given and effect funds transfer to the relevant enterprise account. Debts relating to individuals shall be deducted from salaries of the concerned officers and remitted to the enterprise unit account.

6.0 REVIEW OF CREDIT POLICY

This policy shall be reviewed every 3 years or earlier in response to critical changes in the Institute's risk management measures, business environment, and relevant laws and regulations.



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7.0 APPROVAL OF CREDIT POLICY

This policy is approved by the Board of Directors and implemented by the Director KEFRI.

Signature:

A handwritten signature in blue ink, appearing to read 'Joshua K. Cheboiwo'.

Date: 7th August 2018

Joshua K. Cheboiwo (PhD)
For: Director - KEFRI



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ANNEXURES

ANNEXURE 1 – CREDIT APPROVAL FORM (CAF)

Application Date: _____

A: Customer Information

Name of Customer _____

Customer Classification _____

Address _____

City _____ Telephone _____

Fax _____

Commencement of Business ____ / ____ / ____

Nature of Business (Tick Appropriately)

Proprietorship Partnership Private Limited Public Limited State Agency

State Department Ministry County Government

(Please Specify) _____

Line of Business _____

Contact Person _____ Designation _____

Office Telephone _____ Mobile _____

Fax _____ E-mail _____

B: Financial Standing / Information

Bank Information (Attach latest three months bank statements):

1. _____ Branch _____



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Average monthly balance _____

2. _____ Branch _____

Average monthly balance _____

Tax Information (Attach copy of certificate(s))

PIN Number _____

VAT Number _____

Financial Information (Attach latest financial reports)

Sales _____ (Monthly/Annually)

Net Income _____ (Monthly/Annually)

Details of Assets (Attach latest Balance Sheet / Income Statement for Public/Private Ltd. Companies)

Cash / Securities _____ Working Capital _____

Fixed Assets _____

(Attach Financial Ratio Analysis)

C: Credit Evaluation

For Existing Customer

1. Credit being availed Yes No (If no, please go to item 7)
2. Credit Limit (Kes.) _____ Credit Period (Days) _____
Credit record Good Poor
3. Any outstanding Yes No (If no, please go to item 6)
4. Specify date / period of outstanding debt _____
Amount Outstanding (Kes.) _____
5. Is outstanding overdue or current _____
Nature, frequency and amount of default in last year _____



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6. Extension Requested Yes No

New Limit (Kes.) _____

New Period (days) _____

7. Credit Limit Applied (Kes.) _____

Credit Period Applied (days) _____

For New Customer

1. Current Supplier _____

2. Credit Limit (Kes.) _____ Credit Period (Days) _____

3. Reason for switching to KEFRI _____

4. Credit Limit Applied (Kes.) _____

Credit Period Applied (Days) _____

Sale performance & expected growth

To be filled for both new & existing customers

Product/ Service	Supplied By	Existing Sales (Cash / Credit) (Per Month)		Expected Credit Sales (Per Month)	
		Volume (Unit)	Value (Kes.)	Volume (Unit)	Growth (%)

Profitability Analysis

Gross Profit Margin _____.



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Operating Profit Margin _____,

Net Profit Margin _____,

Cash Flow Margin _____.

D: Credit applied for Kes _____ (days) _____

Mode of Payment: Cheque (current/ postdated) Pay order Demand Draft

Other _____

Secured Against: Letter of Credit Bank Guarantee Local Purchase/ Service Order

E: Justification

Attachments

1. A copy of Certificate of Registration (in case of sole proprietor, partnership or limited company) Yes No
2. A copy of PIN/ VAT Certificate Yes No
3. Balance Sheet / Income Statement for the last three years Yes No
4. Credit worthiness report from independent evaluator, where applicable Yes No
5. Bank statement for last six months showing positive balance Yes No
6. Credit worthiness certificate from group, if applicable Yes No
7. Financial ratio analysis as per guidelines Yes No

F: Final recommended Credit Limit



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Value (Kes.) _____

Period (Days) _____

Validity _____



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SCHEDULES

SCHEDULE 1 – CLASSIFICATION OF CUSTOMERS

CLASS	DESCRIPTION
Class A	<u>External Customers</u>
Class A1	Government Ministries, State Departments, County Government and State Agencies
Class A2	Public and Private companies and Private Owned Enterprises
Class A3	Individuals
Class B	<u>Internal Customers</u>
Class B1	Divisions, Units and Sections
Class B2	Staff