ROLE OF EQUITY BANK IN THE PROMOTION OF INTERNATIONAL TRADE IN KENYA

BY

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DECLARATION

This research project is my original work and has not been submitted for examination to any other university.

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This research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

This research is dedicated to the Almighty God for giving me life, power, knowledge and wisdom and understanding to write it. I wish to express my gratitude to my father Mr. Otieno and my dearest mother Mrs. Oyanda, for the encouragement and support throughout the course. To all my siblings, Linda, Felogene, colleagues and friends I express gratitude for your moral support throughout my course.

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ABSTRACT

International business transactions have been transformed by the globalization of economies which has been spearheaded by the advancement in technologies (Patricia R. Todd et al, 2004). This has led to the advancement of many banks in the promotion of trade internationally. Banks have been able to facilitate international trade by guaranteeing international payments hence reducing the risk of trade transactions; this has led to economic growth of trading countries.

This study sets out to determine role of Equity Bank in enhancing international trade in Kenya. The researcher shall look into the role of the bank in offering advisory roles to international trading companies. How they facilitate trade financing and foreign exchange risk management and facilitation of international trade transactions. Commercial banks provide pre-export and pre-import loans to financial intermediaries; they also facilitate the settlement of international payments. They issue letters of credit and extend similar guarantees, which reduce the risk that importers and exporters may default on their obligations to deliver or to pay. The objective of the study is to determine the role of Equity Bank in promoting international trade in Kenya. The findings aim to empower commercial banks to support international traders for mutual benefit as well as empower the traders in Kenya to carry out trade Internationally hence improving the country's economic condition.

The study aims to use a descriptive research design with target population from Equity bank with the collection of both primary and secondary data for the research on this study. The researcher shall narrow the research to the staff working at the bank with a major focus on the section that deals with international transactions, particularly the top, middle level and lower management staff. Data collected shall be analyzed using SPSS and presented in diagrams, charts and tables. The researcher will then discuss the summaries, findings and recommendations of this study.

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ABBREVIATIONS AND ACRONYMS

ATMS	-	Automatic Teller Machine
EU	-	European Union
FSAP	-	Financial Sector Assessment Program
IMF	-	International Monetary Fund
KCB	-	Kenya commercial bank
MDGs	-	Millennium Development Goal
MFI	-	Micro Finance Institutions
NBK	-	National Bank of Kenya
IFC	-	International Finance Corporation
FDI	-	Foreign Direct Investment
SME	-	Small and Medium Enterprise
SSB	-	Self Serviced Banking

CHAPTER 1

INTRODUCTION

1.1 Background of the study

Due to technology advances in the banking sector, communication gaps and delays in international business transactions, the role of commercial banks has been imminent and transformed a lot. In Kenya, the commercial banks have incorporated automation and innovation of products that are customized to meet the needs of the customers, improve sales and market share (Joseph & Stone, 2003). Banks facilitate international trade by guaranteeing international payments thereby reducing the risk of trade transactions. Services offered by some individual banks include foreign exchange, traveller's checks, letters of credit, documentary collections, bank guarantees and electronic funds transfer to their customers. In addition, business banks play a role of trust agent by offering services like documentary collection and letters of credit (ICC, 2009).

According to Gladys and Potin (2011), one of the problems international businesses encounter in doing business internationally is lack of trust. With the help of commercial banks, businesses are able to create a bond. Banks act as agents who handle payments as well as relevant documents.

A letter of credit is the most widely used and accepted method of doing international transactions. Some banks and government agencies offer export credit insurance to businesses in cases where the exporter requires a guarantee in payment.

The Foreign exchange market is another area where international commercial banks play a vital role. This position is upheld by IFC (2012) whereby the foreign exchange market serves two main functions: to convert the currency of one country into the currency of another and to provide some insurance against foreign exchange risk. Multinational corporations constantly need various currencies for their operations and to hedge against foreign exchange risk of trust between international buyers and sellers. These banks act as a broker between commercial customers and foreign exchanges around the world.

Further, Rose (1997) affirms that international businesses receive payments in foreign currencies for their export. The income is received from foreign investments and licensing agreements with foreign firms. International businesses also use the foreign exchange market to pay foreign firms for their products and services and to make direct investments in a foreign country. Many commercial banks offer short as well as long term loan financing to international businesses. Many countries have banks backed by government funding to provide funds for export and import businesses. In the United States, Export-Import bank (Eximbank), an independent agency of the US government, provides financial aid to facilitate export and import of goods. Eximbank also guarantees repayment of loans that US commercial banks make to foreign borrowers for purchasing US exports (Eck et al., 2012).It is against this background information that this research seeks to find out the role of played by commercial banks i.e Equity Bank in promoting international trade.

1.1.1 Concept of international business

International trade has a rich history and has evolved from the initial barter trade system, through mercantilism in the 16th and 17th centuries to trade liberalism in the 18th century. Adam Smith, the father of economics is among the first contributors in the subject through his famous book of "The Wealth of Nations' in which he defined the importance of specialization in production. Later, David Ricardo developed the Comparative advantage principle which stands true to date (Management Study Guide, December 2012).

These economic thoughts have influenced the international trade polices of countries ever since. Traditionally, international trade consisted of traded goods like textile, food items, spices, precious stones, jewellery and objects of art and various items across the borders. Various factors have helped shape modern day international trade, including but not limited to industrialization, development of transportation, globalization and technology that enables trade and communication. Johanson and Vahlne (1977) describe internationalization as the process by which firms gradually increase their international involvement. They opine that internationalization is the product of a series of incremental decisions.

On their part, Welch and Loustarinen 3 (1988) define internationalization as a dynamic concept as a result of increasing involvement in international operations; while Coviello and Munro (1997) see internationalization as the process by which firms both increase their awareness of the direct and indirect influences of international transactions on their future and conduct transactions with other countries. From these definitions therefore, the consensual concept of internationalization can be said to include many incremental decisions and strategies, various inward and outward product and services, or resources transferring across national boundaries.

1.1.2 International Trade

International trade refers to the exchange of goods or services along international borders. This type of trade allows for a greater competition and more competitive pricing in the market. The competition results in more affordable products for the consumer. The exchange of goods also affects the economy of the world as dictated by supply and demand, making goods and services obtainable which may not otherwise be available to consumers globally.

Our world has become increasingly dynamic and multidimensional mainly due to ever faster globalization. Economic actors now behave as if the world consists of a single market for goods and services, capital and labour. Globalization and its key drivers: transnational companies have significant effects on economies that become more interlinked and interdependent, on investment, production, trade and diffusion of technology etc. (International Monetary Fund, World Economic Outlook, 2007).

Measurable facts about globalization are only partly available. Official statistics, as a tool for policy making and for monitoring the effects of policies, should measure the reality of our social, economic, cultural, political and institutional world. In the increasingly globalized world traditional methods of measuring the national economy are not suitable.

Activities of transnational enterprises caused that traditional foreign trade statistics are not usable as a tool for facilitating strategic governmental policy decisions on the economic and non-economic aspects of globalized world economy and world trade.

According to (Economy Watch, International Trade and Growth, 2010) developing countries, which have followed trade liberalization policies, have experienced all the favourable effects of globalization and international trade. China and India are regarded as the trend-setters in this case. There is no denying that international trade is beneficial for the countries involved in trade, if practiced properly. International trade opens up the opportunities of global market to the entrepreneurs of the developing nations. International trade also makes the latest technology readily available to the businesses operating in these countries. It results in increased competition both in the domestic and global fronts. To compete with their global counterparts, the domestic entrepreneurs try to be more efficient and this in turn ensures efficient utilization of available resources.

Open trade policies also bring in a host of related opportunities for the countries that are involved in international trade. However, even if we take the positive impacts of international trade, it is important to consider that international trade alone cannot bring about economic growth and prosperity in any country. There are many other factors like flexible trade policies, favourable macroeconomic scenario and political stability that need to be there to complement the gains from trade. There are examples of countries, which have failed to reap the benefits of international trade due to lack of appropriate policy measures. The economic stagnation in the Ivory Coast during the periods of 1980s and 1990s was mainly due to absence of commensurate macroeconomic stability that in turn prevented the positive effects of international trade to trickle down the different layers of society. However, instances like this cannot stand in the way of international trade activities that are practiced across the different nations of the world.

Thus, international trade leads to economic growth provided the policy measures and economic infrastructure are accommodative enough to cope with the changes in social and financial scenario that result from it.

1.1.3 Role of Commercial Banks in promoting International Business

Banking can be traced back to the year 1694 with the establishment of the bank of England. The bank was started by a few individuals who were actually money lenders with an aim of lending money at interest. Most of us have experienced some form of bank transactions in our lives. In Kenya, almost every one over the age of 18 has at least one account with the bank. The services most of us are familiar with include savings, loans, investments and credit card.

Moreover, banks offer trade finance, project finance, payroll, foreign exchange transactions and trading, lock boxes for collecting payments and general corporate finance. The banking industry in Kenya is steadily expanding. It started in 1896 with the National Bank of India opening its first branch. Standard Chartered Bank opened its first branches in Mombasa and Nairobi in January 1911. The Kenya Commercial Bank was established in 1958 with Grindlays Bank of Britain merging with the National Bank of India. The Cooperative Bank of Kenya was established in 1965 for the express purpose of providing financial services to Co-operative societies. Three years later, National Bank of Kenya (NBK) was incorporated (Ojung'a 2005).

Currently, there are 43 commercial banks in Kenya. Massive, rapid, technological innovations (Norton, 1995) are replacing the traditional branch teller. With greater competition brought by deregulation, globalization and widespread mergers and acquisitions taking place in the banking sector, more branches are being closed down and replaced by self-serviced banking (SSB) facilities like the ATMs as part of a larger rationalization exercise. Even with the massive branch network, the use of phone banking and Internet banking is strongly promoted by the banks in addition to ATMs. In today's commercial banking environment information technology, effective service delivery and customer satisfaction are an indispensable competitive strategy. Furthermore, the stiff competition and the compression of the interest rates, has forced banks to set up and put into effect all necessary decision support technological systems.

This enables them to dynamically plan new locations, evaluate their performance, forecast customers' attitude to new offered products and services, estimate clients' switching behavior, and finally provide marketing support to their geographically separate branches. Therefore, the global nature of commercial banking also makes possible the distribution of valuable economic and business information among customers and the capital markets of all countries. Commercial banking also serves as a worldwide barometer of economic health and business trends.

1.1.4 Equity Bank

Equity Group Holdings Limited was founded in Kenya, the largest economy in the East African Community as the Equity Building Society (EBS) in October 1984. EBS was originally a provider of mortgage financing for customers in the low income population. Large numbers of Africans have historically been excluded from formal sources of capital, such as banks, building societies, and other regulated financial institutions. EGHL's headquarters are in Nairobi, Kenya, with subsidiaries in Kenya, Uganda, Tanzania, South Sudan, Rwanda, and the Democratic Republic of Congo (DRC).

Equity bank is among the top financial services in Kenya with a customer base of 9,200,000 is has enabled the bank to be categorized in the first tier group. The bank has grown in leaps and bounds since it's inception in 1984. It's impact has been felt in the social and economic spheres of the customers and the country. The bank has invested in the financial services and telecommunication industry. Products and services are diversified and tailored to satisfy the needs of the customer. The bank offers trade financing through letters of credit (LC) and guarantees. This facilitates movement of goods from point to point both locally and internationally. It also gives loans to individuals, corporates, small and medium enterprises, asset finance and bills discounting.

Moreover, the bank promotes use of American Express branded charge and credit cards. Equity Bank signed a partnership agreement with American Express in December last year making them the exclusive issuer of AmEx card products in Kenya, Tanzania and

Uganda. As part of the agreement, Equity Bank also acquires merchants on to the American Express network in these countries.

Equity Bank has embraced innovation and launched the thin sim card in partnership with Airtel called “Equitel”. The move will turn the mobile devices into dual sim phones. Its business model targets the low-income market to achieve scale through a high volume of relatively small, low-margin transactions. This allows Equity Bank to keep costs low, while providing stable funding to customers and promoting accessibility, convenience, affordability, and efficiency of financial products and services. A large distribution network of agents and a robust information technology platform further enable the bank to access previously untapped markets. The bank’s business model has been featured in case studies at leading international business schools around the world.

To ensure that financial inclusion reaches last-mile populations, Equity Bank relies on its mobile banking platform and agency banking model. Having achieved sufficient scale, the bank expanded its remote agency model to build a network of over 5,100 agents to serve a growing customer base of nearly 8 million. This expansion improved access to formal financial services for the low-income marked by a 37 percent increase in customer deposits while also reducing household risk and transaction costs, and increasing profits for the bank. The bank indirectly contributes to the development of a well-functioning, competitive, and diversified financial sector by providing the mass market with a means of payment, enabling secure financial and commercial transactions, and mobilizing domestic savings.

1.2 Research Problem

Recent studies have shown that Kenya's banking sector has a lot of potential for growth. Muthui, (2013) for example observed that there are lots of opportunities in the banking sector that have not been fully exploited. The milestones achieved by equity bank so far are the indicators of a step in the right direction.

Empirical investigations exploring effects of adjustment dynamics and nonlinear aspects of international trade arising from financial institutions are critical to understanding the effectiveness and conduct of commercial banks in promoting international trade. However, lack of relevant information on the role of commercial banks in enhancing international trade is still a pertinent problem in Kenya (Central Bank of Kenya, 2010; Buigut, 2010). So far, few studies if any, have explored asymmetries and dynamics of adjustment of bank foreign trade products and services in developing countries.

Access to affordable financial services is a significant challenge in Kenya, for example, more than 70 percent of households relied on informal sources of financing in 2007.As Kenya lays foundation for realization of Vision 2030 goals, macroeconomic stability has been identified as an important enabler of sustainable economic growth. According to Kenya Vision 2030, Central Bank of Kenya's monetary policy stance should aim at maintaining inflation rate at or below 5 per cent to promote credit expansion and international trade (Republic of Kenya, 2007). However, the target was not realized for first half of financial year 2013/14 and the average monthly inflation rate was above 6% with unfavorable balance of payment (Republic of Kenya, 2013).

Commercial banks are the most dominant players in money market (Niepmann, 2013) making many countries bank dependent economies. As of 2009, commercial banks in Kenya owned 80 per cent of financial sectors' assets (Kamau, 2010). Despite the dominance and the key role played by commercial banks in international trade, there is lack of clarity on behavior and adjustment of their role in enhancing international business as depicted by the country's inability to maintain a lower inflation rate and favorable balance of payment.

Studies conducted locally have mainly focused on the strategies adopted by the bank and challenges of internationalization. Central Bank of Kenya observed that Equity Bank has developed financial products that target the low-income market to achieve scale through a high volume of relatively small, low-margin transactions. This allows the bank to keep costs low, while providing stable funding to customers and promoting accessibility, convenience, affordability, and efficiency of financial products and services. Central Bank of Kenya (2014). Equity Bank currently reaches more than 1.7 million low-income consumers across Africa. Cooray, A. (2009). Mulwa (2009) did a research on the process and challenges involved in internationalization of Equity Bank Limited. Competitive advantage if not be exploited within the domestic market without undue transaction costs, then the firm will seek to move outside of that market and exploit its sources of advantage elsewhere. This involves strategy formulation and implementation. Internationally, Cracknell (2012) did a case study on Equity bank on the policy innovations that are incorporated to improve access to financial services in developing countries. Equity bank diversified its services to agency and mobile banking, and led innovations in Visa and Master branded cards.

There is need to analyze the specific role of Equity bank that directly affect the international trade in Kenya so as to develop systems and mechanism in commercial banks to support international trade. Equity Bank's impact on international trade goes well beyond the direct provision of financial services. The bank indirectly contributes to the development of a well-functioning, competitive, and diversified financial sector by providing the global market with a means of payment, enabling secure financial and commercial transactions, and mobilizing domestic and international savings. Kamau, (2010) A large distribution network of agents and a robust information technology platform further enables the bank to access previously untapped markets. The bank's business model has been featured in case studies at leading international business schools around the world. Bils, M. and P.J. Klenow (2013)

This financial infrastructure enables more efficient allocation of capital to productive investments, which contributes to growth and, ultimately, regional and overseas corporation. Therefore, the study will answer the pressing question: “What role is played by Equity Bank in promoting International trade?” This study will look at empirical and theoretical studies with the view of establishing Equity banks strategic role in promoting international business.

1.3 Research Objective

The objective of this study is to determine the role of Equity Bank in promoting International business.

1.4 Value of the Study

In view of the economic significance of the banking sector in terms of economic growth through international trade, this research is of immense benefit not only to the government in terms of the appreciation of the critical role played by Equity bank in international trade which may have been overlooked, but also to bank management in the improvement of international trade products and services.

The study contributes knowledge and enhances international trade participation in Kenya. It also enhances the competitiveness of banks in creating wealth for their owners and employment for the country, increases regional development and distributes wealth in the countries they operate.

Moreover, the study equips both policy makers and stakeholders with knowledge to identify the strengths and weaknesses of various strategies/incentives and practices as well as policy guidelines on areas that require immediate intervention for development of international trade. This makes it easier for the government and stakeholders to combine and adopt the best role with the appropriate policy interventions and incentives to achieve the desired economic growth rate as envisioned in Vision 2030. The study also contributes to the body of knowledge for the researchers and scholars interested in the development of international trade.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter describes the theoretical foundation and theories under the study. Review of related literature is very important because it provides the needed support to the rationale for undertaking research (Kothari, 2004).

2.2 Theoretical foundation

The better we understand behaviour from a variety of points of view the more effective we can use it in analysis and problem solving (Kothari, 2004). This study will be based on three main theories. These are: Transaction cost theory, Porter's theory of Diamond model, and Keynesian theory. These are presented below.

2.2.1 Transaction Cost Theory

Ronald Coase in (1937) tries to explain why companies exist and why companies expand or source out activities to the external environment. The transaction cost theory supposes that companies try to minimize the costs of exchanging resources with the environment, and that companies try to minimize the bureaucratic costs of exchanges within the company. International traders are therefore weighing the costs of exchanging resources with the environment (in this case the banks) against the bureaucratic costs of performing activities in-house. The theory sees institutions and markets as different possible forms of organizing and coordinating economic transactions.

When external transaction costs are higher than a company's internal bureaucratic costs, the company grows because the company is able to perform its activities more cheaply than if the activities are performed in the market. However, if the bureaucratic costs for coordinating the activity are higher than the external transaction costs, the company downsizes and the roles of international trade facilitation and promotion are performed by commercial banks.

According to Coase (1937), every company expands as long as the company's activities can be performed cheaper within the company as opposed to outsourcing the activities to external providers in the market.

According to Williams (1997), a transaction cost occurs when a good or a service is transferred across a technologically separable interface. Therefore, transaction costs arise every time a product or service is being transferred from one stage to another, where new sets of technological capabilities are needed to make the product or service.

The transaction costs related to the exchange of resources with the external environment could be reflected by the following factors; environmental uncertainty, opportunism, risks, bounded rationality and core company assets. These factors potentially increase the external transaction costs, where it may become rather expensive for a company to control these factors. Therefore, it may very well be more economical to maintain the activity in-house, so that the company may not use resources on contracts with suppliers, meetings, supervision etc. Therefore, if companies see the environmental uncertainty as high, they might choose to not outsource or exchange resources with the bank. The theory, therefore, guides the banks in setting realistic prices for their international business services such as foreign exchange rates and charges to international payment transactions.

2.2.2Porter's theory of Diamond model

Michael Porter offered a model that allows examining why some states are more competitive and why some industries within states are more competitive than others are. In this way, Porter's diamond model of national competitiveness was detected as a model with which to assess the sources of competitive advantages of an industry in a particular country and it can help realise the competitive status of a nation in global competition. This model consists of four national determinants of competitive advantage: factor conditions, demand conditions, related and supporting industries, and firm's strategy, structure and rivalry. The Porter's theory is that these factors interact with each other to form conditions where innovation and competitiveness occurs.

Porter aimed at establishing a link between the academic literatures in strategic management and international economics in his book "Competitive Advantage of Nations" in 1990 and create a base for developing national policies on competitiveness.

Porter argued that a great number of trade-related theories have only focused on cost and a new theory was essential that “should attract a comprehensive understanding of competition that contains segmented markets, differentiated products, the technological differences and economies of scale”. He suggested that this new theory should be able to define why firms from certain nations implement better strategies than others competing in certain sectors. For this purpose Porter made an examination in ten countries (USA, Germany, Denmark, South Korea, Britain, Italy, Sweden, Switzerland, Japan and Singapore) including different economic characteristics of 100 sectors for four years to try to find the elements that determine the competitiveness of nations and sub-sectors to determine what kind contributions provided to the development of competitive structures of countries. He looked for an answer to “why some regions are more competitive than others are” and tried to make clear how firms gain superior positions in certain sectors of the country on global competitiveness.

These factors are described as factors affecting the competitiveness as a support of the four factors. All factors contain: all assets and skills vital for industry's competitive advantage; information which create the opportunities and give the answer to how convenient assets and skills should be managed; aims of all interest groups; and what is most important, particular power of the company to investing and innovating.

2.2.3 Keynesian Theory

This theory suggests that governments should play a much larger role in the economy. His vision was one of reformed capitalism, managed capitalism—capitalism saved both from socialism and from itself. Keynes talked about a "somewhat comprehensive socialization of investment" and the state's taking "an ever greater responsibility for directly organizing investment." Fiscal policy would enable wise managers to stabilize the economy without resorting to actual controls. The bulk of decision making would remain with the decentralized market rather than with the central planner.

Keynes (1964) advocated for public expenditure to create jobs and employ capital that has been unemployed or underutilized when an economy is in a downturn with high unemployment of labour and capital. Keynes’s theory postulates that public expenditure is needed to increase economic output and promote growth.

Keynes provided both a specific rationale for government's taking a bigger role in the economy and a more general confidence in the ability of government to intervene and manage effectively. Despite Keynes's fascination with uncertainty and his speculative talents in the marketplace, Keynesians deemed "government knowledge" to be superior to that of the marketplace. He argued that when the economy is in a downturn and unemployment of labour and capital is high, governments can spend money to create jobs and employ capital that have been unemployed or underutilized. Keynes's theory has been one of the implicit rationales for the current federal stimulus spending: it is needed to boost economic output and promote growth (Ramey, 2009).

An appropriate banking environment is considered a key pillar as well as enabler of Financial progress (Koivu, 2002). The banking industry has been subject to changes (Bradley and Stewart 2003). In order to be in line with the changes in the operating environment, it is apparent that banks in Kenya and other financial institution have to embrace globalization (Tiwari and Buse, 2006). Equity bank strategies have proved fruitful in terms of increased customer base therefore higher operations and profitability. Consequently, growing partnership in financial institution and other service providers has led to an increase in banking as customers can transact from nt different geographical outlets/branches.

According to Demirguc (2008), in order for a country to attain development, the following are of great importance. Financial services should be accessible to all: this is often seen as the goal of Equity bank. Financial services provided should also be of quality: Equity bank strategies have the following traits: affordability, convenience, product-fit, safety, dignity of treatment, and client protection.

The bank ensures provision of the full suite of basic financial services; this refers to group of core financial services that includes basic credit, savings, deposits, withdrawals safe custody and payment services. (Mutsune, T. (2014)).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides the methodology of the study. It gives the specific procedures that will be followed through in undertaking the study. The research design, data collection & data analysis are also defined & described in this chapter.

3.2 Research Design

Research design refers to how data collection and analysis are structured in order to meet the research objectives through empirical evidence (Cooper and Schindler, 2006). The study adopted descriptive research design. Mugenda and Mugenda (2003) describes descriptive research design as a systematic, empirical inquiring into which the researcher does not have a direct control of independent variable as their manifestation has already occurred or because the inherently cannot be manipulated.

The study used a case study design as well in determining the strategic planning and implementation practices. Kothari (1990) describes a case study as a form of qualitative analysis that involves a careful and complete observation of a social unit. He further describes a social unit as a person, family or institution. The researcher adopted a case study because of its contribution to the knowledge of individual, group, organizational, social and political phenomena.

A Case study has been a common research strategy in business (Ghauri&Gronhaug, 2002) and community planning. The distinct need for case studies arises out of the desire of the researcher to understand the complex social phenomena. Case study method allowed the researcher to retain the holistic and meaningful characteristics of the real life events (Robert, 2002).

3.3 Data Collection

Primary data was used in the study. The interview guide was divided into 3 sections. Section one involved demographics, section two on Equity bank and International trade and section three on development levels of Equity bank. The interview involved six staff in the trade and finance department at the Bank. Development levels are measured using the Regional Development Index (RDI).Interview guide was used in the collection of data. Interview is a way to collect data as well as to gain knowledge from individuals. Kvale (1996) regarded interviews as an interchange of views between two or more people on a topic of mutual interest, sees the centrality of human interaction for knowledge production, and emphasizes the social impact of research data.

3.4 Data Analysis

The researcher collected qualitative data. Content analysis was used to analyse the data. Nachmias and Nachmias (1996) define content analysis as any technique used to make inferences through systematic and objective identification of specified characteristics of messages.

Kothari (2004) also explain content analysis as the analysis of the contents of documentary and verbal material and describes it as a qualitative analysis concerning the general import of message of the existing documents and measure pervasiveness. Before embarking on content analysis, the researcher assessed the written material's quality to ensure that the available material accurately represents what is said. The researcher then listed and summarized the major issues contained in the interview guide responses. This enabled him/her to structure the data in a way that can make it possible to analyse and interpret it.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the results found from the data analysis. It therefore consists of the data analysis presentation and interpretation of findings. The objective of this study is to determine the role played by equity bank in promoting international trade in Kenya. Primary data was collected through interviews conducted in the trade and finance department. The staff of the department were chosen because they were the main people involved in international trade. The interview guideline was designed based on the variables of the study.

4.2 Demographic Factors of the Respondent

From the data collected, 6 respondents were interviewed in the department. Several demographic factors were considered which were important in the interpretation of responses given. The factors included the gender of the respondent, their highest level of education, and number of years in the organization as well as their position in this department.

4.2.1 Gender of the respondent

Data was collected on the gender of the respondents. Analysis was done and the results shown in Table 1.

Table 1 Gender of the Respondent

	Frequency	Percent
Male	2	33.3
Female	4	66.7
Total	6	100.0

From the data collected, 4 (66.7%) were Female while 2(33.3%) were Male.

4.2.2 Level of Education of the respondent

The research further sought the education level of the respondents. The Analysis is shown in the Table 2.

Table 2 Level of Education of the respondent

Highest Education Level

	Frequency	Percent	Percent	Cumulative Percent
Diploma	1	16.7	16.7	16.7
Degree	2	33.3	33.3	50.0
Post graduate	1	16.7	16.7	66.7
Professional Courses	2	33.3	33.3	100.0
Total	6	100.0	100.0	

1(16.7%) respondent was a diploma holder, 2 (33.3%) respondents were degree graduates while 1 (16.7%) was a Post Graduate holder and 2 (33.3%) were professional course graduates. From these 1 (16.7%) respondent was the business Manager, 2 (33.3%) of the respondents were assistant managers while 1 (16.7%) was a business consultant, 1 (16.7%) of the respondent was an officer in the department and 1 (16.7%) of the respondent was an intern. The Analysis is shown in the Table 3.

Table 3 Positions in the Department

Position in the department

	Frequency	Percent	Percent	Cumulative Percent
Managers	1	16.7	16.7	16.7
Assistant Managers	2	33.3	33.3	50.0
Consultants	1	16.7	16.7	66.7
Officers	1	16.7	16.7	83.3
Interns	1	16.7	16.7	100.0
Total	6	100.0	100.0	

4.2.3 Number of years in the department

Respondents were asked on the numbers of years they have worked on the international trade business and responses were as shown on the Table 4.

Table 4 Number of years in the Department

Years in the department

	Frequency	Percent	Percent	Cumulative Percent
0-2 years	3	50.0	50.0	50.0
3-5 Years	1	16.7	16.7	66.7
6-8 Years	1	16.7	16.7	83.3
9-12 Years	1	16.7	16.7	100.0
Total	6	100.0	100.0	

Most respondents had been in the institution for 2 years or below (50%) other respondents (16.7%) had been in the institution in between 3-5 years, 1 (16.7%) had been between 6-8 years in the institution while another between 9-12 Years.

4.2.4 Functions within the department

The study focused highlighted the functions performed by the respondents in the department, the responses were categorized as shown below on Table 5.

Table 5 Functions within the department

Key functions in the department

	Frequency	Percent	Percent	Cumulative Percent
Minimal Functions	2	33.3	33.3	33.3
Most Functions	1	16.7	16.7	50.0
All Functions	3	50.0	50.0	100.0
Total	6	100.0	100.0	

3 (50%) of the respondents performed all the departmental functions, 1(16.7%) of the respondents performed most of the functions while 2 (33.3%) performed minimal functions in the department. The functions in the department include: Trade finance operations on International foreign products eg. Guarantees, Letters of credit, documentary collections, Local Purchase orders, Discounting of invoices, Electronic funds Transfer and traveller's checks.

4.3 Commitment to International Trade

The study further sought to understand the commitment of Equity Bank in the promotion of International trade. Most respondents agreed that the bank supported the concept of international trade as shown in the table below.

Table 4.3.1 Commitment to international Trade

Commitment to International Trade

	Frequency	Percent	Percent	Cumulative Percent
Agree	3	50.0	50.0	50.0
Not Sure	1	16.7	16.7	66.7
Disagree	2	33.3	33.3	100.0
Total	6	100.0	100.0	

3 (50%) of the respondents agreed that the institution had shown commitment to international trade, 1(16.7%) of the respondents was not certain while 2 (33.3%) disagreed.

4.4 Benefits brought about by International Trade

The study sought to establish the benefits of international trade to the staff in the trade and finance department. From the findings, the majority of the respondents their career and have speciality in the field, ability to satisfy the customers by coordinating their business internationally and injecting more revenue into the company as a result.

Benefits accruing to Equity Bank as a result of international trade are: Approximately Kshs. 500M income from international finance products processing, the institution's partnership with other leading organizations eg. OPIC (Overseas Private Investment Corporation), World Bank and the customer base that is increasing rapidly due to the international finance products offered by the Bank and it's efficiency, ability of a product to cross-sell to exporting or importing customers and earnings in foreign exchange.

4.5 Challenges for developing trade standards

Structuring trade deals is also another challenge. This is offering capital solutions (both funded and non-funded) are provided outside the traditional fall back on securities thus focus shifts from the "strength"of the borrower to the underlying cash flow and structures that enhance safe financing.

The study further established challenges experienced in trade and finance is securities required. The security or collateral damage provided by the customers in some instances is not sufficient to secure the loan application. In case of defaulters, the security provided is not able to service the loan and therefore the Bank is at risk of losing funds.

The study sought to find out the international trade regulation that Equity Bank complied to while offering International trade finance products to corporate clients and individuals. From the findings, the majority of the respondents indicated that Equity subscribes to the International Chamber of commerce (ICC) publications on the various trade finance products. This is in line with the ICC Hand book (2007) which stipulate that SMEs and banks must obey not only laws at home but also laws of all the other host countries where they conducts business which are based on the International Chamber of commerce rules. These rules are product specific and are regularly reviewed to meet the needs of international business in this dynamic economic environment (ICC Hand book, 2007).

4.6 Essential features of Equity Bank that promote International Trade

The study also sought to find out the features that Equity Bank possess is all inclusiveness. The Bank is ready to finance any customer with their business. The business is to have a fiscal plan; the security provided should be of high net worth because of the risk implications in case of defaulters and allows for partnerships. The credit risk evaluation is also conducted to authenticate that the customer is credit-worthy. For many banks, credit risk is a key risk and makes up the largest amount of risk-based capital for the Basel capital allocation. Credit risk arises when dealing with customers, vendors, and other counterparties. It is generally viewed as the risk of default on an obligation. The Basel Committee on Banking Supervision defines credit risk as “the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Further, the partnerships Equity Bank has with other organizations has given them leverage over their competitors e.g The American Express that offers Gold and Green cards to its customers to undertake international transactions.

However, the Bank has also illustrated its support for international trade with the establishment of RMA with various banks especially in China. RMA Africa is a French regulated mutual fund (Fonds Commun de Placement) issued from the partnership between RMA Asset Management and RMA Capital. The fund is mostly invested in Africa and gives investors the opportunity to benefit from the substantial potential of this market, with a firmly established local expertise. The fund's objective over the recommended investment period, is to take profit from the dynamism of a growing continent by selecting African securities offering the greatest potential of appreciation in the medium term. The annual report released by the RMA listed Kenya at the top position up +2.54% rated the best performance. (RMA Africa, 2014).

The Bank has subsidiaries in Rwanda, South Sudan, Uganda, Tanzania and recently Democratic Republic of Congo. Locally, the bank maintains its network of 135 branches, which includes 38 branches in Nairobi.

4.7 Success Factors that are brought about by International Trade

The research established that international trade enhances the economic growth of a country. The goods and services exchanged earn the country foreign currency. The economic growth can be on a steady rise or rapidly depending on the frequency and the exchange rate of the foreign currencies.

The Balance of payments (BOP) for the country through exports and imports. The balance of payment should be balanced where the exports equals the imports so as not to pose a risk to the economy. Trade surplus arises when the exports exceed the imports and vice- versa for trade deficit. Economies of the world ensure they have comparative advantage over their counterparts to maintain a surplus in the market.

The income generated by Equity Bank Limited is Kshs. 500M through international trade. Thus the forex earned improves the economy of the country and improves the standard of living of employees and citizens at large. This also attracts foreign investors to inject monetary support to development of projects.

The indicators of the above success factors include: Fast growing economy that leads to expansion of businesses, stable local and foreign currency, sound business deals, structured trade deals, good infrastructure in terms of road network, information and communication technology, fair policies and regulations by the Government, foreign direct investments (FDIs) and political/stable business environment.

4.8 Limitations, Liabilities and Disadvantages of International Trade

The research sought to establish the challenges faced by Equity Bank while issuing trade finance products to SMEs, corporate clients and individuals. From the findings, the majority of the respondents attested that the challenges Equity Bank faces included knowledge gap since most clients never understand how international trade finance products work. The collateral requirement is another challenge as customers are not ready to provide collaterals for their trade finance instruments. In addition, the middlemen are also a major challenge since most of the SMEs, corporate clients and individuals engage the services of middlemen who still get the financing product from the bank but charge the clients high charges that reduce the margins of the bank significantly. The sanctions are another challenge whereby customers who do business with countries that are on the UN Sanctioned list cannot access international trade products from the bank. The findings are collaborated by Husted (2007) who attested that in the international trade finance space there are some products which are considered complex not only to the SMEs but also to other people in the banking industry.

That despite their many benefits to the customers, their uptake by clients is limited owing to lack of understanding of these products and some of the SMEs result to seeking middlemen to assist them in gaining access to use these products (Husted, 2007).

Tariff barriers is also a challenge eg. Sugar imports. This minimizes the flow of goods and services between the trading countries. High tariffs and quotas can result in trade wars between nations. The European Union and China were involved in a trade dispute over textiles that delayed an agreement that expired in 2005.

The United States' high tariffs on auto parts are said to be a sticking point in a number of trade agreement negotiations. These disagreements hurt the incomes of each country involved in the disputes.

Trade only works when countries import and export. In addition, substandard imports from countries like China that infiltrate to other countries and sold to unsuspecting customers. This seeks to threaten the goodwill of most trading partners and leads to loss of foreign exchange to the issuing bank.

CHAPTER 5

SUMMARY,CONCLUSION ND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary, conclusion and recommendations of the study in line with the objective of the study aimed at examining the role played by Equity Bank in promoting international trade.

5.2 Summary

The objective of the study was to determine the role played by Equity Bank in promoting international trade. The study established that the various international business transactions at Equity Bank Limited included issuance of letters of credit which is done by getting collaterals and other relevant critical documentation. The letters of credit are governed by the international chamber of commerce, thus the terminologies used is similar across all banks. Other international business transactions included bank guarantees which are issued based on various bank specific conditions. The bank also offers discounting of invoices to the customers as another international business transaction to the clients.

The respondents further indicated that Equity Bank has put stringent conditions like the requirement of collaterals which may need to be relaxed to be able to remain competitive in the banking industry. The documentary collections are guided by international guidelines. The trade finance international guidelines include provision of collateral by the customers which is a major barrier to the customers. In the discounting of invoices the collateral or security requirement also affects the access of this product to the customer. However in the discounting of invoices, there are no international guidelines that govern the discounting of invoices.

Structuring trade deals is also another challenge. This is offering capital solutions (both funded and non-funded) are provided outside the traditional fall back on securities thus focus shifts from the “strength “of the borrower to the underlying cash flow and structures that enhance safe financing.

The study further revealed that the bank was committed to international trade. The international finance products offered are used abroad and similarly by leading international banks. This is also manifested as a result of the partnerships with other organizations in the financial sector. Eg American Express that offers Gold and Green cards.

The study also established the benefits accruing to Equity Bank as a result of international trade are: Approximately Kshs. 500M income from international finance products processing, the institution’s partnership with other leading organizations eg. OPIC (Overseas Private Investment Corporation), World Bank and the customer base that is increasing rapidly due to the international finance products offered by the Bank and it’s efficiency, ability of a product to cross-sell to exporting or importing customers and earnings in foreign exchange. The funds have largely contributed to its growth and expansion.

The study identified the features that Equity Bank possesses in promoting international trade. Most respondents agreed that it is all inclusiveness. The Bank is ready to finance any customer with their business. The business is to have a fiscal plan; the security provided should be of high net worth because of the risk implications in case of defaulters and allows for partnerships. Credit risk evaluation is also another feature critical in promoting international trade.

The study also established the benefits and advantages of international trade that include fast growing economy, earnings in foreign exchange (500M in terms of revenue at Equity Bank Limited), cross-selling of products to exporting and importing countries and increase in balance of payments of the country.

The study also revealed that the bank had skilled manpower with majority of the respondents being graduates and one respondent a post graduate. The respondents also possess the requisite knowledge and skills to handle the dealings in international trade.

The study further revealed that the challenges faced by Equity Bank while issuing international trade finance products to customers included knowledge gap whereby most clients never understand how international trade finance products work. The collateral requirement was another challenge as customers are not ready to provide collaterals for their trade finance instruments. In addition, the middlemen are also a major challenge since most of the clients engage the services of middlemen who still get the finance product from them but charge the customers high charges that reduce the margins of the Bank significantly.

5.3 Conclusion

The study concluded that the bank led to the establishment of RMA with various banks especially in China. RMA Africa is a French regulated mutual fund (Fonds Commun de Placement) issued from the partnership between RMA Asset Management and RMA Capital. The fund is mostly invested in Africa and gives investors the opportunity to benefit from the substantial potential of this market, with a firmly established local expertise. The fund's objective over the recommended investment period, is to take profit from the dynamism of a growing continent by selecting African securities offering the greatest potential of appreciation in the medium term. The annual report released by the RMA listed Kenya at the top position up +2.54% rated the best performance. (RMA Africa, 2014).

The Bank received cash inflows as a result of international trade. Equity Bank limited generated 500 million in revenue. This has led to the growth and expansion of the bank. It has subsidiaries in Uganda, Tanzania, Rwanda, South Sudan and Democratic Republic of Congo. The increase in branch network aids in the provision of international trade finance products to new customers.

In turn it leads to increase in customer base to the bank and competition with other financial players in the industry for attractive and affordable services.

The study further concluded that international trade finance instruments offered by the bank have facilitated international business. These include: documentary collection which is a process in which the seller instructs his bank to forward documents related to the export of goods to the buyer's bank with a request to present these documents to the buyer for payment, indicating when and on what conditions these documents can be released to the buyer; letters of credit used in international transactions to ensure that payment will be received where the buyer and seller may not know each other and are operating in different countries; electronic funds transfer (SWIFT) that operates a global fund transfer network; bank guarantees enables the customer (debtor) to acquire goods, buy equipment, or draw down loans, and thereby expand business activity, traveller's checks and foreign exchange.

The study also concluded that the challenges experienced in international trade include: Knowledge gap and this can be controlled by sensitizing the customers of the products in international trade finance, security/collateral requirements, tariff barriers and substandard imports, unfair competition from other key players in the industry and fluctuations in the exchange rates.

The study concluded that international trade facilitates economic growth; improvement in infrastructure, information and communication technology, earnings in foreign exchange, increase in balance of payments, strong local and foreign currency, expansion of businesses, increased partnerships regionally and internationally. In addition, globalization which assumes similar bank transactions around the world, it enhances the domestic competitiveness of the industry in the economy, there is increase in sales and profits as in Equity bank that received 500M, gain a global market share, reduce dependence on existing local products thus diversify focus to international products.

5.4 Recommendations for policy, theory and practice

The study recommends that bank management should review the policies guiding the provision of international trade finance products to customers with a view to making them attractive and affordable to customers.

The study also recommends that the government with the statutory arm (Central Bank of Kenya) enact policies that curb transactions on substandard imports and issue hefty penalties to non-abiding business persons.

The commercial banks in the financial sector should sensitize customers to create awareness of the international trade finance products. The study contributed to the policies development in that the emerging issues like ICT, changing international trade finance products environment due to the restructuring of the international banking industry, that affect implementation need to be incorporated in the formulation of policies in international trade finance products.

The study also identified the international trade finance products adopted by Equity bank; essential features assumed by the bank in offering international trade finance products to customers that have made Equity gain a competitive edge in the international banking. The strategy could be adopted by other players in the industry in their practice on their role in international trade. In addition, the study also contributed towards development of the theories on the concept of international trade. The factors that have helped shape modern day international trade include but not limited to industrialization, development of transportation, globalization and technology that enables trade and communication.It argued that the changing environment and technological advancement in the international banking necessitates review of the existing theories in the international trade.

5.5 Suggestions for further studies

Since this study explored the role of Equity Bank in promoting international trade, the study recommends that; similar study should be done in another commercial bank for comparison purposes and to allow for generalization of findings on the impact of international trade finance products in Kenya.

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APPENDICES

Appendix 1

Interview Guide for Staff at Equity Bank

SECTION A: Demographics

Date:

1. What is the highest level of your education?
2. What is your job title?
3. What primary functions does your job involve?

SECTION B: International trade

4. How long have you been working in this organization?
5. How would you describe this organization in term of its commitment to international trade?
6. Do you generally have strong organizational support for international trade?
7. How would you describe the benefits to you and/or your organization brought about by international trade?

SECTION C

General Questions Relating to Equity Bank

8. What do you see as particular challenges for developing international trade standards and how does bank respond to such challenges?
9. Are you aware of any international partnerships where Equity bank is involved?

If yes, which ones

10. What to you are the essential features of Equity bank that promote international trade?
11. Can you think of an example, something that Equity bank has done recently, that illustrates its support for international trade?
12. What are the benefits and advantages of international trade to Equity bank? ·
13. Is it possible define, or measure success factors that are brought about by international trade?
14. What are indicators for this success factors?
15. What are the limitations, liabilities, and disadvantages of the International trade?