FACTORS AFFECTING AVAILING OF TRADE FINANCE FACILITIES TO SMALL AND MEDIUM ENTERPRISES BY NCBA BANK KENYA PLC

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2022

DECLARATION

Declaration by candidate:

This thesis is my original work and has not been presented for a degree in any other University

August 23, 2022

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DEDICATION

I dedicate this research project to my mother, Wanjiku Kinyoi. You are the epitome of love, grace and strength. May your days be long and blessed.

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I would like to acknowledge and give my warmest thanks to my supervisor Dr Moses Machuki Otieno who made this work possible. His guidance and advice carried me through all the stages of writing my project. I would also like to thank my moderator, Dr Mercy Munjuri, and the committee members for letting my defense be an enjoyable moment, and for your brilliant comments and suggestions.

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ABSTRACT

The study aimed to investigate the factors affecting availing trade finance facilities to small and medium enterprises by NCBA Bank Kenya PLC. This study was anchored by the pecking order theory, and the financial intermediation theory. A descriptive research design was applied in this study. This study targeted NCBA Bank Kenya, being the case study. The unit of analysis was the senior managers and SME relationship managers in the 26 branches in Nairobi. Therefore, the total respondents were 252. A stratified sampling method was adopted to select a sample size of 73 respondents. Primary data was collected through the use of interview guide. The interviews were checked for consistency, cleaned, and the useful ones coded and analyzed. After collecting data responses from the questionnaire, the researcher analyzed the qualiitative data using content analysis. The information was displayed in prose form. The study found that NCBA Bank Kenya PLC requires the SMEs to provide some form of collateral in order to access both their funded and non-funded facilities. The study established further that cost of credit aspects include contract cost, processing levies, insurance fees, negotiation fees and interests of the loan. The study also found that improved quantity and quality of data may in particular benefit SMEs, which are often unattractive clients for (trade) finance given the relatively high transaction costs triggered by their opacity and resulting asymmetric information issues in relation to low financing volumes. The study concluded that collateral requirements, cost of credit, business risk and financial information asymmetry affect the availing trade finance facilities to small and medium enterprises by NCBA Bank Kenya PLC. The study recommends that the NCBA Bank's management should conduct regular awareness campaigns to sensitize SMEs customers on various international finance products offered by the bank. Further, NCBA Bank and other financial institutions offering trade financing should offer basic financial training to SMEs on record keeping, entrepreneur skills and loan investment evaluation. Moreover, the study recommends that NCBA Bank must be appropriately incentivized to reduce rejection rates and provide more trade finance to their clients.

CHAPTER ONE: INTRODUCTION

1.1 Background

The science of trade finance explains how to manage finances, banking, credit, investments, and assets for global trade transactions. The ability of small and medium-sized enterprises (SMEs) to engage in international activities and participate in global value chains (GVCs) can be improved with access to trade finance, which refers to financial instruments and methods of payment for international transactions (WTO, 2020). This can lead to the creation of new jobs and businesses, an increase in innovation, and ultimately promote inclusive economic growth. Without sufficient trade finance, firms miss out on possibilities for growth and development and lack the fuel they need to trade and flourish (OECD, 2020). Additionally, a number of authors have shown how trade finance acts as a safety valve for businesses dealing with unpredictable liquidity shocks (McCann & Myers, 2020). According to Hadi and Supardi (2020), suppliers can lower the transaction costs related to closing off each specific commercial exchange by using finance.

The theories underpinning this study are the pecking order theory and the financial intermediation theory. Donaldson's (1961) work was modified by Myers and Majluf (1984) to improve the Pecking order theory. The theory assumes that businesses have a financing hierarchy and that their sources of finance are either internal or external. They discovered that internal funds are prioritized over external funds. According to the theory, businesses seek external funding only when their internal resources are depleted. They contended that external funds must be necessary, safe, and free of control constraints for the enterprise. Debt financing with little or no collateral or covenants is preferred by business owners. Gurley and Shaw (1960) developed the theory of financial intermediation, which ensures that resources flow from economic units with excess funds to economic units with a lack of funds via financial institutions while avoiding information asymmetry and lowering transaction costs.

Strong SMEs in Kenya typically have a peri-urban or urban location and are registered. However, they encounter a number of challenges, such as the inability to raise their own funds and access formal sources of financing, the difficulty in hiring competent individuals with financial management skills due to the salaries such individuals would demand, and financial issues brought on by late payments by debtors (Ndemi & Mungai, 2018). NCBA trade financing opens doors for SMEs by making options available to help boost competitive power, improve liquidity, and cash flow while lowering risk (NCBA Group, 2021). Access to trade finance remains a significant challenge for SMEs because the rejection rate of trade finance applications rejected by banks is high. Given that most trade finance transactions are asset-backed, self-liquidating, and short-term in nature with a relatively low probability of default, innovative financing schemes such as transaction guarantees for trade-related transactions, especially for discouraged trade finance applicants with a significant history of rejection, could contribute to reducing rejection rates for trade finance. In light of this context, the purpose of this research was to look into the factors that influence NCBA Bank Kenya PLC's provision of trade credit to small and medium-sized businesses.

1.2 Research Problem

Instruments for trade finance are specialized financial approaches to trade-related problems. For instance, while guarantees address risks relating to the trade counterpart's default or unwillingness to pay, letters of credit handle counterparty- and liquidity-related difficulties. To access trade finance instruments, SMEs in particular must overcome major structural barriers that stem from both supply-side and demand-side variables. Most significantly, small enterprises lack knowledge, proficiency, and understanding of trade finance products (World Trade Organization, 2020). Many SMEs are unaware of the emerging technical solutions, such as cutting-edge supply chain finance tools like forfeiting and reverse factoring or digital solutions like the bank payment obligations (BPO) (European Central Bank, 2020).

Improving credit access by SMEs is crucial in fostering competition, growth, innovation, and entrepreneurship in Kenya. Access to credit is important as it ensures flexibility in resource allocation and reduces the impact of cash flow problems (Kaberia & Muathe, 2021). Unmet demand for trade finance in Kenya stands at about USD 3 billion. These gaps represent 14 percent of the total value of trade in Kenya. In 2021, NCBA's Gross non-performing loans (NPLs) rose by 16.5% to Kshs 45.0 billion in H1'2021, from Kshs

38.7 billion in H1’2020 taking the NPL ratio to 16.7% in H1’2021, from 14.5% in H1’2020, the highest it has ever been. The deterioration in the group’s asset quality was mainly attributable to the faster 16.5% increase in NPLs that outpaced the 1.2% increase in gross loans (NCBA Group, 2021). According to Nyantakyi, Gajigo, Kemeze and Drammeh (2022), SMEs in Kenya cited limited grace periods as the primary rationale for defaulting on trade-related transactions. It is well established that shortfalls in trade finance limit SMEs’ integration into global trade (Auboin & DiCaprio, 2017).

The main constraint on trade finance is insufficient collateral and client creditworthiness hence commercial banks’ rejection of trade finance applications made by SMEs. Additionally, Kenya's trade laws and regulations are often not onerous. The banks are given control over the few necessary documents, allowing for the necessary flexibility. Even those firms lucky to receive financing do not entirely escape challenges. The challenges they face in managing their trade finance portfolio include lack of grace period, trust among counterparties, the cost of financing (high interest and charges) and lack of information about trade finance and market.

Various studies have been done in relation to trade finance facilities. They include: Ankiri (2019) who looked at trade financing and supply chain performance of multinational manufacturing firms in Kenya, Chowdhury and Alam (2017) in their study explored on factors affecting access to finance of small and medium enterprises (SMEs) of Bangladesh, Chilembo (2021) conducted a study of the factors affecting small and medium enterprises (SMEs) access to finance in Lusaka Based SMEs, and Thuku (2017) sought factors affecting access to credit by small and medium enterprises of Agriculture Sector in Nyeri County. However, none of the studies have looked at the factors affecting availing trade finance facilities to small and medium enterprises, especially by NCBA Bank Kenya PLC. These challenges present the question: What are the factors affecting availing trade finance facilities to small and medium enterprises by NCBA Bank Kenya PLC?

1.3 Research Objectives

The study aimed to investigate the factors affecting availing trade finance facilities to small and medium enterprises by NCBA Bank Kenya PLC.

1.4 Value of the Study

The research might contribute to theory by documenting the factors influencing NCBA Bank Kenya PLC's provision of trade finance to small and medium firms. The empirical data that was collected and examined might aid the researchers.

The research might contribute to strategic management practice by highlighting the primary elements influencing NCBA Bank Kenya PLC's provision of trade credit to small and medium-sized businesses. This study was driven by the growing role of SMEs in the Kenyan economy, as well as the ongoing obstacles they confront in their operations. SMEs have been designated as one of Kenya's development strategies for encouraging industrialization, job creation, stimulating innovation, and eradicating poverty.

The research might contribute to policy by providing important insights to government policymakers on the need for SMEs to have easier access to trade finance facilities. NCBA Bank Kenya PLC might also be able to concentrate more on the needs of small and medium-sized businesses, educating them on practical aspects of trade finance. This research was an essential subject of study for the Kenyan government, which aimed towards a sustainable economy that accomplishes the Millennium Development Goals, such as reducing unemployment and poverty, in accordance with Vision 2030.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The entire chapter reviews the literature related to the key study variables as depicted in the conceptual framework. The chapter starts by reviewing various theories relevant to this study. A conceptual framework is also presented based on the study's objectives. A summary is also reviewed.

2.2 Theoretical Framework

The theoretical framework of this study was based on theories of factors affecting availing trade finance facilities to small and medium enterprises. This study was anchored by two theories, namely; the pecking order theory, and the financial intermediation theory.

2.2.1 Pecking Order Theory

Donaldson proposed the pecking order idea in 1961, which was later refined by Myers and Majluf in 1984. The pecking order theory of corporate finance is based on the notion that corporations are motivated by the need to reduce financing-related risks in their pursuit of business funding. As a result, corporations have a preference for the sort of capital utilized to finance their business. Firms, in particular, show a preference for internal funding over external funding, and as a result, they prefer external finance or debt over equity (Myers & Majluf, 1984). This is because external finance exposes businesses to greater risk than internal financing.

The pecking order hypothesis has two empirical consequences for SMEs financing: 1) internal funds should be the principal source of funding for SMEs in the CCS sector, and 2) external funds should be a more common choice than equity, which should be employed only when all other options have been exhausted. According to the hypothesis, businesses seek external finance only when their internal resources are gone. They contended that external finances must be required, safe, and free of control constraints for the firm. Debt financing with little or no collateral or covenants is preferred by business owners. Furthermore, internal funds have the lowest issue costs, while equity and debt have the highest. This theory is applicable to Kenyan SMEs because it touches on collateral and that business owners in Kenya usually prefer internal sources of funds over the other sources of finance.

2.2.2 Financial Intermediation Theory

Gurley and Shaw (1960) developed the information asymmetry-based theory of financial intermediation. They contended that the existence of financial intermediaries is explained by the presence of the following types of factors: high transaction costs, a lack of complete information in a timely manner, and regulatory methods.

Because the theory stresses resource allocation in perfect markets, transaction costs and asymmetric knowledge are key in understanding financial intermediation. Depositors entrust their funds to these intermediaries, who invest them through loans and other investment projects, with depositors having the ability to liquidate (withdraw) their deposits at any moment.

The roles of financial institutions as financial intermediaries can thus be used to characterize SMEs' engagement with financial institutions. SMEs can be depositors or borrowers and are required to receive services from financial institutions such as transaction services, liquidity provision, financial consultancy, asset analysis and evaluation, asset issuance, loan granting, monitoring services, risk management, insurance services, and other services.

2.3 Factors Affecting Availing Trade Finance Facilities to Small and Medium Enterprises

Access to financing is unanimously identified as a major issue for SMEs. Most SMEs rely on their own funds or borrowing from friends or family, which is frequently insufficient to run their operations optimally (Osano & Languitone, 2016). Credit limits force small and medium-sized businesses to forego some commercial prospects, which has a negative impact on their performance. Furthermore, lack of finance availability has an impact on SMEs' company operations, putting them at risk in an increasingly competitive market.

Collateral is an asset used by a borrower to secure a loan from a lender. In the event of a default, a lender has the option of selling the asset to recover their money. According to

Hadi and Supardi (2020), secured loans are thought to have a low chance of default; hence they are charged a reduced interest rate. Because most SMEs lack real assets with which to secure loans, their borrowing capacity is constrained. The readiness of the entrepreneur to pledge collateral effects the bank's perception of the quality of the credit request.

Mund (2020) investigated the access to financial markets and the performance of small-scale agricultural firms in Nigeria's delta region. It was discovered that collateral, age of business, and education all have a good impact on access to credit. According to a study conducted by Oburi (2021) on factors influencing credit accessibility among young entrepreneurs in Kenya, financial institutions require collateral before giving a loan. Due to the value of the security offered, entrepreneurs typically obtain a lower loan amount than what they sought for. It was determined that collateral had a beneficial impact on financial access. The findings revealed that SME's with adequate types of collateral have an easier time accessing credit than SME's without adequate collateral.

The cost of credit accessibility is the amount of money paid by enterprises when borrowing money from financial institutions. Processing fees, negotiation fees, interest rates, personal insurance, legal fees, and travel expenses are the key cost indicators in this regard (Mukherjee, 2018). The amount of interest rate charged is sometimes intertwined with the security of the loan, and the use for which it is to be used, or the nature of the business. That is, because of the lower risks involved, more secure loans are charged lower interest rates (McCann & Myers, 2020). This drives MSEs to Micro Finance Institutions (MFIs), which provide unsustainable interest rates on short-term loans.

Mwongera (2014) studied the effects of cost of credit charged on accessing credit by women entrepreneurs in Athi River Machakos County. Access to credit was measured by number of clients granted loans, uptake of loans and number of microfinance institutions offering credit services in the region. The cost of credit was measured per loan term, amount borrowed and penalty for delayed payment. The study found a positive relationship between the two variables. Further the findings found that cost of credit to a great extent affects access to credit.

Total risk may be a dimension in which SMEs may face a financing shortfall. The unpredictability of a firm's return on assets is represented by its business risk (OECD, 2020). It includes both operational and financial hazards. Inability to pay interest or repay principal will result in a default, which may lead to bankruptcy. The firm's chances of default increase as the quantity of debt it uses increases due to cash flow limitations caused by interest payments.

Omondi and Jagongo (2018) did a study on SMEs business risks and credit availability and discovered that commercial banks tend to assign a high risk to small businesses and are hence hesitant to give credit to them. The study discovered that firms are, by definition, young and, as a result, lack a financial history and a track record of lucrative ventures. Furthermore, organizational and administrative shortcomings, poor management, and a lack of proper accounting systems may jeopardize the accessibility and reliability of information on small enterprises' repayment capabilities.

Access to financial information is vital from the standpoint of both SMEs and providers of financial services and products. SMEs require information in order to identify potential financial product suppliers. They require this information in order to assess the cost of the financial services and products being supplied. Financial service providers, on the other hand, require information in order to analyze the risk profile of SMEs requesting for funding and the prospects of SMEs within the market sector (Osano & Languitone, 2016).

Song, Yu, and Lu (2018) discovered that information symmetry is caused by poor accounting records, a lack of audited financial statements, and insufficient access to SME information from credit bureaus in their research on financial structure, size, and access to funding. The findings also demonstrated that information symmetry improves access to finance. A study conducted by Li, Zhu, Zhang, and Yu (2020) discovered a substantial positive association between financial statement quality and access to finance, as well as a large negative relationship between information symmetry and access to finance. Managerial ineptitude in deciding what information and degree of disclosure to disclose affects SME credit access. As a result, information symmetry between SMEs and banks increases.

2.4 Empirical Studies

Babu (2017) did a research in Kiambu County and examined the determinants of access to formal finance by SMEs which are owned by the Youth. Descriptive research design was employed in the study which targeted 2750 registered SMEs in Kiambu County, Kenya. The selected sample size was 96 SME‟s whereby 6 operate in the manufacturing sector, 29 service sector and 61 trading sectors. Data collected was analysed using Descriptive statistics through Statistical Package for Social Sciences (SPSS) software. The study found that manufacturing sector faces more challenges in accessing finance than SME's in trading and service industry. Also, from the study SMEs' age and Size, interest rate charged, collateral offered, financial statements, gender and networking affected access to Finance by SMEs.

A study by Ndung'u (2016) examined the factors affecting credit access among small and medium enterprises in Murang'a County, Kenya. This study targeted 1020 SMEs operating within Murang'a County and using stratified random sampling and then applying the simple random sampling 102 respondents were selected as the sample. Data collection was done through Questionnaires. Factor analysis and regression analysis was applied to collected data to establish the relationship between identified factors and credit access by SME. Graphs and tables were used to present the data. The results of the study showed that number of lending institutions, interest charged on loans, collateral security and literacy levels are the most important factors that determine loans accessibility to SMEs in Murang'a County.

Rahman, Twyeafur Rahman, and Belas (2017) in their study examine the determinants affecting SME and access of SME in the Czech Republic, Slovakia and Hungary. This study obtained data set from the BEEPS survey, which is conducted by the World Bank and the European Bank for Reconstruction and Development. From the research, the results indicate that Small firms and women owned and operated firms have challenges in accessing credit from the banks. On the other hand, SMEs that pledge collateral access credit easily from the banks also Medium firms that are innovative have a larger amount of credit from banks. The empirical results also suggest that the loan size increases as the interest rates increase in particular for SMEs on the whole and for micro-firms, although the interest rate is in a negative relationship with the loan size in Czech Republic.

Chowdhury and Alam (2017) in their study explored on factors affecting access to finance of small and medium enterprises (SMEs) of Bangladesh. Data was collected from a sample size of 86 SMEs through direct interviews to the respondents with the using a self-guiding questionnaire. From the research the results show that the size and age of the firms, education and skills of the owners, and unfavourable credit terms like high interest rates, lack of collateral security and corruption by bank officials among others are some of the biggest hurdles that SMEs in Bangladesh face while accessing credit from the banks. The study had limitation in that only one city was included in its sample population.

Włodarczyk, Szturo, Ionescu, Firoiu, Pirvu and Badircea (2018) on the study on business risks and access to credit realized that there are difficulties faced by SMEs in accessing credit facilities due to their perceived high risk profile. They identified that lending institutions regard SMEs as riskier enterprises for a number of reasons which include: uncertain competitive environment; inadequate accounting systems; more unpredictable operating environment.

Mwangi (2018) carried out a study that sought to establish the relationship of access to credit on financial growth of SME’s in Nairobi County. To achieve the objective of this study, a descriptive survey design was used. The population of this study was SME’s registered in Nairobi County. The researcher did a cluster sampling of 40 small and medium enterprises in Nairobi based on geographical locations. The study used secondary sources of data. Secondary data was sourced from the financial records of the SME’s from year 2009 to 2013. Data collected was purely quantitative and it was analyzed using descriptive analysis and regression analysis. The study found that provision of credit to SMEs is still a fundamental problem faced by most owners and managers of SME’s since most of them lack security or collateral to be able to access loan facilities. The findings of the study revealed that most owners of SME’s that obtained credit were able to grow and expand their businesses significantly.

Ndemi and Mungai (2018) investigated the impact of loan availability on the growth of small and micro firms in Nairobi's Central Business District. The research adopts a descriptive approach. The findings indicated that for businesses to grow, a level of accessed credit is required, as evidenced by the significant relationship between access to credit and level of funds and financial management skills.

2.5 Conceptual Framework

The study is guided by the following conceptual framework which represents the independent and the dependent variables of the study. Figure 1 illustrates the relationships between the variables.

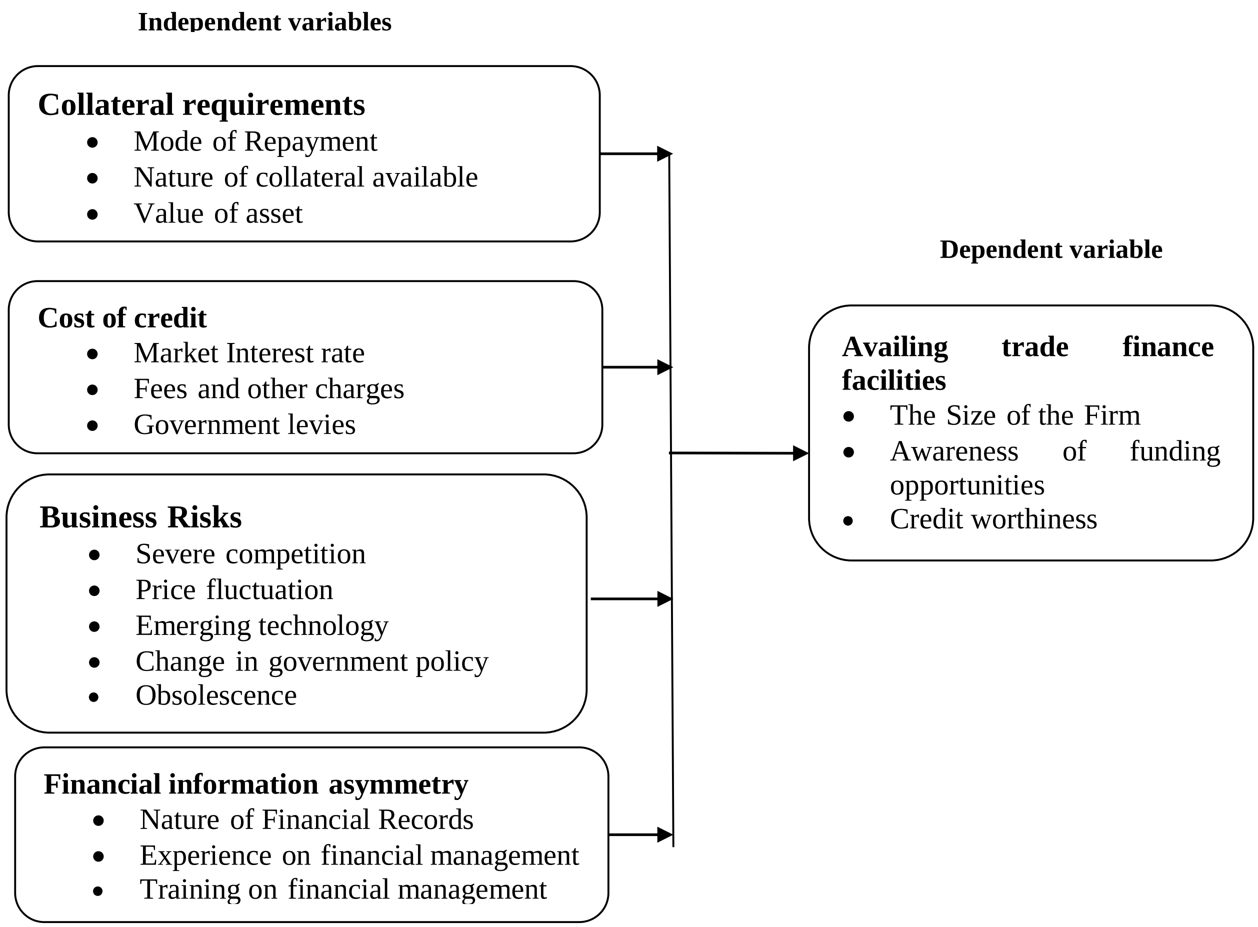

Figure 1: Conceptual Framework

2.6 Summary of the Literature and Research Gaps

Inadequate information and knowledge have been shown to have resulted in an increase in loan rejections (McCann & Myers, 2020). This can be observed in terms of interest charged, required disclosures for assets and debts, misuse of credit obtained, and general unpreparedness when applying for credit. Most lending institutions, namely commercial banks, require collateral security whenever they issue loans, and in such cases, SMEs entrepreneurs confront these disadvantages, which eventually lead to stagnation and a lack of a driving force for growth in many sectors. Finance is a key component of any organization that demands both stability and growth.

The determinants of financial accessibility by SMEs vary between studies, according to the research. As a result, there is little agreement among scholars on the drivers of financial accessibility by SMEs. This current study will also look at other determinants and be able to establish the issues impeding access to trade finance facilities by small and medium enterprises by NCBA Bank Kenya PLC. There is a contextual gap because most studies have been done from the perspective of SMEs, so this study will be different as it will look at data from the perspective of financial institutions, which have more information on the determinants of credit access. The studies also have a methodological gap because they used different techniques. Most research on SMEs in Kenya have also focused on the agricultural sector, such as Thuku (2017).

From the empirical studies reviewed, the study therefore sought to focus on four variables, namely: collateral requirements, cost of credit, business risk and financial information asymmetry. The study therefore aimed to investigate the effect of collateral requirements, cost of credit, business risk and financial information asymmetry on availing trade finance facilities to small and medium enterprises by NCBA Bank Kenya PLC

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that is used to carry out the study. This includes the research design, target population, data collection tools techniques used, and data analysis methods and presentation. This research methodology aimed at enabling the researcher to obtain the data, process and interpret it.

3.2 Research Design

A descriptive research design was undertaken to ascertain and be able to describe the characteristics of variables of interest. Ledford and Gast (2018) state that this design is very useful to identify characteristics, frequencies, trends, and categories. This research was conducted through a case study since it is a research on one organization. A case study was chosen because it enabled the researcher to have an in-depth understanding of the strategic responses to environmental challenges (Kumar, 2019). The main objective of this study was to provide the factors affecting availing trade finance facilities to small and medium enterprises by NCBA Bank Kenya PLC.

3.3 Population

Population refers to a total collection of all subjects that a researcher is interested in generalizing the observation on (Bresler & Stake, 2017). This study targeted NCBA Bank Kenya, being the case study. The unit of analysis was the senior managers and SME relationship managers in the 26 branches in Nairobi. Therefore, the total respondents were 252 as shown in Table 3.1.

Table 3.1: Target Population

Category	Frequency	Percentage
Senior managers	94	37.3
SME relationship managers	158	62.7
Total	**252**	**100.0**

3.4 Sample Design

A sample refers to a selected section of the entire population which the researcher observed so that they can generalize findings on the population (Fletcher, 2017). The sample population was determined by computed using the Kothari (2004) formula as shown below:

$$n = \frac{z^2pqN}{e^2(N-1)+z^2pq}$$

Where; n =Size of the sample

N=Population, in our study is 252

e = Error that is acceptable given as 0.05

∂p = Population standard deviation which is 0.5 where not given,

Z = Standard variate at a confidence level given as 1.96 at 95% confidence level.

Table 3.2: Sampling Frame

Category	Frequency	Ratio	Sample Size
Senior managers	94	0.290	27
SME relationship managers	158	0.290	46
Total	**252**		**73**

In this study, stratified sampling method was adopted. The technique sought to get a desired representation from the different sub-groups in the study population. This technique was also successfully applied by Gathenya (2012). For each of the strata, simple random sampling was used. The sampling was done based on information provided by the senior managers and SME relationship managers.

3.5 Data Collection

Primary data was collected through the use of interview guide, because of the nature of the variables where the opinions, perceptions and feeling of the respondents were sought. The interview guide helped explain, better understand, and explore research subjects' opinions, behavior, experiences, phenomenon, etc. Interview questions were usually open-ended questions so that in-depth information was collected.

The researchers applied for a permit from National Council for Science and Technology before embarking on the study. The researcher sought an appointment with respondents before the interviews. The interview guide was administered by the researcher physically and through phones.

3.6 Data Analysis

The interviews were checked for consistency, cleaned, and the useful ones coded and analyzed. After collecting data responses from the questionnaire, the researcher analyzed the qualiitative data using content analysis. The information was displayed in prose form.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter discusses the findings obtained from the primary instrument used in the study. It discusses the characteristics of the respondents, and their opinions on the factors affecting availing trade finance facilities to small and medium enterprises by NCBA Bank Kenya PLC. The chapter is organized to present the findings by first looking at the response rate, the background information and objectives.

4.1.1 Response Rate

The interviews that the researcher administered were 73 out of which only 56 were completed. This gave a response rate of 76.9 % which was within what Cooper and Schindler (2011) prescribed as a significant response rate for statistical analysis and established at a minimal value of 50%.

Table 4. 1: Response Rate

	No. of Respondents	Response Rate
Response	56	76.9
Non-response	17	23.1
Total	**73**	**100.0**

4.2 Background Information

This section required the respondents to indicate their background information including their highest level of education, how long they have worked with the firm, and the number of years the company has been in operation. This general information is presented in form tables.

This section allowed the respondents to provide information about their background including the gender, highest level of academic qualifications and how long they have worked with the small and medium enterprises. This general data was illustrated in tables.

The respondents were requested to indicate their gender. The results are as illustrated in the Table 4.2.

Table 4. 2: Gender of the Respondents

	Frequency	**Percent**
Male	33	59.4
Female	23	40.6
Total	**56**	**100**

From the findings, most (59.4%) of the respondents were male while the least (40.6%) were female. This implied that most of the respondents were male and that the researcher was not gender biased. Additionally, the researcher collected reliable information from all the respondents.

The researcher asked the respondents to indicate their highest level of academic qualifications. The findings are illustrated in Table 4.3.

Table 4. 3: Highest Level of Academic Qualifications of Respondents

	Frequency	**Percent**
Certificate/Diploma	22	39.2
Degree	28	50.7
Postgraduate	6	10.1
Total	**56**	**100**

From the findings in Table 4.3, most (50.7%) of the respondents indicated that they had reached the Degree level, 39.2% indicated that they had acquired a Certificate/Diploma while 10.1% had reached postgraduate level. All the respondents were learned and hence this presented a pool of learnt respondents who could comprehend and be able to give reliable information about the subject under study.

The respondents were requested to indicate how long they have worked with the small and medium enterprises. The findings were as shown in Table 4.4.

Table 4. 4: Period working in the small and medium enterprises

	Frequency	Percent
Less than 2 years	4	7.2
Between 2 and 4 years	15	27.5
Over 4 years	37	65.2
Total	**56**	**100**

From the findings, 65.2% of the respondents indicated that they had worked in the small and medium enterprises for over 4 years, 27.5% indicated between 2 and 4 years while 7.2% indicated for less than 2 years. This implied that majority of the respondents had worked in the small and medium enterprises long enough to comprehend the subject under study and give credible information.

4.3 Factors Affecting Availing Trade Finance Facilities to Small and Medium Enterprises by NCBA Bank Kenya Plc

The study sought to investigate the factors affecting availing trade finance facilities to small and medium enterprises by NCBA Bank Kenya PLC. The researcher asked various questions in relation to the effect of collateral requirements, cost of credit, business risk and financial information asymmetry on availing trade finance facilities to small and medium enterprises by NCBA Bank Kenya PLC.

4.3.1 Collateral requirements

The interviewees were asked to indicate the aspects of collateral requirements that influence availing trade finance facilities to Small and Medium Enterprises by NCBA Bank Kenya PLC. They indicated that NCBA Bank Kenya PLC requires the SMEs to provide some form of collateral in order to access both their funded and non-funded facilities (guarantees, bid bonds etc.). Traditional forms of collateral that are accepted include land title deeds, motor vehicle log books, guarantees, listed shares, as well as cash in the form of deposits.

The interviewees were also asked to give their opinions on other aspects of collateral requirements they would recommend to NCBA Bank Kenya PLC when availing trade finance facilities to Small and Medium Enterprises. They indicated that NCBA Bank Kenya PLC could ask for securities such as chattels mortgage, houses, personal guarantees, line of term deposits, fixed and floating debentures, inventory hypothecation and hire purchase agreement. One of the senior managers said

> *Issues of collateral and creditworthiness are structural challenges for trade finance that need attention, especially for SMEs. Part of the reason why we ask for collateral is the lack of information on the creditworthiness of firms. There is evidence that in economies with well-functioning information brokerage systems (credit bureaus), there is less demand for collateral. Hence addressing these constraints in the financial markets in Africa could reduce the need for collateral by banks for trade finance and other financial services.*

4.3.2 Cost of credit

The interviewer also required information on the aspects of cost of credit that affect the availing trade finance facilities to Small and Medium Enterprises by NCBA Bank Kenya PLC. The interviewees indicated that the cost of credit aspects include contract cost, processing levies, insurance fees, negotiation fees and interests of the loan. A SME relationship manager noted

> *Since lending to SMEs is deemed risky by financial institutions, the cost of credit is usually high.*

Moreover, they were asked to give their opinions on mitigants around cost of credit that they would recommend to NCBA Bank Kenya PLC when availing trade finance facilities to Small and Medium Enterprises. They indicated that they would suggest lowering fees charged on loans and interest rates. One respondent said

> *High interest rates and loan costs hinders SMEs from borrowing loans since it affects their ability to repay the loans. SMEs' shy away from borrowing especially when interest rates are high. On the other hand,*

financial institutions are hesitant to offer financing to SMEs when the interest rates are low and capped as they prefer lending to government and consider SMEs risky borrowers. When interest rates are regulated, the interest rate risk premium is low to cater for default of borrowers.

4.3.3 Business Risk

The researcher asked the respondents to indicate the aspects of business risks that affect the availing trade finance facilities to Small and Medium Enterprises by NCBA Bank Kenya PLC. They indicated that SMEs are perceived to be riskier investments than their corporate counterparts to banks due to their relative low levels of experience in their area of operation. SMEs are also less knowledgeable about trade finance products and how they can employ Trade finance to mitigate their own risks as well as presenting better financing structures to banks which are more palatable, for instance Back to Back Letters of Credit. Additionally, there is significant key man risk because most SMEs are owned and run by a sole proprietor. In the event of the absence or incapacitation of the key man or woman, the business lacks continuity. One manager said,

By their nature, SMEs are less resilient to external shocks from shifts in the macro economic and political landscape. SMEs are more susceptible to inflationary pressures and rise of commodity process, changes in interest rates, and foreign currency fluctuations. This becomes a key concern to banks considering offering facilities to these institutions.

Further, the interviewees were asked to give their opinions on mitigants of business risks that they would recommend to NCBA Bank Kenya PLC when availing trade finance facilities to Small and Medium Enterprises. They indicated that NCBA Bank Kenya PLC should encourage trade finance awareness to SMEs through seminars and one on one sessions; this would show them how trade finance is a better and cheaper working capital alternative than conventional loans. They also added that the ban should roll out of value chain finance programs within the SMEs supply chain. This would allow the banks to leverage to larger, more stables parties in the supply chain, through products like reverse factoring, and invoice discounting. A senior manager mentioned

Collaboration with credit insurers, Trade credit guarantors and DFIs to provide credit guarantees and portfolio covers to Banks, which would allow banks to on lend to SMEs without the requirement for tangible collateral.

4.3.4 Financial Information Asymmetry

The researcher required the interviewees to state the aspects of financial information asymmetry that impacted availing trade finance facilities to Small and Medium Enterprises by NCBA Bank Kenya PLC. They indicated that institutional information-sharing schemes of capital markets can facilitate access to a wide range of information needed to estimate the creditworthiness of SMEs.

They were further asked to give their opinions on solutions of financial information asymmetry that would be recommended to NCBA Bank Kenya PLC when availing trade finance facilities to Small and Medium Enterprises. They indicated that NCBA Bank Kenya PLC could adopt big data analytics enabled by artificial intelligence tools such as machine learning which enhance the due diligence process by retrieving data about and from the SME client from online sources such as digitized financial accounts or social media and allow an automated interpretation of such data. Such improved quantity and quality of data may in particular benefit SMEs, which are often unattractive clients for (trade) finance given the relatively high transaction costs triggered by their opacity and resulting asymmetric information issues in relation to low financing volumes.

4.4 Availing Trade Finance Facilities

The respondents were also asked to give their opinions on whether they thought SMEs had challenges in accessing financing. All the interviewees agreed that the SMEs experienced challenges in accessing financing with various reasons. They indicated that most SMEs clients never understand how trade finance products work. The collateral requirement is another challenge as SMEs 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 clients engage the services of middlemen who still get the financing product from the bank but charge the SMEs high charges that reduce the margins of the SME significantly. One SME relationship manager said:

> *SMEs face challenges in accessing the banks trade finance to boost their export business. Receipt of export order is not the sole criteria for getting the trade finance. Despite government directives and bank's internal guidelines/schemes to promote export, it has observed that while assessing any export finance, banks though take cognizance of export orders, but final call to give the loan or not, depend on their traditional way of working capital (WC) assessment i.e. based on MSMEs balance sheets, credit reports, present and future plan, security / collateral etc.*

A senior manager added:

> *Most of the time, SMEs will not have strong balance sheet, proven export past track record or sufficient security / collateral to offer. These all lead to non-availability of trade finance to them despite receipt of export order. Unless an export order is under LC, exporter has to cross all the normal traditional lending criteria prescribed by the bank, which most to the time difficult for SMEs to complied with. NCBA Bank perceives SMEs as a high risk market segments.*

The interviewees were also required to give their opinions on what could be done to enhance SME financing by the NCBA Bank Kenya PLC. They recommended that NCBA Bank should conduct an awareness campaign to sensitize their SMEs customers about the various trade finance products offered by the bank. The campaign should also enable the SMEs clients understand the various requirements for them to qualify for the various products. This will reduce the knowledge gap substantially hence enable customers to use the trade finance products easily. This will also reduce the option of using middlemen that some SMEs are using now and increase their profit margins. The bank should also implement fully the tiered collateral requirements it has introduced with a view to help SME customers meet the collateral requirement by the bank. Thus the bank will structure transactions depending on clients' needs and ability to pay.

4.5 Discussion of the Findings

The study found that NCBA Bank Kenya PLC requires the SMEs to provide some form of collateral in order to access both their funded and non-funded facilities. Traditional forms of collateral that are accepted include land title deeds, motor vehicle log books, guarantees, listed shares, as well as cash in the form of deposits. The study also found that the main the reason that NCBA Bank Kenya PLC asks for collateral is the lack of information on the creditworthiness of the SMEs. The findings are in line with Hadi and Supardi (2020) who stated that secured loans are thought to have a low chance of default; hence they are charged a reduced interest rate. Because most SMEs lack real assets with which to secure loans, their borrowing capacity is constrained. The readiness of the entrepreneur to pledge collateral effects the bank's perception of the quality of the credit request.

The study established further that cost of credit aspects include contract cost, processing levies, insurance fees, negotiation fees and interests of the loan. Moreover, the study found that high interest rates and loan costs hinders SMEs from borrowing loans since it affects their ability to repay the loans. Mukherjee (2018) argued that the cost of credit accessibility is the amount of money paid by enterprises when borrowing money from financial institutions. Processing fees, negotiation fees, interest rates, personal insurance, legal fees, and travel expenses are the key cost indicators in this regard. The amount of interest rate charged is sometimes intertwined with the security of the loan, and the use for which it is to be used, or the nature of the business. That is, because of the lower risks involved, more secure loans are charged lower interest rates (McCann & Myers, 2020). This drives MSEs to Micro Finance Institutions (MFIs), which provide unsustainable interest rates on short-term loans.

The study found that institutional information-sharing schemes of capital markets can facilitate access to a wide range of information needed to estimate the creditworthiness of SMEs. The study also found that improved quantity and quality of data may in particular benefit SMEs, which are often unattractive clients for (trade) finance given the relatively high transaction costs triggered by their opacity and resulting asymmetric information issues in relation to low financing volumes. Osano and Languitone (2016) stated that access to financial information is vital from the standpoint of both SMEs and providers of financial services and products. SMEs require information in order to identify potential financial product suppliers. They require this information in order to assess the cost of the financial services and products being supplied.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary, conclusion and recommendations of the study in line with the purpose of the study aimed at examining the factors affecting availing trade finance facilities to small and medium enterprises by NCBA Bank Kenya PLC.

5.2 Summary

The study aimed to investigate the factors affecting availing trade finance facilities to small and medium enterprises by NCBA Bank Kenya PLC. The study found that NCBA Bank Kenya PLC requires the SMEs to provide some form of collateral in order to access both their funded and non-funded facilities. Traditional forms of collateral that are accepted include land title deeds, motor vehicle log books, guarantees, listed shares, as well as cash in the form of deposits. The study also found that the main the reason that NCBA Bank Kenya PLC asks for collateral is the lack of information on the creditworthiness of the SMEs.

The study established further that cost of credit aspects include contract cost, processing levies, insurance fees, negotiation fees and interests of the loan. Moreover, the study found that high interest rates and loan costs hinders SMEs from borrowing loans since it affects their ability to repay the loans.

The study found that exposure to adverse government actions (expropriation, embargo), instability (war, crime) and economic risks are a source of concern for banks engaged in trade finance. Moreover, the study found that trade finance is considered to be a particularly safe form of finance since it is underwritten by strong collateral and documented credit operations.

The study found that institutional information-sharing schemes of capital markets can facilitate access to a wide range of information needed to estimate the creditworthiness of SMEs. The study also found that improved quantity and quality of data may in particular benefit SMEs, which are often unattractive clients for (trade) finance given the relatively high transaction costs triggered by their opacity and resulting asymmetric information issues in relation to low financing volumes.

Further, the study found that most SMEs clients never understand how trade finance products work. The collateral requirement is another challenge as SMEs 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 clients engage the services of middlemen who still get the financing product from the bank but charge the SMEs high charges that reduce the margins of the SME significantly.

5.3 Conclusions

The study concluded that collateral requirements, cost of credit, business risk and financial information asymmetry affect the availing trade finance facilities to small and medium enterprises by NCBA Bank Kenya PLC. The study deduced that the challenges facing NCBA Bank Kenya PLC while issuing international trade finance products to SMEs included knowledge gap whereby most SMEs 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 SMEs clients engage the services of middlemen who still get the finance product from the bank but charge the SMEs high charges that reduces the margins of the SME significantly.

In conclusion, the study confirmed that banks consider SMEs to be very risky. As a result of this, lack of collateral by SMEs will continue to a major challenge when accessing finance. Collateral requirements go hand in hand with elevated cost of accessing finance by SMEs. This relates to the way financial institutions put in place several criteria to be met by the SMEs in order for them to access finance, and also the rate at which they reject loan applications.

5.4 Recommendations

The study recommends that the NCBA Bank's management should conduct regular awareness campaigns to sensitize SMEs customers on various international finance products offered by the bank. The campaign will enable the SMEs clients to understand the various requirements needed for them to qualify and eliminate SMEs use of middlemen to access the products.

Further, NCBA Bank and other financial institutions offering trade financing should offer basic financial training to SMEs on record keeping, entrepreneur skills and loan investment evaluation. This will impart positively to SMEs enabling them to operate viable businesses and minimize risks. In addition an alternative need for collateral such as allowing SMEs to guarantee among themselves would increase access to credit. The study also recommends that the management should review the collateral requirement by the SMEs since it's a major barrier towards their uptake of trade finance products.

SMEs ought to ensure that they issue accurate financial information to the bank before applying for a loan/trade financing in order to minimize cases of information assymetry. Before undertaking a loan, it is advised that the lenders received adequate information from the bank regarding loan they issue as the type and size of loan affects repayment.

Moreover, the study recommends that NCBA Bank must be appropriately incentivized to reduce rejection rates and provide more trade finance to their clients. This involves a more active and coordinated effort by development partners like the African Development Bank, national trade promotion agencies, donor agencies and other development finance institutions in addressing well-known challenges, such as low creditworthiness and insufficient collateral. Addressing creditworthiness and collateral issues will encourage banks in the trade finance sector to expand the supply of trade finance.

Digitalisation of trade value chains and trade finance should be promoted to reduce delays in processing and minimize bureaucracy is critical. Digitization could reduce the cost of identifying and verifying trading counterparts, verifying the authenticity of transaction documents, removing duplicate processes for both firms and banks, and driving down transaction costs.

The government should provide credit guarantee arrangements that would act as alternative to the lending institution in case SMEs fails to pay. One of the deterrents of access to credit is the cost of credit and hence the government through the ministry of finance should ensure that they allow concessional interest rates and implement it. The Micro Small Enterprise Authority (MSEA) should have systematic process of financial education targeting the SMEs .This will facilitate the necessary information on how and where to access cheap loans other than relying on the main stream financial institutions.

Banks should be flexible in financing SMEs by coming up with friendly policies that do not bar SMEs from getting loans and consider financing startup businesses so as to spur economic growth in the country and also come up with tailor-made loan products for SMEs that will support the SMEs. SMEs' should also maintain proper books of accounts and ensure that they bank their cash generated from sales which banks look at when financing them so that they can access financing easily since they will have evidence of cash flows.

5.5 Limitations

The study encountered some limitations that hindered access to information that the study seeks. Some respondents targeted in this study were reluctant in giving information fearing that the information being sought were used to intimidate them or print a negative image about them. The researcher handled this by carrying an introduction letter from the University to assure them that the information they give was treated with confidentiality and was used purely for academic purposes. Further, the results of the study were limited to the extent to which the respondents were willing to provide accurate, objective and reliable information. The researcher checked for consistency and test the reliability of the data collected.

5.6 Suggestions for Further Studies

From the research findings, there is need for further research. An empirical survey should be done to include other branches NCBA Bank Kenya which might produce representative results. Further research can also be done on the challenges facing small and Medium Enterprises in getting financing from other commercial banks in Kenya. A more detailed research could also be done to look into different financing strategies adopted by commercial banks in serving this sector.

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APPENDICES

Appendix I: Interview Guide

You are requested to fill out your personal information in the spaces below. Please tick only one response.

SECTION A: BACKGROUND INFORMATION

1) Please indicate your gender: Female [ ] Male [ ]
2) State your highest level of education
   'O' Level [ ] Certificate/Diploma [ ] Degree [ ] Postgraduate [ ]
3) How long have you worked with small and medium enterprises?
   Less than 2 years [ ] Between 2 and 4 years [ ]
   Over 4 years [ ]

SECTION B: FACTORS AFFECTING AVAILING TRADE FINANCE FACILITIES TO SMALL AND MEDIUM ENTERPRISES BY NCBA BANK KENYA PLC

Collateral requirements

4) Which aspects of collateral requirements influence availing trade finance facilities to Small and Medium Enterprises by NCBA Bank Kenya PLC?
5) In your opinion, what other aspects of collateral requirements would you recommend to NCBA Bank Kenya PLC when availing trade finance facilities to Small and Medium Enterprises?

Cost of credit

6) Which aspects of cost of credit affect availing trade finance facilities to Small and Medium Enterprises by NCBA Bank Kenya PLC?
7) In your opinion, what mitigants around cost of credit would you recommend to NCBA Bank Kenya PLC when availing trade finance facilities to Small and Medium Enterprises?

Business Risk

8) Which aspects of business risks affect in availing trade finance facilities to Small and Medium Enterprises by NCBA Bank Kenya PLC?

9) In your opinion, what mitigants of business risks would you recommend to NCBA Bank Kenya PLC when availing trade finance facilities to Small and Medium Enterprises?

Financial Information Asymmetry

10) Which aspects of financial information asymmetry impact on availing trade finance facilities to Small and Medium Enterprises by NCBA Bank Kenya PLC?
11) In your opinion, what solutions to financial information asymmetry would you recommend to NCBA Bank Kenya PLC when availing trade finance facilities to Small and Medium Enterprises?

Availing Trade Finance Facilities

12) In your opinion, do you think SMEs' have challenges in accessing financing? If "yes", why do you think are the reasons for the challenges they face in accessing financing
13) In your own opinion what do you think can be done to enhance SME financing by the NCBA Bank Kenya PLC?