IMPACT OF COVID-19 ON SMALL MEDIUM ENTERPRISES ACCESS TO CREDIT IN KENYA: A CASE STUDY OF ELECTRICAL SHOPS IN NAIROBI.

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DECLARATION

I declare that this project is my original work and has not been presented in any other institution of learning for any academic award. It contains no materials previously published or written by another person. It has not been submitted for award of degree in any other university. References to work done by others have been clearly indicated.

Signature: ___________________ **Date**: ________________________________

Names: _____________________ **Registration No.**_______________________

Department:

Declaration by the Supervisor

The research project has been presented for examination with my approval as the University Supervisor.

Signature: _____________________ **Date**:______________________________

Names: _______________________

Riara University.

DEDICATION

We dedicate this study to our wonderful family, whom we value so much for being the most supporting pillar throughout our education.

ACKNOWLEDGEMENT

We wish to extend our appreciation to our supervisor for his relentless effort towards guidance and providing positive critiques towards our research work development that meets examinable standards. We further extend our acknowledgement and sincere support from our friends because of their contribution that was geared towards making the project research attain the needed success. We also provide our sincere appreciation to the administrators of Riara University for facilitating undertaking the research work.

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LIST OF ABBREVIATIONS/ACRONYMS

SMEs	Small Medium Enterprises

ABSTRACT

This study sought to examine the impact of Covid-19 on Small Medium Enterprises access to finance in Nairobi. Data was drawn from electrical shops located within Nairobi. Electrical shops would serve well as we targeted one type of business but different scales. There are a lot of electrical appliance shops in Nairobi that serve well for our study. With the Covid-19 pandemic affecting economies in the world, we sought to know how it has affected business access to credit and see the difference before the impact of Covid-19. Data was collected by use of questionaries from different electrical shops in Nairobi to get how different access to finance was impacted since the onset of Covid-19. Conclusions and recommendations from this study will have significant importance to members of the public, academic scholars and major stakeholders in the government's healthcare sector and the banking sector of the economy.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Businesses often require financing for various reasons such as ensuring the business has sufficient working capital to meet the day-to-day expenses and needs of the business as it is important to the financial health of a business, financing is also used for the purchase of fixed assets such as machinery and vehicles which can often be costly but are necessary for the growth and running of the business (Cunningham, 2020). For the purpose of this paper a working definition of finance and or financing must be established, finance 'is referred as the provision of money at the time when it is needed.' (Paramasivan & Subramanian, 2009, p. 1)

Access to finance is important as 'without inclusive financial systems, poor individuals and small enterprises need to rely on their personal wealth or internal resources to invest in their education, become entrepreneurs or take advantage of promising growth opportunities.' (Beck et al., 2009, pp. 2-3) which makes it difficult for them to take advantage of these opportunities and grow in fact 'Modern development theories increasingly emphasize the key role of access to finance: lack of finance is often the critical mechanism for generating persistent income inequality, as well as slower growth' (Beck et al., 2009, p. 3).

Small and Medium sized businesses (SMEs) have multiple different definitions but for the purpose of this paper the term SME will encompass micro businesses that employ 1-9 employees, small businesses that employ 10-50 employees and medium sized businesses that employ 50-250 employees (Fjose et al., 2010)

After understanding the importance of access to finance to businesses, it is important to understand the impact an economic downturn has on businesses access to finance. We learned a lot during the 2009 recession, the following data is from a case study carried out in the United Kingdom on small to medium enterprises (SMEs) and their access to finance. Some of the findings of this study include the supply of finance was affected during this period and led to reduced supply of finance and even those that were able to acquire finances found the task more daunting in contrast to before the recession. (Cowling & Liu, 2011).

Cowling & Liu (2011) found that SMEs that were unable to access the finance they needed resulted in delaying and or terminating investment projects that they had in place. The data collected also suggested ‘that in periods of economic growth banks use a much richer set of indicators...when making their financing decisions, but during recessions their primary focus is on easily verifiable characteristics such as firm size’ (Cowling & Liu, 2011, p. 19) the change in criteria negatively affects SMEs as factors such as their growth potential or how innovative their businesses is were not being taken into consideration instead lenders were looking at their current size and ability to pay back loans or offer returns to investors which put smaller businesses at a disadvantage.

‘Using SME population statistics for the UK2 , it is estimated that the number of credit rationed SMEs (those who applied for finance but couldn’t get it) peaked in February 2009 at 119,000 firms. By February 2010 the comparable estimate is 73,000 firms.’ (Cowling & Liu, 2011, p. 19) this statistic shows that there is increased difficulty in obtaining finances during an economic downturn as in 2010 is when the economy began to recover and from the research undertaken by Cowling & Liu (2011)

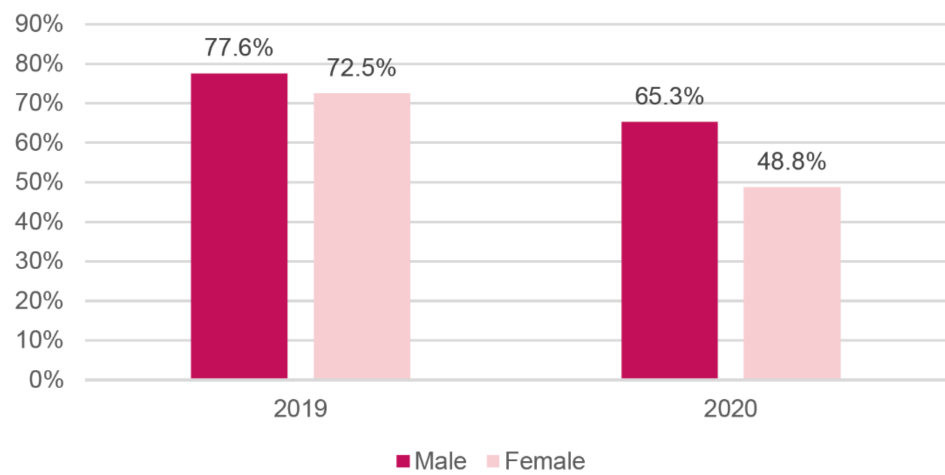
Depending on the needs of a business they may choose between the various forms of financing available to them, there are various aspects one needs to consider before deciding on a source of financing such as ‘how much money you need and when you will need it. The financial needs of a business will vary according to the type and size of the business’ (Hofstrand, 2013, p. 1). For the purpose of this paper we will be looking at a select number of sources of finance as this paper aims to focus on the supply of credit to SMEs

1.1.1 Kenya

‘Since the first case of COVID-19(was reported in Kenya on March 13, 2020, the country just like other countries in the world, has been experiencing massive destruction of the economy in terms of GDP decline and job losses’ (Odhiambo et al. 2020, as cited in Odhiambo, 2020, pp. 1). Specifically, the coronavirus (COVID-19) has affected ‘the performance of the financial markets, disruption of global supply chains, volatility of the Kenyan currency, reduction in diaspora remittances, and reversal of prior monetary and fiscal policies.’ (Odhiambo, 2020, pp. 2) all these factors together have caused the Kenyan economy to experience an economic downturn.

The economic downturn has led to negative effects on business and there is a clear need for financing by businesses for example ‘The High Court in Nairobi has frozen liquidation proceedings against Tuskys for 45 days to allow the retailer complete a Sh2.1 billion debt deal that will allow payment of suppliers.' (Wangui, 2020, pp. 1) this shows a clear need for financing and the fact that a large organisation such as Tuskys is facing such problems means that many other smaller businesses that lack Tuskys resources are facing the same problems. The increased loss of jobs and involvement of the Kenyan labour force as shown in the graph below also shows that business currently lack the resources to employ these people and thus require financing.

Figure 1.1 Decline in labour-force participation rate in Kenya, 2019 and 2020



Source: (Owino, 2020)

According to report by Deloitte, (2020) there has been a reduction in spending by households and business due to lack of money the reduction is estimated to be at around 50% this reduction in spending is likely to impact businesses heavily and require them to access credit. There have been efforts by the government to help businesses access credit such as the reduction of the central bank rate from 7.25% to 7% and Lowered banks' cash reserve ratio by 100 bps from 5.25% to 4.25 percent (Deloitte, 2020) which is supposed to allow and encourage banks to provide credit to businesses.

1.2 Statement of Problem

During an economic downturn the economy declining which causes problems such as '...higher unemployment, lower wages and incomes, and lost opportunities more generally. Education, private capital investments, and economic opportunity are all likely to suffer' (Irons, 2009, pp. 18).

These problems have an adverse effect on businesses and in order to face these problems business often need access to financing to face this tough economic period.

The problem comes in because due to the shift in the economy the sources businesses would often look to for finances are also being affected by the economic downturn causing them to change their lending and investing practices and the way they handle their finances due to factors such as reduced liquidity meaning decreased funds to lend or invest in businesses and increased risk due to the state of the economy there is now an increased risk in investing or lending money to businesses as due to the economic climate it is now harder for businesses to perform and in turn provide returns to their investors and pay back their creditors.

This chain reaction causes businesses to not have access to finance during a time when they need it most which leads to businesses performing poorly, shutting down and employing other strategies such as downsizing to mitigate the negative effects of the economic downturn. This leads to decreased production, decreased spending among many other problems, as failure of businesses causes a chain reaction which causes the economy to worsen.

If businesses have access to finance during this period it allows them to have the necessary tools to fight the negative effects of the economic downturn allowing for people to keep their jobs, which results in more spending in the economy as people have jobs and this knock on effect continues allowing businesses and the overall economy to recover faster while limiting the damage caused on the economy.

1.3 Objectives of the Study

1.3.1 General Objective

The objective of this research was to evaluate the impact of COVID-19 on SME's access to finance.

1.3.2 Specific Objectives

In order to address the objective above this research was guided by the following objectives:

i. To assess the impact of COVID-19 had on demand for credit by electronic stores.
ii. To investigate the impact of COVID-19 had on the supply of credit to electronic shops.

1.4 Research Questions

i. Had COVID-19 affected the demand for credit by electronics stores?
ii. Had COVID-19 affected the supply of credit to electronics stores?

1.5 Scope of the study/ Delimitation

This study was Limited to Nairobi as we the researchers lacked the resources to collect data in other countries and counties. This paper focused on the impact of COVID-19 on the demand of credit by electronics stores as well as the impact COVID-19 has had on the supply of credit to electronics stores. The study focused on the impact of COVID-19 on the forementioned variables demand and supply of credit during the period of March to September, the paper also aimed to target 20 to 30 electronic stores.

1.6 Limitations of the Study

Some businesses were less inclined to give us information that would help us carry out the study moreover this study focuses on electronic stores and the results from this type of business may not be inclusive of other businesses as COVID-19 could have impacted them differently. Data collection could also prove a challenge due to the rules put in place due to the pandemic for example we may not find employees at the physical store as they are now working from home.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter aims to present past work from scholars on the pecking order theory, supply of credit, demand of credit and COVID-19 providing a theoretical and empirical literature review of the forementioned topics as well as summarizing previous literature providing gaps in the past literature. On top of this this chapter also looks at the conceptual framework showing the relationship of independent and dependent variables of this study.

2.2 Theoretical Framework

2.2.1 Pecking Order Theory

This section tackles the theory related to Impact of Covid-19 on SME's. This study is guided by the Pecking Order Theory. Pecking order theory emerges as one of the theories of capital structure that explains how firms finance themselves in real world (Matemilola, 2011). Capital structure is a combination (mix) the source of corporate funding that comes from debt, preferred stock and common stock. Debt can increase the value of corporate debt, but if the debt is too high then will increase the risk of the company. One of the risks is default, the company failed to pay the debt and cost of capital that will result in corporate bankruptcies. (Tri Gunarsih, 2011)

The Pecking Order Theory, also known as the Pecking Order Model, relates to a company's capital structure. Made popular by Stewart Myers and Nicolas Majluf in 1984, the theory states that managers follow a hierarchy when considering sources of financing. The pecking order theory states that managers display the following preference of sources to fund investment opportunities: first, through the company's retained earnings, followed by debt, and choosing equity financing as a last resort. The pecking order theory suggests that firms first prefer internal sources of finance. (Myers, 1984)

Effective financial management and what characters affect their capital structure are important for a firm to obtain better operational performance. A false decision about the capital structure may lead to financial distress and even to bankruptcy. The main benefit of debt is tax deductibility of interest and the costs are bankruptcy cost (Kim E.H., 1978) and agency cost (Jensen M.C. & Meckling W.H., 1976). The pecking order theory assumes that there is no target capital structure. The firms choose capitals according to the following preference order: internal finance, debt and equity (Li-Ju Chen & Shun-Yu Chen, 2010)

The pecking order theory arises from the concept of asymmetric information. Asymmetric information, also known as information failure, occurs when one party possesses more (better) information than another party, which causes an imbalance in transaction power. Company managers typically possess more information regarding the company’s performance, prospects, risks, and future outlook than external users such as creditors (debt holders) and investors (shareholders). Therefore, to compensate for information asymmetry, external users demand a higher return to counter the risk that they are taking. In essence, due to information asymmetry, external sources of finances demand a higher rate of return to compensate for higher risk. firms finance their activities with retained earning when feasible. If the returns earning are inadequate, then debt is used. (Myers, 1984)

(Myers, 1984) argues that adverse selection and information asymmetry cause firms to prefer internal financing over external financing. When internal financing is insufficient, firms choose debt over equity due to lower information costs. Information costs can be addressed as possible mispricing of equity while debt is generally associated with a lower probability of mispricing. Equity financing is seen as a less cost-efficient financing instrument and is thus used only when firms are debt constraint.

In the context of the pecking order theory, retained earnings financing (internal financing) comes directly from the company and minimizes information asymmetry. As opposed to external financing, such as debt or equity financing where the company must incur fees to obtain external financing, internal financing is the cheapest and most convenient source of financing. When a company finances an investment opportunity through external financing (debt or equity), a higher return is demanded because creditors and investors possess less information regarding the company, as opposed to managers. In terms of external financing, managers prefer to use debt over equity – the cost of debt is lower compared to the cost of equity (Corporate Finance Institute, 2015).

In relation to the unexpected turns due to the pandemic access to financing by SME’s in Kenya has been hindered greatly especially where the main source of financing was debt and dependent on the banking sector. Banks have tightened their loan approval regulations due to uncertainty and this has found some SME’s unable to finance and survive during this economic downturn.

2.3 Empirical Literature Review

2.3.1 Supply of Credit

Supply of credit is defined by when a business attempts to access credit, was the business able to access all or a part of the credit they were looking for (Cowling & Liu, 2011). In a study by (Holton & Lawless, 2012) it was found that a financial crisis manifests itself on the supply of credit through harder credit conditions being placed on borrowers. On top of tougher credit conditions during tough economic times Colombo & Grilli, (2006) found that supply of credit to businesses is also affected by the industry they operate in, specifically businesses that operate in scalable industries are more likely to gain access to credit.

According to a study by (Aston & Sghair, 2017) they found out that banks are the dominant barrier when it comes to businesses raising finances due to factors such as accessibility and availability of funds, banks capital adequacy levels, bank lending requirements, size of requirement and the quality of credit. Due to the fact that SMEs generally do not have the assets or liquidity larger firms, so due to this nature of SMEs this leads them to being victims of credit rationing which is when banks hold of lending even when the borrower is willing to pay higher interest rates (Jin & Zhang, 2019).

SMEs do not have the same access to supply of finance as larger enterprises as larger enterprises have access to both private and public sources of credit while SMEs generally only have access to private markets (Cowling et al., 2016) this inequality in access to finance is made worse by-the perceived availability of credit by businesses is generally affected by difficult past experiences in trying to obtain credit which leads to businesses not formally applying for credit and lack of availability of credit is associated with the fall of profits of a firm (Holton & Lawless, 2012).

2.3.2 Demand of Credit

Demand of credit is defined as whether a firm has attempted to apply for finance for their business regardless of whether or not they received the finances sought after (Cowling et al., 2016). Smaller firms are less likely to have a change in demand for credit as they are still young and have high growth potentials and therefore need finances to invest towards their growth and survival (Holton & Lawless, 2012). Although according to Cowling et al., (2016) the demand for credit increases the further away the economy gets from a recession or economic downturn. Demand for credit by SMEs is directly impacted by the economic growth of a country during periods of high economic growth there is an increase in demand while during an economic decline demand does decrease (Maji et al., 2018).

According to a survey conducted by Department of Finance, (2019) it was found out that majority businesses that do not seek credit do so because they already feel that they do not meet the credit requirements set by lenders, it was also discovered that there is a positive correlation between performance in terms of profits and revenues and the demand on credit. A study by (Tarp et al., 2008) found that a large number of SMEs often do not attempt to apply for formal credit and often try to raise funds internally or from informal sources such as friends and family due to reasons such as they do not have enough collateral, they find the loan process too difficult and or the interest rates are too high.

According to Fraser, (2014) small businesses often misjudge their likelihood of having their request for credit approved viewing it lower than it actually is due to factors such as dissatisfaction with banking relationships and the perceived application cost due to information asymmetry when the actual cost tends to be lower discouraged firms from applying. Regardless of the challenges faced by businesses accessing credit, business owners have a preference to debt as it allows them to maintain control of their business (Cressy, 1995) this therefore drives demand for credit.

2.3.3 COVID-19

Coronavirus disease 2019 (COVID-19) is defined as illness caused by a novel coronavirus now called severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2; formerly called 2019-nCoV), (Cennimo, 2020). COVID-19 was at first thought to be a localized problem in China but quickly spread worldwide and has since shown many similarities to the financial crisis of 2007-2008(Ozili & Arun, 2020).

The impact of COVID-19 to economies around the world will not be identical as the support countries receive and the choices, they make are likely to differ but there will be increased poverty and inequalities on a global scale (*Socio-economic impact of COVID-19*). COVID-19 has had several adverse effects on businesses, the pandemic has affected supply chains all over the world impacting manufacturing and production slowing down economies (Odhiambo & Okungu, 2020).

A report by Bartik et al., (2020) focused on the impact of covid-19 on small businesses found that just weeks into the pandemic multiple businesses had already closed down and others having to layoff parts of their workforce they also found that many small businesses were not financially equipped to handle the effects of the pandemic as most businesses only had the finances to cater for two weeks' worth of expenses with most of the businesses aiming to seek financial assistance from external sources with the requirements to qualify for the financial assistance proving difficult for a lot of the businesses.

Small businesses have been vulnerable to the effects of the covid-19 pandemic as seen in the report by the International Trade Centre, (2020) it was uncovered that two thirds of t small businesses have had their operations strongly impacted by the pandemic with two thirds of all business claiming the same in Africa. Moreover, it was uncovered that informal businesses are at a higher risk of closing down are more susceptible to the effects of the pandemic due to their reduced ability to access financing.

2.4 Summary of Literature and Research Gaps

There has been research conducted on businesses access to finance during difficult economic times such as the study conducted by (Cowling et al., 2016) where they looked at SMEs access to bank finance after the financial crisis, their research was done based in the United Kingdom and was carried out years after the crisis. On top of this there have also been studies on SMEs access to credit covering the constraints they face when trying to access credit and the credit requirements they need to meet such is the work of Tarp et al., (2008) who worked on this with a case study based in Vietnam.

Holton & Lawless, (2012) studied the supply and demand of credit and the conditions that affect them with a case study in Ireland they also focus on the conditions in place for SMEs to access credit their study was based on the euro area financial and sovereign debt crisis on SME's access to bank finance they observed the effect this crisis on SME access to credit, they found that older and larger firms were less likely to have their applications for credit rejected they also found that the growth of the economy affected the perceptions of availability of credit.

In Kenya a study by Ogoi, (2017) looked at the different methods employed by Kenyan SMEs to access credit by using SMEs in Kakamega town as the case study during this study it was found that SME's do have difficulty accessing credit from formal lending institutions because of the requirements of the institutions such as high collateral it was also found that SME's choose to sources such as group lending strategies to access the credit they require.

Colombo and Grilli, (2006) conducted a study in Italy on access to financing by new technology-based startups during this study they found that credit to such businesses is often rationed limiting the credit accessible to these startups and that the amount they are able to gather from personal finance on average exceeds that from bank credit.

Although there is previous literature concerning SME access to credit and how of impact an economic downturn can further affect SME's access to finance none of these previous studies encompass the effect of COVID-19 on SME's access to finance on top of this previous studies are based on past crisis's and after a crisis economies and governments often try put systems in place to better deal with a future crisis better so even if the crisis is exactly the same the impact may be different due to the systems and procedures put in place after the previous one. Previous literature also does not include a study that focuses on SME access to credit in Nairobi or Kenya after a crisis such as the COVID-19 pandemic and so this paper aims to fill the forementioned gaps in literature.

2.5 Conceptual Framework

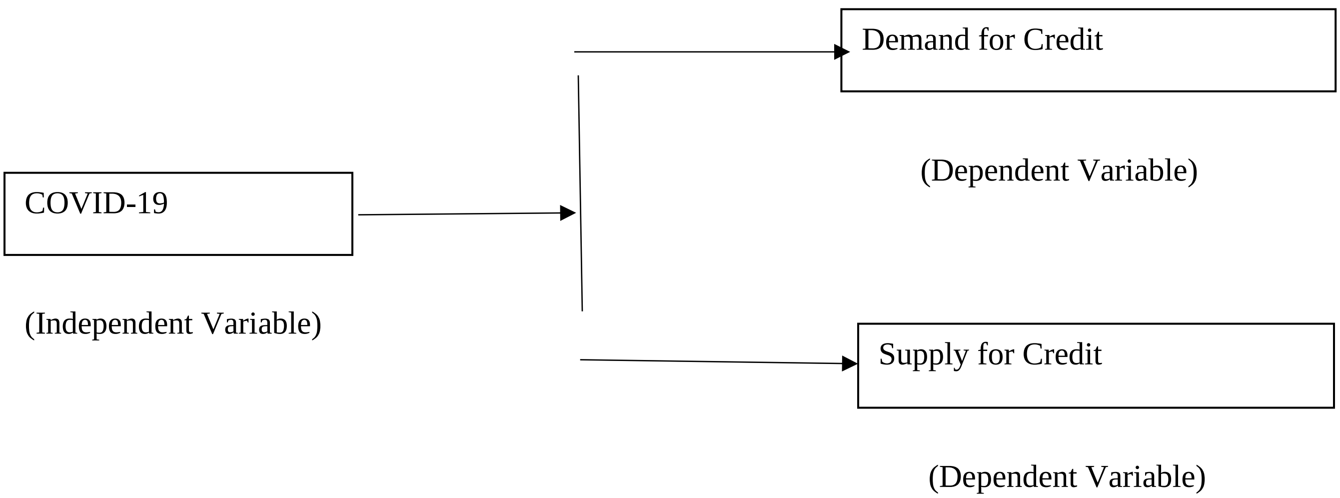


Figure 2.1: Conceptual Framework

Source: Authors, (2020)

3.0 CHAPTER THREE: METHODOLOGY.

3.1 Introduction

The following chapter looks at the research methods and techniques employed by the researchers it will cover the research design employed while conducting this study, operationalization of variables as well as measurement of these variables, the target population for this study, sampling design used by the researchers, data collection and procedure, how the data was analyzed and presented as well as the ethical considerations taken by the researchers while conducting the study.

3.2 Research Design

This study adopted an exploratory research design which is used when researchers plan on exploring a phenomenon to gain insight to it especially when there little to none prior research, which helps with more in-depth studies in future (Akhtar, 2016). When the area of research is new there is often not a lot of information on the subject and so researchers have to do an exploratory study (Cooper & Schindler, 2014). Which is the case with COVID-19 as it is relatively new and the impact it is had on many areas including access to finance is still being explored. An Exploratory research design does not aim to give final answers on the study (Boru, 2017) which is the case with study as the impact caused by the covid-19 pandemic is likely to be felt even after the completion of this study. Exploratory research design is not only limited to qualitative research methods this research design can use both quantitative and qualitative research even though this research design is usually seen to heavily focus on qualitative research design (Cooper & Schindler, 2014).

3.3 Operationalization and Measurement of Variables

Table 2.1: Operationalization of Variables

Variable	Definition	Operationalization	Measurement of Variable
Demand of credit	Demand of credit is defined as whether a firm has attempted to apply for finance for	Demand of credit is when a firm attempts to obtain credit.	Nominal scale data will be collected and measurement will

	their business regardless of whether or not they received the finances sought after (Cowling et al., 2016).		be derived from data. Including the rate at which businesses demand for credit.
Supply of credit	Supply of credit is defined by when a business attempts to access credit, was the business able to access all or a part of the credit they were looking for (Cowling & Liu, 2011).	Supply of credit is when a business receives	Nominal scale data will be collected and measurement will be derived from data. Including the rate at which businesses receive the credit they demand.
COVID-19	Coronavirus disease 2019 (COVID-19) is defined as illness caused by a novel coronavirus now called severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2; formerly called 2019-nCoV), (Cennimo, 2020).	COVID-19 is a respiratory disease.	This study measures the impact of COVID-19 access to finance and so is measured by the change in demand and supply of finance pre and post COVID-19.

Source: Authors, (2020)

3.4 Target Population

The target population for this study were SMEs in Nairobi the researchers opted to use electronics stores in Nairobi that have been in operation before the onset of the COVID-19 epidemic and that were still in operation after the onset of the epidemic to represent the SMEs as to provide the specifically targeting 20 Electronic businesses withing Nairobi as the sample to represent the population.

3.5 Sampling Design

The researchers used convenience sampling which is a type of nonprobability sampling where members of the target population were selected based of factors such as geographical proximity, whether they are willing to take part in the study, ease of accessibility and availability at a certain time (Etikan, 2016). The researchers chose this sampling design due to the ease of collecting data with more readily available subjects as well as the affordability of this method (Etikan, 2016).

3.6 Data Collection

Data collection is explained as the process of gathering and measuring information on variables of interest, in an established systematic fashion that enables one to answer stated research questions, test hypotheses, and evaluate outcomes by Kabir (2016). The research used questionnaires to collect primary data. Questionnaires are defined as any text-based instrument that give survey participants a series of questions to answer or statements to respond to either by indicating a response (Brown, 2001). Questionnaires are found to be easy and direct and straightforward by respondents.

3.7 Data Collection Procedure

This will involve a few stages where the researcher first acquired permission from Riara University to administer the questionnaire then after the researchers will use key identifiers of their target population where in this case were electronic stores in Nairobi that have been in operation before and after the onset of the COVID-19 pandemic. The questionnaires will be administered through a mixture of both physical and digital means by the researchers, during the physical issuing of questionnaires COVID-19 safety protocols will be observed. The data will be obtained within the five working days of the week from the various electric appliance shops targeted.

3.8 Data Analysis and Presentation

Data analysis is the act by which data that is unprocessed is orderly organized to useful information by the end user. This involves employing the use of various methods suitable in the process of getting the findings (Glass & Hopkins, 2015). The questionnaires were first reviewed to ensure consistency and completeness. This is to ensure the respondents had an easy time in giving the information as it relates to a new occurrence that is the global pandemic. Data collected from the questionnaires was then edited and grouped for analysis. The grouped data was then analyzed by use of qualitative and descriptive statistics. Percentages, modes, averages and standard deviation were used. The presentation of the analyzed data was then represented in the form of graphs and tables to give detailed descriptions.

3.9 Ethical Considerations

Upon conducting the research, some precautions were adhered to. The adherence of morals and maintenance of professional conduct in modes and means of retrieving data from respondents while maintaining their right of confidentiality and privacy is what (Holborn & Langley, 2016) refer to as research ethics and further elaborated by documents referring to ethical conducts in regards to human subjects of a study (Crawford, 2016).

In consideration by the researcher on ethics, different permissions were obtained by the researcher from Riara University and also an introduction letter for purposes of credibility. On data collection the researcher clearly explained the terms like confidentiality of respondents' data and personal information. The respondents' involvement was purely on voluntary basis and by doing so we targeted accuracy of information given. To avoid bias from respondents' information we explained their confidentiality and privacy rights so as to enable them respond freely.

The researchers were responsible for the safety of all parties involved in the study, interviewers, observers, the target population and so on (Cooper & Schindler, 2014) and with the ongoing COVID-19 pandemic the researchers ensured to follow the recommended safety protocols such as washing hands as often with soap and water and using sanitizer when unavailable, practicing social distance when in public and wearing a face cloth or mask when in public (American Red Cross, 2020). On top of this the researchers employed further methods such as filling out questionnaires for the respondents and issuing digital questionnaires when possible.

The researchers were also subjected to a code of ethics by Riara university that they needed to adhere to, the researchers ensured they did not plagiarize another party's work, while producing the best quality work possible as well as adhering to other directives set by the course instructor who acts the representative of Riara university.

4.0 CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

The following chapter reviews and analyses the data collected. The data being looked at in this chapter was solely collected from the questionnaire presented in chapter 3 that had been edited and structured specifically for this study. The researchers will make inferences from the data collected as well as use past literature to inform these inferences.

4.2 Sample Characteristics

4.2.1 Response rate

The study targeted 50 businesses from the target population to respond to the questionnaire and received responses from 25 businesses from the target population. Providing a response rate of 50% the researchers observed that they had a higher response rate with the physical administration of question compared to the response rate from questionnaires sent by email to businesses in this regard 20 emails were sent and only one respondent replied which is a response rate of 5%.

Table 4.1: Response rate

Response	**Frequency**	**Percentage**
Responded	25	50%
No Response	25	50%
Total	**50**	**100%**

Source; Questionnaire

4.2.2 Number of employees

Table 4.2: Number of Employees

Number of employees	Frequency	Percentage
1-5	8	32%
6-10	10	40%
11-15	3	12%
16 or more	4	16%
Total	25	

Source; Questionnaire

Most businesses from our respondents employ 6-10 employees with 10 respondents falling within this group, closely followed by 1-5 employees with 8 respondents falling in between this range. The 11-15 and 16 or more employee range had 3 and 4 respondent falling within this ranges respectively. All respondents in this survey fell in the range of 1-250 employees which is the range which constitutes a SME (Fjose et al., 2010).

4.2.3: Year of operation

Out of the respondents in this study 88% of them began operations before 2019 and 12% officially began their operations at later dates but we found that the 12% that began operations after still had experience in accessing credit before the onset of COVID-19.

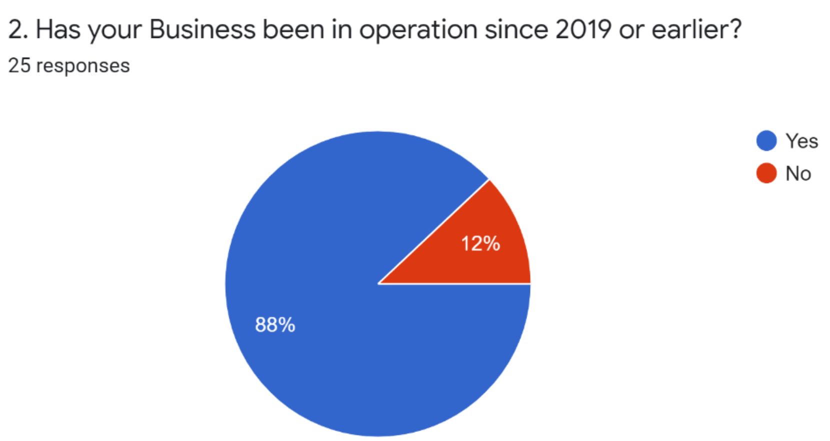


Figure 4.1: A pie chart on when businesses began operations. Source: Questionnaire

4.3 Results

4.3.1 Demand of Credit to SMEs

According to Cowling et al., (2016) an increase in demand for credit is seen the further the economy gets from an economic downturn but from our study we find that there is a clear intial increase in demand even while the economy is currently experiencing the economic downturn, our data shows that before the corona pandemic there was a 48% to 52 % split between businesses as to whether they had applied for credit before the pandemic or not with 52% having applied and 48% not having applied. After the onset of the pandemic this changed to a 68% (applying for credit) to 32% (not applying for credit) showing an immediate significant increase in the demand for credit by the respondents. The pie charts below show the data regarding whether or not businesses applied for credit before and after the onset of the COVIDO-19 pandemic.

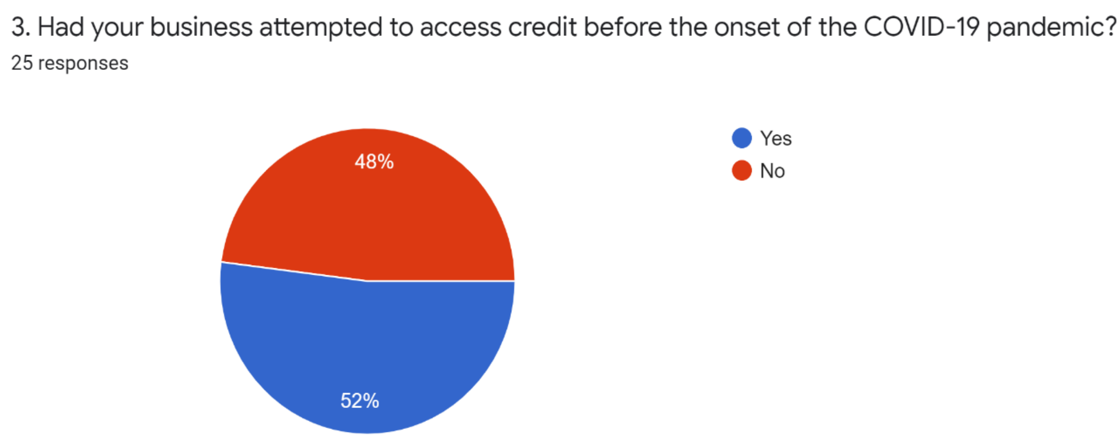


Figure 4.1: A pie chart on attempting to access credit before the onset COVID-19. Source: Questionnaire

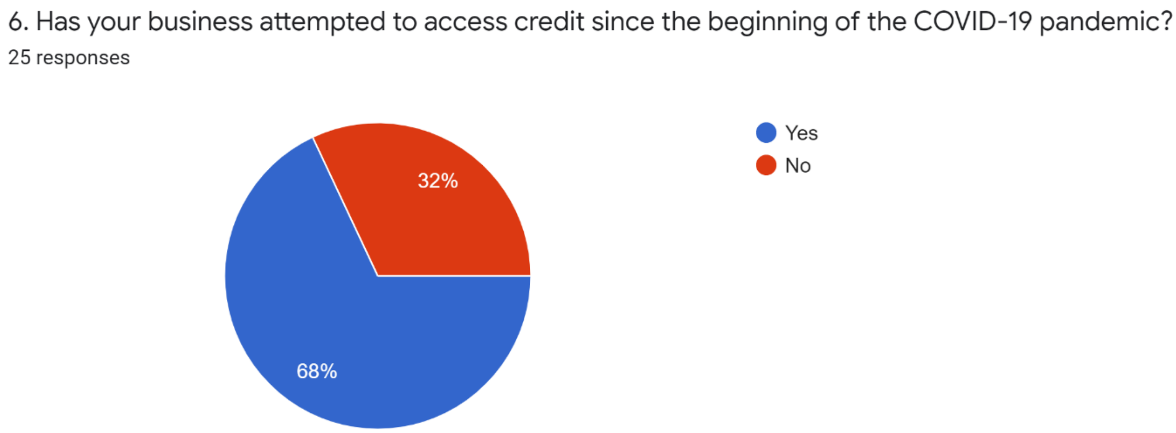


Figure 4.2: A pie chart on attempting to access credit after the onset COVID-19. Source: Questionnaire

A study by Cowling & Liu (2011) found that SMEs credit needs do increase during an economic downturn and we found the same in our study with majority of our respondents agreeing with the fact that their credit needs have increased since the onset of the pandemic with majority of the respondents falling under 'agree' specifically 56% of respondents and 28% of respondents strongly agreed with this sentiment.

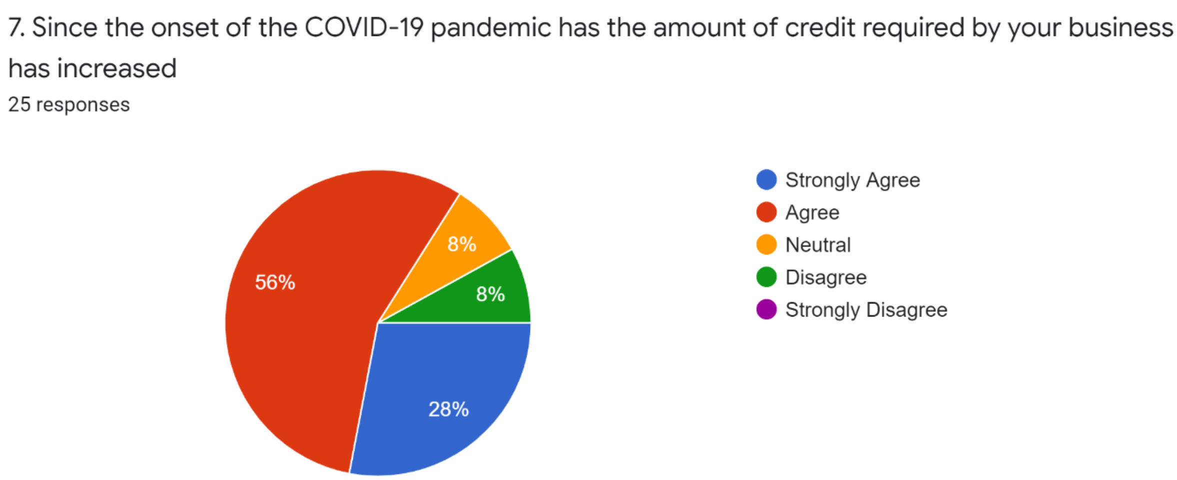


*Figure 4.3: A pie chart on affect of COVID-19 on credit requirements***.** Source: Questionnaire

An increase in SMEs credit needs does not directly translate to increased demand as businesses have different source of finance to choose from and preferences when it comes to sources of finance (Hofstrand, 2013) this among other factors such as businesses may feel that they do not meet the credit requirements by credit institutions Department of Finance, (2019), the interest rates are too high or the business does not have enough collateral (Tarp et al., 2008). The next set of data aims to evaluate these elements that affect credit demand before and after the onset of COVID-19.

The data shows that 52% of the respondents disagreed and 8% strongly disagreed with the statement that their business did not require credit was part of the reason as to why they did not apply for credit after the onset of COVID-19 there was an increase of respondents that disagreed with this statement with 72% disagreeing and 8% strongly disagreeing showing that COVID-19 induced an increased need for credit by businesses and that businesses having the credit required is not a primary reason for them not applying for credit.

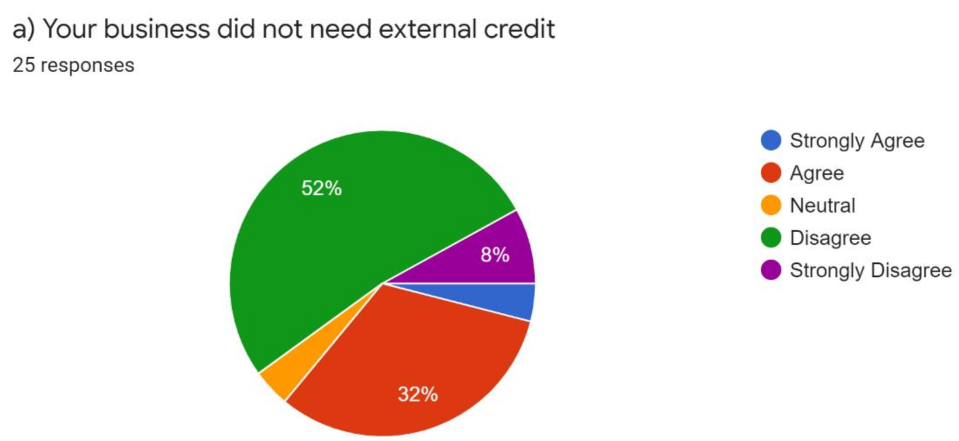


Figure 4.4: A pie chart on whether businesses did not credit before COVID-19. Source: Questionnaire

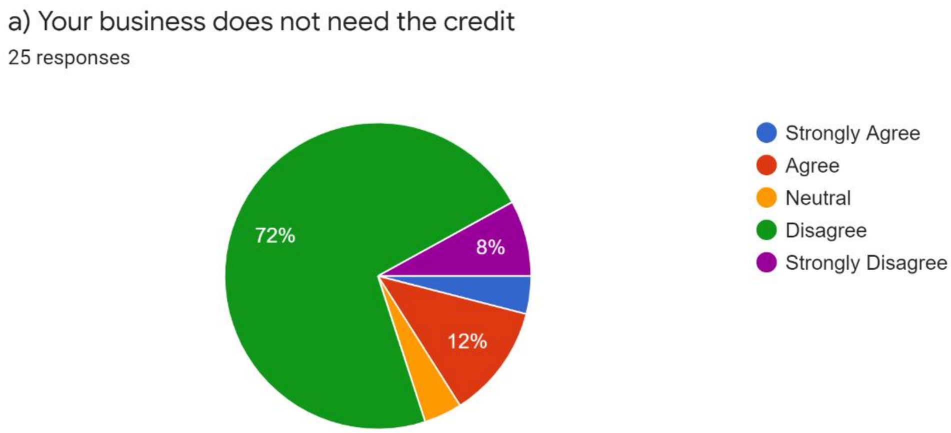


Figure 4.5: A pie chart on whether businesses did not need credit after COVID-19. Source: Questionnaire

The data shows that before the onset of the COVID-19 majority of the respondents disagreed with the statement that their business did not meet the credit requirements of creditors with 60% disagreeing and 4% of respondents strongly disagreeing and even after the onset of the COVID-19 pandemic there were no significant changes to the sentiments shown before with 52% disagreeing with the statement and 8% of respondents strongly disagreeing, showing a slight increase in businesses feeling that the credit requirements have gotten harder during tough economic times which is in line with a study by Cowling & Liu (2011) in which they found out that access to credit does get harder during tougher economic times.

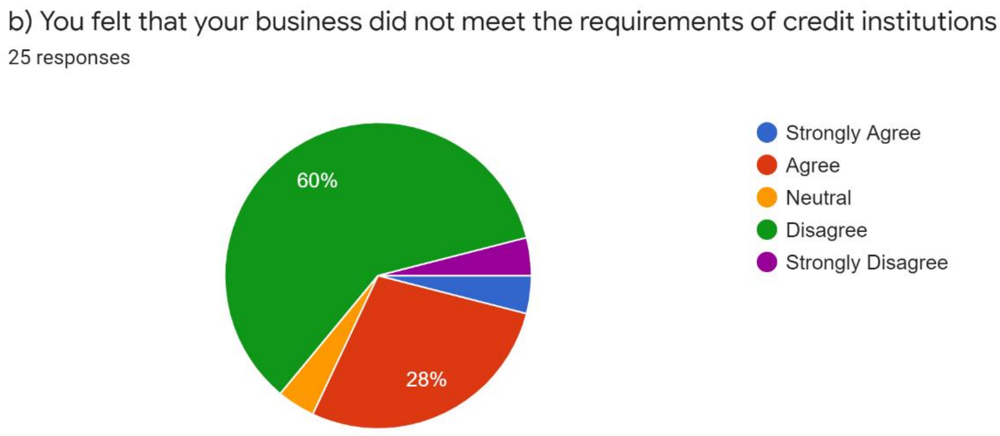


*Figure 4.6: A pie chart on whether businesses felt they met the needs of credit institutions before the onset of COVID-19***.** Source; Questionnaire

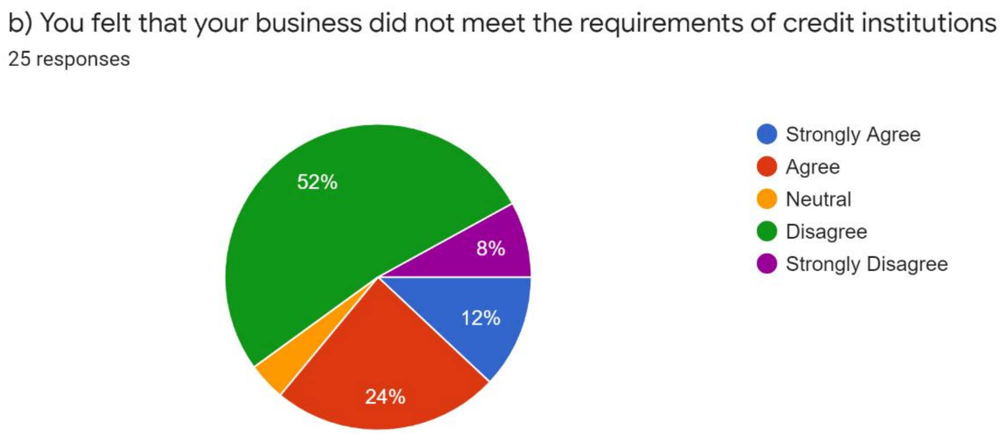


Figure 4.7: A pie chart on whether businesses felt they met the needs of credit institutions after the onset of COVID-19. Source; Questionnaire

From the pie charts below, it can be seen that both before and after the onset of the COVID-19 pandemic that most business show a preference to other sources of finance that are not bank credit with 48% of people agreeing and 12% strongly agreeing that they have a preference to other sources of finance and 60% of respondents agreeing to the same after the onset of the COVID-19 pandemic.

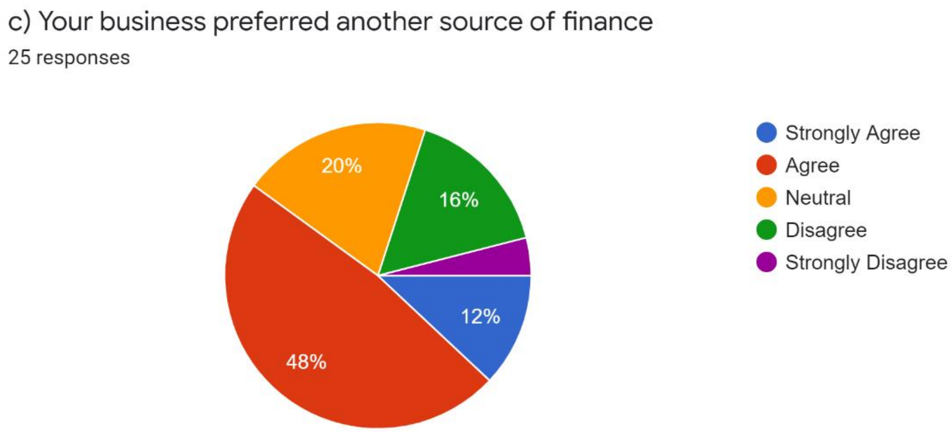


Figure 4.8: A pie chart on whether businesses preferred other sources of financing before the onset of COVID-19. Source; Questionnaire

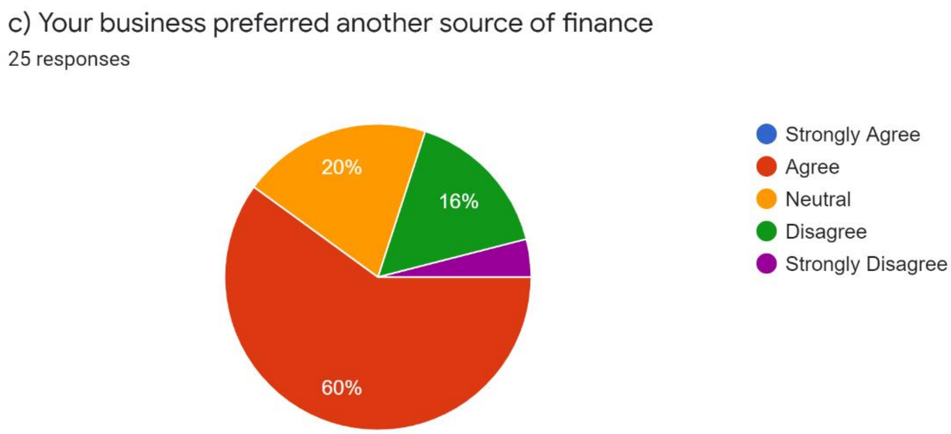


Figure 4.9: A pie chart on whether businesses preferred other sources of financing after the onset of COVID-19. Source; Questionnaire

From the pie charts below, it can be seen that the respondents generally felt the same way about the cost of credit before the onset of COVID-19 and after and in both cases the results were inconclusive as the respondents did not show a clear stance on whether they agree or not. Before COVID-19 40% disagreed that the cost of credit was high while 32% agreed and 16% strongly agreed. After the onset of COVID-19 40% of respondents disagreed, 36% agreed and 16% strongly agreed.

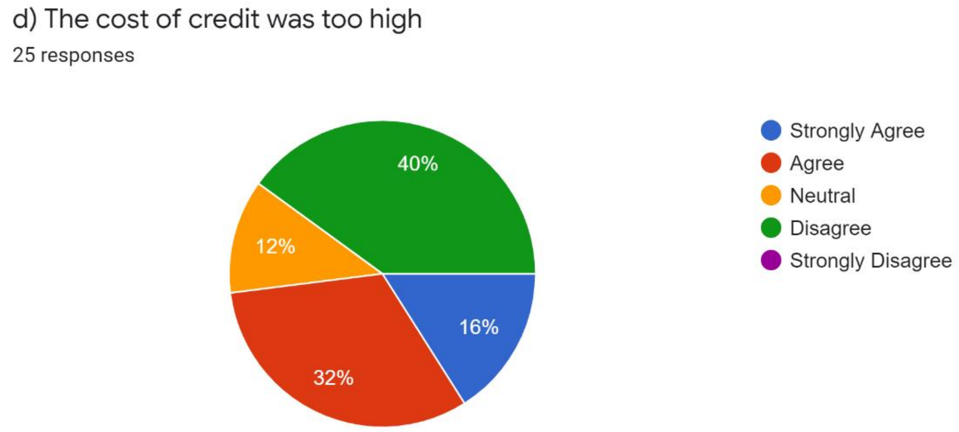


Figure 4.10: A pie chart on the cost of credit before the onset of COVID-19. Source; Questionnaire

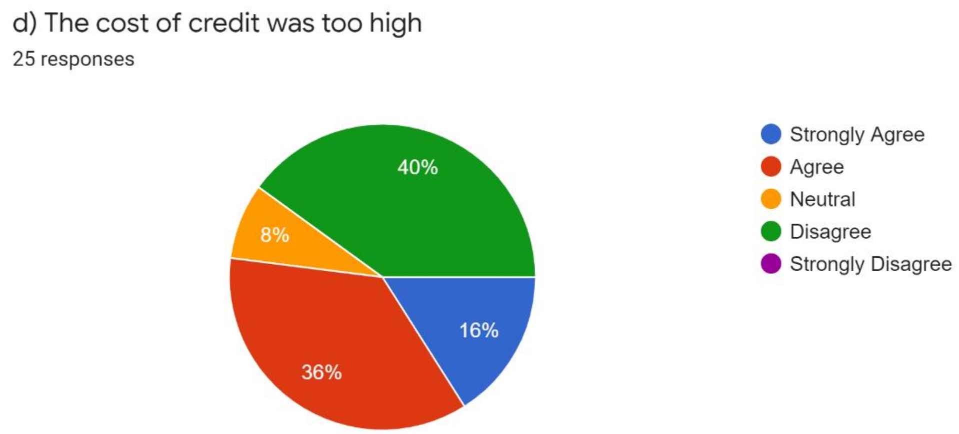


Figure 4.10: A pie chart on the cost of credit before the onset of COVID-19. Source; Questionnaire

From table 4.3 below we can see the average mean before the onset of COVID-19 was 2.97 which is closest to 3 which represented neutral showing that there were conflicting views by the respondents on how the statements shown in the table below affected their demand for credit. The average mean for the same elements after the onset of COVID-19 is 3.06 there doesn't seem to be significant difference between the results from 2.97 but with an average standard deviation of

‘1.10422549’ before COVID-19 and ‘1.071040108’ after the onset of COVID-19 shows high standard deviations in both cases and shows that there were conflicting responses and that these elements have not had a major impact on the overall impact on demand which is consistent with the work of Cowling et al., (2016) where he states that businesses show an increased need for financing the further away from a financial crisis the economy get and so it still being relatively early in the case of COVID-19 and its impact on the economy it makes sense that its impact cannot yet be seen the change in demand.

Table 4.3: Factors affecting Demand of Credit

Question	**Pre-COVID-19 MEAN**	**Pre-COVID-19 Standard Deviation**	**Post-COVID-19 MEAN**	**Post-COVID-19 Standard Deviation**
Your business did not need external credit	3.28	1.137248141	3.68	0.945163125
You felt that your business did not meet the requirements of credit institutions	3.32	1.069267662	3.2	1.258305739
Your business preferred another source of finance	2.52	1.045625809	2.64	0.907377173
The cost of credit was too high	2.76	1.164760347	2.72	1.173314394
Average	2.97	1.10422549	3.06	1.071040108

Source; Questionnaire

4.3.2 Supply of credit

Supply of credit is defined by when a business attempts to access credit, was the business able to access all or a part of the credit they were looking for (Cowling & Liu, 2011). During financial downturns borrowers are imposed by harder credit requirements as explained by (Holton & Lawless, 2012).

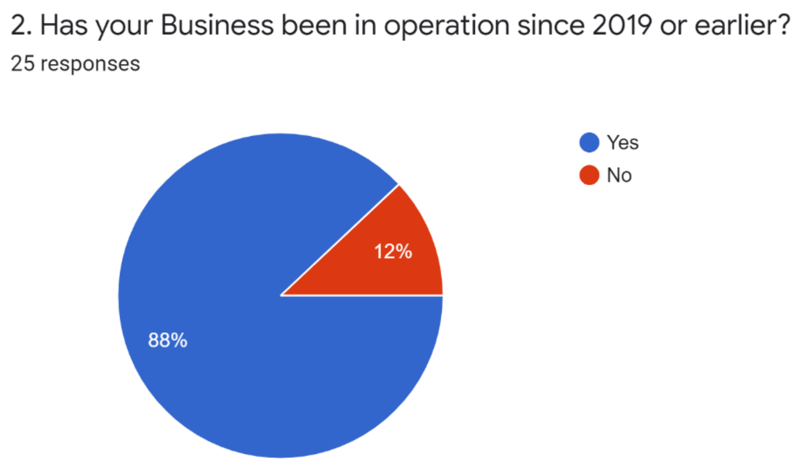


Figure 4.11: A pie chart on if the business has been in operation since 2019 or earlier. Source; Questionnaire

The research sought to identify business that were on operation before and after the onset of Covid-19 pandemic. The results from the figure 4.11 revealed that 88% of the respondents were in operation before the onset of the Covid-19 pandemic while 12% of the respondents began their operations after the Covid-19 pandemic.

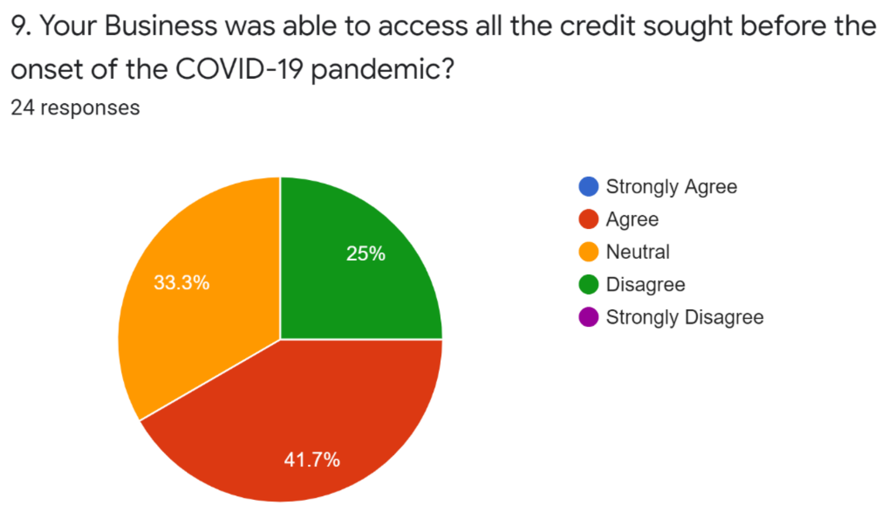


*Figure 4.12: A pie chart on whether the business was able to access all the credit sought before the onset of COVID-19***.** Source; Questionnaire

Based on figure 4.12 from the data collected shows 41.7% of the respondents indicated that their businesses were able to access all the credit sought before the pandemic. 33.3% of the respondents were neutral while 25% disagreed on being able to access credit before the onset of Covid-19.

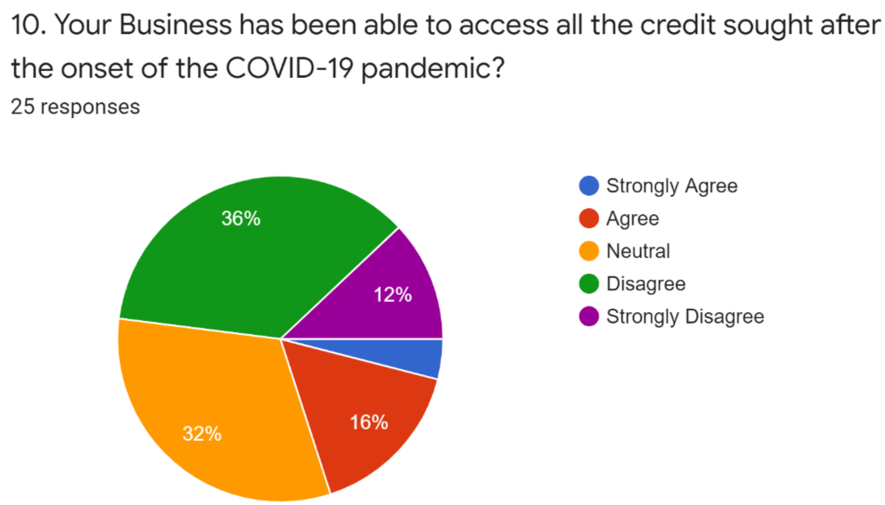


*Figure 4.13: A pie chart on whether the business was able to access all the credit sought after the onset of COVID-19***.** Source; Questionnaire

The study sought to find out if the businesses were been able to access all the credit sought after the onset of the COVID-19 pandemic.

Based on the above findings in figure 4.13 the respondents' views on if they were able to access all the credit sought after the onset of the COVID-19 pandemic showed that 36% of the respondents disagreed, 32% of the respondents were neutral, 16% agreed ,12% strongly disagreed and 4% strongly agreed. This showed clearly that the pandemic affected the supply of credit because of the reduced amount of businesses being able to access credit after the onset of the pandemic.

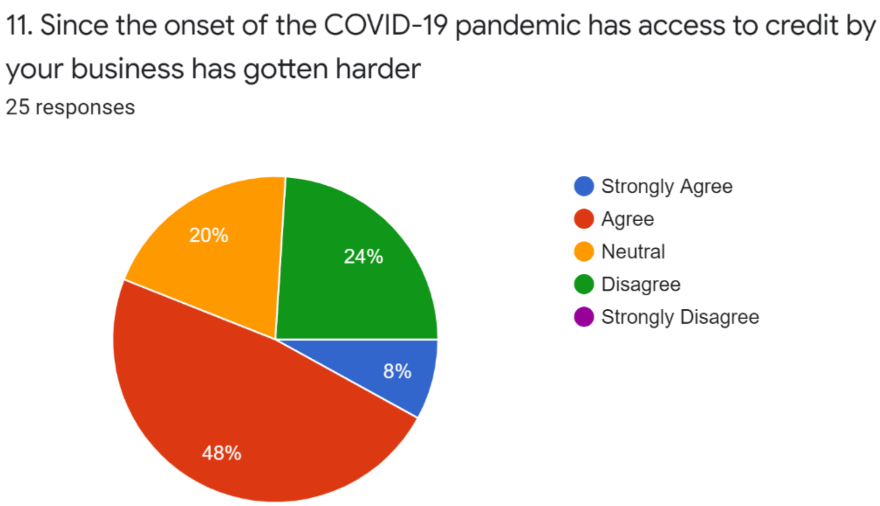


Figure 4.14: A pie chart on whether the business access to credit got harder since the onset of COVID-19. Source; Questionnaire

The respondents' views on whether the business access to credit got harder since the onset of COVID-19 varied according to figure 4.14 above, a large percentage of the respondents of 48% agreed on access to credit had gotten harder while 20% were neutral as 24% disagreed and 8% strongly agreed. The data showed that access to credit got harder since the onset of Covid-19 pandemic where the supply was restricted to few businesses who met the requirements.

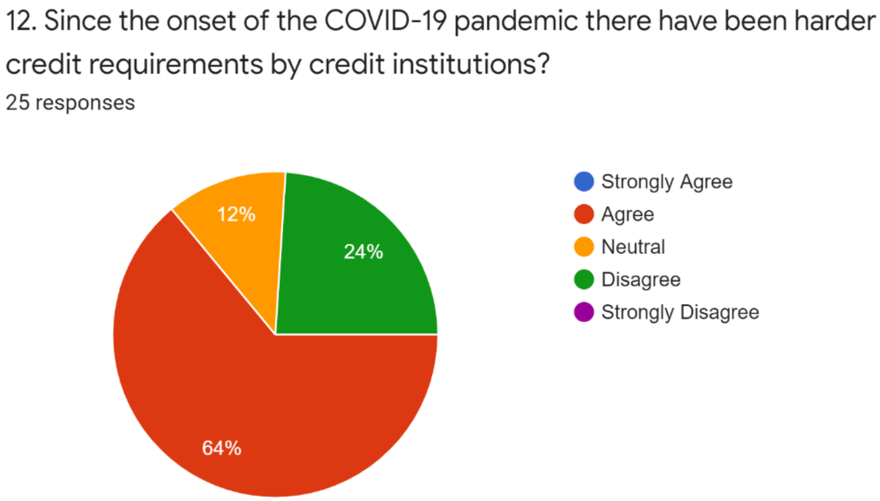


Figure 4.15: A pie chart on whether credit requirements have been harder since the onset of COVID-19. Source: Questionnaire

The respondents' views on if the credit requirements got harder since the onset of Covid-19 pandemic had 64% of the respondents agree, 24%disagree and 12% remaining neutral as shown on figure 4.15. The data explains that supply of credit was governed by some requirements set after the onset of the pandemic by creditors limiting more small medium enterprises from accessing the credit they required.

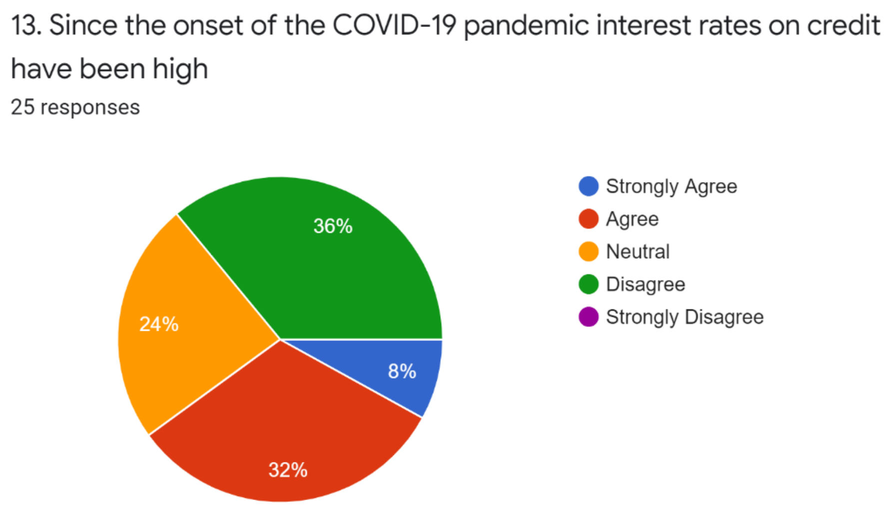


Figure 4.16: A pie chart on whether interest rates on credit have been high since the onset of COVID-19 on credit requirements. Source: Questionnaire

The respondents' views on if interest rates have gotten higher since the onset of Covid-19 pandemic saw 36% disagree, 32% agreeing, 24%remaining neutral and 8% strongly agreeing with the statement according to figure 4.16. Since the onset of the pandemic the businesses have opted for credit from various sources and creditors were restricted from increasing interest rates, a move that sought to protect businesses from collapsing.

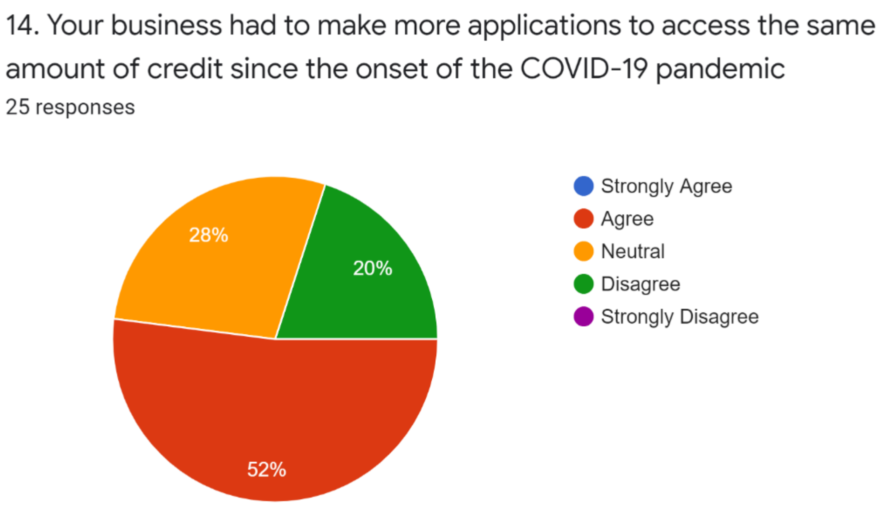


Figure 4.17: A pie chart on whether business had to make more applications to access the same amount of credit since the onset of the COVID-19. Source: Questionnaire

The respondents' views on whether business had to make more applications to access the same amount of credit since the onset of the COVID-19 showed 52% agreed, 28% remained neutral and 20% disagreed. The data shows that with the increase of credit requirements made it harder for businesses to access credit. This prompted the businesses to make more applications to be considered to access credit as supply for credit was limited.

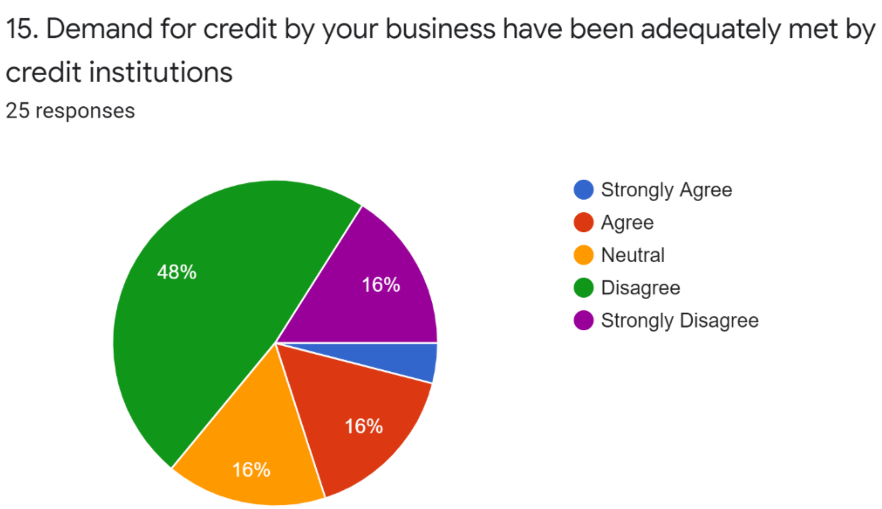


Figure 4.17: A pie chart on whether demand for credit by businesses was adequately met by credit institutions. Source: Questionnaire

The study sought to determine if demand for credit was adequately met by credit institutions. The figure 4.17 shows 48% of the respondents disagreed, 16% agreed, 16% strongly disagreed, 16% remained neutral and 4% strongly agreed on their demand for credit being met adequately by credit institutions since the onset of Covid-19. The data shows that with the hard credit requirements it limited supply of credit by creditors which hindered the businesses from accessing the credit they required adequately.

CHAPTER 5
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In this chapter the conclusions derived from the findings of this study on the impact of Covid-19 pandemic on access of credit by small and medium enterprises are described. The conclusions were based on the findings in the previous chapter. This chapter also includes the summary of the entire study and the recommendations are derived from the findings and conclusions of the study.

5.2 Summary of the findings

The general objective of this study was to evaluate the impact COVID-19 has had on SMEs access to credit and so we looked at two elements which were also the specific objectives of our research paper. First of which was the impact of COVID-19 on the demand of credit by SMEs and secondly the impact of COVID-19 on the supply of credit to SMEs.

The study conducted to evaluate the above objectives found that COVID-19 has had an impact on the supply of Credit to SMEs this is seen in several ways the first of which is that it was uncovered that before COVID-19 41.7% of the state to have received all the credit they applied for before the onset of COVID-19 and 25% stating they failed to receive all the credit they looked for. After the onset of COVID-19 we see a complete shift in these figures with only 16% of the respondents stating that they had indeed received all the credit they were looking for with 36% agreeing and 12% felt strongly that they have not been able to receive all the credit they have applied for.

We also found that majority of our respondents felt that the overall access and supply of credit has gotten more difficult since the onset of the COVID-19 pandemic. Specifically, 48% of our respondents agree, 8% strongly agree and 24% disagree with the fact that access to credit has gotten harder since the honest of the COVID-19 pandemic. Consistent with these results we see that 64% of respondents felt that credit requirements by credit institutions have gotten harder since the onset of COVID-19 with only 24% of our respondents disagreeing with this. Moreover 52% of respondents state to having needed to make more applications after the onset of COVID-19 than before to receive the same amount of credit with 20% disagreeing with this.

Contrary with the trend of data seen before we see conflicting attitudes by respondents regarding whether they thought interest on credit has been high with 32% agreeing and 8% strongly agreeing with this while 36% of people disagreeing with this statement. Even though this data does conflict previous data, majority of the data supports the fact that COVID-19 has impacted supply of credit in a way where there has been a decreased supply of credit and increased difficulty to access credit by SMEs.

In regards to the impact of COVID-19 to the demand of credit of SMEs the data regarding this was less conclusive we found conflicting responses between the respondents regarding elements that affect demand for credit by SMEs. This can be seen by the average responses for the statements using a Likert scale of 1-5 with 1 being strongly agree, 2 agree, 3 neutral, 4 disagree and 5 strongly disagree When looking at the aggregate of responses they all fell between 2.5 and 3.5 which represents neutral and doesn't provide adequate data for conclusive results. The average mean of the responses before the onset of COVID-19 was 2.97 and after the onset there was a slight increase to 3.06 on top of this the average standard deviations of 1.10422549 before the onset of COVID-19 and 1.071040108 after the onset of COVID-19 shows the disparity of responses given. Therefore, it shows that these elements have not been influenced by COVID-19 as of yet.

5.3 Conclusion

This study aimed to evaluate the impact of COVID-19 on access to credit by SMEs specifically supply of credit and demand of credit by SMEs after analyzing the data collected from the respondents there were several pieces of information that can be derived from the data. Evidently here has been a clear impact on the supply of credit to SMEs by COVID-19 seen by tougher credit requirements by credit institutions due to the increased risk incurred when lending to businesses, SMEs having to apply for finance more times before receiving the amount needed by a business. On the other hand we don't see the same impact when it comes to demand of credit by SMEs with slight changes being shown in the data between periods before the onset of COVID-19 and after as well as inconsistent responses by the respondents leading us to come to the conclusion that even though businesses have shown an increase in demand the impacts of COVID-19 are felt more on the supply of credit especially in the early stages of the onset of COVID-19 we expect demand to be impacted more strongly as time passes due to past literature from Cowling & Liu (2011) and so it was expected for its impact to not be felt on the demand so soon into the onset of COVID-19 but this is expected to change as time passes.

5.4 Recommendations

The study recommends businesses to manage and have a capital management structure. It explains that a business on startup it should use its own capital for the introductory phase. The business should then proceed to acquire debt after stability so as to help expand operations by growth and scale up. The business should be able to know when debt is required and the amount of leverage they require in different economic conditions.

The study recommends that debt plays a huge part in the capital structure of a business. Debt plays a huge role in a business and is seen largely in both downturns in the economy and also when the economy is booming. Its important to still have alternative sources of income in every phase of the company as overdependence on one source of income can threaten stability of the business. The study recommends in obtaining credit alternative sources (Banks, saccos, credit companies and others) should be explored as some creditors may be unreliable especially in economic downturns.

5.5 Suggestion for further research.

This study aimed to assess the impact of COVID-19 on SMEs access to finance creating a base or reference of comparison for the same research to be done at a later time once the economy is recovering allowing for a more in-depth analysis of the effects of COVID-19 on SMEs access to finance. This study focused on electronic businesses and so it is not necessarily the same for other types of businesses and so it would be prudent to have the same research be conducted on other types of businesses to ensure the results are inclusive of them.

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Appendix I: Questionnaire that Determines Impact of COVID-19 on SMEs access to credit.

We are in the process of conducting research on the impact of COVID-19 on SMEs access to credit. We would like to hear your opinions about this important issue. This will help us to write a paper on the same. The questionnaire will take only five minutes of your time and your responses are completely anonymous and will be used for academic purposes only.

SECTION A.

In all the questions please tick in the bracket where appropriate, and if need be further explain your answer.

1. How many employees are employed at your business?
   a) 1-5 ( )   b) 6-10 ( )   c) 10-15 ( )   d) more than 15 ( )
2. Has your Business been in operation since 2019 or earlier?

   a) Yes   b) No

SECTION B.

In all the questions please tick in the bracket next to the response that best represents your thoughts against the statement as defined below;

1.Strongly Agree   2.Agree   3. Neutral   4.Disagree   5. Strongly Disagree

Demand of Credit

3. Had your business attempted to access credit before the onset of the COVID-19 pandemic?

   a) Yes ( ) b) No ( )

4. To what extent have the following statements affected your businesses decision to not apply for credit at any point before the beginning of the COVID-19 Pandemic.

   a) Your business did not need external credit

      ( ) Strongly Agree ( ) Agree ( ) Neutral ( ) Disagree ( ) Strongly Disagree

   b) You felt that your business did not meet the requirements of credit institutions

      ( ) Strongly Agree ( ) Agree ( ) Neutral ( ) Disagree ( ) Strongly Disagree

   c) Your business preferred another source of finance

      ( ) Strongly Agree ( ) Agree ( ) Neutral ( ) Disagree ( ) Strongly Disagree

   d) The cost of credit was too high

      ( ) Strongly Agree ( ) Agree ( ) Neutral ( ) Disagree ( ) Strongly Disagree

5. To what extent have the following statements affected your businesses decision to not apply for credit at any point since the beginning of the COVID-19 Pandemic.

   a) Your business does not need the credit

      ( ) Strongly Agree ( ) Agree ( ) Neutral ( ) Disagree ( ) Strongly Disagree

   b) You felt that your business did not meet the requirements of credit institutions

      ( ) Strongly Agree ( ) Agree ( ) Neutral ( ) Disagree ( ) Strongly Disagree

   c) Your business preferred another source of finance

      ( ) Strongly Agree ( ) Agree ( ) Neutral ( ) Disagree ( ) Strongly Disagree

   d) The cost of credit was too high

      ( ) Strongly Agree ( ) Agree ( ) Neutral ( ) Disagree ( ) Strongly Disagree

6. Has your business attempted to access credit since the onset of the COVID-19 pandemic?

   a) Yes ( ) b) No ( )

7. Since the onset of the COVID-19 pandemic has the amount of credit required by your business has increased

   ( ) Strongly Agree ( ) Agree ( ) Neutral ( ) Disagree ( ) Strongly Disagree

8. Between May to October 2020 have you attempted to apply for credit the more times than during the same period in previous years?

   ( ) Strongly Agree ( ) Agree ( ) Neutral ( ) Disagree ( ) Strongly Disagree

Supply of Credit

9. Your Business was able to access all the credit sought before the onset of the COVID-19 pandemic?

   ( ) Strongly Agree ( ) Agree ( ) Neutral ( ) Disagree ( ) Strongly Disagree

10. Your Business has been able to access all the credit sought after the onset of the COVID-19 pandemic?

    ( ) Strongly Agree ( ) Agree ( ) Neutral ( ) Disagree ( ) Strongly Disagree

11. Since the onset of the COVID-19 pandemic has access to credit by your business has gotten harder

    ( ) Strongly Agree ( ) Agree ( ) Neutral ( ) Disagree ( ) Strongly Disagree

12. Since the onset of the COVID-19 pandemic there have been harder credit requirements by credit institutions?

    ( ) Strongly Agree ( ) Agree ( ) Neutral ( ) Disagree ( ) Strongly Disagree

13. Since the onset of the COVID-19 pandemic interest rates on credit have been high.

    ( ) Strongly Agree ( ) Agree ( ) Neutral ( ) Disagree ( ) Strongly Disagree

14. Your business had to make more applications to access the same amount of credit since the onset of the COVID-19 pandemic.

    ( ) Strongly Agree ( ) Agree ( ) Neutral ( ) Disagree ( ) Strongly Disagree

15. Demand for credit by your business have been adequately met by credit institutions.

    ( ) Strongly Agree ( ) Agree ( ) Neutral ( ) Disagree ( ) Strongly Disagree