

**LOAN RESTRUCTURING AND PERFORMANCE OF SMALL AND MEDIUM
ENTERPRISES POST COVID 19 PANDEMIC IN NAIROBI CITY COUNTY,
KENYA**

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DECLARATION

I declare originality of this project and in degree pursuit submission to other institutions have not been done.

Signature.....Date.....

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I have supervised the preparation of this project in my capacity as the appointed advisor.

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DR. Salome Musau

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ABBREVIATIONS AND ACRONYMS

COVID-19	Corona Virus Disease-19
GDP	Gross Domestic Product
KNBS	Kenya National Bureau of Statistics
OECD	Organisation for Economic Co-operation and Development
SMEs	Small and Medium Enterprises

OPERATIONAL DEFINITION OF TERMS

Financial Literacy: knowledge and skills possessed in managing financial matters such as budgeting, financial planning, loan management, and understanding financial products like loans.

Loan Accessibility: Accessibility of credit by SME's formally or informally. Factors influencing loan accessibility include the availability of loans, the criteria set by lenders (such as collateral requirements, credit history), and the capacity of SMEs to meet those requirements.

Loan Cost: refers to the total expenses associated with obtaining a loan, including the interest rate, fees, and other charges that SMEs must pay to the lender. The loan cost directly affects the affordability of borrowing for SMEs and their ability to repay the loan without straining their financial resources.

Loan Design: refers to the structure and terms of the loan offered to SMEs. This includes the amount of credit, repayment schedule, interest rates, collateral requirements, and flexibility in loan conditions.

SME Performance: how well SMEs achieve their financial and operational goals. Performance is usually measured in terms of revenue growth, profitability, market expansion, and sustainability.

Loan restructuring refers to the modification of the terms of an existing loan, typically involving changes to the repayment schedule, interest rates, or the loan period

ABSTRACT

SMEs have proven continuous cruciality in economies throughout the world. Kenya's SMEs are crucial in the provision of goods and services, increasing competition, stimulating inventions, creating jobs, while ultimately, alleviating poverty. However, SMEs in Kenya are closed every five years, with an average age of three years and eight months. Against this backdrop, this research probed into loan restructuring implications on SME performance post COVID-19 epidemic in Nairobi City County, Kenya with particular interests in influence of loan accessibility, loan costs, loan design, and financial literacy. Loanable fund theory, contingency theory, and capital structure theory was the study's anchor. Employing explanatory research and 268,100 licensed SMEs as the target population, 400 was picked at random from diverse sectors. A semi-structured questionnaire amassed data. Quantitative data was analyzed descriptively and inferentially. The study found that loan accessibility ($\beta = 2.575$, $p=0.001$), loan cost ($\beta = 3.432$, $p=0.003$), loan design ($\beta = 2.464$, $p=0.002$) and financial literacy ($\beta = 2.687$, $p=0.003$) had a positive significant influence on the SMEs performance post COVID 19 in Nairobi. The study concludes that access to loans allows SMEs to grow or relocate to new locations to hire more employees and access to loans allows SMEs to employ additional staff, as expansion necessitates more personnel to meet business demands. Loan cost supply organizations with the financial resources required to fund growth and expansion, including acquiring new equipment, enlarging operations, or investing in research and development. Loan design assist SMEs in identifying optimal interest rates and loan terms without requiring extensive hours of researching various alternatives. Possessing a solid grasp of the financial consequences of choices allows SMEs to make data-driven and analytical decisions. The study recommends that the SMEs should encourage a variety of financial institutions that utilize different business models and function in various geographic areas to cater to unique customer segments. SMEs should recognize, rank, and allocate them to a dedicated team and limit services for customers who are not generating profit. SMEs should enhance loan origination and servicing through automation/digitization and provide a range of loan products to address customer demographics. The SMEs should customize the content and presentation since various audiences possess distinct needs, preferences, and obstacles to learning.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Unprecedented disruptions to economies globally culminated from COVID-19 and Nairobi's SMEs were no exception. As key drivers of employment, innovation, and economic growth, SMEs are vital in Kenya's economy. However, the pandemic severely impacted their performance, leading to reduced revenues, operational challenges, and in some cases, business closures. The detrimental effects necessitated the Kenyan government to provide buffers through strategic interventions of tax relief measures, credit guarantees, and moratoria on loan repayments, were critical in preventing mass closures and ensuring the continuity of many SMEs (Omagwa, 2021). Despite these efforts, many enterprises still struggled to recover and sustain operations, emphasizing the need for more targeted financial strategies such as loan restructuring.

Small and medium-sized enterprises (SMEs) faced significant challenges in securing financial support (Kaberia & Muathe, 2021). Njubi (2023) highlighted loan restructuring as a key strategy for keeping businesses afloat, especially as many struggled to repay existing debts due to reduced cash flows. By offering flexible repayment terms and restructuring options, lenders helped ease financial pressure, enabling businesses to continue operating. Masago et al. (2020) pointed out that government intervention alone was not enough to relieve SMEs' financial strain. They emphasized financial institutions need to adjust loan terms through extending repayment periods, lowering interest rates, or granting grace periods, to help businesses manage their financial obligations.

Post-COVID-19, SMEs that benefited from loan restructuring and other financial adjustments were in a stronger position to sustain long-term operations (Njuguna, 2023). In contrast, those unable to renegotiate favorable terms faced a higher risk of closure. Njuguna (2023) stressed that loan restructuring was essential for post-pandemic recovery, allowing SMEs to stabilize and eventually thrive. As SMEs continue adapting to the post-pandemic economy, flexible financial solutions as earlier mentioned are essential in helping businesses regain stability and growth. This study endeavors to ascertain loan restructuring influence on Nairobi's SMEs performance, shaping their ability to overcome financial challenges and build resilience for the future.

1.1.1 Performance of Small and Medium Enterprises

SME performance is measured by a business's ability to achieve financial, operational and strategic goals. Mahmudova and Katonáné Kovács (2018) describe it as multi-dimensional, covering financial indicators like revenue growth, profitability and market share, alongside non-financial factors such as innovation, customer satisfaction, and efficiency. Strong performance is essential for an SME's survival, growth and contribution to the economy. During crises, adaptability becomes key in sustaining SME performance (Gerald, Obianuju, & Chukwunonso, 2020). Businesses that can quickly adjust to market shifts through strategic agility, responding effectively to changing conditions, are highly probable to endure challenging times.

SME performance is assessed using quantitative and qualitative metrics mix. Mahmudova & Katonáné Kovács (2018) highlight financial indicators like profitability, revenue growth, and return on investment (ROI) as clear measures of success. Non-financial metrics such as customer satisfaction, innovation and market expansion also provide valuable insight into long-term stability. Ibidunni et al. (2020) emphasize that knowledge-sharing and innovation significantly impact performance, especially in dynamic business environments. Similarly, Mubarik, Devadason & Govindaraju (2020) argue that skilled human capital strengthens SME competitiveness, particularly in global markets, with export-oriented businesses benefiting most from investing in workforce development.

High-performing SMEs drive economic growth by creating jobs, fostering innovation, and boosting productivity (Abu-Rumman et al., 2021). Their success enhances national competitiveness, raises income levels and strengthens overall economic development. Thriving SMEs also expand into new markets, fueling both regional and international trade. Mubarik, Devadason & Govindaraju (2020) further demonstrate that SMEs with strong human capital and export capabilities contribute to foreign exchange earnings, reinforcing national economic stability. Additionally, they strengthen local economies by forging partnerships with larger firms and increasing demand for goods and services.

1.1.2 Loan Restructuring

Loan restructuring involves adjusting existing loan terms, such as repayment schedules, interest rates or loan periods. This process helps struggling SMEs manage their financial obligations without defaulting. During and after COVID-19 pandemic, it became a crucial

tool for cushioning businesses against economic disruptions. Damayanthi et al. (2022) examined banking solutions during the pandemic, highlighting loan restructuring as a flexible response aligned with contingency theory, which suggests that businesses perform best when their strategies fit external environment. By extending loan tenures and lowering monthly payments, restructuring allowed SMEs to stabilize and regain financial footing.

Purnamawati and Yuniarta (2021) emphasized that while restructuring eased liquidity concerns, it was most effective when combined with digitalization and workforce development. Many SMEs pivoted to e-commerce and digital marketing, while investing in employee training to adapt to new business models. These combined efforts helped businesses remain competitive despite the pandemic's economic challenges.

Their study further showed that restructuring freed up capital, enabling SMEs to invest in technology and skill development. Businesses that embraced these changes navigated uncertainty more effectively, maintaining their market position. Duong et al. (2020) also noted that banks had to balance supporting SMEs with safeguarding their own financial stability, ensuring that assistance was sustainable for both lenders and borrowers. If banks face difficulties, it could lead to reduced availability of restructuring options, limiting the recovery potential of SMEs.

1.1.3 Small and Medium Enterprises in Nairobi City County, Kenya

SMEs are widely acknowledged as a driving force behind global economic growth. Globally, SMEs are used in jobs creation, boosting wealth, economic growth enhancement and poverty alleviation. SMEs in Kenya are fundamental to the economy controlling the informal sector, which accounted for 80% of the 800,000-employment produced (KNBS, 2020). Contributing enormously to a good socioeconomic influence within the country makes them undeniable cornerstone of economic expansion (Karen, 2019).

Most Kenyan investors typically start their careers as entrepreneurs, often in MSMEs, which constitute significantly to private sector globally. Small firms employ 10 to 49 people, and larger enterprises employ 50 to 99 people (Njeru, 2012). Nairobi County accounts for 268,100 (17.2%) of the 1,560,500 SMEs in Kenya with its distribution in all sectors; wholesale and retail trade, real estate, manufacturing and services (KNBS, 2020).

1.2 Statement of the Problem

Economic growth and productivity are heavily influenced by the success or failure of SMEs, stressing their vitality in global economies. When more SMEs are established and succeed, the impact is positive; however, their failure and exit can negatively affect economic performance. The OECD (2019) reports that fewer than half of small start-ups continue operating past five years, with only a limited number growing into high-performing firms that drive industrial innovation and productivity.

In Kenya, the SME sector has long been recognized for its contribution to the economy by jobs creation, boosting wealth, economic growth enhancement and poverty alleviation. For example, in 1999, SMEs created 3.7 million jobs considerably lower than 12.6 million created in 2015 (KNBS, 2020). Nonetheless, the KNBS (2016) reports that approximately 2.2 million close every five years, with the average business lifespan being just three years and eight months. What drives this failure?

Some scholars attribute the high failure rate of SMEs to the mindset of their owners, which is considered a significant factor in business closures. Others argue that entrepreneurial skills and knowledge are crucial for SME success, and a lack of these resources often leads to failure (Dhliwayo & Vuuren, 2007; Ngek, 2012; Alasadi & Sabbagh, 2015; Agwa, 2018; Nieman, 2006; Asenge & Tyoapine, Teddy, James & Ringim, 2016).

Recent studies have probed COVID-19 implications on SMEs. For instance, Masago et al. (2020) explored in developing nations, while Njuguna (2023) assessed the survival and sustainability of SMEs in Nairobi County during the crisis. Similarly, Gerald, Obianuju & Chukwunonso (2020) reviewed strategic agility and SMEs performance during the pandemic. However, scanty research of loan restructuring on SMEs performance post-COVID-19, particularly in Nairobi County, Kenya creates a gap. To cover this, factors such as loan accessibility, loan costs, loan design, and financial literacy was examined.

1.3 Objectives of the Study

1.3.1 General Objective

Loan restructuring impacts on SMEs performance post COVID 19 in Nairobi, Kenya, is the overarching purpose.

1.3.2 Specific Objectives

- i) To investigate loan accessibility impacts on SMEs performance post COVID 19 in Nairobi
- ii) To ascertain loan cost impacts on SMEs performance post COVID 19 in Nairobi
- iii) To look into loan design of payment on SMEs performance post COVID 19 in Nairobi
- iv) To investigate financial literacy implications on SMEs performance post COVID 19 in Nairobi

1.4 Research Questions

- i) Does loan accessibility influence Nairobi's SMEs performance post COVID 19?
- ii) In what ways does loan cost impact Nairobi's SMEs performance post COVID 19?
- iii) Does loan design influence Nairobi's SMEs performance post COVID 19?
- iv) Does financial literacy impact Nairobi's SMEs performance post COVID 19?

1.5 Significance of the Study

SMEs are paramount in driving growth economically in Nairobi County and Kenya at large. They create jobs, stimulate innovation, and contribute significantly to GDP. By assessing their performance, the study provides insights into the sustainability of these businesses and their potential to accelerate economic development. A better understanding of SME performance, particularly how it is influenced by access to loans, would help policymakers and financial institutions craft targeted interventions to support their growth.

Government and regulatory bodies would also find the results momentous. Nairobi County has been a hub for entrepreneurship, and policies that encourage the growth of SMEs may lead to broader economic benefits. This study can inform policymakers about SMEs financing challenges, the importance of lowering loan costs, and the role of loan design in supporting small businesses. As a result, it can drive the creation of policies that support financial inclusivity and SME development. The study findings would help SME owners and entrepreneurs identify key areas for improvement in their business practices. The insights provided would enable SMEs to make better decisions that enhance their performance and competitiveness in the market. This, in turn, fosters long-term sustainability.

Research on SME financing and performance in Nairobi County and similar urban centers is enhanced. It provides empirical data and insights on how specific variables (like loan accessibility and financial literacy) directly affect business success. This information may be used as a reference point for future studies and for comparing SME performance across different regions or countries.

1.6 Scope of the Study

Nairobi County, a hub for economic activities, was the geographical scope. It focused on SMEs operating within this urban setting, taking into account the unique challenges and opportunities presented by the metropolitan environment. The study focused on loan accessibility and SME performance. Specifically, the study focused on loan accessibility, loan cost, design and financial literacy and their effect on SMEs performance post COVID 19. The study employed both qualitative and quantitative research methods. This included surveys, interviews, and analysis of financial statements from SMEs to gather comprehensive data. The study focused on operating post Covid-19 to date.

1.7 Limitations of the Study

Data availability and quality proved to be major limitation for this study. SMEs often have inadequate record-keeping practices, making it challenging to access reliable financial data. Many may not maintain formal financial statements, leading to incomplete or inaccurate data. Data triangulation was employed for mitigation. Also, the busy schedule of SMEs owner and managers could affect the response rate for this study. The study adopted flexible data collection procedure to curb this.

1.8 Organization of the Study

Five chapters systematize this examination, each with a specific role in the research process. Chapter 1, the Introduction, provides the foundation by outlining the background, identifying the problem, defining research objectives and hypotheses and significance. It also clarifies scope, both geographically and conceptually, while addressing potential limitations. Chapter 2, the Literature Review, offers an in-depth examination of relevant academic literature. Chapter 3 details the research Methodology. Chapter 4 presents

findings and analysis. Finally, chapter 5 outlines summary, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This part is about the underlying relationship theories between the study variables are discussed and empirical review that highlights the methodology, objectives and results arrived at by previous scholars. The conceptual framework and research gaps summary was also looked into.

2.2. Theoretical Review

This subsection presents theoretical literature review where theories that inform the underlying connection of variables are discussed. Loanable fund, contingency and capital structure theories anchored the research.

2.2.1 Loanable Fund Theory

Loanable Funds notion is an economic concept that explains how the prevailing interest rate is determined by market equilibrium for funds available for lending. It explains how interest rates are shaped by the balance between available savings and the demand for borrowing from individuals and businesses. Postulated by a Swedish economist, Knut Wicksell (1898), the concept accentuates link between savings and investment. Essentially, interest rates fluctuate based on how much money savers are willing to lend and how much borrowers need to finance their activities.

Simply, savings create the supply of loanable funds, while borrowers seeking financing for consumption or investment drive demand. Resulting interest rate represents borrowing cost, an economic trade-off between immediate spending and future financial growth. Various factors, including government policies, inflation expectations and overall economic conditions, influence this dynamic by shifting supply and demand, which in turn affects interest rates.

This theory is particularly relevant when analyzing how banks adjust lending strategies in response to financial uncertainty. After the pandemic, financial institutions had to reassess risks and modify their policies to balance their own stability with supporting SMEs. By examining loan availability through the lens of Loanable Funds Theory, we gain insight

into how shifts in funding access shape SMEs' ability to secure restructured loans and navigate economic recovery.

2.2.2 Contingency Theory

Contingency Theory, proffered by Fiedler (1958), argues that there is no single best approach to managing organizations. Instead, company's structure, strategy and practices effectiveness depends on various internal and external factors, known as contingencies. These can include business environment, nature of its operations, technology adopted and workforce characteristics. This theory is particularly relevant in dynamics settings, such as challenges encountered by SMEs during and after COVID-19 pandemic. By applying contingency principles, businesses can adapt their management strategies to fit their specific circumstances, improving overall performance.

This study applies Contingency Theory to examine how Nairobi's SMEs responded to financial challenges during and after COVID-19. Understanding key factors such as shifting market demand, supply chain disruptions and changing consumer behavior, aides in assessing loan restructuring initiatives effectiveness. Since SMEs operate under different financial conditions, they need tailored restructuring strategies to address their unique challenges. Contingency Theory reinforces the idea that no single solution works for all businesses; the best approach depends on factors like company size, industry and financial health. This review explores how customized loan restructuring strategies impact SME performance and recovery.

2.2.3 Capital Structure Theory

Capital Structure Theory examines how businesses finance their operations using debt and equity mix with an aim to attain optimal balance that minimizes financing costs while maximizing firm's value. Companies weigh trade-offs between borrowing through loans or bonds and raising funds via equity. Debt financing comes with lower capital costs and tax benefits but increases financial risk due to mandatory interest payments. On the other hand, equity funding avoids fixed repayment obligations but dilutes ownership.

In a perfect market, capital structure theoretically doesn't impact a company's value. However, real-world factors such as taxes, bankruptcy risks and agency costs make capital structure a critical decision for businesses. This theory is especially relevant when

examining how loan restructuring affects SME's financial stability. Post-COVID-19, many small businesses struggled with cash flow and had to renegotiate debt terms by either lowering interest rates or extending repayment periods to remain afloat. Capital Structure Theory helps analyze how these adjustments influence financial health and overall performance. This examination focuses on how restructuring loans affect key SME metrics such as revenue growth, profitability and operational efficiency, specifically within Nairobi County.

2.3 Empirical Literature Review

Preceding literature regarding variables are assessed in the section. Studies were analysed in terms of objectives, methodology, findings and conclusion and later identified gaps that are to be addressed. Empirical review examined the particular variables.

2.3.1 Loan Accessibility and Performance of SMES

Loan accessibility is crucial in shaping SME's performance, directly influencing their ability to invest, expand and strengthen their financial stability. Munguti and Wamugo (2020) examined how microfinance loan accessibility impacts SMEs in Machakos County, revealing a clear positive connection. Their findings show that access to microfinance empowers SMEs to invest in working capital, improve productivity and achieve better financial outcomes. In regions where traditional banking services are limited, expanding microfinance availability can significantly enhance operational capacity and profitability.

In Nigeria's Kwara State, Sanni et al. (2020) explored bank credit accessibility impacts on SME performance using PLS-SEM analysis. It was concluded that easier access to loans positively influenced revenue, profitability and overall growth. However, key obstacles such as collateral requirements, regulatory constraints and high interest rates were highlighted to restrict SMEs from obtaining financing. The authors stress importance of banks refining their lending processes and creating customized financial products to better serve SMEs.

Kipkoech and Ombaba (2020) focused on loan accessibility among small retail enterprises, particularly analyzing how business size affects credit accessibility. It was revealed that larger SMEs generally secure loans more easily, while smaller businesses often struggle due to stricter lending criteria and higher collateral demands. This imbalance negatively

impacts smaller enterprises, making it harder for them to grow. The review underscores need for a more inclusive lending environment that accommodates all businesses sizes to foster overall SME performance.

2.3.2 Loan Cost and Performance of SMES

Borrowing cost is vital in shaping SME performance, as higher loan costs can limit a business's ability to invest, grow and sustain financial stability. Tumwine et al. (2015) developed a borrowing cost model to examine its impact on Uganda's SMEs, emphasizing that excessive loan costs reduce profitability and restrict reinvestment opportunities. Their outcomes suggest that effective financial planning and cost management can help SMEs minimize borrowing expenses, improving their competitiveness.

In Kenya, Nyumba et al. (2015) explored interest rates and SME performance relationship, finding a strong negative correlation. Higher loan interest rates increase borrowing costs, reducing available funds for investment and daily operations directly affecting profitability and business expansion. The review underscores importance of financial institutions offering affordable loan rates and policymakers implementing stabilization measures to support SME growth.

Salifu et al. (2018) examined how loan costs affect repayment performance among Ghana's SMEs. High interest rates and additional fees were concluded to make timely repayments difficult, harming SMEs' creditworthiness and limiting future financing opportunities. The examination highlights need for businesses to manage borrowing costs effectively to maintain access to credit and ensure long-term financial stability.

Similarly, Ibrahim & Ibrahim (2015) investigated how cost of capital impacts Nigeria's SME performance, concluding that high financing costs restrict investment opportunities and reduce returns. Their review reinforces importance of securing affordable financing solutions to enhance profitability. Understanding capital costs effects enables SMEs to make informed financial decisions, improving overall performance.

2.3.3 Loan Design and Performance of SMES

Loan design encompasses financial products specific terms and features offered to borrowers, including interest rates, repayment schedules, loan amounts and collateral

requirements. How loans are structured can significantly impact SME performance, influencing investment, growth ability and financial stability management.

Saidi et al. (2019) studied bank loan design effects on Nigeria's Lagos SMEs, finding that favorable loan conditions such as lower interest rates and flexible repayment terms led to better financial outcomes. Conversely, strict lending terms placed financial strain on businesses, limiting their growth and operational efficiency. Outcomes highlight need for loan products tailored to SMEs' financial realities, ensuring sustainability and long-term success.

Muhammad et al. (2019) explored how specific loan features affect Nigeria's Kano Metropolitan SME repayment behavior. Key factors of loan size, interest rates and repayment terms were highlighted to shape repayment patterns. Well-structured loans, with reasonable amounts and manageable repayment schedules, support healthy cash flow, ultimately improving business performance. The review advocates for financial products designed to facilitate repayment, helping SMEs maintain stability.

Similarly, Abdesamed and Abd Wahab (2014) examined factors influencing SME loan applications and their financing decisions. They found that complex application processes and high collateral requirements often discourage businesses from seeking credit, limiting their growth potential. Simplifying loan application procedures and offering more accessible financial products can encourage SMEs to secure funding, improving their ability to expand and thrive.

2.3.4 Financial Literacy and Performance of SMEs

Financial literacy is a key SME performance driver, influencing how businesses manage their finances, access funding and plan for long-term growth. Chepngetich (2016) found that SMEs with strong financial knowledge make better decisions, leading to improved cash flow, smarter budgeting and more effective strategic planning. Investing in financial literacy programs can strengthen SMEs' ability to manage their resources, ultimately enhancing their sustainability and success.

In Nigeria's Benue State, Esiebugie et al. (2018) established a clear link between financial literacy and SME growth. Businesses with a strong grasp of financial principles secured funding more easily, made informed financial plans and implemented effective risk

management strategies. Consequently, they were more profitable and expanded faster. Therefore, widespread financial literacy training, urging policymakers and financial institutions to prioritize programs that equip entrepreneurs with essential financial skills was advocated.

Similarly, Cherugong (2015) examined Kenya’s Trans Nzoia County SME’s, concluding that financial literacy significantly impacts profitability, sales growth and business longevity. SME owners with strong financial awareness negotiated better financing terms, made smarter investment decisions and optimized their resources, positioning their businesses for sustained success. Financial literacy integration into broader SME support frameworks was accentuated, ensuring businesses have tools needed to thrive.

2.4 Literature Review and Research Gaps

Table 2.1: Summary of the Literature and Research Gaps

Study	Methodology	Findings	Research Gaps
Munguti & Wamugo (2020) explores how microfinance loan attainability impacts the financial outcomes of SMEs in Kenya’s Machakos County.	Study used a census survey. Respondents were given semi-structured questionnaires to gather feedback	A positive connection of collateral, geographical penetration and loan-income ratio was revealed	There is methodological gaps since the study focused on SMEs that have accessed credit from MFIs only whereas the current study includes SMEs that access credit from all financial institutions
Sanni et al. (2020) investigated how SMEs performance in Nigeria’s Kwara State, is influenced by bank credit accessibility	Descriptive statistics and PLS-SEM techniques analyzed the acquired data	SME performance is positively impacted by deposit money banks' credit accessibility	Conceptual gap existed as focus was on ban credit accessibility. It covered by focusing on loan restructuring and SME performance
Tumwine et al. (2015) provide a borrowing cost model that examines how	Credible research instrument was used to survey 359 SMEs	Borrowing expenses, including interest rates and processing fees,	The is conceptual gap. The study presented a borrowing cost model for SMEs

loan costs affect Uganda's SMEs performance.		are linked to SME performance.	while the current this research seeks to address loan restructuring effects and SME performance
Nyumba et al. (2015) explored the link between interest rates of loans and Kenya's SMEs' performance.	Bank lending channel theory anchored the study. Data was amassed by a questionnaire	Reduced interest rates account for 8.3% of SMEs' performance	There is a conceptual gap since Loan interest rate was the focus while the current study focused loan restructuring
Salifu <i>et al.</i> (2018) examined loan repayment performance determinants among Ghana's SMEs, specifically focusing on loan costs.	Descriptive survey was adopted by the study	Loan repayment performance is negatively impacted by greater application costs, loan size, and interest rates. However, SME operators with a higher educational background perform much better	Ghana was the geographical scope contrary to Kenya, where the research was undertaken.
Ibrahim & Ibrahim (2015) explores how Nigeria's SMEs financial performance is impacted by cost of capital.	Data was collected and evaluated using linear regression techniques.	SMEs' cost of capital has little impact on ROA.	Nigeria, was the geographical scope contrary to Kenya, where the research was undertaken

2.5 Conceptual Framework

The framework illustrates underlying variable relationships. The independent variables are; loan accessibility, loan cost, loan design and financial literacy with SME's performance as the explained variable.

Independent Variables

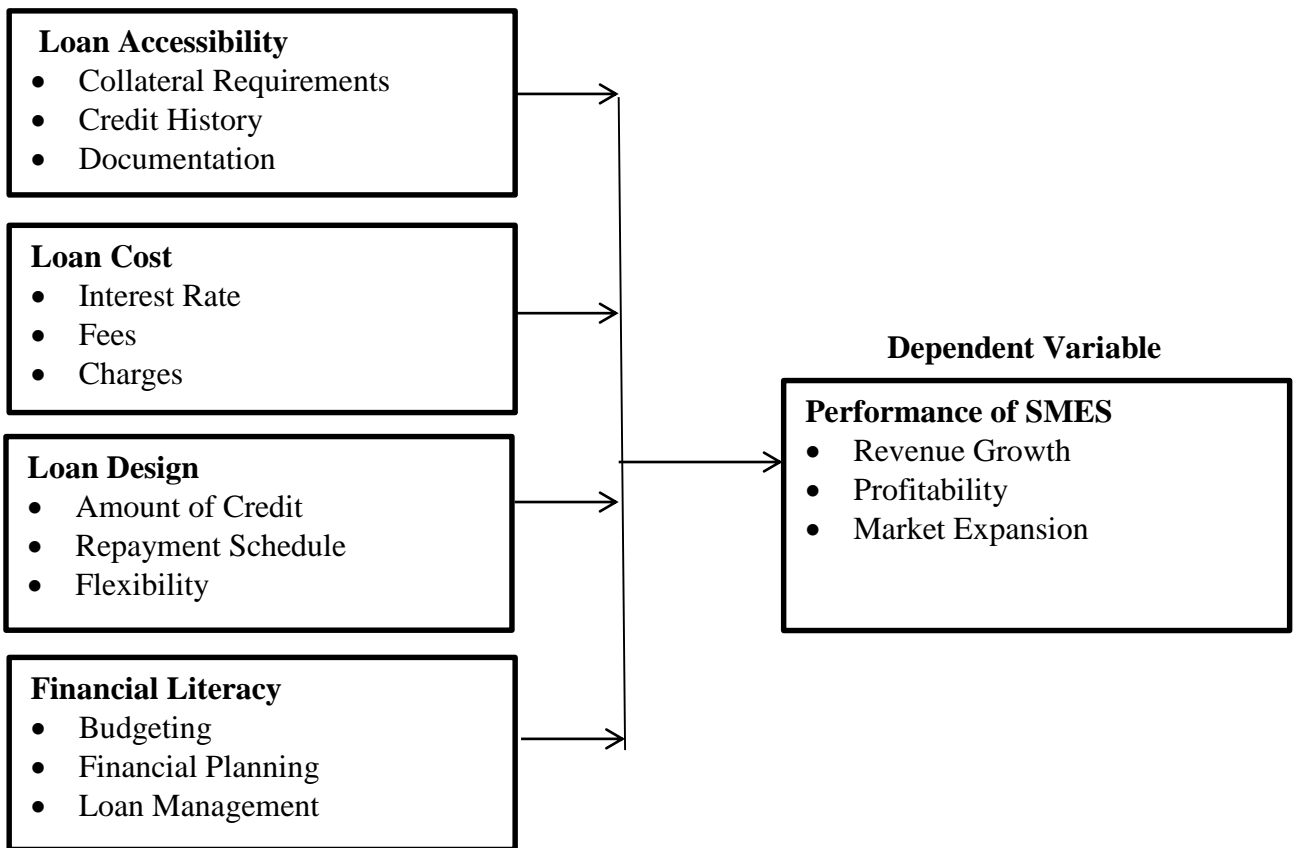


Figure 2.1: Conceptual Framework

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Here, procedural methodological approach comprehensive overview that will be employed in the study is discussed. This is outlined as follows:

3.2 Research Design

Amolo, Migiro & Ramraj (2018) categorize research designs into three types: exploratory, explanatory, and descriptive. Exploratory research is utilized when studying poorly defined problems, helping build a foundational understanding without providing definitive conclusions. In contrast, explanatory research focuses on cause-and-effect relationships between variables. As Ishtiaq (2019) notes, descriptive research aims to present a detailed events or individuals' account.

This study applies an explanatory research design to examine underlying factors driving specific phenomena. This approach is often used to develop and test theories, offering insights into how variables interact. It is vital in validating existing hypotheses and generating new ones, helping to deepen understanding of complex relationships. By investigating cause-and-effect correlations, academics refined existing theoretical frameworks.

3.3 Target Population

The target population encompasses all subjects relevant to the researcher's interest and where findings can be replicated (Berg, 2001). This research focused on licensed SMEs in Nairobi County, Kenya, projected by the KNBS (2020) to number approximately 268,100 (17.2%) of the national total of 1,560,500 SMEs. In Kenya, SMEs operate primarily within four sectors: wholesale and retail trade, real estate, manufacturing and services (KNBS, 2020).

3.4 Sampling Design and Sample Size

A sample is a subset of observations unsheathed out of augmented populace according to a specified method. Sampling procedures refer to the strategies employed by researchers to

gather this subset. These methods enable researchers to construct generalizations of entire population predicated on sample conclusions.

Multistage probability sampling was employed. Initially, a stratified approach categorized SMEs into four distinct strata based on sector— wholesale and retail trade, real estate, manufacturing and services. It is advantageous because it not only characterizes the entire population but also captures key subgroups, thereby improving accuracy by reducing standard error and facilitating comparisons across groups (Amolo et al., 2018).

Next, samples in each stratum was randomly be selected, ensuring even selection chances for all units within the designated population, minimizing bias (Kombo & Tromp, 2006). From the Nairobi County’s list of licensed SMEs, 400 were chosen. Cochran’s (1968) formula, a standard method for large populations computed sample size (Singh & Masaku, 2014). This formula was based on a specified confidence level, generally between 90% and 99%, with 95% being commonly used.

The formula is as follows:

$$n = \frac{N}{1 + N(e)^2}$$

n – Sample

N– Population (268,100)

e– precision level(0.05)

Sample size is:

$$n = \frac{268,100}{1 + 268,100(0.05)^2}$$

n = 399.4 or 400 approximately

Table 3.1: Sampling Table

Industry	Population	Sample	Percentage
Manufacturing	28,419	42	10.6
Real Estate Activities	7,480	12	2.79
Wholesale & Retail Trade	111,262	166	41.5
Services	120,939	180	45.11
Total	268,100	400	100

3.5 Data Collection Instruments

Semi-structured questionnaire amassed primary data, as stated in Appendix II. A questionnaire is a structured form that has a series of questions provided in a certain order (Alvesson, Sandberg, & Einola, 2022). Using questionnaires offers several advantages, including the absence of interviewer bias, cost-effectiveness with the ability to reach a wide geographic range, sufficient time for respondents to offer precise answers, effectiveness in reaching individuals who are difficult to engage, and the ability to utilize large sample sizes to produce dependable and trustworthy results (Abgaz et al., 2018).

The questionnaire demographic information on section A, sections B through G rated each research variable on a 5-point Likert scale. Furthermore, qualitative data relating to all of the study variables was gathered by open-ended questions. This comprehensive approach aimed to capture both quantitative and qualitative insights from the respondents, providing a more holistic research topic's understanding.

3.6 Pilot study

This is research's scaled-down version (Hazzi & Maldaon, 2015) to assess research tools' reliability and validity, allowing necessary adjustments if required. A pilot study was Kiambu County selected because operating environment and demographics are similar to those of Nairobi City County.

3.6.1 Validity Test

To improve validity, concept and content validity was employed. Design of research instruments incorporated insights from experts, while factor and triangulation analysis techniques ascertained precise data acquisition aligned with the conceptual fabric. The pre-testing of questionnaires, which encompassed all key study areas, validated content

suitability, while construct validity was affirmed by operationalizing the study variables in alignment with the theoretical underpinnings of the research. To evaluate construct validity, factor analysis was conducted, aiming for factor loadings above 0.40 for each indicator in the data collection instrument (Viechtbauer et al., 2015). This process served as a key measure of soundness of the data-gathering tool.

3.6.2 Reliability Test

In this study, reliability pertains to data constancy and repeatability gathered through administration of research instruments severally. Test-retest approach evaluated data dependability (Ursachi, Horodnic, & Zait, 2015). Additionally, Cronbach’s Alpha measured instruments constancy, where an expected 0.7 alpha or higher signifies an semantic level of reliability (Ursachi et al., 2015). This approach ensured that data was consistently reliable and suitable for analysis. The study the alphas values achieved for each variable were higher than 0.7 threshold as Table 3.2 depicts.

Table 3.2: Reliability Test Results

Variable	Alpha Value	Remarks
Loan accessibility	0.758	Reliable
Loan cost	0.708	Reliable
Loan design	0.784	Reliable
Financial literacy	0.779	Reliable
SME performance	0.801	Reliable
Aggregate score	0.766	Reliable

Source: Pilot Study (2025)

3.7 Data Collection Procedures

The scholar sought official endorsement from the university, NACOSTI and management of the respective MFIs. Data gathering involved dropping and picking the questionnaires. This approach gave respondents adequate time to review the questionnaire and provide thoughtful responses.

3.8 Data Analysis

Data was meticulously coded, entered, and analyzed using SPSS version 26. The analysis integrated both qualitative and quantitative techniques to offer thorough comprehension of the research findings. Quantitative data underwent descriptive (means & standard deviations) for summarization and inferential analyses (correlation and multiple regression) to explore associations and identify factors that could predict outcomes. Pearson's correlation coefficient (r) assessed relationship strength, and determination coefficient (R²) measured dependent variable explanation by the independent variable.

Consequently, a multiple regression model is as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where;

Y = SMES performance

β_0 = Constant (intercept)

$\beta_1, \beta_2, \beta_3$ and β_4 = Beta coefficients of independent variables

X_1 = Loan Accessibility

X_2 = Loan Cost

X_3 = Loan Design

X_4 = Financial Literacy

ϵ = Error term

3.8.2 Operationalization of Variables

The table below presents variables' measurements before analysis.

Table 3.3. Operationalization of Variables

Variable	Variable Type	Operationalization	Indicators	Measurement	Analysis Summary
SME's performance	Dependent	This refers to how well SMEs achieve their financial and operational goals	<ul style="list-style-type: none"> • Revenue Growth • Profitability • Market Expansion 	Likert scale for each indicator	Descriptive and inferential statistics
Loan Accessibility	Independent	Accessibility of credit by SME's formally or informally	<ul style="list-style-type: none"> •Collateral Requirements •Credit History •Documentation 	Likert scale for each indicator	Descriptive and inferential statistics
Loan Cost	Independent	refers to the total expenses associated with obtaining a loan, including the interest rate, fees, and other charges that SMEs must pay to the lender	<ul style="list-style-type: none"> • Interest Rate • Fees • Charges 	Likert scale for each indicator	Descriptive and inferential statistics.
Loan Design	Independent	refers to the structure and terms of the loan offered to SMEs	<ul style="list-style-type: none"> • Amount of Credit • Repayment Schedule • Flexibility 	Likert scale for each indicator	Descriptive and inferential statistics
Financial Literacy	Independent	SME owners and managers knowledge in managing financial matters such as budgeting, financial planning, loan management, and understanding financial products like loans	<ul style="list-style-type: none"> • Budgeting • Financial Planning • Loan Management 	Likert scale for each indicator	Descriptive and inferential statistics

3.10 Ethical Considerations

To uphold ethical standards, all sources and references were cited appropriately, including clear author identification and proper citations, thereby preventing copyright infringement. Participants gave informed consent after being fully briefed on the research's aims. To protect participants' identities, privacy and confidentiality was strictly maintained, with

data access limited to authorized personnel only. This ensured that participants remain anonymous and are not exposed to any adverse treatment as a result of their data contributions.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

Findings derived from field data analysis are entailed in this chapter, covering key aspects such as response rate, demographic insights, descriptive and inferential techniques.

4.2 Response Rate

400 participants drawn from various categories of SMEs were administered questionnaires, and the return rate is presented in Table 4.1.

Table 4.1: Response Rate

SME category	Number of questionnaires administered	Number of questionnaires returned	Percentage
Manufacturing	42	39	92.9
Real estate activities	12	11	91.7
Wholesale & retail trade	166	152	91.6
Services	180	167	92.8
	400	369	92.3

Source: Survey Data (2025)

Of the 184 study participants, 176 actively engaged the questionnaire, achieving a commendable 95.7% response rate, while 8 did not, bringing non-response rate to 4.3%, as detailed in Table 4.1. Based on Baruch and Holtom (2014), a minimum 80% response rate is sufficient for thorough analysis, validating the study's 95.7% rate as appropriate for data interpretation.

4.3 Respondents' Demographic Information

The examination endeavored to ascertain participant's' demographic insights concerning age bracket, highest education level, number of years in SMEs Sector and number of the years your business has been operational. Findings are availed below;

4.3.1 Gender

The results on gender representation of the respondents in the study are presented in Figure 4.1.

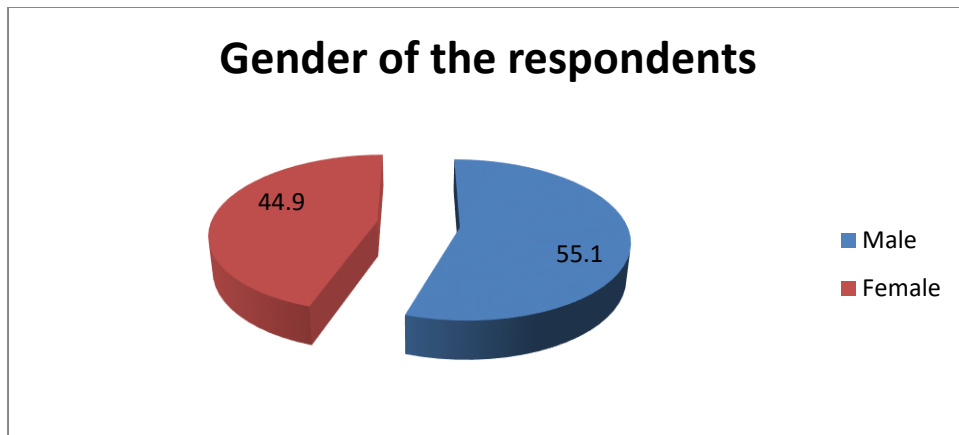


Figure 4.1: Gender

Source: Survey Data (2025)

Per Figure 2.1 respondent's majority were male, represented by 55.1%, whereas female respondents made up 44.9%. The respondents' gender was essential to accurately represent both genders in the research.

4.3.2 Highest Level of Education

Table 4.2. Avails findings regarding topmost participant's education qualification

Table 4.2: Highest Level of Education

Level of education	Frequency	Percentage
Diploma/Certificate	102	27.6
Undergraduate degree	196	53.1
Post Graduate	71	19.2
	369	100

Source: Survey Data (2025)

Results signify majority participants (46.6%) reached high school education level, 31.8% earned an undergraduate degree, 21.6% possessed a diploma, and 15.2% held a postgraduate degree. Evaluating respondents' educational qualifications is vital, as well-trained employees show greater engagement and job satisfaction, leading to improved productivity and service quality.

4.3.3 Number of Years in SME Sector

Figure 4.2 displays the results concerning the number of years in the SME sector of the participants in the study.

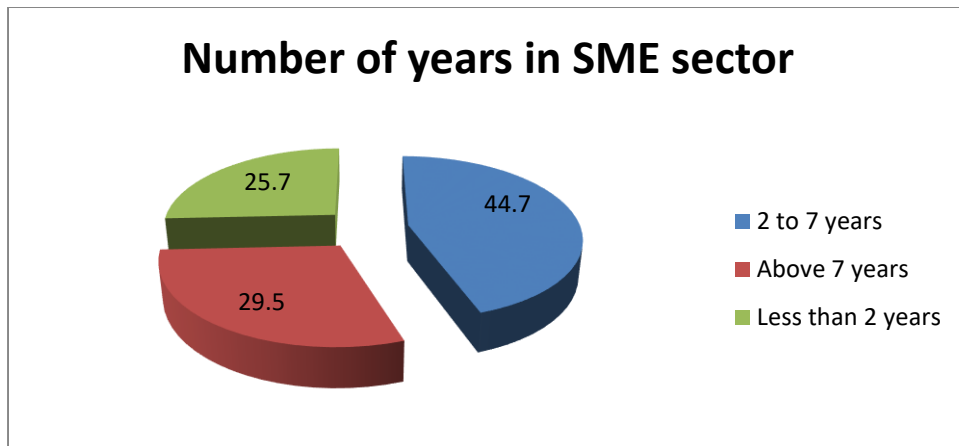


Figure 4.2: Number of years in SMEs

Source: Survey Data (2025)

The research indicated from Table 4.3 that most (44.7%) of the participants had work experience ranging from 2 to 7 years, 29.5% above 7 years and 25.7% possessed more 2 to 7 years. This indicated that the respondents possessed varied work experience, implying they had a greater awareness of their workplace environment.

4.3.4 Number of Years the Business has been operational

Table 4.3 displays results concerning number of years the business has been in operation.

Table 4.3: Number of Years the Business has been Operational

Years	Frequency	Percentage
Less than 2 years	41	11.1
2 to 7 years	132	35.8
Above 7 years	196	53.1
	369	100

Source: Survey Data (2025)

The results in Table 4.3 indicate that majority (53.1%) of the businesses studied had been in operation for a period of above 7 years, 35.8% between 2 to 7 years. This shows that a larger number of these businesses had been in operation for over 7 years.

4.4 Results of Descriptive Statistics

Descriptive statistics comprising Standard Deviation (SD) and Mean (M) was produced by SPSS to illustrate quantitative data outcomes.

4.4.1 Loan Accessibility

The results on the level of agreement concerning the examination of how loan accessibility influence on SMEs performance post COVID 19 in Nairobi using a list of statements are presented in Table 4.4.

Table 4.4: Loan Accessibility

Statements	SD (%)	D(%)	N(%)	A(%)	SA(%)	M	SD
It is easy to meet collateral and documentation requirements set by financial institutions for loan approval	4.6	15.6	1.9	37.8	40.1	3.99	1.010
We have access to a wide range of financial institutions offering loans tailored to our needs	0.1	5.7	0.0	62.2	31.3	4.56	0.439
The process of applying for and obtaining a loan is straightforward and does not require excessive time or resources for our business	4.6	9.9	0.0	43.9	41.6	4.11	0.889
We are able to secure loans with favorable interest rates and repayment terms that suit our business needs	2.6	1.1	0.0	41.9	56.5	4.09	1.909
We have a positive relationship with financial institutions, and we are regularly informed about loan products and opportunities available to us	0.0	0.0	0.9	48.3	50.8	3.97	1.029
Aggregate score	2.4	6.5	0.6	46.8	44.1	4.14	1.055

Source: Survey Data (2025)

The results in Table 4.4 indicate that the respondents strongly agreed on the statement that they had access to a wide range of financial institutions offering loans tailored to our needs (M=4.56, SD=0.439) with 93.5% of the respondents agreeing with the statement and 5.8% disagreed. Finding agree with Munguti and Wamugo (2020) who explores how

microfinance loan attainability impacts Machakos SME's financial outcomes and the findings suggest that enhancing access to microfinance can lead to significant improvements in the operational capacity and profitability of SMEs, particularly in regions where traditional banking services may be limited.

4.14 aggregate mean and 1.055 standard deviation indicate that the respondents agreed that loan accessibility influence on SMEs performance post COVID with 90.9% of the respondents agreeing with the statement, 8.8% disagreed, 0.6% indicated neutral. This concurs with Sanni et al. (2020) in ascertainment of how Nigeria's Kwara State SMEs performance is influenced by bank credit accessibility. Employing PLS-SEM a positive influence was revealed, with major implications for revenue creation, profitability, and development potential. The analysis indicated collateral requirements, regulatory environment and interest rates, substantially influence SMEs' ability to access bank credit.

4.4.2 Loan Cost

The results on the level of agreement concerning the examination of how loan cost influence on SMEs performance post COVID 19 in Nairobi using a list of statements are presented in Table 4.5.

Table 4.5: Loan Cost

Statements	SD (%)	D(%)	N(%)	A(%)	SA(%)	M	SD
Interest rates charged on the loan I accessed were affordable and manageable for my business	0.0	1.8	0.0	38.4	40.8	4.07	0.899
The additional fees (processing, administrative, insurance) associated with the loan were reasonable and transparent	0.0	0.0	0.0	45.0	55.0	4.62	0.378
The repayment schedule and terms of the loan were flexible enough to accommodate the financial capacity of my business	0.0	3.7	0.0	36.7	52.7	4.08	0.899
The total cost of the loan, including both interest and	0.0	0.0	0.0	41.5	58.5	4.51	0.487

fees, was clearly communicated to me before I accepted the loan							
The cost of the loan (interest rates, fees) negatively impacted my business's profitability and ability to grow	0.0	0.0	0.7	39.2	60.1	4.66	0.339
Aggregate score	0.0	1.1	0.1	40.2	53.4	4.39	0.600

Source: Survey Data (2025)

As depicted in Table 4.5, respondents predominantly expressed consensus on statement that loan cost (interest rates, fees) negatively impacted my business's profitability and ability to grow (M=4.66, SD=0.339). The statement was agreed by 99.3% of the respondents and 0.7% indicated neutral. The finding is in line with Tumwine et al. (2015) who provide a borrowing cost model that examines how loan costs affect Uganda's SMEs performance. The study found that cost of borrowing directly positively influences SMEs' financial success. High borrowing costs can lead to lower profits and restrict the ability of SMEs to reinvest in their businesses.

4.39 aggregate mean and 0.600 standard deviation indicate that the respondents agreed that loan cost influence on SMEs performance post COVID. An overwhelming 93.6%, agreed endorsed the statement, whereas 1.1% disagreed and 0.1% maintained neutrality, supporting conclusion by Nyumba et al. (2015) in exploring link between interest rates of loans and Kenya's SMEs' performance. A strong negative association between high loan interest rates and SME performance was discovered. Higher interest rates raise borrowing costs, limiting available investment capital and operational expenses, severely impacting profitability and growth.

4.4.3 Loan Design

The results on the level of agreement concerning the examination of how loan design influence on SMEs performance post COVID 19 in Nairobi using a list of statements are presented in Table 4.6.

Table 4.5: Loan Design

Statements	SD (%)	D(%)	N(%)	A(%)	SA(%)	M	SD
-------------------	---------------	-------------	-------------	-------------	--------------	----------	-----------

Loan products offered by financial institutions are flexible and tailored to meet the specific needs of SMEs	0.0	0.0	0.0	30.0	70.0	4.56	0.846
The repayment terms and schedules provided by lenders are reasonable and aligned with the cash flow cycles of SMEs	0.0	12.5	0.0	33.3	54.2	4.60	0.917
The loan amounts provided by financial institutions are sufficient to cover the business needs of SMEs without being excessive or insufficient	0.0	0.0	0.0	29.2	58.3	4.53	1.006
The collateral requirements for accessing loans are practical and attainable for most SMEs in Nairobi County	0.0	4.2	1.7	56.7	37.5	3.54	0.896
The interest rates and fees associated with loans are transparent and competitive, enabling SMEs to make informed borrowing decisions	0.0	2.5	0.0	33.3	64.2	3.99	1.380
Aggregate score	0.0	3.8	0.3	36.5	56.8	4.24	1.009

Source: Survey Data (2025)

The results in Table 4.6 indicate that the respondents strongly agreed on the statement that the repayment terms and schedules provided by lenders are reasonable and aligned with the cash flow cycles of SMEs (M=4.60, SD=0.917). The statement was agreed by 87.5% while 12.5% disagreed. Saidi et al. (2019) study investigated bank loans implications on SME's performance in Lagos, Nigeria. It was found that bank loans design, including interest rates and repayment terms, substantially affected performance.

4.24 aggregate mean and 1.009 standard deviation signifies respondent's concurrence on loan design influencing on SMEs performance post COVID. 93.3% of the respondents agreed, 3.8% disagrees and 0.3% indicated neutral. The finding is consistent with

Muhammad et al. (2019) who probed loan features and repayment implications on SMEs performance in Kano metropolitan, Nigeria. The study identified several key loan features, such as interest rates, loan size and recompense terms, that influence loan recompense behavior with notable mediation from effective repayment.

4.4.4 Financial Literacy

The results on the level of agreement concerning the examination of how financial literacy influence on SMEs performance post COVID 19 in Nairobi using a list of statements are presented in Table 4.7.

Table 4.7: Financial Literacy

Statements	SD (%)	D(%)	N(%)	A(%)	SA(%)	M	SD
The business owner or manager is knowledgeable about different types of loans and financing options available to SMEs	0.0	12.5	0.0	33.3	54.2	4.08	0.744
The business regularly prepares and follows a budget for managing expenses, cash flow, and financial planning	4.2	4.2	0.0	60.8	30.8	4.27	1.130
The SME is able to accurately calculate loan interest rates, repayment amounts, and understand the total cost of borrowing before taking on debt	0.0	14.2	0.0	55.0	30.8	3.64	1.361
The SME owner or manager can identify and evaluate risks associated with different financial decisions, including debt management and investment options.	0.0	0.8	0.0	40.8	58.3	4.52	1.294
The business maintains accurate financial records and uses them to make informed decisions about	0.0	0.0	11.7	45.0	43.3	4.06	0.813

loans, investments, and other financial matters							
Aggregate score	0.8	6.3	2.3	46.9	43.5	4.11	1.068

Source: Survey Data (2025)

Analyzing Table 4.7 shows that respondents firmly aligned themselves with the statement that (M=4.52, SD=1.294). The state was agreed by 99.1% of the respondents and 0.8% disagreed. The finding agree with Chepngetich (2016) who found that financial literacy improves the success of SMEs by enabling owners to make well-informed financial choices. Greater financial literacy is linked to better management of cash flow, effective budgeting, and strategic planning, which improves performance extensively.

The aggregate mean and standard deviation score of 4.11 and 1.068 indicate that the respondents agreed that financial literacy influence on SMEs performance post COVID. This is consistent Esiebugie et al. (2018) who looked into financial literacy impacts on SMEs performance in Benue State, Nigeria. A strong positive association was revealed. SMEs with higher financial literacy accessed capital easily, improved financial planning, and effective risk management techniques.

4.4.5 SME Performance

The results on the level of agreement concerning the examination of how financial literacy influence on SMEs performance post COVID 19 in Nairobi using a list of statements are presented in Table 4.7.

Table 4.7: Financial Literacy

Statements	SD (%)	D(%)	N(%)	A(%)	SA(%)	M	SD
SME has experienced consistent growth in annual revenue over the past three years	39.6	16.8	15.8	15.4	12.4	2.44	1.449
The SME maintains a positive profit margin and demonstrates the ability to cover all operational costs while generating profits	48.7	19.1	14.8	6.4	11.1	2.12	1.370
The SME has expanded its customer base, product offerings, or entered new	27.9	15.1	12.8	21.1	23.2	2.97	1.552

markets within the past two years							
The SME has improved its operational processes, reducing costs and increasing productivity over the last financial year	20.5	9.1	9.7	29.5	31.2	3.42	1.512
The SME has successfully utilized external financing to boost business performance and has consistently met its loan repayment obligations without financial distress	39.6	16.8	15.8	15.4	12.4	2.44	1.449
Aggregate score	32.3	15.4	13.8	17.6	18.1	2.68	1.466

Source: Survey Data (2025)

2.68 aggregate mean and 1.466 standard deviation imply that respondents indicated neutral on SMEs performance post COVID. The finding is in contrary to Mahmudova and Katonáné Kovács (2018) research observation that SME performance is multi-dimensional, encompassing financial outcomes such as revenue growth, profitability, and market share, as well as non-financial aspects like innovation, customer satisfaction, and organizational efficiency.

4.5 Regression Analysis Results

Table 4.8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.869	0.755	0.709	1.0251

Source: Survey Data (2025)

The value of the adjusted R square is 0.709 which shows that there was a variation of 70.9% of SMEs performance post COVID 19 in Nairobi which was due to changes in loan accessibility, loan cost, loan design, loan and financial literacy. This also indicates a gap of 29.1% that represent other variables not studied.

Table 4.9: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	495.215	4	123.804	149.434	0.004
	Residual	301.569	364	0.8285		
	Total	796.784	368			

Source: Survey Data (2025)

The results as presented in Table 4.9 shows that model was statistically significant since the F statistical value was 149.434 which was greater than the statistical mean value of 123.804. In addition, the level of significance was 0.004 less than 0.05.

Table 4.10: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	0.652	0.197		3.309	0.003
	Loan accessibility	0.801	0.311	0.0444	2.575	0.001
	Loan cost	0.779	0.227	0.0319	3.432	0.003
	Loan design	0.754	0.306	0.0205	2.464	0.002
	Financial literacy	0.763	0.284	0.0223	2.687	0.003

Source: Survey Data (2025)

Table 4.10 analysis exhibit that SMEs performance post COVID 19 in Nairobi would be at 0.652 without the influence of loan accessibility, loan cost, loan design and financial literacy. In addition, when loan accessibility, loan cost, loan design and financial literacy are improved, the SMEs performance post COVID 19 in Nairobi would be improved by 0.801, 0.779, 0.754 and 0.763 respectively.

Based on this finding the final regression equation was as follows:

$$Y = 0.652 + 0.801X_1 + 0.779X_2 + 0.754X_3 + 0.763X_4$$

Where

- Y = SME performance
- X₁= Loan accessibility
- X₂= Loan cost
- X₃= Loan design
- X₄= Financial literacy

The results from Table 4, indicate that loan accessibility had a positive significant influence on the SMEs performance post COVID 19 in Nairobi ($\beta = 2.575$, $p=0.001$). This outcome aligns with Kipkoech and Ombaba (2020) who investigated loan accessibility implications on small retail enterprises performance, specifically considering size of the enterprises. The authors observed enterprise size is vital in determining loan accessibility. Larger SMEs generally found it easier to access loans compared to smaller counterparts, which often face more stringent lending criteria and higher collateral demands.

Loan costs were revealed to significantly impact Nairobi's SME performance post-COVID-19 ($\beta = 3.432$, $p=0.003$). This is in concurrence to Salifu et al. (2018), who examined factors affecting loan repayment among Ghanaian SMEs, highlighting that high interest rates and additional fees can make timely loan payments difficult, ultimately affecting financial stability.

Additionally, loan design was found vital in shaping SME performance ($\beta = 2.464$, $p=0.002$), supporting Abdesamed and Abd Wahab (2014) conclusions. Their examination accentuated that loan terms such as interest rates, collateral requirements and application processes directly influence SMEs' decisions to seek financing. Well-structured loan products improve accessibility and support business growth.

The review also confirmed that financial literacy substantially impacts Nairobi's SME performance post-pandemic economy ($\beta = 2.687$, $p=0.003$). The outcomes concur with Cherugong (2015), who examined Kenya's Trans Nzoia SMEs, showing that financial literacy improves key performance aspects, including profitability, sales growth and overall business sustainability. SMEs with strong financial knowledge make informed decisions, negotiate better financing terms and allocate resources effectively, enhancing their long-term success.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter comprises of the summary of findings, conclusions, recommendations and suggestions for further studies.

5.2 Summary of Finding

The general objective of this study was to examine the influence of loan restructuring impacts on SMEs performance post COVID 19 in Nairobi, Kenya, is the overarching purpose. The loan restructuring was measured in terms of loan accessibility, loan cost, loan design and financial literacy. Questionnaires amassed data and analyzed by descriptive and inferential techniques. Forthcoming write-up summarizes the outcomes:

The review endeavored to investigate loan accessibility impacts on SMEs performance post COVID 19 in Nairobi. The results indicated that loan accessibility had a positive significant influence on the SMEs performance post COVID 19 in Nairobi .There was access to a wide range of financial institutions offering loans tailored to their needs. The process of applying for and obtaining a loan is straightforward and does not require excessive time or resources for our business and they were able to secure loans with favorable interest rates and repayment terms that suit our business needs.

The study sought to ascertain loan cost impacts on SMEs performance post COVID 19 in Nairobi. The study revealed that loan cost significantly influenced the SMEs performance post COVID 19 in Nairobi. The additional fees (processing, administrative and insurance) associated with the loan were reasonable and transparent. The total cost of the loan, including both interest and fees, was clearly communicated to me before I accepted the loan and the cost of the loan (interest rates, fees) negatively impacted my business's profitability and ability to grow.

The inquiry intended to ascertain loan design impacts on Nairobi's SMEs performance post COVID 19. Loan design was found to positively notably impact Nairobi's SMEs performance post COVID 19. Loan products offered by financial institutions are flexible and tailored to meet the specific needs of SMEs. The repayment terms and schedules provided by lenders are reasonable and aligned with the cash flow cycles of SMEs and the

loan amounts provided by financial institutions are sufficient to cover the business needs of SMEs without being excessive or insufficient.

This review ascertained financial literacy impacts on Nairobi's SME performance post-COVID-19, which pointed to financial literacy's meaningful and positive influence. Businesses that actively manage their finances, through budgeting, cash flow monitoring and financial planning tend to perform better. A financially literate SME owner or manager can assess and navigate financial risks, making informed decisions on debt management and investment strategies. Maintaining accurate financial records further strengthens their ability to evaluate loan options, allocate resources effectively and plan for sustainable growth. These findings underscore financial literacy importance in aiding SMEs make sound financial choices, ensuring stability and long-term success in an evolving economic landscape.

5.3 Conclusions of the Study

Loan accessibility is key in driving SME growth, enabling businesses to expand, relocate, and hire more employees. As companies scale, they require additional personnel to meet rising operational demands. Financing also supports SMEs in entering new markets for instance, a small manufacturer looking to supply retail chains may need capital to increase production, streamline logistics and enhance distribution. Similarly, launching new products and services expands clientele but often requires upfront investments in research, inventory and storage.

This study highlights that loan costs provide SMEs with the financial backing needed to scale whether through acquiring new equipment, expanding operations or investing in innovation. Additionally, loan interest payments are frequently tax-deductible, reducing borrowing expenses and lowering overall tax burdens. This can be particularly advantageous for businesses managing high interest obligations. Loans are also critical in building strong credit profiles, simplifying access to future financing and potentially securing lower interest rates. A solid credit history further boosts business credibility and enhances market reputation.

Loan design is also accentuated in helping SMEs identify best interest rates and repayment terms without navigating complex comparisons. Well-structured loans allow businesses to secure funding faster, avoiding lengthy approval processes tied to traditional banking. Loan

design can also include expert financial guidance, equipping SMEs with strategies for effective debt management and timely repayments. Some startups specializing in financial solutions offer structured debt management programs, ensuring businesses can sustain financial health without overextending their resources.

Moreover, financial literacy is emphasized in empowering SMEs to make data-driven decisions. Business owners with strong financial knowledge can analyze financial statements, recognize trends, optimize expenses and seize new opportunities. Financial literacy also boosts cash flow management, allowing SMEs to develop essential tools such as spending plans, balance projections and financial reports to navigate economic challenges effectively.

5.4 Recommendations of the Study

SMEs are recommended to encourage variety of financial institutions that utilize different business models and function in various geographic areas to cater to unique customer segments. Promote the adoption of cutting-edge technologies and the emergence of technology-focused, unconventional organizations. Broaden agent-driven banking and additional economical distribution methods. Regulatory strategies can assist in addressing this challenge by permitting the use of affordable delivery methods like local retail stores acting as representatives for financial service providers. Enhancing credit reporting systems and collateral registries, along with improving the efficiency and accessibility of retail payment systems, can broaden access to financial services.

The study recommends that the SMEs should recognize, rank, and allocate them to a dedicated team. Limit services for customers who are not generating profit. Impose charges or raise prices for clients requiring excessive service. Assess personal margin. Record the discrepancies and implement the optimal activity-level sales procedure. Concentrate on enhancing the results of the average performers and quickly release consistently underperforming individuals.

The study recommends that the SMEs should enhance loan origination and servicing through automation/digitization and provide a range of loan products to address customer demographics. Notify borrowers regarding loan options and their obligations. Enhance borrower contentment and reduce default rates by outlining terms, repayment timelines, and consequences of late payments. Examine the loan portfolio consistently to detect trends

and possible risks. Track delinquency rates, default rates, and various essential performance metrics. By recognizing possible problems early on, you can reduce their impact. Motivate timely payments by providing benefits such as decreased interest rates, lowered fees, or improved credit terms for reliable borrowers.

The study recommends that the SMEs should customize the content and presentation since various audiences possess distinct needs, preferences, and obstacles to learning. The SMEs ought to utilize current channels and partners that can effectively and efficiently connect with the target audience. SMEs ought to create enjoyable and engaging financial education by employing diverse methods and resources to attract and maintain learners' attention and interest. The SMEs ought to offer incentives and nudges that can promote and ease the adoption of beneficial financial behaviors and habits.

5.5 Suggestions for Further Study

The findings from the regression model revealed that variables not examined in this study accounted for 29.1%. Therefore, this research recommends conducting additional studies that concentrate on those other elements to fill the recognized gap. The research additionally concentrated on SMEs. The research thus indicates that additional studies should examine other sectors.

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APPENDICES

Appendix I: Introduction Letter

To all

I am currently pursuing MBA at Kenyatta University. My research mandates me to collect information based on the aforementioned topic as part for the completion of my degree.

I therefore humbly request you to answer all the questions as expected of you. The instructions are provided in the subsequent subsections of the survey. Data accumulated is strictly for academic purposes. Receive reassurance of information being highly classified. No reference will be made upon you or your organization. Thank you in anticipation

Your sincerely,

ABDIKHEIR ADEN HUSSEIN

Appendix I: Research Questionnaire

This questionnaire is intended exclusively for academic use and aims to gather information from SMEs that are registered and operate within Nairobi City. The research probes into loan restructuring impacts on SME performance post-COVID-19 period in Nairobi City County, Kenya. Kindly fill out the questionnaire as instructed. Rest assured, all information shared shall be treated with the utmost reticence.

Section A: Demographic Information.

Tick where applicable

1. Age Bracket

- (a) 18-35 years []
- (b) 36-45 years []
- (c) 46- 55 years []
- (d) Above 55 years []

2. Highest Level of Education

- (a) Diploma/Certificate []
- (b) Undergraduate degree []
- (c) Post Graduate []

3. Number of years in SMEs Sector

- (a) Less than 2 years []
- (b) 2-7 years []
- (c) Above 7 years []

4. Number of the Years your Business has been operational

- (a) Less than 2 years []
- (b) 2-7 years []
- (c) Above 7 years []

FOR SECTION B-F; Kindly use the scale provide to respond to the statements

Strongly agree(SA)=5, Agree(A)=4, Undecided(U)=3, Disagree(D)=2, and Strongly Disagree(SD)=1

Section B: Loan Accessibility and SME’S Performance Post Covid 19 In Nairobi

	1	2	3	4	5
It is easy to meet collateral and documentation requirements set by financial institutions for loan approval					
We have access to a wide range of financial institutions offering loans tailored to our needs					
The process of applying for and obtaining a loan is straightforward and does not require excessive time or resources for our business					
We are able to secure loans with favorable interest rates and repayment terms that suit our business needs					
We have a positive relationship with financial institutions, and we are regularly informed about loan products and opportunities available to us					

Section C: Loan Cost and SME’S Performance Post Covid 19 In Nairobi

	1	2	3	4	5
Interest rates charged on the loan I accessed were affordable and manageable for my business					
The additional fees (processing, administrative, insurance) associated with the loan were reasonable and transparent					
The repayment schedule and terms of the loan were flexible enough to accommodate the financial capacity of my business					
The total cost of the loan, including both interest and fees, was clearly communicated to me before I accepted the loan					
The cost of the loan (interest rates, fees) negatively impacted my business's profitability and ability to grow					

Section D: Loan Design and SME'S Performance Post Covid 19 In Nairobi

	1	2	3	4	5
Loan products offered by financial institutions are flexible and tailored to meet the specific needs of SMEs					
The repayment terms and schedules provided by lenders are reasonable and aligned with the cash flow cycles of SMEs					
The loan amounts provided by financial institutions are sufficient to cover the business needs of SMEs without being excessive or insufficient					
The collateral requirements for accessing loans are practical and attainable for most SMEs in Nairobi County					
The interest rates and fees associated with loans are transparent and competitive, enabling SMEs to make informed borrowing decisions					

Section E: Financial Literacy and SME'S Performance Post Covid 19 In Nairobi

	1	2	3	4	5
The business owner or manager is knowledgeable about different types of loans and financing options available to SMEs					
The business regularly prepares and follows a budget for managing expenses, cash flow, and financial planning					
The SME is able to accurately calculate loan interest rates, repayment amounts, and understand the total cost of borrowing before taking on debt					
The SME owner or manager can identify and evaluate risks associated with different financial decisions, including debt management and investment options.					
The business maintains accurate financial records and uses them to make informed decisions about loans, investments, and other financial matters					

Section F: Performance of SMES in Nairobi City County

	1	2	3	4	5
SME has experienced consistent growth in annual revenue over the past three years					
The SME maintains a positive profit margin and demonstrates the ability to cover all operational costs while generating profits					
The SME has expanded its customer base, product offerings, or entered new markets within the past two years					
The SME has improved its operational processes, reducing costs and increasing productivity over the last financial year					
The SME has successfully utilized external financing to boost business performance and has consistently met its loan repayment obligations without financial distress					

THANK YOU FOR PARTICIPATION