COVID 19 RESPONSE AND RESILIENCE OF MICROFINANCE INSTITUTIONS IN KENYA

[1]Enid Gateria

[2]Robert Kipngetich

[3]Rita Mati

[3]Ruth Moraa

[1,2,3,4] Lecturers, Kiriri Women University of Science and Technology, Kenya.

Abstract

The COVID-19 pandemic threatens lives and livelihoods, and, with that, has created immediate challenges for institutions that serve affected communities. The study focuses on microfinance institutions in Kenya, a country with a mature microfinance sector, serving a large number of households. The institutions serve populations poorly-served by traditional commercial banks, helping customers invest in microenterprises, save, and maintain liquidity. As the COVID-19 pandemic unfolds, there rightly has been a lot of concern about the impact on microfinance institutions (MFIs) and their clients. Nonetheless, a number of microfinance institutions in Kenya have devised ways of responding to the crisis so as to ensure continued operations and retain their clients. This study therefore sought to assess covid 19 response strategies and the resilience of the microfinance institutions in Kenya. Descriptive and explorative research design was adopted as well as positivism research philosophy. The target population of this study was 234 working in 11 licensed MFIs operating in Nairobi County whereby Yamane's formula (1967) was employed to select a sample size of 148 respondents. The study used stratified random sampling; data was collected by the use of primary and secondary data. Secondary data was obtained from published reports and primary data was obtained by the use of semi-structured questionnaires to collect data. Statistical Package for Social Sciences (SPSS version 24) was used to analyze data. Inferential and descriptive statistics were deployed to analyze data. The study concludes that flexible staffing arrangements have a positive and significant influence on the resilience of microfinance institutions in Kenya. In addition, the study found that concludes that reduction in lending has a positive and significant influence on the resilience of microfinance institutions in Kenya. From the findings, the study recommends that the top management of the micro-financial institutions should ensure borrowers are thoroughly scrutinized to differentiate risky borrower from safe ones hence increasing the resilience level of the MFIs.

Background of the Study

COVID-19 has unequivocally arrived in the developing world. Hundreds of cases have been reported across Latin America and South Asia and Africa. Worldwide, microfinance institutions provide financial and non-financial products and services to over 140 million low-income clients. Microfinance is key to finance income-generating activities, not only in the formal but also in the informal sector. In the Covid-19 crisis, both micro-enterprises in the informal economy and small businesses overall form an essential basis for social and economic recovery. Supporting microfinance institutions in this context is therefore of vital importance to protect the most vulnerable borrowers (Mwago, 2020). In Kenya, the microfinance institutions are crucial providers of financial services to households and small and medium-sized enterprises, with a large rural presence. Although some rural areas have been less affected by the spread of the virus, they are being severely impacted by the economic distortions on demand, and in some cases, exports, associated with the pandemic. The pace of microfinance institutions business is clearly slowing down, as portrayed by Kenya's SACCO Societies Regulatory Authority (SASRA Report, 2020). The regulatory body has reported negligible asset growth of Kenya's CFIs between March and May 2020, compared to the same period in the two preceding years. The average growth rate of gross loans was negative in the same period of 2020, in sharp contrast with the positive growth rates in the two previous years.

Despite the business slow down, microfinance institutions in Kenya have come up with ways of being resilient with the covid 19 pandemic that has seen the continuity of their business operations. Restrictions on new lending, authorizing moratoriums on repayments and foreclosures, and restructuring existing credit facilities are among the immediate measures adopted by regulators of the microfinance institutions in Kenya. The specific way in which microfinance institutions are integrated or not, in the overall financial system comes to play when public resources are allocated to support financial institutions (Mukoya, 2020). While the process is almost automatic for established commercial banks, the mechanisms for MFIs are either non-existent or indirect.UWEZO Deposit Taking Microfinance Limited in Kenya for instance, has come up with efforts such as repayment moratoria, restructuring loans and write-off of non-performing loans for continued operations while minimizing losses to the clients. Different investors and funders will focus differently, but in each case a critical mass of support will need to be mobilized if rescues

are to be successful. At a minimum, the approach needs to be segmented to "big to fail MFIs", large and mid-sized MFIs and "impact first MFIs".

Statement of the Problem

The covid 19 pandemic has posed a huge challenge for microfinance institutions in Kenya. Indeed, given the nature of their portfolios and the activities of their clients, microfinance institutions and the financial inclusion sector in general are affected by the ongoing crisis. The portfolios of MFIs often have a significant share of the informal sector, a predominance of commerce activities and vulnerable clients who have few resources to cushion the impacts of the crisis (Andago, 2020). These populations generally save little and invest all their resources in their economic activity. Many of these urban micro entrepreneurs rely on this daily source of income for their basic needs. The various forms of lockdown can therefore actually mean that they cannot afford to pay for food, housing, healthcare, etc. This is because either the microfinance institutions might not be in a position to lend due to the crisis or that the entrepreneurs do not have enough money to invest in the MFIs so as to access lending (Kariuki, 2020).

According by Vision Fund Africa MFI Survey on the Impact of COVID-19 on Clients in Kenya which was conducted between 27 April and 9 May 2020, three of the MFIs were doing minimal disbursements, two were doing selective disbursements. Limited disbursements was a result of the fact that most of their customers were unable to pay loans hence the need to limit lending to eligible customers so that the MFIs do not go into a crisis. Not surprisingly, the main challenge to clients repaying their loans was that the business wasn't open, or only partially open. The second reason is that they had no funds (VisionFund, 2020).

Despite the study by VisionAfria on COVID 19 and MFIs, multiple uncertainties remain about the extent and pace of the pandemic and its effects on MFIs, their membership, and the economies in which they operate, which makes it difficult to discern the road ahead. There has been less focus to date on how the MFIs themselves have responded to the crisis: How are they adjusting their operations? To what extent are they offering leniency to their clients? Have they been forced to lay off staff and close branches? There has been very little evidence that the Kenyan microfinance community has woken up to the full extent of the crisis as the virus takes hold. As the international community mobilizes to respond to the COVID-19 crisis, there is need to take steps now to ensure

the Kenyan financial industry that provides financial services to the poorest is not left behind. This study therefore seeks to answer these questions by analyzing the covid 19 response and resilience of microfinance institutions in Kenya.

Objectives of the Study

The study is objectively purposed;

i. To establish the impact of reductions in lending on the resilience of Microfinance Institutions in Kenya

ii. To find out the impact of Flexible Staffing Arrangements on the resilience of Microfinance Institutions in Kenya

Significance of the Study

The findings of this research study benefits the academicians and other researchers, policy makers, the Kenyan government and the management of micro financial institutions in Kenya. To the government of Kenya and other policy makers, the study provides information on how reductions in lending and flexible staffing arrangements influence the resilience of Microfinance Institutions in Kenya. The findings can be used in formulating new policies in regard to COVID 19 response and resilience of microfinance institutions in Kenya. With the formulation of policies by the Government, regulations will be set to standardize the resilience of microfinance institutions hence making them to perform better.

To the academicians and other researchers, the study will help in filling the gap regarding COVID 19 response and resilience of microfinance institutions in Kenya. The study will highlight the influences of reductions in lending and flexible staffing arrangements on the resilience of Microfinance Institutions in Kenya. This research will therefore contribute significantly to the already existing body of knowledge and theory building. It will thus act as a point of reference for future studies in the field of COVID 19 response and especially in the concept of resilience of microfinance institutions in Kenya.

To the management of microfinance institutions in Kenya and other financial institutions, the study is of great impact since the results of the study will assist in understanding the influence of COVID

19 response on the resilience of microfinance institutions in Kenya. The management will also formulate strategies related to COVID 19 response and resilience of microfinance institutions.

Literature Review

Asymmetry Information Theory

Asymmetric information refers to situations, in which some agent in a trade possesses information while other agents involved in the same trade do not. Information asymmetry arises when the borrower has much better information about his financial state than the lender. According to (Auronen, 2018), it may be difficult to distinguish between good and bad borrowers. The lender has difficulty knowing whether it is likely the borrower will default. The lender may try to overcome this problem by looking at past credit history and evidence of income/cash flow. However, this only gives limited information. According to the theory, the person that possesses more information on a particular item to be transacted (the borrower) is in a position to negotiate appropriate terms for the transaction than the other party (the lender). The party that knows less about the same specific item to be transacted is therefore in a position of making either right or wrong decision concerning the transaction. Adverse selection occurs where the less informed party (the lender) makes a wrong decision and ends up lending to a borrower whom he would not have lent to if he had more information.

According to (Onuko, Muganda, & Musiega, 2015),if borrowers could provide true and complete information regarding their financial status to the lenders at the time of seeking for credit, then lenders (banks) could be at a better position of making informed credit decisions thereby reducing the risks associated with credit. When credit risk is reduced, level of NPA is reduced hence a good portfolio quality for the financial institutions. Similarly, if MFIs could make additional efforts to ensure they obtain all relevant information on credit applicants during the credit appraisal process, the credit risk associated with such applicants such as in the event of the covid 19 pandemic could be reduced. For this reason, the theory is relevant for the study. This theory is significant in this study since it infers that lack of a lendee scrutiny process would result to increased credit risk due to inability/failure of the microfinance bank to obtain all relevant information on credit applicants leading to the possibility of granting credit to undeserving borrowers in the event that they want

reduce lending due to financial strains brought about by the covid 19 pandemic. This would in turn lead to deterioration in loan performance.

Flexible Staffing Arrangements

Odhiambo, (2017) asserts that a steward protects and maximizes shareholders wealth through firm performance because by so doing, the steward's utility functions are maximized. In this perspective, stewards are managers working to protect and make profits for the shareholders (Davis, 2017).Therefore, stewardship theory emphasizes the role of management being stewards, integrating their goals as part of the organization. According to (Odhiambo, 2017), the theory recognizes the importance of governance structures that empower the steward and offers maximum autonomy built on trust (Donaldson & Davis, 2016). It stresses the position of the employee to act more autonomously so that the shareholders' returns are maximized. This theory has a great link the flexible staffing arrangements variable of this study in that managers of MFIs have to be innovative enough to ensure the continuity of operations and financial sustainability despite the covid 19 pandemic. These arrangements could be; limited branch closure, Staff working from home, Staff reduced working hours and unpaid leave for staff

Conceptual Framework

The following illustration shows how the independent variables resilience of microfinance institutions in Kenya amid the covid 19 pandemic.

Reductions in Lending

- Reduced number of lendees
- Reduced amount of money lent out

Flexible Staffing Arrangements

- Limited branch closure
- Staff working from home
- Staff reduced working hours
- Unpaid leave for staff

Resilience of microfinance Institutions

- Continued operations
- Profitability
- Growth
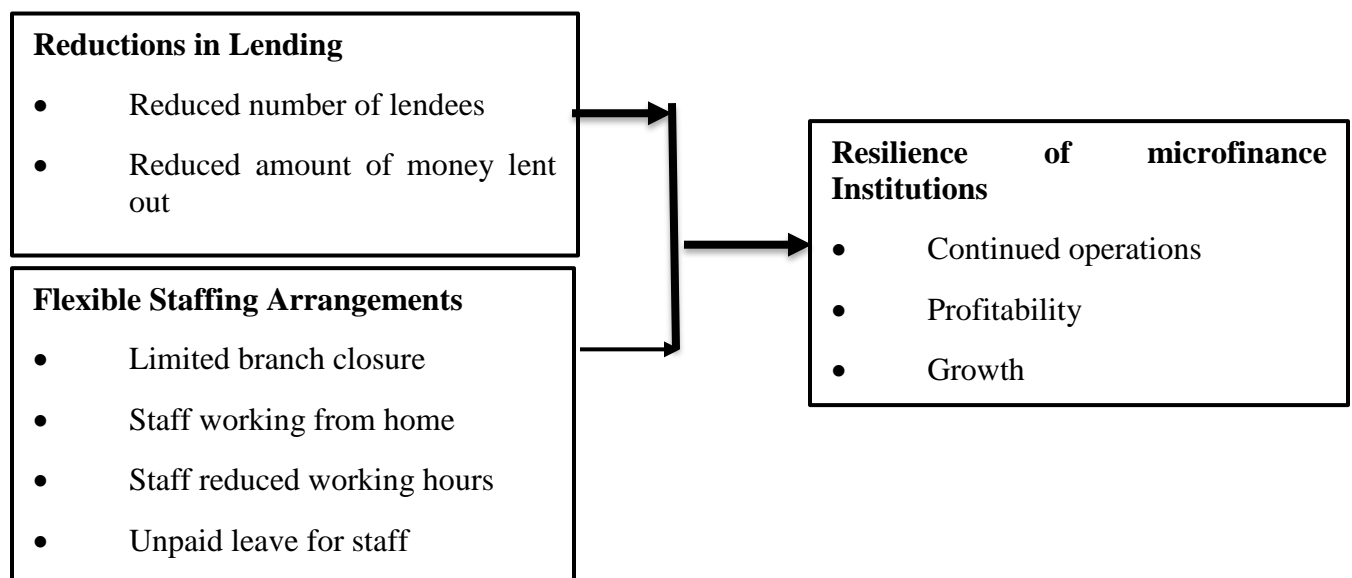
Independent Variables   Dependent Variables

Figure 2.1 Conceptual Framework

Empirical Review

Reductions in Lending

Reductions in lending is a strategy that is used by organizations to cut back their lending on their some of their customers in the occurrence of a crisis. As with any financial institution, the biggest risk in micro-finance is lending money and not getting it back. Credit risk is a particular concern for MFIs because most micro lending is unsecured i.e., traditional collateral is not often used to secure microloans (Churchill & Coster, 2016).The people covered are those who cannot avail credit from banks and such other financial institutions due to the lack of the ability to provide guarantee or security against the money borrowed. Many banks do not extend credit to these kinds of people due to the high default risk for repayment of interest and in some cases the principal amount itself. Therefore these institutions required to design sound loan management that entails reduced lending. This is done through reducing the number of lendees, reduction in the amount lent out and scrutiny of the lendees (Cool & Dierickx, 2017).

Other reasons that can lead to reduced lending include; lower demand from clients, increased riskiness of clients, lower risk tolerance by the MFI, tighter regulatory standards or just general hoarding of cash to meet an uncertain future. The bottom line is that most of the are lending depending on how large the cutbacks have been. Even a best-case scenario amounts to a stunning contraction in core business that raises questions about how long an organization can sustain current crises. More importantly, these cutbacks raise concerns about the implications for low-income clients who rely on microfinance to support their livelihoods (Katusabe, 2019).

Flexible Staffing Arrangements

Flexible Staffing Arrangements describes a type of working arrangement which gives a degree of flexibility on how long, where, when and at what times employees work. There are many forms of flexible working including homeworking, part time or reduced hours, job shares, flexi-time, compressed or annualized hours, unpaid leave, staggered start and finish times or self-

rostering.Flexible working can be formal (and part of the contract of employment) or informal which is agreed between the employee and their manager and taking place on an ad-hoc or occasional basis (CIPD, 2020). Unpaid leave is time off from work which is provided without pay. When an employee takes or is given this type of leave, he or she retains a position in a company, and many retain benefits as well, but the employee receives no salary (McMahon, 2020). There are a number of reasons to take or institute this type of leave, and it is an option which is available from many companies. In the wake of covid 19 pandemic, unpaid leave is done as a cost cutting measure, with the company preferring to force employees to take time off instead of eliminating positions at the company. This tactic is designed to retain employees during periods of economic hardship, and while it may be onerous to employees, many people prefer unpaid leave to uncertain layoffs.

Reduced Work hours is a provision given by an organization to a few employees to work for a lesser number of hours as compared to the mandatory working hours set for all employees. To lower costs and avoid layoffs during difficult times, employers may consider reducing employees' regular work hours. Cost is cut because the employees are paid in accordance with the number of hours worked hence the resilience of the organization is heightened. Staff working from home is another measure that has been taken up to ensure continued operations and safety of the employees. This has minimized the risk of organizations closing down because of discontinued operations (Zetterli, 2020).

Research Methodology

The study employed a descriptive and explanatory research design. The positivism research philosophy was appropriate for this study based on the underlying assumptions of this paradigm relative to social constructivism. The target population was 234 working in 11 licensed MFIs operating in Nairobi County as at 31st December, 2019 as per the Kenya"s Annual Bank Supervision Report. For the data collection, the appropriate sample size was computed to achieve the true proportion at a 95% confidence level. To calculate the sample size, the Yamane's formula (1967) was employed. The researcher took a random sample from each stratum proportionate to the population proportion to come up with 148 respondents.

The study utilized primary data collected in the form of questionnaires. A Pilot study that involved 15 employees from the 4 MFIs was carried out which is 10% of the sample to check the suitability of the instruments to collect the required data. Content validity was employed to measure the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept. Cronbach's alpha methodology, which is based on internal consistency, was used to test the reliability of the data. Cronbach's alpha, which is above the acceptable level of 0.70 which is acceptable reliability (Bryman & Bell, 2013).

Data collected was both quantitative and qualitative. The descriptive statistical tools helped the researcher to describe the data and determine the extent used. The analysis was done quantitatively and qualitatively by the use of descriptive statistics. These included frequency distributions, tables, percentages, mean and standard deviation. Besides, advanced statistical techniques (inferential statistics) were considered. Data analysis was done with the use of SPSS Version 24.0 for windows. This generated quantitative reports through tabulations, percentages, and measures of central tendency. Tables were used to summarize responses for further analysis and facilitate comparison.

A multiple regression model was used to assess the collective effect of four independent variables and the dependent variable. F-test was carried out in the study at a 95% confidence level. The significance of each independent variable was evaluated based on the value of the t-statistic and corresponding p-value in the regression output. Qualitative data was analyzed through thematic analysis while multiple regression models were used to test the hypotheses. Correlation analysis determines the relationship between the dependent and independent variables.

Research Results

The study distributed 148 questionnaires but only 141 questionnaires were returned having been dully filled which translated to 95.3%. As Kothari (2018) explained, a response rate of 50% and above is adequate for analysis and reporting, a response rate of 60% and above is adequate while that of 70% and above s excellent.

Descriptive Statistics

Reductions in Lending

Table 1

	1	2	3	4	5	Mean	Std. Deviation
The biggest risk in micro-finance is lending money and not getting it back	11.6	10.5	12.8	31.4	33.7	3.651	0.353
Reductions in lending is used by organizations to cut back their lending on their some of their customers in the occurrence of a crisis	4.7	9.3	16.3	43.0	26.7	3.779	0.089
Credit risk is a particular concern for MFIs because most micro lending is unsecured	9.3	5.8	7.0	37.2	40.7	3.942	0.250
Lending of MFIs is dependent on how large the cutbacks have been	5.8	9.3	23.3	40.7	20.9	3.616	0.097
Reductions in Lending enhances the resilience of MFIs	4.7	15.1	25.6	27.9	26.7	3.570	0.174

From the findings in Table 1, the respondents agreed that credit risk is a particular concern for MFIs because most micro lending is unsecured. This is shown by a mean of 3.942 (std. dv = 0.250). The respondents also agreed that lending of MFIs is dependent on how large the cutbacks have been. This is supported with a mean of 3.616 (std. dv = 0.097).

With a mean of 3.779 (std. dv = 0.089), the respondents agreed that reductions in lending is used by organizations to cut back their lending on their some of their customers in the occurrence of a crisis. In addition, the respondents also agreed that the biggest risk in micro-finance is lending money and not getting it back. This is shown by a mean of 3.651 (std. dv = 0.353). The respondents also agreed that reductions in lending enhance the resilience of MFIs. This is supported with a mean of 3.570 (std. dv = 0.174).

Flexible Staffing Arrangements

Table 2

	1	2	3	4	5	Mean	Std. Deviation
Flexible staffing arrangements gives a degree of flexibility on how long, where, when and at what times employees work	12.8	10.5	12.8	40.7	23.3	3.512	0.308
Flexible working can be formal or informal which is agreed between the employee and their manager	7.0	7.0	19.8	33.7	32.6	3.779	0.182

When an employee takes or is given this type of leave, he or she retains a position in a company with no salary	40.7	25.6	9.3	19.8	4.7	2.221	0.296
When working hours are reduced, the employees are paid in accordance with the number of hours worked	7.7	16.3	8.1	17.4	50.5	4.267	0.466
Flexible staffing arrangements enhances the resiliency of MFIs	7.0	14.0	4.7	37.2	37.2	3.837	0.263
The institution has adopted flexible working arrangement	7.0	12.8	8.1	32.6	39.5	3.849	0.269

As shown in Table 2, the respondents agreed with a mean of 4.267 (std. dv = 0.466), that when working hours are reduced, the employees are paid in accordance with the number of hours worked. In addition, the respondents also agreed that the institution has adopted flexible working arrangement. This is shown by a mean of 3.849 (std. dv = 0.269). The respondents also agreed that flexible staffing arrangements enhance the resiliency of MFIs. This is supported with a mean of 3.837 (std. dv = 0.263).

With a mean of 3.779 (std. dv = 0.182), the respondents agreed that flexible working can be formal or informal which is agreed between the employee and their manager. In addition, the respondents also agreed that flexible staffing arrangements gives a degree of flexibility on how long, where, when and at what times employees work. This is shown by a mean of 3.512 (std. dv = 0.308). Nevertheless, the respondents disagreed with the statement indicating that when an employee takes or is given this type of leave, he or she retains a position in a company with no salary. This is shown by a mean of 2.221 (std. dv = 0.296).

Correlation Analysis

Table 3: Correlation Coefficients

		Resilience of MFIs	Flexible Staffing Arrangements	Reductions in Lending
Resilience of MFIs	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	141		
Flexible Staffing Arrangements	Pearson Correlation	.835	1	

	Sig. (2-tailed)	.000		
	N	141	141	
Reductions in Lending	Pearson Correlation	-.867	.154	1
	Sig. (2-tailed)	.000	.068	
	N	141	141	141

According to the results, there is a strong and positive relationship between flexible staffing arrangements and the resilience of Microfinance Institutions in Kenya, (r=0.835, p-value =0.000). Since the correlation coefficient was above 0.8, the relationship was considered very strong. Besides that the p-value (0.000) was less than the significant of 0.05 attributing to the positive association. The finding conforms to the finding of Hergatt, Olson and King, (2014) that flexible staffing arrangements influence organization resilience.

Moreover, the results revealed that there is a strong and positive relationship between reductions in lending and the resilience of Microfinance Institutions in Kenya, Kenya (r=0.867, p-value =0.000). Since the correlation coefficient of religious practices was above 0.8, the relationship was considered very strong. Besides that the p-value (0.000) was less than the significant of 0.05 attributing to the positive association. The findings are in line with the findings of Seguino (2011) that reductions in lending influence the resilience of financial institutions.

Regression Analysis

As shown in Table 4, the model summary was used to explain the variation in the dependent variable (the resilience of Microfinance Institutions in Kenya) that could be explained by flexible staffing arrangements and reductions in lending (independent variables). The R square was 0.824, implying that 82.4% of the resilience of Microfinance Institutions in Kenya could be explained by flexible staffing arrangements and reductions in lending.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.908[a]	.824	.826	.14701

a. Predictors: (Constant), flexible staffing arrangements, reductions in lending

The analysis of variance (ANOVA) was used in the current study to determine whether the model was a good fit for the data. In Table 5, the F calculated was 324.845 and the F-critical was 2.471. Since the F calculated was greater than the F critical and the p-value (0.000) was less than the

significance level (0.05), the model was considered as a good fit for the data. This implies that the model can be used to determine the influence of the independent variable to the dependent variable

Table 5: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	56.524	2	18.841	324.845	.000[b]
1	Residual	4.794	137	.058		
	Total	61.318	140			

a. Dependent Variable: Gender mainstreaming process
b. Predictors: (Constant), Community perception , Gender roles , Religious practices

As shown in Table 6, the results revealed that flexible staffing arrangements has a positive and significant influence on the resilience of microfinance institutions in Kenya (β_1=0.187, p value= 0.001). The association was significant because the significant level (0.05) was greater than the p-value (0.001). These findings are in line with Hergatt, Olson and King, (2014) results that flexible staffing arrangements leads to an improvement in the resilience of microfinance institutions.

In addition, the results revealed that reductions in lending has a positive and significant influence on the resilience of microfinance institutions in Kenya (β_1=0.313, p value= 0.000). The association was significant because the significant level (0.05) was greater than the p-value (0.000). The findings are in line with the findings of Seguino (2011) that reductions in lending influence the resilience of microfinance institutions.

Table 6: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.509	0.061		8.344	0.000
Flexible staffing arrangements	0.187	0.055	0.189	3.400	0.001
Reductions in lending	0.313	0.067	0.311	4.671	0.000

a Dependent Variable: The resilience of Microfinance Institutions in Kenya

5.3 Conclusions

The study concludes that flexible staffing arrangements have a positive and significant influence on the resilience of microfinance institutions in Kenya. Findings revealed that limited branch

closure, staff working from home, staff reduced working hours and unpaid leave for staff influence the resilience of microfinance institutions in Kenya.

In addition, the study concludes that concludes that reduction in lending has a positive and significant influence on the resilience of microfinance institutions in Kenya. Findings revealed that reduced number of lendees, reduced amount of money lent out and scrutiny of lendees influence the resilience of microfinance institutions in Kenya.

5.4 Recommendations

The study found that thorough scrutiny of the borrowers influence resilience of microfinance Institutions in Kenya. This study therefore recommends that the top management of the micro-financial institutions should ensure borrowers are thoroughly scrutinized to differentiate risky borrower from safe ones hence increasing the resilience level of the MFIs.

The study also found that flexible staffing arrangement influence the resilience of microfinance Institutions in Kenya. This study therefore recommends that the top management of the micro financial institutions should ensure favorable and flexible staffing on the organization staff so as to facilitate the resilience of microfinance Institutions in Kenya.

5.5 Recommendation for Further Studies

This study aimed at examining the COVID 19 response and resilience of microfinance institutions in Kenya. However, this study was only limited to microfinance institutions in Kenya. Therefore, researcher recommends that further studies ought to be conducted on the COVID 19 response and resilience of other financial institutions in Kenya. Additionally, the study found that 82.4% of resilience of microfinance institutions in Kenya could be explained by flexible staffing arrangements and reductions in lending. As such, further studies should be conducted to assess other factors that influence resilience of microfinance institutions in Kenya.

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