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Analysis of Post Loan Disbursement Allocation and Performance of Non-Prime Household Loan in Microfinance Banks in Kenya

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Abstract

The part played by non-prime household loans in improving the lives of many people who cannot afford collateral globally cannot be ignored. Many Microfinance Banks in many economies worldwide have tried to maintain the Grameen Bank Model of granting microloans, mainly non-prime household loans. However, the credit risks associated with this initiative hamper the pace at which the granting of this credit facility is expected to grow. This study intends to explore the relationship between the post loan disbursement allocation and the performance of non-prime household loans in the Microfinance Banks in Kenya. The theory associated to this study is the Credit Risk Theory. This theory, which is regarded as credit structural theory, was developed by Merton in 1972. The descriptive survey research design method was applied, and the sample size was 150 respondents. The data-collection tool used was a questionnaire. A logistic regression analysis was conducted for the purpose of predicting non-prime household performance in the Microfinance Banks using training budget, recoveries budget, percentage of training budget, and percentage of recoveries budget as predictors. The Wald test shows that training budget, recoveries budget, and percentage of training budget were good predictors, making a significant contribution to prediction. The percentage of budget on recoveries was not a significant predictor. The Microfinance Banks should enhance the performance of non-prime household loans through capacity building to the borrowers and educate the borrowers on dangers of enforced loan recoveries. The government, through the Central Bank of Kenya, should have a training policy for the Microfinance Banks so that they can enlighten the borrowers on proper financial management to avoid conflicts with borrowers during loan recoveries.

Keywords: Non-prime household loans; Microfinance Banks; Grameen Bank Model; Credit risk; Mainstream banks.

1. INTRODUCTION

Post loan disbursement, which is execution of plans, is related to the action that follows after a loan has been released to the borrower. Moreover, it plays a great role in loan recoveries (Central Bank of Kenya, 2014). This is essential when the performance of non-prime household loans is expected to improve. Global Financial Stability Report (2014) showed that the poor performance of non-prime household loans in Microfinance Banks is responsible for the slow and reversed economic growth globally. Therefore, the poor performance of non-prime household loans in Microfinance Banks is a worldwide issue that requires urgent action and considerable attention. Globally, household nonperforming loan is the highest in the world, accounting for 36.4% of the global nonperforming loans (World Economic Outlook, 2015). This indicates that, while addressing other matters related to loans, nonperformance household loans should be of priority so that the situation can be reversed. The Global Financial Stability Report (2014) and the World Economic Situation and Prospects Report (2015) state that the ratio of the income between the 5% poorest and 5% richest of the global population is 74 to 1 as compared to that in 1960, which was 30 to 12, thereby indicating more than double increase. However, if the problem of household loans is solved in Microfinance Banks, the world economy would increase at 15%, narrowing this gap by the year end of 2017. These statistics show the urgency in which the problem of poor performance of non-prime household loans should be addressed so as to alleviate the poverty level globally by empowering the population that cannot access credit from the mainstream banks.

The African continent has not been spared in this dilemma, as the first three countries with the highest nonperforming household loans are in Africa. According to the African Competitiveness Report (2015), Ghana has the worst scenario of nonperforming household loans followed by Egypt and then Kenya. This is contradictory, because Africa seems to be doing better in the development of Microfinance Banks, yet it has the highest level of nonperforming loans. Morocco had one of the most vibrant and successful microfinance sectors in the world in 2007, whose growth ranges between 20% and 30% per year. However, further growth appears to be hampered by increasing the nonperformance of the non-prime household loans that increased by more than 35% per year (WEO, 2015).

Although the performance of non-prime household loans has been reported to be improving and helping those without collateral globally, it does not seem to be very successful in Kenya. The World Bank Report (2016a), International development association project appraisal document on a proposed credit, and Social Protection and Labor Global Practice Africa Region indicated that although Kenya's economic growth accelerated in the past decade, the goal of a prosperous society for all Kenyans has yet to be realized. In 2014, Kenya was classified by the World Bank as a lower-middle-income country. However, it is still among the poorest 25% of countries in the world, with 40% of its population earning incomes below the poverty line (World Bank Report, 2016a). The adults in the age group of 15-35 is becoming an increasingly large part of the adult population, with its share increasing from 62.7% in 1979 to 66.6% in 2009 and at approximately 71.1% in 2015 (World Bank Report, 2016a). This has made the government to set a goal of creating jobs for more than 400,000 youth annually, which could not be achieved. Thus, the level of unemployment still remains high in Kenya, particularly among the youth. The Microfinance Banks Fund and the Government Revolving Fund were assumed to be a solution to the unemployment in Kenya. This was through accessing non-prime household loans without collateral to the youth and women, but this initiative seems not to have worked well yet.

According to the report of the Central Bank of Kenya (2016), the Microfinance Banks in Kenya reported a loss of 128.3 million Kenyan shillings in their financial statements. This problem may be attributed to nonperforming household loans in the Microfinance Banks. Geagon and Hayes (2014) in a study on Evaluating Earnings Management in Financial Institutions indicate that banks write off a huge portion of their loan portfolio owing to default. Omwono (2015) in a study on "effects of women fund enterprises fund loan on women entrepreneurs: a survey in Eldoret town in Kenya" indicates that the Kenyan government introduced revolving funds in the form of women fund for $0.033 billion. World Bank Report (2016a) indicated that the Youth funds amounting to $0.059 billion was also availed for them to have their own investments. The supervision report of Central Bank (2015) states that the shillings availed for lending to youth was an Uwezo fund of 6 billion Kenyan shillings. These credit facilities were granted without collaterals. Unfortunately, the recovery of these funds was not impressive because of the non-repayment of loans, thereby making the government to slow down on further granting.

This was probably to wait for a research to be performed to determine the best method of dealing with default. This has not only interfered with the job creation to the youth but also appears to have contributed to slow the economic growth of Kenya. According to World Bank Report (2016b), unemployment, income inequality, and poverty are still high in Kenya. The population living below the poverty line has moved from 42% in 2006 to 47% to 2013 (World Bank, 2014). According to Mutia (2014), World Bank (2016), and World Bank (2016b), Kenya is poor in reducing the unemployment among low-income countries. Good performance of non-prime household loans whose measure is profitable would probably offer a solution to this problem. Microfinance Banks and Government allocate more funds to this loan category in an effort to reverse the situation of high unemployment. However, with the problems experienced in the recoveries of non-prime household loans that are defaulted, the financiers are hesitant to provide funds that will be unrecoverable. The purpose of this study is to find whether post loan disbursement allocation has any influence on the performance of non-prime household loans in the Microfinance Banks in Kenya.

1.1. Problem Statement

Provision of the loans without collaterals was considered to be a solution for accessibility of credit to many citizens globally (World Bank, 2014). However, this initiative seems to have been dampened by non-repayments of those loans regarded as non-prime household loans (Warue, 2012). While some countries have shown signs of improvement in the performance of non-prime household loans, Kenya is still dragging behind with the Microfinance Banks reporting deficit in microfinance sector. The report of the Central Bank of Kenya (2014) shows a loss of 1.004 billion Kenyan shillings, and the report of Central Bank (2016) shows

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a loss of 128.3 million Kenyan shillings. The youth and women are not likely to get easy credit, because the microfinance banks are not aggressively providing these loans as before. In Kenya, only 1% of the land title are owned by women, youth, and disabled, which hinders them from accessing credit from mainstream banks (World Bank, 2016a). The performance of non-prime household loans was expected to have improved over time, but this is yet to be achieved (CBK, 2016; Mutia, 2014; Mwangi and Sichei, 2011; Warue, 2012).

The Kenyan government, in its effort to supplement the fund granted by the Microfinance Banks of Kenya, introduced revolving funds of 5.9 billion Kenyan shillings for youth. Moreover, women fund of 3.3 billion Kenyan shillings and Uwezo fund of 6 billion were introduced. However, half of these loans seem to have been defaulted. The Microfinance Banks in Kenya are putting a lot of pressure to recover the defaulted non-prime household loans. The recovered fund can be used for lending money to other borrowers, but this effort does not seem to be working well. This continues putting Microfinance Banks in dilemma of the way forward. Having an inclination toward Grameen Bank Model in which case their main objective is the provision of micro loans without collaterals, the problem appears to become even more serious. This may also lead to the collapse of banks, particularly Microfinance banks sector, which have already reported a loss of 128.3 million Kenyan shillings (CBK, 2016). The economic crises may occur as happened in the Greece economy in 2015 if the problem is not addressed in good time. There could be less funds for country for other projects if no action is taken (CBK, 2016). The purpose of this study is to establish the relationship between the post loan disbursement allocation and the performance of non-prime household loans in Microfinance Banks in Kenya.

1.2. Objective of the Study

Analyze the relationship between the post loan disbursement allocation and the performance of non-prime household loans in the Microfinance Banks in Kenya.

1.3. Literature Review

Credit risk theory, which is also considered as credit structural theory, was developed by Merton in 1972. Moreover, it emphasizes on using traditional actuarial methods of credit risk. Its major issue is on historical data structures of loan follow-up by the lender. The poor performance of the non-prime household loans in Microfinance Banks appears to have been caused by reluctance by those banks to have proper structures of loan follow-up. The post loan disbursement allocation should be considered as a major issue that requires a lot of consideration, and proper structures should be put in place. Credit risk theory stresses on three quantitative approaches of analyzing credit risk: structural approach, reduced form appraisal, and incomplete information approach, all of which are developed by Mahdavi and Damghani (2013). The Microfinance Bank should have structured regular visit programs, capacity building, and interventions. It also requires recovery mechanisms aimed at minimizing credit risks. The problem of poor performance of non-prime household loans is a major concern globally. Its persistence will make more and more citizens in many economies to suffer owing to lack of affordable credit granted by Microfinance Banks. The government is also unable to sustain the revolving funds (World Bank, 2016b).

The theory has a structural model and stresses on specific activities that ensure that the loan is followed up to reduce the risk of default. The model represented in this theory can be of great help to the Microfinance Banks. For the performance of the non-prime household loans to improve through reduced loan default, good structures are required in lowering the credit risks. These include regular visits, capacity building, and interventions as a structure for the borrower follow-up. They assist in credit risk reduction, because it ensures constant interactions of borrower and lender (Owusu *et al.*, 2015). The theory thus indicates that it is necessary to have proper structures of follow-up and credit risk mitigation mechanisms to minimize credit risk. According to Warue (2012) and Oni *et al.* (2012), the nature of activities conducted after a loan has been disbursed determines the performance of Microfinance Banks in regard to minimization of loan default. Their argument has the truth, because the poor performance of non-prime household loans can be associated with failure by the Microfinance Banks globally to be keen of what happens after the loan has been granted. Considerable numbers of Microfinance Banks allocate little funds on the activities to empowering the borrower on skills of proper management of borrowed funds.

FinAcess (2016) stated that credit risk minimization does not necessarily depend on the ratio of budget allocated to post loan disbursement activities to total loans but on the aggressiveness of the Microfinance

Banks in loan recoveries, nature of those activities, and their appropriateness. These assertions, though slightly different to a larger extent, seem to agree with the credit risk theory. It states that proper structures should be put in place to ensure that the Microfinance Banks are able to monitor the borrower from the time the loan was granted to the time the loan was completely recovered. This indicates that failure by the Microfinance Banks to have proper mechanism of loan recoveries aggravates the poor performance of non-prime household loans globally (FinAcess, 2016). The poor performance of Microfinance Banks appears to have caused by slow global economic growth. If the credit risk theory is well embraced whereby the proper structures of educating the borrowers are available, the performance will be good. Education may include record maintenance and proper financial management. Aggressive loan recovery is necessary when the borrower has failed to repay the loan. If all this is performed, the performance of non-prime household loans in Microfinance Banks would improve. It is unfortunate that the Microfinance Banks according to Gorard (2013), Rana and Masharrafa (2015), and Mahdavi and Damghani (2013) are still struggling with high credit risk, causing the performance of non-prime household loans to remain poor.

In Kenya, the government has tried to enhance regulation, such as Microfinance Bank Act 2013. Ministry of youth and gender was created for proper management of revolving fund including youth fund, women fund, and Uwezo fund. Through the Central Bank of Kenya, it was found prudent to have an Act regulating the Microfinance Banks alone separately from the mainstream Commercial Banks. The aim was to make it easier for the Microfinance Banks to have their own model by heavily copying the Grameen Bank Model. This is whereby the main goal was for those Microfinance Banks grant loans even of low amount to the borrowers with no collateral. However, as per the credit risk theory, the lack of proper structure appears to have made this initiative to not yield the expected results. The performances of non-prime household loans granted by Microfinance Banks and the revolving funds by the government still remain poor. This is reflected in the loss of 128.3 million Kenyan shillings reported in the Microfinance Banks sector financial report (CBK, 2016).

Post loan disbursement allocation should be emphasized in such a way that the Microfinance Banks of Kenya should allocate more funds toward activities that follow after the loan has been disbursed to the borrowers. Capacity building is essential in assisting the borrowers to manage the borrowed funds prudently. The borrowers can be educated on proper book keeping, profitable investments, and savings more than consuming so as to realize profits. Well-structured post loan disbursement activities seem to be a prerequisite for good performance of non-prime household loans in Microfinance Banks and in an economy. Post loan disbursement allocations include setting a reasonable budget for the training of the borrowers to enhance capacity building. It also involves having a higher percentage in budget allocation compared to other activities. In addition, it includes a considerable budget for recoveries if there is a credit risk from nonpayment of loan. A high percentage of loan recoveries budget may also be considered, although it may not be very critical if borrowers have been educated on proper financial management. Training and education will provide skills to the borrowers, thereby enabling them to manage their businesses and pay their loan installments as expected. Unstructured post loan disbursement activities may affect the performance of non-prime household loans and success of having good credit risk mitigation factors. Thus, the credit risk theory remains relevant in this study, because it emphasizes on the structures related to credit matters.

The business environment in Kenya has been considered poor owing to some factors such as stringent procedures in setting up business and ease of getting funds. According to World Bank (2015) and World Bank (2016a) in a report ease of doing business survey, Kenya has been ranked position 108 out of 189 countries although an improvement from 136 in 2014 was observed. UNDP (2016) ranked Kenya at position 99 in countries where access to finance is a problem. The report states that Kenya's ease of doing business is greatly affected by the lack of access to finances. This can be attributed to the poor performance of non-prime household loans in Microfinance Banks among other factors. The goal of Microfinance Banks was granting loans where borrowers have no collaterals. This model was meant to cater as many citizens as possible. The government of Kenya copied the model and introduced the revolving funds in terms of Uwezo, youth, and women fund. This consulted effort was meant to empower the youth and women who do not have the collateral to access fund for own investments. They would be able to be self-employed and even create jobs for others when their businesses grow. However, owing to the poor performance of non-prime household loans caused to some extent by improper post loan disbursement allocation and lack of good structures, the goal has not been realized yet. The level of unemployment particularly for the youth still remains high.

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The relationship between post loan disbursement allocation and performance of non-prime household loans in Microfinance Banks has not been comprehensively studied. Thus, the performance of non-prime loans in Microfinance Banks and the revolving funds by the Kenyan government still remain poor denying the intended group to have access to finance for self-employment and the economic growth of Kenya.

2. METHODS

2.1. Methodology of Research

In this study, the positivism philosophy was adopted. On the research design, a descriptive survey research was adopted. The probabilistic sampling design was used for this study in sampling the respondents. In this study, the main data was primary data and was collected between November 2016 and January 2017. The main tool for collecting the primary data was the questionnaire. In confirmation of the questionnaires reliability, Cronbach's alpha coefficient was computed. Moreover, it was 0.805, which was considered appropriate being over 0.70.

2.2. Data Analysis, Presentation, and Interpretation

2.2.1. Response Rate and Respondents Characteristics

The total number of questionnaires distributed for this study was one hundred and fifty only (150). However, the response rate was 93%, after one hundred and forty (140) questionnaires were filled up. Females who responded were 42.9% while males were 57.1%. This implied that more men were either available or they cooperated more than women. The study showed that the majority of respondents in terms of age were in a range between 31 and 40 years. This represented 56.1% of the respondents. Thus, it is an indication that most Microfinance Banks employ youth and middle-aged persons. The majority of the respondents work in credit department, which represent 40.67% of the total number of those who responded. This was as per the expectations of the researcher, because the questions to be responded were more inclined toward credit matters. The credit department staffs were more conversant with credit matters, and very useful in providing relevant information in this study. In regard to working experience, majority of the respondents had worked between 1 and 5 years and correspond to 55% of the respondents.

Among the respondents, 35.5% of the respondents indicated that the amount allocated to training budget for borrowers was within a low range of between 1 and 10 million Kenyan shillings. The 29.3% of the respondents stated that the training budget for capacity building allocated in their banks lies in the range of 11-20 million Kenyan shillings. This shows that in total 64.8% of the respondents stated that the budget allocated for training lies between 1 million and 20 million Kenyan shillings and this is little for capacity building. The budget allocation to recoveries ranged between 1 million and 10 million Kenyan shillings, and this was from 35.3% of the respondents. The study showed that 37.2% indicated that the percentage of the borrowers training budget is within the range of 1-20% of the total budget. It was just a very small number of respondents, which was only 6.7% of the respondents who stated that the percentage was of 81% and above the total budget. The study showed that 45.5% of the respondents indicated that the percentage of budget allocation to recoveries to total budget of Microfinance Banks activities ranged between 1% and 20%. The study showed that 4.6% of the respondents indicated that the percentage of loan recoveries budget to total budget was of 81% and above and was high.

2.3. Descriptive Statistics for Post Loan Disbursement Allocation

In evaluation of the post loan disbursement allocation, several variables were considered. These include budget allocation on training, budget allocation on recoveries, percentage of training budget, and percentage of recovery budget to total budget. The respondents were required to state the ranges of amount and percentages taking an average of five years between 2012 and 2016.

On the budget allocation to training, the mean score was 2.486 and the overall standard deviation was 1.173. Further analysis showed that 64.8% indicated that the budget allocated to training budget was between 1 and 20 million Kenyan shillings annually. This showed that the amount set aside for the training by the Microfinance Banks in Kenya for capacity building to borrowers is relatively low compared to other vote heads. On the budget allocation to recovery, the respondents were expected to indicate within which

Table 1. Reliability of Tools Test.

	Number of measures	Cronbach's Alpha Coefficient		Type of variable
		Pilot result	Final result	
Post loan disbursement allocation	10	0.702	0.805	Independent

range was recovery budget in their respective Microfinance Banks. These included spending funds for legal action, hiring storage facilities, and auctioneers. The study showed that most of the Microfinance Banks spend between an average of 11-20 million Kenyan shillings on recovery within five years between 2012 and 2016, and this was stated by 32.7% of the respondents. This indicated that the Microfinance Banks spend relatively more funds in recovery than training of the borrowers after they are granted credit. If some of the amount earmarked for recovery is spent on training and the recovery budget is reduced, then the loan repayment would probably improve.

Regarding the percentage of the budget allocation to training, the respondents were required to indicate the percentage of training budget against the total budget. The percentage determination should be noted, because it may portray a different scenario from the amount determination. On the percentage of the budget allocation to total budget, the means score was 0.965 while the overall standard deviation was 0.2534. Further analysis showed that majority of the respondents indicated that the budget allocation for training in their Microfinance Banks was in the range of 1-20%, and this was as per 37.2% of the respondents. This showed that the budget on training was low in Microfinance Banks indicating that the borrowers are not educated on aspects of financial management.

In addition, the percentage of loan recovery budget was considered. The respondents were expected to state the percentage of the budget that is set aside for the loan defaulted recoveries. The study showed that 35% of the respondents stated that the budget allocation on recovery in terms of percentage ranges between 21% and 40%. This percentage was high by considering that the training budget was between 1% and 20% as per the majority respondents.

In Table 1, the study showed that the reliability test for the final study, Cronbach alpha coefficient, was greater than 0.7 for post loan disbursement allocation showing that the tool was reliable.

2.4. Relationship between Post Loan Disbursement Allocation and Non-Prime Household Loan Performance in Microfinance Banks in Kenya

Logit model – (logistic regression model)

When the researcher was testing the hypothesis, the logistic regression equation model was applied in the form of

$$Logit\left[\,p\,\right] = \ln\left[\frac{p}{1-p}\right] = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$$

where p is the probability related to the post loan disbursement allocation and non-prime household loans. It can be a probability of profit, because the logistic regression deals with the categorical data.

Moreover, β_0 is a constant, X_1 is the budget allocation on training, X_2 is the budget allocation on recoveries, X_3 is the percentage of budget allocation on training, X_4 is the percentage budget allocation on recoveries, and β_1, β_2, β_3, β_4 represent the coefficients from the log of the odds ratio function.

So as to compute the overall significance statistics probability, the following formula is used:

$$p = \frac{ex\left(\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_n X_n\right)}{1 + ex\left(\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_n X_n\right)}$$

P is the probability related to the post loan disbursement allocation and the non-prime household loan performance. *ex* is the base of natural logarithms (approximately 2.72).

Table 2. Logistic Regression for Post Loan Disbursement and Non-Prime Household Loan Performance.

	Construct	B	S.E.	Wald	df	sig	Odd Exp(B)
Step 1	Training Budget in (shs)	0.262	0.109	5.77	1	0.0237	1.225
	Recovery budget (shs)	0.279	0.121	5.31	1	0.0061	1.375
	Training Budget in (%)	0.121	0.107	1.27	1	0.004	1.069
	Recovery budget in (%)	−0.228	0.143	2.542	1	0.1195	1.306
	Constant	−1.261	4.6	3.063	1	0.068	3.827.8
	The variables entered in Step 1 are training budget, recovery budget, training budget in percentage, recovery budget in percentage, ratio of training budget, and ratio of recovery budget						

The test for the full model against a constant only model was found to be statistically significant, which indicated that the predictors as a set reliably distinguished the variables that are good predictors and those that were not, with findings Chi-square = 9.628 and p = 0.291 with a df of 8. The likelihood and pseudo-R^2 values were used for determining the strength of the relationship between predictor variables and responsive variables. The results of the study showed that 2 log likelihood was 559.545, cox and Snell R Square was 0.062, and Negelkerke R Square was 0.086. The Negelkerke R Square indicated that 8.6% of the variation was determined by the variables of the study.

Hosmer and Lemeshow test was used to test whether the model was a good fitting model. The findings indicated a Chi-square of 9.628, with 8 degrees of freedom and a p value of 0.291. The H-L statistic has a significance of 0.291 (>0.05), which means that it was a good fit. This is because the significance level was more than 0.05. Further confirmation was undertaken through prediction success overall which improved from 52.6% to 64.5%. The Wald criterion was applied to determine the relationship, and it showed that the training budget, recovery budget, and percentage of training budget were positively related to the performance of non-prime household loans in Microfinance Banks and statistically significant while the percentage of training budget was negatively related and not statistically significant.

The ordinal logistic regression indicated that the predicted relationship of the dependent and independent variables as per the Logit model. Table 2 shows the relationships and the prediction of the variables:

Logit(Non-prime household loan performance) = −1.261 + (0.262) * Training budget amount + (0.279) * Recovery budget amount + 0.121 * Training budget percentage + (0.228) * recovery budget percentage + (0.345). The log of the odd of the performance of non-prime household loans was found to have a positive relationship with the predictor variable. The B coefficient is positive whereby the positive B coefficient for predictor variable showed that the increasing predictor variables score have association with the increased odds of non-prime household loans performance.

The odds ratio as expressed as exp(B) for exponential B column showed the overall effect on the variables such that there is the overall effect on dependent variable when the predictor variable increases. The effect of the dependent variable with the increase of each predictor variable is indicated.

3. RESULTS AND DISCUSSION

The performance of non-prime household loans is poor as revealed by this study and corresponds with other studies that have indicated similar findings. A survey conducted by Intermedia (2014) indicates that approximately 74% of the Kenyans have access to banking services. This may be attributed to the increase in the number of Microfinance Banks in Kenya. Warue (2012) in the study factors affecting loan delinquency in Microfinance Banks in Kenya indicates that the activities undertaken by banks in loan recovery determine the level of loan delinquency in Microfinance Banks. Oni *et al.* (2012) in a study performed in Nigeria on assessment of the contribution of Microfinance institutions to sustainable growth of small and medium scale enterprises concurs with the findings of Warue (2012).

Oni *et al.* (2012) states that the nature of activities conducted after a loan has been disbursed plays a great role in the performance of household loans. However, the studies have not emphasized on the training of borrowers after receiving a loan, which is regarded as capacity building. However, there are similarities with the findings of this study. This study shows that the education of borrowers and providing incentives for timely loan repayments after loan has been disbursed also contribute in determining the performance of non-prime loans in Microfinance Banks. The measure for the performance of non-prime household loans is the profitability in the Microfinance Banks. This study showed that the budget allocation to train the borrowers particularly for capacity building is essential in the performance of non-prime household loans in Kenyan Microfinance Banks. Therefore, the findings of this study have similarities with other studies conducted on this area including Bichanga (2013), Central Bank of Kenya Report (2016), and FinAcess (2016).

World Bank (2014) states that credit risk minimization is not proportional to budget allocation in risk mitigation measures. However, the aggressiveness of Microfinance Banks in loan recoveries plays a great role in reducing the loan default. Moreover, World Bank (2014) states that the nature and appropriateness of those activities determine the level of profit realized by the Microfinance Banks. This study however found that the Microfinance Banks in Kenya should put more emphasis on the training of borrowers. This is because the capacity building through loan recovery can also be considered where necessary. The availability of credit especially from Microfinance Banks is considered a milestone in creating self-employment for self-sustainability through investment. Maigua and Mouni (2016) stated that the access to credit facilities without collaterals help the investment in assets, enabling the individual to start a business or expand the already existing business. This agrees with the findings of this study that showed that non-prime household loans are very critical in empowering the citizens of Kenya particularly the youth and women. It empowers them to start their own investments. However, poor performance of non-prime household loan seems to a hindrance to this course. For this initiative to work well, the poor performance of non-prime household loans in Kenya should be addressed. It appears that it has contributed to a loss of 128 million Kenyan shillings in Microfinance Banks sector in Kenya in year 2016 and an earlier loss of 1.004 billion in year 2014.

World Bank Report (2014) indicates the need for accessibility of credit by majority of citizens in a country. The access to credit assists in several sectors growth including business expansion and agriculture expansion, with examples of countries such as India and Philippines (World Bank report, 2014). However, this will work well if the access to credit is in line with granting of credit to citizens without collateral who in return will repay the loan. This study showed that when the credit is availed, there is need for consideration of performance of this loan. If the problem of the non-prime household loan is not addressed and more credit become available through Microfinance Banks, these banks may close. This closure will aggravate the problem of unemployment, because the microfinance banks will themselves retrench the staff. The deficit in Kenya Microfinance Banks may become worse discouraging these banks from granting more non-prime household loans if no action is taken on the poor performance of non-prime household loans. The higher deficit appears to have caused higher unemployment in Kenya owing to Microfinance Banks becoming hesitant in granting more of this type of loan.

Despite the effort by the Microfinance Banks undertaking aggressive loan recovery and the government trying hard to recover the revolving funds on leading, the performance of non-prime household loans in Microfinance Banks using profitability as a measure is still poor. The deficit of 128 million Kenyan shillings reported in Kenya microfinance sector's financial statement of years ending June 2016 and an earlier loss of 1.004 billion in 2014 is an indicator that the sector still needs considerable attention. If the Microfinance Bank sector grow and adopt the Grameen Bank Model, it will continue to make credits accessible to many people owing to the role played by Microfinance Banks in any economy. Thus, there is need for improving it despite the problem of poor performance of non-prime household loans. It should be considered as a major concern in Kenya on how the performance of non-prime household loans in Microfinance Banks in Kenya can perform better. The findings of this study showed that the performance of the non-prime household loans can be improved through enhancement of post loan disbursement activities. These include allocation of huge budget on training and undertaking aggressive loan recoveries where necessary. This may reverse the deficit of 128 million Kenyan shillings realized by the Kenyan Microfinance Banks sector (CBK, 2016).

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The World Bank Report (2016b) indicates that the borrowing for the developing and low income economies is at 51% with the youth who had borrowed from the Microfinance Banks being 29%. Although (Bichanga, 2013; Waweru and Kalani, 2009) results indicate that the follow-up of credit facilities after granting loan in Microfinance Banks in Kenya is secondary to loan appraisal, this study showed that the capacity building for the borrowers is necessary if the performance of non-prime household loans is to be good. Microfinance Banks should consider the credit risk control mechanisms such as training budget allocation ratio to total budget and also loan recoveries before granting non-prime household loans. This will likely reduce the loan delinquency level and maximize the profit. The Microfinance Banks in Kenya have tried hard over the years to follow-up the loans that have been defaulted. There is also customers' sensitization even through the media so that the customers can borrow and then repay the non-prime household loans as per the agreement. However, Ndii (2011) through the study of low loans borrowing states that although there is much focus on lending mainly to the youth and women, the loan intake has remained low. This appears to have been caused by the poor performance of the non-prime household loans in Microfinance Banks, which may be hesitant to lend more thus introducing many procedures that may not be friendly to the youth and women.

Globally, the micro credit is emphasized, because it plays a great role in the livelihood of many people. Sugunamma (2017) in the study of role of microfinance in women empowerment states that thousands of the poor and the marginalized population in India is building their lives, their families, and their society through micro credit set up. The micro credit groupings have been playing a great role in the training of Swarozgaris, infrastructure development, marketing, and technology support (Sugunamma, 2017). The findings of the research concurs with the findings of this study, which showed that the Microfinance Bank should consider the credit risk control mechanisms involved, which mainly include budget allocation percentage to total budget on capacity building of the borrowers. Women constitute nearly half of the world's population thus availing credit without collateral to them is a global agenda that seems to be pursued by many economies in the world (Dzisi and Obeng, 2013; Sugunamma, 2017). In Kenya, granting of non-prime loans to youth and women, which is a form of micro credit, is being undertaken. World Bank Report (2016a) indicated that the Kenyan government introduced revolving funds: Youth funds amounting to 5.9 billion Kenyan shillings were granted to 315,076 youth, Women funds of 3.8 billion shillings were granted to 800,000 women, and the Uwezo fund of 6 billion shillings was granted for youth. This is in addition to Capital venture of 90 million shillings granted by Safaricom company and 19.72 billion shillings from Microfinance Banks. The Central Bank Report (CBK, 2016) indicated that approximately 50% of this loan has been defaulted.

Borrowing still remains low, despite the efforts taken by the Microfinance Banks and the Kenya government to avail credit to as many Kenyans as possible. World Bank (2014) states that Kenyans who had bank accounts were 42.9%; whereas, borrowing as a percentage of gross domestic product (GDP) was 30.1%. South Africa had 53.6% of the adult's population with bank accounts and borrowing at 72.4% of the GDP. In other continents, Chile had adults with bank accounts at 42.2% with borrowing at 64.6% of the GDP. Colombia banks accounts stand at 30.4% and borrowing at 31.2%. The disparity in borrowing and banks accounts may be considered as apprehension by the adults particularly the youth to repay the non-prime household loans after being lent. This may appear to have caused fewer funds on lending and hesitant by the Microfinance Banks globally to grant this loan owing to the risk of non-repayment.

Through this study, the post loan disbursement has been identified as one of the approaches in which the problem of non-prime household loans can be addressed. As such, a major step toward its implementation is necessary. Through this study, the Microfinance Banks will appreciate the importance of higher budget on training of borrowers as a capacity building initiative. Initially, the main emphasis was on attaching the properties of the borrowers and the guarantors. This method of loan recovery may not be sustainable, and it is also unfriendly to the borrowers (FinAcess, 2016). However, the recovery of loan when defaulted can be undertaken where the circumstances warrant thus need for a relatively small budget for loan default recoveries. The Microfinance Banks should consider the credit risk control mechanisms involved which mainly include budget allocation on training of borrowers and also loan recoveries, before granting non-prime household loans so as to reduce loan delinquency level and maximize profit. The findings of this study showed that to establish the extent to which the post loan disbursement allocation and non-prime household loan is related, the credit risk control requires evaluation by considering the budget allocation on training, loan recovery budget, and percentage of budget on training against the total budget. The outcome of the study showed that there is a strong relationship between the training budget and the performance of non-prime household loans in Microfinance Banks in Kenya. For higher profit and low loan delinquency level, the post loan disbursement activities should be emphasized by the Microfinance Banks.

The variables in this study that are budget allocation to the post loan disbursement, recovery budget, and percentage of the training budget to total budget related positively with the non-prime household loan performance. The variable percentage of the recovery budget to the total budget related negatively with the performance of non-prime household loans. This indicates that the Microfinance Banks should focus more on training and allocate higher budget than concentrating on loan recovery when the loan is already defaulted. Global economic prospect report (2016) indicated that despite Kenya being ranked as the third fastest growing economy and third most improved economy out of 192 countries with the highest economic growth prospects, the poor performance of household loans remains a problem. Kenya is also rated as the seventh best investment destination globally. The global economic prospect report (2016) shows Kenya as the third county in the world with the highest household loans default. This appears to have been accelerated by the poor performance of non-prime household loans. The order of household loan default from number one to fifteen was Ghana, Egypt, Kenya, South Africa, Thailand, Malaysia, Brazil, Chile, Indonesia, India, Uganda, Korea Rep, Argentina, Singapore, and China. This may expose Kenya to financial crises as it happened in Greece in 2015 if the problem of non-prime household loans is not addressed. Owing to this scenario, the Microfinance Banks in Kenya need to put more effort to decrease the risk related to nonpayment of loans. From the study, training budget, recovery budget, and percentage of recovery budget were statistically significant in predicting the performance of non-prime household loans.

When the Microfinance Banks exhibits a higher budget on training, it assists in capacity building for the borrowers. They become conversant with the funds management, which may include investing the money to the intended project. When the budget for loan recovery is high, the risk of loss of funds is reduced. This improves the performance of non-prime household loans. The report of Central Bank of Kenya (2014) indicated that the banking sector reflected good performance in 2012, which can be partly attributed to the improvement in the GDP, growth which grew to 4.6% in 2012 compared to 4.4% in 2011. Since then, the sector has been showing a very impressive progress, which is different from the microfinance sector that is declining especially in profitability.

The report of the Central Bank of Kenya (2016) indicated that the performance of Microfinance Banks sector declined in June 2016 and reflected a total loss of 128.3 million Kenyan shillings compared to the profit before tax of 489 million in June 2015. The report of Central Bank (2014) indicated a loss of 1.004 billion Kenyan shillings. There was a drop of 129% from 2015 to 2016. This is a major decline that is likely to affect the economy of Kenya adversely if this problem is not addressed. This study showed that the high budget allocation on training, increased budget allocation on recoveries, and percentage increase in training budget have a relationship with the performance of non-prime household loans in the Microfinance Banks in Kenya. The measure for the performance of non-prime household loans was the profitability. Thus, the Microfinance Banks may use these parameters to caution further drop in profitability. The report of the Central Bank of Kenya (2016) stated that the decline in profits appears to have been caused by the increase in borrowing expenses owing to tight liquidity in the market. The report of the African Development Bank Group Kenya (2014) indicated that the government has to create a conducive business environment for it to create the employment that seems to be lacking. This shows that if this goal of job creation is to be achieved, the Microfinance Bank sector drop in profitability should be provided considerable attention so as to reverse the trend.

The total interest on deposits was 0.9 billion Kenyan shillings: a decrease of 0.3 billion Kenyan shillings from 1.2 billion Kenyan shillings in June 2015 was observed owing to the slower growth of customer deposits. This is an indication that the sector still exhibits issues. The customer deposits in June 2016 was 40.395 billion Kenyan shillings from 39.68 billion Kenyan shillings in June 2015: an increase of 2% was only achieved in the entire year. The ratio of the core capital to risk weighted assets in June 2016 was 19%, which is a decrease of 1% from 20% in June 2015. This is also an indicator that the sector did not grow in terms of the prudential ratios set by the Central Bank of Kenya. The ratio of total capital to total risk weighted was 22% in June 2016, which is a decrease of 2% from 24% in June 2015. If the performance of the non-prime household loans in the Microfinance Banks in Kenya improves, it is expected to have an increase in profitability. The customers will be attracted by high returns on investments. The interest on deposits will grow, because more funds will be available. The prudential ratios will improve owing to the increase in profit.

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In Kenya, although the banking sector is showing improvement in performance, the Microfinance Banks sector is declining particularly in profitability with a drop of 129% in one year. According to the Central Bank of Kenya (2016), the banking sector registered an improved performance by June 2016 whereby the assets increased to 3.7 trillion Kenyan shillings as of June 2016 from 3.6 trillion in June 2015, which is an increase of 2.1%. The customers' deposits grew to 2.62 trillion Kenyan shillings in 30 June 2016 from 2.57 trillion Kenyan shillings reported in June 2015, which is a 1.9% increase (Kenya Facts and Figures, 2016). The profit before tax increased to 81.2 billion Kenyan shillings in June 2016 from 77.0 billion in June 2015. This shows that the Microfinance sector declines while the banking sector grows. Moreover, this is a problem that appears to have been accelerated by the poor performance of non-prime household loans in Microfinance Banks. This should be a major concern to the government of Kenya and the Microfinance Banks stakeholders. Bowen *et al.* (2009) in a study from 198 businesses on how businesses manage the challenges in their operations and growth indicate that the informal sector creates more than 50% of the jobs in the country. However, this job creation experiences challenges that include competition from more established businesses, cheap import, and loan repayments that are related to access to funds (World Bank Report, 2016a). Youth appears to rely more on the non-prime household loans owing to lack of security. Thus, if the microfinance sector in Kenya is facing challenges of performance of the non-prime household loans whose measure is profitability, the youth will have problems of getting funds for their businesses thus less job creation. The Kenyan government and the Microfinance Banks should address this challenge to avoid a repeat of similar problems that occurred in India in 2012.

Owing to the global financial crises that started in the United States of America in 2008, some economies were adversely affected including India. However, the financial crisis of 2008 has given rise to the question of whether bank managers manipulate earnings to meet market expectations about profitability (Geagon and Hayes, 2014). A study by Tokuoka (2012) was on analysis of the reasons for investment slowdown and poor performance of financial institutions particularly microfinance in India and methods of improving the situation. The findings are that macro and micro economic factors had an effect on the problem. However, although the macro factors played a greater role, the micro factors also affected the performance of those institutions thus affecting the investments due to lack of adequate funding. The study specifically indicated that reducing the challenges of accessing funds is likely to boost aggregate demand by 0.25-1.5% of GDP. This would subsequently increase the investment by 3.00-13.5%. This study showed that allocation of higher budget on training, having relatively higher budget on loan recovery, and having higher percentage of budget on training can enhance capacity building on the borrowers enabling them to manage borrowed funds well. The study also indicated that although it is good to have a percentage of budget being allocated to recoveries, if there is capacity building for the borrowers, they will be able to manage their business or investments professionally thus low loan default and less recoveries from loan defaulters.

4. CONCLUSION

This study noted that the Microfinance Banks in Kenya are experiencing challenges of profit decline with a higher percentage, which was 129% in 2016. Moreover, the study observed that the post loan disbursement allocation in Microfinance Banks was not well enhanced, and this appears to have caused a decline in the profitability in the microfinance sector in Kenya. With the poor performance of Microfinance Banks, it appears that there are challenges for the creation of employment. When profit declines, the Microfinance Banks may opt to retrench the employees instead.

In this study, it is established that the post loan disbursement allocation plays a great role in determining the performance of non-prime household loans. After loan appraisal approval and then granting to the borrowers, if Microfinance Bank does not make a follow-up, the loans default will increase. This may affect the performance of the non-prime household loans adversely. The activities involved in the post loan disbursement include the capacity building to the borrowers to enable them manage their loans by putting them to the right use and, if for business, to ensure that they get the necessary skills to manage their businesses. Post loan disbursement allocation had the parameters of the training activities and the loan recoveries' activities.

The study showed that there is a relationship between the training of the borrowers after receiving the loan and the performance of non-prime household loans. The Microfinance Banks financing the training of the borrowers through capacity building programs was perceived as wastage of funds and expensive. This study enables the Microfinance Banks management to change the perception and spend more on capacity building. As this study shows, investing on training the borrowers by allocating higher budget may play a great role in improving the performance of non-prime household loans. The findings of this study showed that many Microfinance Banks allocate little amount on capacity building of the borrower, thereby leading to poor performance of non-prime household loans. This indicates that there is a need for the Microfinance Banks in Kenya and worldwide to enhance the capacity building for the borrowers. This will improve the performance of non-prime household loans, because they will have managerial skills that will make their investments to prosper thus paying their loan installments as required. When less money is allocated according to the results of this study, the Microfinance Banks get less profit, which is an indicator of the performance of non-prime household loans.

In addition, loan recoveries' activities are a part of the post loans disbursement endeavors, which according to this study can also be an emphasis. The borrowers are not very eager to pay the loans after borrowing, because they appear to prefer staying longer with the borrowed money instead of repaying back to the banks. This is in regards to the moral hazard theory of human beings such that given a chance they would not pay the loans. The allocation of little amount to the recovery activities according to this study may also have contributed to the loan default. Subsequently, the performance of non-prime household loans is negatively affected.

4.1. Recommendations

Due to the importance of post loan activities, it is recommended that Microfinance Banks provide a higher budget purposely for the post loans disbursement activities, which include capacity building for the borrowers so as to equip them with skills related to business management. The banks should regularly organize forums for the business persons and all the borrowers so as to educate them on how to utilize the funds granted to them as loans. Further recommendation is that the government through the Central Bank of Kenya formulates a policy for allocation of a fund for all the Microfinance Banks in Kenya for the capacity building to the borrowers of Microfinance Banks.

This study further recommends that the government avails funds for research and development on post loan activities to provide maximum benefits to the Microfinance Banks. In addition, the government should formulate a strategy for incentives provisioning geared towards technology transfer related to risk control on post loan disbursement from more developed economies. This will promote the adoption of world class and global perspective credit risk control mechanisms.

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