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Effects of Non-Financial Services of the Micro Financing Institutions on Performance of Entrepreneurship: A Study of Selected Counties in Western Kenya

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Abstract:

While Micro and Small Enterprises (MSEs) plays a pivotal role in the development of many national economies, their growth is dodged with numerous challenges. Apart from financial setbacks, past studies cite Non-financial services including operator's competencies and capacities. Commonly Microfinance Institutions (MFIs) and other financial intermediaries are known to include capacity building as support services as component of loaning MSEs. The objective of this study was to determine the effects of non-financial services on the performance of MSEs in Western Kenya counties of Kisumu, Siaya and Vihiga. The Non-financial services measured included, Training programmes, Marketing Assistance, Business Networking and linkages and Information technology. The study targeted 65,698 licensed MSEs out of which a sample of 398 was selected. The study employed descriptive survey design and used structured questionnaires to collect primary data. Data was analyzed using statistical software (SPSS) and presented in descriptive and inferential statistics. Using the ANOVA and coefficient of correlation the study results revealed that Non-financial services significantly explain the variance in MSE Performance since $F_{0=16.396} > F(4, 378) = 2.39$; $\alpha_0 = .001 < \alpha_c = .05$. The study concluded that Non-financial services contribute to MSEs growth and development. The study recommends that intermediary Agencies to enhance capacities of MFIs to deliver quality and appropriate NFS to MSEs, and also MFIs to encourage cost recovery on NFS provision to sustain their service support to MSEs. The study suggests that future research should address greater focus on modalities of establishing relevant content and processes that should be included in Non-financial service delivery that should target MSEs.

Keywords: Entrepreneurship, Non-financial services, microfinance, micro and small enterprises

1. Introduction

United Nations 2030 Agenda, identified Micro and Small Enterprises (MSEs) as critical in achieving the Sustainable Development and its Goals, at regional levels, MSEs plays and will continue playing an important role in increasing intraregional and interregional trade as envisaged in the regional economic blocs, especially the recently launched African Continental Free Trade Area (International Trade Centre, 2019). While in Kenya Vision 2030, the long-term development blueprint that seeks to transform Kenya into a newly industrialized, high middle-income country, recognizes the key role of micro, small and medium-sized enterprises (MSMEs) in attaining its goals (GOK, 2007). The Micro and Small Enterprise Act 2012 (MSE Act 2012) Laws of Kenya define Micro Enterprises as having annual turnover of less than Ksh 500,000, and employ up to ten employees, while Small Enterprises are those with Annual Turnover of between Ksh 0.5million and Ksh5million and employs between ten to fifty employees (GOK, 2012).

Micro, Small and Medium Enterprises (MSMEs) are very important to employment creation, poverty alleviation and sustainable economic development of developing countries (Mwaanga, 2014). SMEs employ more than 80% of the working population in Kenya and play a central role in its economic and growth strategies. Efforts to make MSEs more competitive can help the country achieve its development objectives by creating more jobs, strengthening sectors and developing business models that work. Policy and business reforms that include developing the trade support ecosystem and capacity building at the firm level aim to help Kenyan MSEs become more competitive – nationally, regionally and globally (ITC, 2019).

According to the National Youth Policy Draft Document, Kenyan youths aged 15-35 years numbering 13 million or 56 percent of Kenyan population, comprised 61 percent of the unemployed, out of the 13 million youths, only 50 percent are expected to be in gainful economic activities in the formal, informal and public sector while the rest are unemployed (GOK, 2006). Whilst Statistics show that 82% of the youth have primary and secondary education, 92% have the formal education unfortunately they undergo no „skills“ training (KNBS, 2011). This is because academic and technical institutions have been and to a large extent continue to produce candidates earmarked for the formal sector – type employment (GOK, 2018). Unemployment therefore, in Kenya exists not just because there are no jobs but largely because of absence of entrepreneurial culture and lack of skills resulting from failure to match market needs with relevant training and also appropriate financing mechanisms (GOK, 2003). To reverse the trend, emphatic strategies have been articulated by government emphasizing developing both production and entrepreneurial capacities of the country targeting specifically the youth and women, who are often the most vulnerable segment of the society (GOK, 2003).

Owusu-Ansah, Cudjoe, & Poku, (2017), reckon that the contribution of MSEs to worldwide economy and holistic development approach cannot be underestimated. However, there is an apparent overemphasis on financial support for MSEs development to the neglect of non-financial support. Non-financial support for MSEs is seen in areas such as market access, infrastructure, policy advocacy, accounting/bookkeeping, consulting, input supply, training and technical assistance, technology and product development and business incubation. Mohan & Revathi, (2012), argue that the competencies required for an entrepreneur can be acquired through training and other business development services. One of the important areas of economic development is to bring forth latent talents and nurture a strong entrepreneurial spirit in individuals. Entrepreneurs can be developed through training, education, market access linkages, networking and policy advocacy as well as product development techniques. They further felt that inculcating entrepreneurial skills for setting up and operating business enterprise can be assure way of developing entrepreneurs. Entrepreneurial development prefers to enhance the skill and knowledge of entrepreneur through training and general business development.

1.1. Problem Statement

Micro and Small Enterprises play a major role in economic development, particularly in emerging countries. Whereby formal SMEs contribute up to 45 percent of employment and up to 33 percent of GDP in developing economies; these numbers are significantly higher when taking into account the estimated contributions of MSEs operating in the informal sector where they face greatest challenges well beyond finance (IFC, 2010). Some of critical challenges are related to , non-financial supports for MSEs which include training, advice and consulting, supply of information, technical and technological transfer, limited access to information and limited linkages to large Enterprises (Owusu-Ansah et al., 2017).

Microfinance institutions (MFIs) in addition to their classic products of financial services have developed non-financial services, like vocational training, technical assistance, agricultural or health education which more often accompany their financial products to the MSEs (Serres, & Flores, 2009). Biosca, Lenton & Mosley, (2011) reiterate that Non-Financial Services (NFS) aim to improve the returns to borrowers' investments. The awareness of crucial health and business practices issues is thought to multiply the return on the capital which MFIs provide, thus, contributing to increase the likelihood that the loans effectively increase MSEs performance and reduce poverty. Similarly, credit-plus has been found to diminish the risk of the loan being diverted from productive to consumption activities due to, for example, external shocks, and to reduce the likelihood of default.

Entrepreneurship training and other non-financial support to MSEs are some of the most complicated issues of the MSEs support systems, It has been observed that in spite of the increasing participation of MFIs and other small enterprise NFS agencies in the Kenyan informal sector, their programs have had little or no impact on the performance of the MSEs targeted. Reasons for this have not been well explored and neither do we have empirical evidence to explain them (Kithae, Maganjo & Kavinda, 2013). This study therefore was conducted to find out the impact and or effects of NFS of MFIs on the performance of Entrepreneurship in Kenya.

1.2. Main Study Objective

The study was to assess the impact of Non-Financial services of the MFIs on the performance of MSEs in Kenya

1.3. Specific Objectives

- To assess the extent to which Training programmes of Microfinance Institutions contributes to the performance of MSEs in Kenya.
- To establish the effects of Marketing Assistance of Microfinance Institutions on performance of MSEs in Kenya.
- To determine the effects of Business Networking and Linkages of Microfinance Institutions on the Performance of MSEs in Kenya.
- To assess the effects of Information and Technology services of the Microfinance Institutions on performance of MSEs in Kenya.

2. Literature Review

2.1. Theoretical Review

The study was based on Human Capital Theory, proposed by Theodore Schultz (1961) which says that; 'human capital is formed by knowledge and skills of employees which is shaped by education'.

2.1.1. Human Capital Theory

Dae-Bong (2009) states that the origin of human capital goes back to the emergence of classical economics in 1776, and thereafter developed a scientific theory. After the manifestation of that concept as a theory, Schultz (1961) recognized the human capital as one of important factors for a national economic growth in the modern economy. It was then Theodore W. Schultz (1961) who first came up that human capital is formed by knowledge and skills of employee, and education plays a role in shaping an individual (Dar & Mishra, 2019). Human capital theory is concerned with knowledge and experiences of small-scale business owners and or their employees. Schultz (1961) recognized the human capital as one of important factors for a national economic growth in the modern economy. Recent challenges such as globalization, a knowledge-based economy, and technological evolution, have promoted many countries and organizations to seek new ways to maintain competitive advantage (Dar & Mishra, 2019).

Bruderl, Preisendorfer & Ziegler, (1992) posit that Human Capital Theory and Organizational Ecology offer a comprehensive set of factors that influence the survival of newly formed business organizations. They further explain that Human Capital Theory identifies individual's characteristics of the founders as important prerequisites for survival. According to Dae-Bong (2009), the impact of human capital falls into three categories: individual, organization, and society. For individual, it has to do with increasing individual income, resulting from individual productivity. Organization wide it is linked to core competences and competitiveness of the organization. While to the society it can increase social consciousness of constituents within community.

(Bouchard 2008), argue that Human capital is a renewable resource and, unlike other forms of capital, knowledge capital can be acquired through education and preserved through continuing education, which can increase productivity. But unlike other forms of capital, human capital cannot be separated from its holder, and its value is entirely dependent on that person's capacity to apply his/her knowledge in an economically profitable enterprise. The Human Capital Theory is relevant to the study, in that non-financial services are all aimed at empowering the individuals, the MSEs Environment and thus healthier linkage of the MSEs and the society in which they operate.

2.2. Growth of Micro and Small Enterprises (MSEs)

Reeg, (2013) asserts that, the development economics, entrepreneurship and business literature understand enterprise growth as being a developmental step from a stagnant or declining business to a growing business that constantly increases its assets, productivity or number of employees. There is broad agreement that MSEs can become effective creators of employment, innovation, income and growth. However, many of them do not realize their full potential because they lack access to markets, finance, technology and business skills (UNCTAD, 2001). The fastest growing MSEs are those that translate strategy into action in the form of Research & Development (R&D), innovation and training, hiring of skilled employees. Otherwise the main barriers to growth of MSEs are market failures, government regulations, indirect labour costs, and difficulties in recruiting qualified staff and skilled workers (OECD, 1997). Lack of access to finance and management ability are important constraints to microenterprise growth, without capital and appropriate skills, it is difficult for businesses to grow (ILO, 2017).

The many challenges MSEs continue to face due to their size like: access to finance, lack of institutional support; insufficient skilled personnel; disproportionately high trade costs; lack of access to technology; and an unfavorable business environment, are inhibiting to a larger extent their growth (ITC, 2014). According to Reeg, (2013), some of the factors why enterprises differ in their performance to grow and innovate can be divided between those that relate to the internal features and quality of the firm and those features and characteristics that are external to the firm. The internal factors are concerned with individual (1) entrepreneur characteristics or with (2) enterprise characteristics. While external factors are focused on the role of, (3) business and social networks and (4) the wider business environment, there is thus a growing recognition of a need for micro-level approaches that address the specific problems facing small-scale entrepreneurial activity and that are compatible with the general direction of industrial and macroeconomic policy to support in steady growth of MSEs (Boto, Peccerella & Biasca, 2012).

Mwaanga, (2014) reckons that, a combination of financial credit and operational support is crucial to helping MSEs succeed in today's marketplace, regardless of the location where the micro-entrepreneur is competing. Any entrepreneur has to have a combination of technical, operational and strategic skills. He clarifies that technical skills come with the commitment, creativity, experience and knowledge they have within their field. The operational skills (including accounting and finance, business planning, quality control, health and safety regulations, marketing and human resource management) can often pose a challenge and necessitate support.

2.3. MSEs in Economic Development

The MSE sector is considered very important in many economies because they provide job, pay taxes, are innovative and very instrumental in countries participations in the global market. Thus they play an important role in economic development by providing employment opportunities, opening up new business opportunities, enhancing entrepreneurship, and fostering creativity (Ackah & Vuvor, 2011). SMEs (small and medium-sized enterprises) account for 60 to 70 per cent of jobs in most OECD countries. Throughout they also account for a disproportionately large share of new jobs, especially in those countries which have displayed a strong employment record. It is apparent that SMEs play an important role in all OECD economies: they make up over 95 per cent of enterprises and account for 60 to 70 per cent of jobs in most OECD countries (OECD, 1997).

International Trade Center (ITC), (2014), believes that some 95% of enterprises across the world are SMEs, accounting for 60-70% of private sector employment. At the same time, in developing economies, SMEs are strongly linked to employment, poverty reduction, women's economic empowerment, and income distribution. World Trade, (2016), also

posit that contribution of SMEs to GDP is equal to 55 per cent in developed countries, and 35 per cent in developing countries. Dalberg, (2011), also explains that increased SME growth has a direct effect on GDP growth due to increased output, value add and profits. SME growth also impacts GDP indirectly, through increased innovation and macro-economic resilience of the overall economy. He believes that smaller firms are often the most dynamic and innovative, and can be a test ground for new business ideas.

While the debate on MSEs challenges remains unresolved, a large body of literature shows that MSEs are important for a country's economic growth and development. Proponents and policy makers are convinced that the sector is the 'engine of economic growth and development'. The proponents also argue that MSEs enhance competition and entrepreneurship; they are more productive than large firms; and that they boost employment more than the large firms (Sharma & Gounder, 2012). While Micro and Small Enterprises (MSEs) are the largest contributors to formal jobs in low-income countries (78%), most of these firms suffer from low productivity, and their contribution to economic growth is less evident (ANDE, 2012). MSEs development can deepen the manufacturing sector and foster competitiveness. It can also help achieve a more equitable distribution of the benefits of economic growth and thereby help alleviate some of the problems inherent with uneven income distribution (UNCTAD, 2001).

MSEs also play an important role in entrepreneurial development. MSEs employ workers with limited formal training, and use local raw materials that would otherwise be neglected. They also mobilize the small savings of proprietors which tend to exist outside the formal banking system. Studies have shown that owners of MSEs have a surprisingly high propensity to save and invest, even at quite low income levels (Hussain, 2000). Finally according to Dalberg, (2011), a stronger MSE sector can bolster a country's resilience by broadening and diversifying the domestic economy, thereby reducing the vulnerability to sector-specific shocks and fluctuations in international private capital flows.

2.4. Kenya Government and MSEs

The quality of the business environment is considered the main constraint for MSEs in the East African countries, together with access to finance and access to technology/innovation. The counties have also recognized steps to take to create an enabling environment for MSEs (ITC, 2014). A World Bank Report on Doing Business advocates for both regulatory, quality and efficiency. It is important to have effective rules in place that are easy to follow and understand. To realize economic gains, reduce corruption and encourage SMEs to flourish, unnecessary red tape should be eliminated (World Bank, 2019). Micro and Small Enterprises (MSEs) cut across all sectors of the country's economy and provide one of the most prolific sources of employment, not to mention the breeding ground for medium and large industries, which are critical for industrialization. Today, these enterprises are found in every corner of Kenya and they have great potential for creating a variety of jobs, while generating widespread economic benefits (GOK, 2005).

Kenya National Bureau of Statistics Economic Survey, (2012), shows that it was more difficult for Micro, Small and Medium Enterprises (MSMEs) to access loans from commercial banks than from other small financial institutions. To solve the problems faced by MSMEs the business owners expressed their wish for the Government to assist in market promotion and to provide an enabling environment for fair competition. Despite credit constraints experienced by MSMEs, business owners were able to borrow Ksh 644.1 billion in the last three years which was 68.7 per cent of the domestic credit portfolio to the private sector. Most of the loans borrowed were for working capital at 37.2 per cent (KNBS, 2012).

The Kenya National Micro, Small and Medium Enterprises Survey, (2016), found out that MSME sector in Kenya has evolved to a highly vibrant and dynamic sector of the economy over the last few decades. A high number of MSMEs were undocumented and operating informally, most of the MSMEs are Micro Enterprises operated mostly by owners, bigger firms are mostly owned by highly educated individuals though few, majority of the owners adopt self-sponsored trainings thus improving their entrepreneurial competencies. The study also found out that, MSMEs sector provides the highest employment opportunities in Kenya, thus making key contributions towards improving the economy of Kenya (KNBS, 2016).

ITC, (2019) report explain that, there are acute shortages of skilled labour in the southern part of Kenya and that MSEs employ more than 80% of the working population in Kenya and play a central role in its economic and growth strategies. Efforts to make MSEs more competitive can help the country achieve its development objectives by creating more jobs, strengthening sectors and developing business models that work. ITC, (2019) reports that the Government's Third Medium-Term Plan 2018-2022 towards achieving Kenya Vision 2030 recognizes the MSE sector as a priority area for development. The plan seeks to support MSEs by facilitating access to affordable credit, skill development, entrepreneurial culture and linkages to domestic and external opportunities, such strategies would therefore boost the performance of the MSEs and hence increase Kenya's economic development.

2.5. Concept of Non-Financial Services (NFS)

Non-Financial Services or otherwise known as Business Development Services (BDS) are services that improve the performance of the enterprise, its access to markets, and its ability to compete. These services include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, and business linkage promotion (CDASED, 2001).

CGAP, (2002) view Non-financial services as ranging from social intermediation to building social capital and basic skills within the community for entrepreneurs. These would take the form of training in literacy or basic financial skills, group capacity-building efforts, and providing information on available financial services. NFS focus on entrepreneurs and on potential entrepreneurs with Training, mentoring, and advisory services, market information through market agents, databases, publications and Linking entrepreneurs with potential buyers and markets, they also

facilitate building business networks and linkages to promote inter-firm cooperation and creating lower-cost or higher value-added technologies. Across the globe, banks and other financial Institutions (FIs) have long delivered non-financial services (NFS) to their business customers, especially their corporate clients, as part of helping these customers to succeed in business. More recently, Microfinance Institutions (MFIs) and banks have been developing and delivering NFS targeted at their MSE customers (Richardson 2016).

According to UNCTAD, (2001), NFS, or BDS are mainly publicly or donor supported, and generally in the areas of training, marketing (including export promotion), product development, credit and technology. However, training programmes and credit schemes seem to favour start-ups rather than expansions. A poor business environment can disproportionately affect Micro and Small Enterprises (MSEs). A complex set of policy, legal, institutional, and regulatory conditions that govern business activities, including the administration and enforcement mechanisms established to implement government policy, can influence the way key actors operate (White, 2018).

2.6. MSEs and Non-financial Services

Even though MSEs have potential of enhancing growth and development of most economies, constraints on MSE growth have consistently indicated that other factors are as important as, or more important than, financial constraints for the operations and growth prospects of microenterprises (Kimando, Sakwa & Njogu, 2012). Before exploring financial constraints to MSE development, it is important to acknowledge the wide range of non-financial barriers that disproportionately affect MSEs. Often, the non-financial and financial barriers can be correlated, and this relationship may be strong in some cases. For example, improvement in physical infrastructure can generate important productivity gains and enhance the prospects of higher rates of returns, facilitating access to a wider range of financial services. Furthermore, some of the non-financial constraints are also binding on financial institutions and might undermine outreach and, ultimately, access to finance (IFC, 2010).

For performance of MSEs to be enhanced, their capacity must be built. Support inputs must therefore be targeted at enhancing MSEs development through increasing access to market, improving profitability as well as competitiveness in respective industries of operation (Owusu-Ansah et al., 2017). Non-Financial Services (NFS) improves the returns to borrowers' investments; NFS creates awareness of crucial health and business practices which eventually increases the return on the capital which MFIs provide to MSEs, thus, contributing to the likelihood of the loans, effectively improving MSEs performance. Similarly, credit and NFS has been found to diminish the risk of the loan being diverted from productive to consumption activities due to, external shocks, and this as well reduce the likelihood of MSEs defaulting (Biosca et al., 2011).

Non-Financial Services improves MSEs Capacities to develop sustainable business models. In terms of operational performance, non-financial services MFIs clearly have a much better portfolio quality than their peers. On the flip side this approach has been challenged by other practitioners. Arguing that MFIs' lack skills or mandate to provide not only quality non-financial services but that, such services may divert the attention of MFIs away from the financial services and send contradicting messages to clients especially if they are free of charge. NFS may also impede MFIs' ability to reach financial self-sufficiency, as they generate high costs that add to the already expensive microfinance operations (Serres et al., 2009). The quality and relevance of NFS are, in most cases, found to be less than satisfactory. Only a small number of micro and small enterprises benefit from existing NFS. These services are often confined to urban areas, but even there, many small enterprises are unaware of their existence (UNCTAD, 2001). The MFIs offering NFS often face significant barriers to growth, and have been the focus of a number of impact investors, capacity development providers, development finance institutions and government agencies in recent years. These intermediaries support MFIs through matching grants, business training, credit guarantees and direct investment, so as to continue supporting the MSEs (ANDE, 2012).

2.6.1. Trainings Programmes

Training as one of the NFS activities, plays a significant role in contributing to performance of Micro and Small Enterprises (MSEs) success that eventually results in economic growth (Ogoncho, 2019). Entrepreneurship Training is taken to mean as business training, including starting, improving, managing and developing businesses as well as acquiring entrepreneurial skills (Tambwe 2015). Even though some research has found only small effects of business skills training on MSE growth, when combined with much-needed capital, business management trainings do help microenterprises grow. ILO, (2017) study found that Loans in combination with training increased business profits for men. They realized a 54 percent increase in profits six months after the program ended. The sub group of men benefiting from loans and training also increased family employment by 66% and employment from outside the household by 45% initially.

Global production is increasingly characterized by rapid changes in technology and by the need to adjust to changes in consumer demand, so access to a skilled workforce is crucial, as skilled workers find it easier to adapt to changes in the working environment (ITC, 2014). To enhance performance of Entrepreneurs the European Union (EU) committed itself in strengthening the skills of Entrepreneurs, by promoting courses and programmes that help assess enterprises' competitive positioning and directly impacting their profitability. They promote alliances of Entrepreneurs with bigger companies, creating networks and promote their use and improving their capacity for marketing their products and services (Costantini, Doiciu, Lämmermann, Nardone & Pes, 2016). Recently, however, MSE training programs have begun to focus more on cost recovery, and as a result, are looking at cost-sharing payment provisions that not only help cover operating costs but also provide a means of assessing client demand for particular types of course offerings. Voucher systems used in training programs are one example (Barton, 1997).

2.6.2. Market Assistance

Marketing is a strategic tool for business development and for bringing together consumers and products to enhance a firm's survival (Rijgut, 2012). Entering new markets typically requires substantial investment in information gathering. It is necessary to acquire relevant market information on prices, consumer preferences, standards and testing requirements and also information regarding the establishment of appropriate distribution channels, capacity of which most MSEs do not have (ITC, 2014). Measures to ease access to markets have focused on international markets, on the one hand, and public procurement, on the other. Policy and support in this area seeks to tackle the disadvantages experienced by MSEs due to their lack of access to human resources, to external markets and to technology (OECD, 1997).

Marketing support is one of the very important NFS of the MFIs that enable MSEs to improve on their performances; MSEs do not have sufficient resources at their disposal and, therefore, need institutional support for marketing their products at national and international level. ITC, (2019), assessment found out that indeed, 96% of interviewed enterprises keep some sorts of records, and 84% were confident that they would be able to prepare a business plan if needed. But to be productive and meet market demand, companies rely on support from the business ecosystem and especially specialized agencies. In the course of their regular dealings with marketing intermediaries, micro and small-scale entrepreneurs routinely pay for services that help them face numerous marketing or market access problems, ranging from securing needed inputs and technologies to marketing their outputs (Barton, 1997).

2.6.3. Business Networking and Linkages

A network is a collection of firms working in cooperation, though not necessarily in the same place. It described arms-length interactions between firms, such as international production or distribution networks (Hussain, 2000). Networks can enhance enterprise performance by providing entrepreneurs with information on various aspects like markets and technology (Atieno, 2012). Linkages are defined as channels through which enterprises influence each other's economic performance (OECD, 2005). Due to their small size MSEs, find it hard to defend their interests. This situation may occur in different contexts including, bargaining with suppliers, bargaining with buyers, and lobbying in favour of policies or regulations that are in the interest of MSEs (ITC, 2014).

As the global economy becomes more integrated and economic reforms and liberalization take root in Africa, indigenous MSEs will have to network and build alliances to be able to survive and compete effectively. There is strong evidence that forming alliances, clustering and networking help small firms to compete, grow and cooperate with large firms. MSEs have important linkages with large firms through subcontracting arrangement and provision of spare parts. Creating an enabling environment is crucial for the successful development of MSEs and promoting efficiency enhancing linkages between industries (Hussain, 2000). A number of MSEs support agencies have sought to enhance the quality of owner/managers of MSEs either by encouraging training and/or by providing access to advisory and consultancy services (OECD, 1997).

2.6.4. Information Technology

The objective of information services is to facilitate access by MSEs to information that is of value to them in either written or spoken form. Many studies carried out by the ILO and other organizations show that the majority of owners of MSEs use informal sources of information, such as relatives, friends and employees. These sources constitute over 90 per cent of all information sources accessed by MSEs, which demonstrates that formal information sources are rarely used (UNDP, 2000). Micro and Small Enterprises (MSEs) require the right organizational Information and Communication Technology Infrastructure to provide them with the essential functionalities to support their business processes. An organizational ICT infrastructure supports these improvements by making it easier for MSEs to communicate, share information, and to streamline business processes (Wamuyu, 2017). MSEs tend to find it harder than large firms to keep up with technological change, notably because they employ fewer technical specialists and because of the financial resources needed to continually purchase new technology. In Less Developed Countries (LDCs), simple information and communications technology (ICT) solutions, such as access to the internet or the creation of a business website, often represent a significant challenge for MSEs (ITC, 2014).

Technology programmes should: ensure quality control; promote customer orientation; upgrade the innovative capacity of firms including the promotion of general awareness of the value of innovation among management and stimulate demand for technical and organizational change (OECD, 1997). With the Emergence of Knowledge-Based Production Structures, developments in information technology, transport, agriculture, manufacturing and finance are likely to erode further the competitiveness of African MSEs even in areas where Africa traditionally held a comparative advantage. If African firms are to respond effectively to changing customer needs and take advantage of changing production incentives, it will be imperative that they improve their technological capabilities. The demand for new technologies is usually directly related to new market opportunities (Hussain, 2000). Once small producers become aware of new opportunities, the challenge shifts to acquiring the capacity to supply what the market demands. This often requires the acquisition of new skills, management techniques, and know-how, as well as tools and equipment all which are important aspects of technology development (Barton, 1997).

2.7. Conceptual Framework

The conceptual framework has been developed from the reviewed literature, where the Non-Financial services represent the independent variable and the MSEs performance is the dependent variable. The conceptual framework therefore will represent the relationship between the independent variables and dependent variables.

Figure 1: Study Conceptual Framework
Source: Researcher

3. Methodology

Mixed methods survey design was used to collect and analyze data. The combination of the methods allows for the integration of data collection and analysis techniques for both quantitative and qualitative methods in either parallel or sequential stages. Triangulation, complementarity, development initiation, expansion and enhance significant findings is facilitated through mixed research design (Salehi & Golafshani, 2015).

3.1. Target Population

The study targeted 65,698 licensed Micro, Small and Medium Enterprises (MSMEs) in the three Counties of Kisumu, Siaya and Vihiga. The total numbers of MSMEs in the three Counties according to the Kenya National Bureau of Statistics MSMEs survey Report of 2016 are 531,698 which include the unlicensed MSMEs. Mugenda & Mugenda, (2003) defines population as entire group of individuals, events or objects having common observable characteristic.

3.2. Sample size and Sampling Technique

The sample size was 398 calculated using Yamane (1967) model to determine the appropriate sample size.

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

Where: n is the desired Sample size, N is the Population size and, e is the level of Precision
Therefore:

$$n = \frac{65,698}{1 + 65,698(0.05)(0.05)} \quad n \text{ is therefore } 398$$

This was reinforced by stratified selection of licensed MSMSEs from Counties of Kisumu, Siaya and Vihiga as shown in Table 1

County	Total	%	Sample
Kisumu	40,199	0.606	244
Siaya	14,199	0.606	86
Vihiga	11,300	0.606	68
Total	65,698	0.606	398

Table 1: Distribution of Sample Size to the Counties Msmes
Adapted From KNBS, (2016)

3.3. Data Collection Instrument

The study used a questionnaire to collect quantitative data and Secondary data was collected from review of relevant documents.

3.4. Data Reliability Analysis

Reliability is the extent to which a scale produces consistent results if repeated measurements are undertaken (Malhotra, 2010, as cited in Dubihlela, 2012.). Calculation of coefficient alpha (also known as Cronbach alpha) is done to assess the reliability of a multiple-item variable. Reliability analysis was therefore done using Cronbach's Alpha as the measure. A reliability co-efficient of $\alpha \geq 0.7$ was considered adequate. Cronbach Alpha was established for every objective which formed a scale. The table, 3.2 shows the respective Cronbach alpha as per the study objective.

Scale/Study objective	Cronbach's Alpha	No of Items
Objective1: Extent to which Training programmes contributes to performance of MSEs in Kenya.	.820	4
Objective2: Effects of Marketing Assistance on performance of MSEs in Kenya.	.932	4
Objective3: Effects of Business Networking and Linkages services on Performance of MSEs in Kenya.	.850	3
Objective4: Extent to which Information and Technology services contribute to performance of MSEs in Kenya.	.881	4

Table 2: Reliability Statistics
Source: Field Survey Data, 2020

Table 2 shows that the four objectives scales of measurement passed reliability test of Cronbach alpha as all of them had $\alpha > .7$. Objective 1, 2, 3 and 4 had ($\alpha=0.820$), ($\alpha=0.932$), ($\alpha=0.850$), ($\alpha=0.881$), respectively, signifying high internal consistency for the Likert scales used.

3.5. Data Analysis and Presentation

Computer supported software SPSS was used to analyze quantitative data which was presented in descriptive and inferential statistics. Qualitative data was analyzed thematically and presented in prose. The multiple linear models used for quantitative analysis is provided below.

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$, Where: Y = SMEs Performance; X_1 = Training Programme, X_2 = Marketing Assistance; X_3 = Networking and Linkages, X_4 = Information Technology and ϵ = Error term; While the $\beta_0, \beta_1, \dots, \beta_i$ represent regression coefficients, and independent variables were represented by $X_1, \dots, X_i$ and ϵ provided for the random variation in Y that X variable was not able to explain.

4. Findings and Discussions

4.1. Response Rate

As planned all 398 respondents were reached, thus having a response rate of a 100%, this was due to face to face interview method used indicating the responses collectively exceeded the threshold of representativeness.

4.2. Demographic Information

4.2.1. Gender of Respondents

Figure 2: Gender of Respondents
Source: Field Survey Data 2020

Figure 2 Shows that 211(53%) respondents were male while 187 (46.9%) were females. Since the MSEs respondents surveyed were Licensed and more formal, this conforms with the findings of Kenya National Bureau Statistics survey of MSMEs in 2016 which found more male in licensed MSEs than females and more females in unlicensed MSEs than Males (KNBS, 2016) and APEC, (2016) contend that women are more likely than men to operate in the informal sector – with 85.1% of women-owned MSEs being informal vis-à-vis 76.7% of men-owned MSEs being informal in the Asia-Pacific Economic Cooperation (APEC) region.

4.2.2. Education Level of Respondents

Figure 3: Education Levels of Respondents by Gender
Source: Field Survey Data 2020

Figure 3 Explains the Education levels attained by respondents, 7.54% of male and 7.04% of female had Primary education, 19.85% of male and 20.85% of females had secondary education, 17.59% of male and 14.32% of females had technical training while 8.04% of males and 4.77% of females had University education. From the data it shows that majority of respondents had secondary education which is at 40.7%, followed by technical college Education at 31.9%, Primary and University education are at 14.6% and 12.8% respectively. Gachuhi, (2016), study findings indicate a strong positive relationship between social factors which includes levels of education and MSE growth. Leitao & Franco (2011) found that, high levels of education of MSEs owners influence the performance of MSEs positively. Hisrich et al, (2008) reckon that, although formal education is not necessary for starting a new business, it's important in the upbringing of the entrepreneur and provide good background especially if it's related to the field of the venture. World Bank, (2016), survey of Kenya informal enterprises found out that, growth was seen in companies where owners had a secondary education (32 percent of firms) vs. owners who had no primary education (16.6 percent of firms).

4.2.3. Age of Respondents

Figure 4: Age of Respondents by Gender
Source: Field Survey Data 2020

Figure 4 Outlines the age groups of respondents, among the male entrepreneurs, 3.52% are aged 30 years and below while 5.78% of females are in the same age group. 23.62% of males are aged between 31 and 42 years, 24.62% of females are in the same age group. Results shows that more females were involved in MSEs than males at the ages between 18 years to 43 years; it indicates that more females are engaged in MSEs in these three Counties at younger age

than males. 17.09% of males are in the age group between 43 and 54 years, while 13.32% of females are in the same age group. 6.78% of males are between 55-66 years, while 2.51% of females are in the same age group. Only 2.01% of males are 67 years and above while only 0.75% of females are in the same age bracket. There is more concentration of ages between 31 years to 54 years, an indication of normal categorization of productive age. A study by Nabutola, (2015) confirms that there are more entrepreneurs in the middle Ages between 31 to 42 years; she argues that younger owner/manager has the necessary motivation, energy and commitment to work and is more inclined to take risks and more entrepreneurially active hence improved Performance of MSEs. Age was found to have significant effect on access to bank loan. Therefore, policy makers, banks, and other development partners should promote young owner/managers (Ogubazghi, & Muturi, 2014). Age was also found to be a key determinant of entrepreneurial success (Wambua, & Munyithya, 2015). Hisrich et al, (2008) agreed that most entrepreneurs initiate their entrepreneurial careers between the ages of 22 and 45 years. He contends that a career can be initiated before or after these ages, as long as the entrepreneur has the necessary experience and financial support.

4.2.4. Marital Status of Respondents

Figure 5: Marital Status of Respondents by Gender
Source: Field Survey Data 2020

Figure 5 Looks at the marital status of the respondents, whereby among the male, 5.53% were single while 7.04% of females are single as well. 43.22% of male and 32.91% of female are married. 2.51% of male and 4.02% of female are widowed. Lastly 1.76% of male and 3.02% of female are divorced. It shows that there are more married respondents at 76.1%. The study findings are in line with those of Wambua & Munyithya, (2015) where marital status was found to be a key determinant of entrepreneurial success. Mutoko & Kapunda, (2017) found that as the number of married people's applications for loan increases, the rate at which the number of unmarried people receiving a loan for their businesses will reduce, showing the married people are more preferred. Byrne, Tounés, Giacomini & Fattoum, (2016) found to the contrary that single entrepreneurs have higher growth intentions than married or partnered entrepreneurs.

4.3. Regression Analysis

The regression analysis of the model determined the influence of the independent variables Training Programmes, Marketing Assistance, Networking and Linkages and Information and Technology on the dependent variable MSEs Performance.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.386 ^a	.149	.140	.80408

Table 3: Model Summary

a. Predictors: (Constant), Information Technology, Marketing Assistance, Networking and Linkages, Training Programme Source: Author's Computation from Study Sample Data 2020

Table 3. shows the model summary whereby R is the relationship between the dependent and independent variables, the results show that Non-Financial Services of the MFIs has a positive relationship with MSEs Performance with a moderate correlation value of ($R = .386^a$). The positive correlation value indicates that when non-financial services as independent variables, increases the MSEs performance also increases as well when the non-financial services decreases, the MSEs performance decreases as well. R^2 a coefficient of determination shows how much of the dependent variable can be influenced or explained by the independent variables. The R^2 value of .149 shows that 14.9% of the variance in MSEs Performance can be predicted from the variables of non-financial services.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.412	.106		22.731	.000
	Training Programme	.171	.059	.302	2.907	.004
	Marketing Assistance	.189	.050	.300	3.775	.000
	Networking and Linkages	-.137	.048	-.250	-2.854	.005
	Information Technology	-.012	.051	-.021	-.239	.811

Table 4: Coefficients^a

a. Dependent Variable: MSEs Performance

Source: Author's computation from study Sample Data 2020

Table 4 represents the regression coefficient with a constant (B = 2.412, P-value = 0.000). A constant of 2.412 indicates that without considering Non-financial Services support, other factors affect MSEs Performance. The findings showed that Training Programme had coefficients which was significant basing on (B= .171, p<0.004). This shows that there was up to 17.1% increases in SME performance for each unit increase in Training Programme. The study findings are in line with the findings of a study by Tambwe, (2015) which revealed that entrepreneurship training assist MSEs in diversification, which resulted to increased income, increased capital which increased goods and services, offered, and increased customer's base. Ismail, (2018) as well asserts that Entrepreneurship training programmes have a positive impact on existing and aspiring entrepreneurs.

The findings also showed that Marketing Assistance had coefficients of (B= .189, p<0.001) which was significant. This indicates that there was up to 18.9% increases in SME performance for each unit increase in Marketing Assistance. Barton, (1997) asserts that access to credit alone, without corresponding access to new market opportunities and technologies, does little in improving the well-being of owners of microenterprises.

Coefficient of Networking and Linkages was significant at (B= -.137, p<0.005). This indicates that for every unit increase in networking and linkages results in a decrease of 13.7% of MSEs performance. This could be so due to the fact that some of the networking and linkage opportunities are costly and therefore not taken seriously by the busy struggling MSEs owners. Musundi & Ogollah, (2014) found that high cost of business linkage, significantly affected MSEs Linkages.

While for Information and Technology services, it was statistically insignificant at (B= -.012, p = 0.811), where P value is greater than .05. This implies that for every unit increase in Information Technology services leads to 1.2% decrease in MSEs performance. The result shows that the linear regression model will exclude the Information and Technology services since its statistically insignificant. Kiveu & Ofafa, (2013) concurred that uses of ICT has potential for enhancing market access and yet use by SMEs is limited as compared to larger enterprises.

Therefore from the coefficients Table: 4.2, the general form of the linear regression model equation that was established was as follows; $Y = 2.412 + 0.171X_1 + 0.189X_2 - 0.137X_3 + \epsilon$, Where Y=MSEs Performance, X_1 = Training programme, X_2 = Marketing Assistance, X_3 = Networking and Linkages and ϵ = Random Variation.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	42.402	4	10.601	16.396	.000 ^b
	Residual	241.805	374	.647		
	Total	284.207	378			

Table 5: ANOVA^a

a. Dependent Variable: MSEs Performance

b. Predictors: (Constant), Information Technology, Marketing Assistance, Networking and Linkages, Training Programme

Source: Author's computation from study Sample Data 2020

Table, 5 shows that there is correlation between the predictors' variables and the dependent variable. The ANOVA and coefficient of correlation shows that Non-financial services significantly explain the variance in MSE Performance since $F_{0.05}(4, 378) = 2.39$; $\alpha_0 = .001 < \alpha = .05$. It was, therefore, concluded that Non-financial services of Microfinance Institutions had a significant influence on MSEs Performance in the Three selected Counties of Kisumu, Siaya and Vihiga in Western Kenya.

		MSEs performance	Training Programme	Marketing Assistance	Networking and Linkages	Information Technology
MSEs performance	Coefficient	1				
	Sig. (2-tailed)					
	N	391				
Training Programme	Coefficient	.315**	1			
	Sig. (2-tailed)	.000				
	N	384	388			
Marketing Assistance	Coefficient	.346**	.782**	1		
	Sig. (2-tailed)	.000	.000			
	N	384	387	388		
Networking and Linkages	Coefficient	.184**	.819**	.676**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	383	386	386	387	
Information Technology	Coefficient	.249**	.803**	.727**	.769**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	383	386	386	385	387

Table 6: Pearson Correlations

**. Correlation Is Significant at the 0.01 Level (2-Tailed)

Source: Author's Computation from Study Sample Data 2020

From the Correlation results in Table 6 it can be observed that the use of non-financial services correlate to the MSEs performance, the correlation of training programme and MSEs performance is positive and statistically significant at ($r = .315$, $n = 384$, $p = .001$) two tail. There was a significant, positive association between MSEs Performance and Marketing Assistance. The correlation between MSEs Performance and Marketing Assistance was found to be statistically significant at ($r = .346$, $n = 384$, $p = .001$) two tail. It was also observed that there is positive correlation between MSEs performance and Networking and Linkages services, the correlations was found to be statistically significant at ($r = .184$, $n = 383$, $p = .001$) two tail. The study results also shows that there was positive correlation between MSEs performance and Information Technology support, there was a positive association at ($r = .249$, $n = 383$, $p = .001$) two tail. The study results reveal that there existed a significant correlation between MSEs Performance and Non-financial Services offered by the Microfinance Institutions in Kenya.

5. Summary of Research Findings, Conclusion and Recommendations

5.1. Summary of Findings

The results of the study have brought out the effects of Non-financial services of Microfinance Institutions on the performance of MSEs, and reveals that Training programmes, Marketing Assistance and Business networking and linkages are significant in influencing the performance of MSEs in Kenya except the Information Technology component of non-financial services that do not have direct influence as per the study results. This could be as a result of dynamism and cost related expenses related to access and acquisition of technology and or information, that many MSEs may not be able to cope up with at all the times.

The ANOVA and coefficient of correlation shows that Non-financial services significantly explain the variance in MSE Performance since $F_{0.05}(4, 378) = 2.39$; $\alpha = .001 < \alpha_c = .05$. Non-financial services as revealed by this study are important in developing the capacity of the MSEs owners and employees in entrepreneurship and thus influencing their performance on increased profitability, increased sales, assets and stock accumulation and employment of extra labour.

5.2. Conclusion

The study findings indicated that there is a significant relationship between the Non-financial services of Microfinance Institutions and Performance of MSEs. MFIs support on non-financial services along microcredit and savings mobilization has led to the overall improvement of MSEs performance. This has facilitated the improvement of business profits, business assets including stocks, business sales and employment. As much as Microfinance Institutions are offering non-financial services, some of them may not have both technical and financial capacity to provide appropriate and adequate non-financial services to the MSEs who badly need them for their development.

5.3. Recommendation

Given the inadequacies in MFIs capacity to deliver appropriately packaged non-financial services, the study recommends that both technical and financial capacity of MFIs be enhanced by intermediary Agencies like Government institutions (e.g. Micro and Small Enterprises Authority of Kenya), Donors and other development Agencies so as to enable

MFIs deliver appropriate Non-financial services to the MSEs. MFIs also, to consider cost recovery, when providing non-financial support, this will not only help MFIs develop their capacity further but as well sustain their operations and thus continued services to the MSEs.

5.4. Suggestion for Further Research

A study could be undertaken to find out the content and processes of Non-financial services delivery and whether they are based on needs of the Mses. This study focused on the micro finance services on licensed MSEs in three counties of Kisumu, Siaya and Vihiga. The same study could be conducted in other counties.

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