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Impact of Microfinance Advisory Services on the Performance of Micro and Small Enterprises (MSEs) in Yemen

Osamah Ahmed AL-Maamari[1], Dr. Vedava.P[2], and Noufal Alrefaei[3]

[1]Research Scholar, Department of Commerce, Mangalore University, Email: osama220@gmail.com
[2]Associate Professor, Department of Commerce, Mangalore University, Email: vedavap@yahoo.co.in
[3]Research Scholar, Department of Social work, Mangalore University, Email: nalinox@gmail.com

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Corresponding Author:
Osamah Ahmed AL-Maamari

Email: osama220@gmail.com

ABSTRACT

Purpose: *This study examined the Impact of Microfinance Advisory Services on the Performance of Micro and Small Enterprises (MSEs) in Yemen.*

Approach/Methodology/Design: *The study focused on micro and small business owners in Yemen who have access to microfinance services. To accomplish this goal, descriptive and analytical research methods are adopted for this study. The number of their active clients was 90,946 active clients, and the sample size was 398. Data are examined using the SPSS to provide quantitative descriptive statistics measures. To evaluate the theoretical model of this research, PLS-SEM route modelling using Smart PLS 3.2.9 software was employed. Because it replicates the standard regression approach, PLS path modelling was judged the most acceptable technique in this study.*

Findings: *Microfinance institutions' (MFIs') advising services for MSEs were found to have a highly significant correlation with the performance of MSEs. This study's findings add to the growing body of evidence demonstrating the importance of MFIs' advisory services to the development and success of their client businesses.*

Implications: *As previously stated in the present literature, further research into the significance of advisory services in the performance of Micro and Small Enterprises is required. This study aimed to determine the effect of microfinance institutions' advising services on the performance of micro and small firms in Yemen.*

INTRODUCTION

Microenterprises can thrive and grow if they have access to financing and credit. The difficulty in obtaining such credit is slowing down this progress. Formal financial institutions are reluctant to lend financing to these businesses because they perceive it to be risky and unprofitable. Financial intermediation is at the core of the MFB's mission. Financial resources are transferred from those with surpluses to people who are short on funds. Microfinance is not about wealth distribution or the transfer of monies to the poor; rather, it is about offering an economic instrument that enables the impoverished to work their way out

of poverty on their own (Ramezanali & Assadi, 2018). Microfinance is a financial tool developed by small thrift societies in villages to assist poor people engaged in various business and agricultural activities. It has evolved into a modernised system of providing financial and non-financial assistance to low-income groups and small enterprises, also known as "Microenterprises." Both financial and non-financial microservices boost the productivity growth of Micro and small Enterprises (MSEs) (Badullahewage & Withanage, 2018). Microfinance institutions' involvement includes of three major functions: financial, non-financial, and social intermediation services, all of which have a significant impact on customers' household, empowerment, and micro and small business performance (Al-Shami, Majid, Rashid, & Hamid, 2014). The requirement to balance financial and non-financial performance in Microfinance institutions resulted in the development of a social task force tasked with developing social measures that can be used alongside financial metrics to evaluate Microfinance institutions' performance (Kipesha, 2013).

A focus on non-financial services can be quite beneficial in terms of increasing human capital development (Antoh & Arhin, 2018). It is critical to examine the extent to which microfinance, specifically the non-financial aspect, has improved small business performance, given the indispensable role of finance in the performance of small businesses and the adoption of such small businesses as the main source of financing in countries. Training, advisory services, group participation, network meetings, and supervision are examples of non-financial services, while higher earnings, assets, savings, and empowerment are examples of performance from literature. (Dikki, Muhammad, Dogarawa, & Chechet, 2014). Small and micro industries have gained importance in the Yemeni economy. They are sponsored by several sources, including Microfinance Institutions, which fund small businesses and programmes that help improve the lives of the poor, who are excluded from the financial system due to their poverty (Qaied & Basavaraj, 2020). Yemen's government has made a deliberate decision to alleviate poverty by improving basic services, generating job opportunities, and raising poor people's incomes through support for small and micro firms. At the end of December 2017, Yemen has 16 microfinance initiatives serving an estimated 90,946 consumers. Yemen's small and micro businesses confront tremendous obstacles, including limited access to funding. To make additional progress, governments, funders, intermediaries, and clients must all show strong support for MSEs. Given the sector's importance and the need to reform it, it is critical to design strategies that will help remove obstacles to achieving the intended vision and objectives (Qaied & Basavaraj, n.d.).

The Statement of Problem:

Due to present conditions, the majority of young people have lost their source of income. Consequently, they were inclined to create their own businesses. This study examines the impact of microfinance institutions' advisory services on micro and small businesses, as their lack of expertise was an apparent obstacle in their path.

REVIEW OF LITERATURE

Microfinance services and MSEs' Performance

The MSEs sector is well-positioned to create jobs and wealth and reduce the prevalence of poverty while also ensuring long-term economic development (Babarinde, Amdulmajeed, Gidigbi, & Ndaghu, 2019). According to Semegn, MFIs assist MSEs in increasing profitability, total assets, and employment through expansion and diversification of their operations (Semegn & Bishnoi, 2021). Ayopo discovered that microfinance institutions' non-financial services are crucial to the operation of Micro, Small, and Medium Enterprises

(MSEs). The most important non-financial services that influence MSE entrepreneurs' business performance include advisory services, pre-loan training, cross guaranteeship, group involvement, and networking gatherings (Ayopo & Ibidunni, 2015). Semegn confirmed that there was a considerable difference in the performance of MSEs in terms of sales, total assets, employment, and net profit after microcredit loans (Semegn & Bishnoi, 2021).

According to (Farghly, et al, 2018), there is a considerable correlation between Microfinance programme characteristics and fully supported Financial Growth. It was shown that Microfinance characteristics Acceptability, Availability, Affordability, and Awareness have a favourable and significant effect on MSMEs' financial growth.

According to (Fararah, et al, 2014), Business Development Services (BDS) significantly impacted the satisfaction and perceived benefits SMEs owners derived from interacting with the Islamic microfinance system. Therefore, the BDS are one of the primary factors that increase the happiness of SME owners and encourage their productive engagement with the supplied programme. This study validated the effects of BDS on satisfaction and perceived advantages. The results corroborate the hypothesis and demonstrate that BDS is crucial for achieving customer satisfaction and maintaining a high perceived benefit level.

Microfinance Non-financial Services and MSEs' Performance

Microfinance's non-financial services are playing, if not more, the same function as financial services. Ayop discovered that MFBs' non-financial services have various degrees of impact on business performance, which will improve policy formulation for MFBs in the implementation of programmes aimed at both small and micro businesses (Ayopo & Ibidunni, 2015).

The study of (Muiruri, 2014) examined the impact of microfinance institutions on the expansion of micro and small enterprises (MSE) in Kenya's Thika Municipality. Statistics from the study indicate that MFIs that provided services to clients (MSEs) had contributed to significant expansion throughout the years. Based on the findings, it is possible to conclude that MFI non-financial services contribute to the expansion of MSEs and that MSEs have growth potential.

Advisory Services and MSEs' Performance

Mutisya demonstrates that in order to achieve a favourable improvement in performance, all of the variables of providing funding, training programmes, and advisory services should be offered as a single package (Mutisya, Okibo, & Olweny, 2014). The expansion of women-owned businesses is attributable to changes in microcredit, microsavings, and MFI training/advisory services (Patrck & Mulyungi, 2018). Studies like (Weerasinghe & Dedunu, 2017), (Robinson, 2001) and (Jayasuriya, 2007) claim that advisory support improves microfinance clients' quality of life. As a result, advisory services are a critical non-financial service for the success of MSE entrepreneurs (Kamyabi & Devi, 2011).

Microfinance advisory services have not been studied in terms of their effect on the performance of micro and small enterprises in Yemen, as shown by a review of the relevant literature. Accordingly, the purpose of this research is to fill up the knowledge gap by examining the impact of MFIs' advisory services on the performance of MSEs in Yemen. In addition to being novel in its conception, this research stands out because it used structural equation modelling to determine a causal relationship between advisory services and MSEs performance. There was also a lack of data regarding the impact of advisory services, so new studies are required.

H 1: *There is a significant impact of advisory on the profitability of MSEs in Yemen.*

H 2: *There is a significant impact of advisory on the Sales Growth of MSEs in Yemen.*

H 3: *There is a significant impact of advisory on the Employment growth of MSEs in Yemen.*

H 4: *There is a significant impact of advisory on the increase in assets of MSEs in Yemen.*

METHODOLOGY AND PROCEDURES

The study focused on micro and small business owners in Yemen who have access to microfinance services. To accomplish this goal, descriptive and analytical research methods are adopted for this study. Yemeni micro and small enterprise owners who get services from MFIs were selected for the study sample through the delivery of an online questionnaire. The microfinance institutions that provide their services to the beneficiaries were identified, and their number was ten institutions, and the number of their active clients was 90,946 active clients, and the sample size was 398. To determine the questionnaire's validity, pilot research with 40 participants was conducted.

In this study, both primary and secondary data were used. Primary data was gathered through a survey through structured from (Arora, S., & Meenu. 2011; Abu Kamil, & Sami Muhammad. 2014; Alhammadi, A et al., 2014; Sayed, G., & Trevedi, P. 2015; Atambo, W. 2016; Mohamud, I. A., & Awale, A. A. 2016; Kiflie Hayleeyesus, R. E. D. A. 2016; Monge, J. 2016; Atiase, V. Y. 2018; Geoffrey, A. M., & Emenike, K. O. 2018; Aladejebi, O. 2019; and & Uusiku, E. P. 2019). The independent variable is 'microfinance advisory service'. On the other hand, the dependent variable is the performance of MSEs. The questionnaire begins with demographic information and is then followed by two parts that reflect microfinance advisory service as the independent variable and the performance of MSEs as the dependent variable. The questionnaire contains seventeen (32) items in total. A total of 398 questionnaires were valid for the data analysis. A five-point Likert scale ranging from Strongly Agree to Strongly Disagree was adopted. Data are examined using the SPSS to provide quantitative descriptive statistics measures. To evaluate the theoretical model of this research, PLS-SEM route modelling using Smart PLS 3.2.9 software was employed. Because it replicates the standard regression approach, PLS path modelling was judged the most acceptable technique in this study.

RESULTS AND DISCUSSION

Demographic Variables

Table 1 Respondents' Demographic Information

Demographic Variables (N = 398)		Frequency	Percent
Gender	Male	333	83.7
	Female	65	16.3
Age	18-25	46	11.6
	26-33	198	49.7
	34-41	125	31.4
	41 and above	29	7.3
Level of education	Illiterate	36	9.0
	High School	161	40.5
	Vocational	81	20.4
	University	107	26.9
	Postgraduate	13	3.3
Years of business	Less than one year	22	5.5

experience	1-3 years	120	30.2
	4-6 years	120	30.2
	7-9 years	46	11.6
	More than nine years	90	22.6
Type of business	Agriculture business	28	7.0
	Services	56	14.1
	Trading	270	67.8
	Food	14	3.5
	Technical	16	4.0
	Medical	14	3.5
Years of business operation	Less than one year	34	8.5
	1-3 years	178	44.7
	4-6 years	103	25.9
	More than six years	83	20.9
Number of employees	Less than 2	269	67.6
	3-5	78	19.6
	6-8	40	10.1
	More than 8	11	2.8

Source: Survey Data

- Of the 398 respondents, 333 (83.7 percent) were males who received services from MFIs. In comparison, 65 (16.3 percent) were females, indicating that MFIs should focus on empowering women by increasing women's participation in MFI services. Regarding the age of respondents, the majority of respondents, 198 (49.7%) were, belonged to the group between 26-33 years old. Thus, it is concluded that these results are in line with the expectations that most of the respondents who started their own businesses were young.
- The majority of respondents, 161 (40.5 percent), have only a high school diploma; the results also show that 36 (9.0 percent) are illiterate, 81 (20.4%) have a vocational certificate, and 107 (26.9%) have a bachelor's degree. Furthermore, only 13 (3.3 percent) of respondents had postgraduate education as their highest level of education. As a result, it is clear that the majority of respondents, 161 (40.5 percent), have a high school diploma, indicating that those with a high school diploma are more educated than those with a bachelor's degree. This suggests that, as a result of Yemen's current situation, the majority of young people are unable to complete their university studies, so they enter the labour market, either working for others or starting their own businesses. The study finds that the majority of the respondents (30.2%) have between 1-3 years of business experience, and the same 120 (30.2%) have between 4-6 years of business experience. It is clear that most of the respondents have experienced between one and six years, and that indicates that MFIs prefer to give services to the beneficiaries who have business experience.
- 270 (67.8%) of respondents run a trading business, while only 28 (7%) run an agricultural enterprise. However, 56 respondents (14.1%) are involved in the service industry. On the other hand, only 14 (3.5%) of MFI customers run food-related businesses, while 16 (4%) are involved in technical enterprises and the remaining 14 (3.5%) are in the medical field. The vast majority of respondent businesses are trading operations.
- According to the study, the majority of respondents, 178 (44.7 percent), have between 1-3 years of business operation, and 34 (8.5 percent) have less than one year of business operation; the majority of respondents, 103 (25.9 percent), have between 4-6 years of business operation, and the rest, 83 (20.9 percent), have more than six years of business operation. It is clear that the majority of the owners of micro and small

enterprises who seek MFI services have 1-3 years of business operation; this indicates that the majority of the projects are start-up projects that were established after the 2015 crisis and seek MFI services.

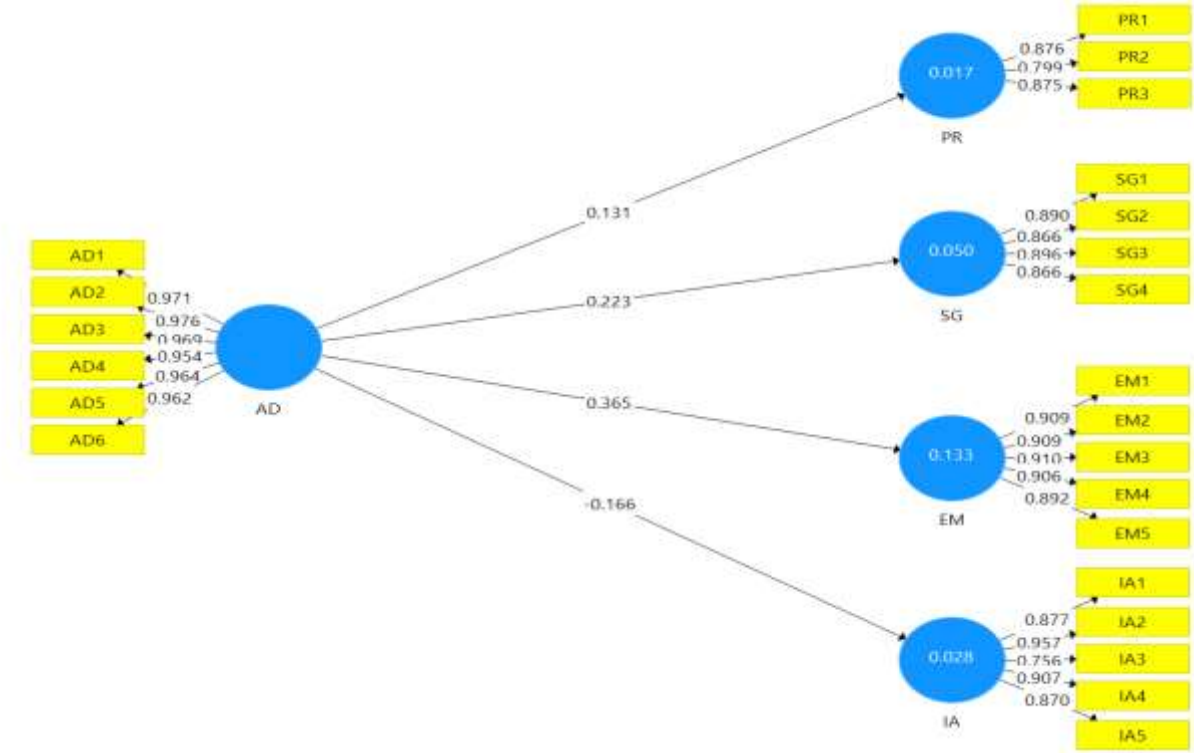
- The majority of respondents, 269 (67.3 %), have less than two employees in their businesses, 78 (19.6 %) have three to five employees, and 40 (10.1 %) have six to eight employees in their businesses. Respondents with more than eight employees make up just 2.8 % of the total sample. Micro-enterprises account for 347 (87.2%) of the respondents, while small enterprises account for 51 (12.8%). This is in accordance with Yemen's definition of MSMEs, which states that micro-enterprises have five or less employees while small enterprises have between five and ten employees.

The Measurement Model

Two steps were required to interpret and analyse the research findings: evaluating the measurement model and the structural model.

The study's measurement model thoroughly checked the instruments for both internal consistency and convergent validity. An initial evaluation of the indicator loadings was conducted. According to the results of this evaluation, a loading value of 0.70 or higher is preferred. Given that assumption, it is likely that the measured construct accounts for 50% of the variance in the indicator, showing good reliability. (Hair et al., 2019). Items with loading values less than 0.70 may be excluded if doing so improves composite reliability. On the other hand, you should steer clear of anything with a loading value below 0.40. (Hair et al., 2011, 2017).

Figure 1 The measurement model with factor loadings and beta values



Source: Author's construct from Smart PLS Version 3.2.9

The study's measurement model has been extensively tested for both internal consistency and convergent validity. The indicator loadings were analysed first. Aim for a loading value of 0.70 or above to receive a favourable result from this test. In this scenario, it may be plausible to claim that the measured construct predicts 50% of the variation of the item while still

exhibiting sufficient consistency (Hair et al.,2019). Alternatively, removing items with loading values less than 0.70 should be avoided unless it maximises the composite reliability level.

In contrast, indicators or items with a loading value of 0.50 are deemed suitable for exploratory study. Indicators with loading values less than 0.40, on the other hand, must be avoided (Hair et al.,2011; Hair et al.,2017). In addition, this study examined the composite reliability after examining the item loadings, which is the second stage in the measurement model for assessing internal consistency reliability. Generally, the more consistent the study items are, the higher the composite reliability rating will be. In general, a reliability score of 60 to 70 is considered adequate (Hair et al.,2017).

The third stage was to determine the degree of convergent validity, which is the extent to which one item measures the same construct as well as or better than another. In this phase, the extracted average variance was employed (AVE). More than half of the variance in the constructs' item scores should be explained by the constructs; hence an AVE of 0.50 or greater is preferred (Hair et al.,2011, Hair et al.,2019). Indicator factor loadings, adjusted variance estimates, and composite reliability are presented in table 2.

Table 2 Reliability and Convergent Validity

Constructs	Items	Loadings	Cronbach's Alpha	*(CR)	*(AVE)
Advisory	AD1	0.971	0.986	0.988	0.933
	AD2	0.976			
	AD3	0.969			
	AD4	0.954			
	AD5	0.964			
	AD6	0.962			
profitability	PR1	0.727	0.837	0.888	0.666
	PR2	0.847			
	PR3	0.846			
	PR4	0.840			
Sales Growth	SG1	0.789	0.870	0.900	0.644
	SG2	0.849			
	SG3	0.835			
	SG4	0.808			
	SG5	0.727			
Employment Growth	EM1	0.909	0.945	0.958	0.820
	EM2	0.909			
	EM3	0.910			
	EM4	0.906			
	EM5	0.892			
Increase in assets	IA1	0.877	0.940	0.954	0.806
	IA2	0.957			
	IA3	0.756			
	IA4	0.907			
	IA5	0.870			

Source: Survey Data

Fornell-Larcker criteria and HTMT discriminant validity results

Table 3 Discriminant validity by Fornell-Larcker criterion

Constructs	AD	EM	IA	PR	SG
AD	0.966				
EM	0.365	0.905			
IA	-0.166	0.132	0.876		
PR	0.131	-0.053	0.034	0.851	
SG	0.223	0.064	0.061	0.71	0.88

Source: Survey Data

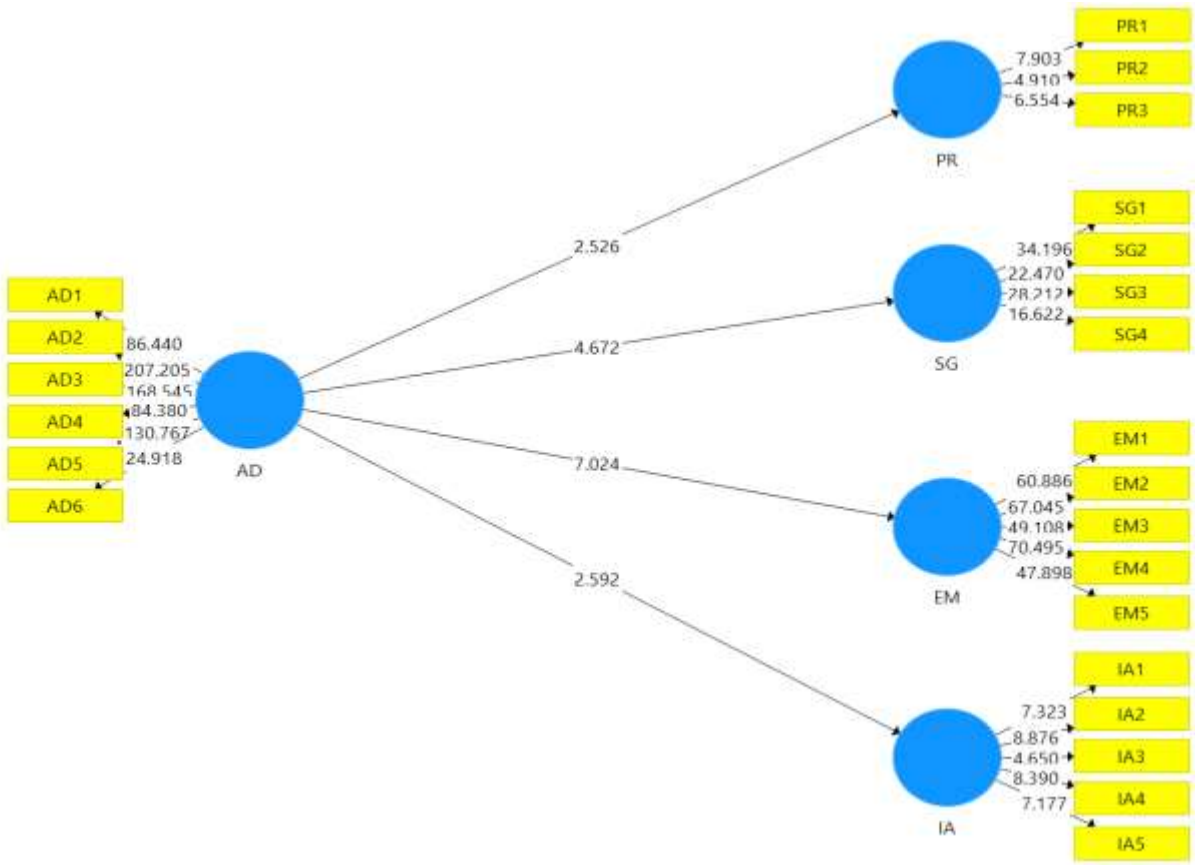
Table 4 Discriminant validity by HTMT

Constructs	AD	EM	IA	PR	SG
AD					
EM	0.375				
IA	0.119	0.228			
PR	0.136	0.099	0.101		
SG	0.217	0.069	0.09	0.814	

Source: Survey Data

There have been various complaints levelled against the Fornell-Larkin-Sarker index. Demonstrated an alternate approach, the HTMT (heterotrait-monotrait) ratio of associations based on a multitrait-multimethod matrix, and argued that the original measure failed to adequately detect a lack of discriminant validity in general research contexts. Table 4 displays the results of this study's assessment of HTMT's discriminant validity; all values were below the cutoff value of 0.90, showing that the test was able to distinguish between groups.

Figure 2 The structure model along with T -values



Source: Author's construct from Smart PLS Version 3.2.9

Multicollinearity Test

Table 5 Collinearity Results

Constructs	VIF
Advisory	1.007
Profitability	-
Sales growth	-
Employment growth	-
Increase in assets	-

Source: Survey Data

Before delving into the structural relationships, it was necessary to handle the issue of collinearity to ensure that the regression results were not skewed. In this situation, the variance inflation factor (VIF) was utilised to investigate collinearity. A VIF greater than 5 suggests that the study constructs are collinear (Kim et al.,2007). The major findings concerning collinearity are summarised in Table 5.

Coefficient of Determination

Table 6 Coefficient of Determination (R^2)

Constructs	R^2	Adjusted R^2
Profitability	0.017	0.015
Sales growth	0.049	0.047
Employment growth	0.133	0.131
Increase in assets	0.028	0.025

Source: Survey Data

The model's R^2, or explanatory power, was checked. As a result, the coefficient of determination (R^2), which is the overall influence of exogenous factors on the endogenous variable, was utilised to validate the explanatory power of the structural model in the table (6). The model's explanatory power was low in Table 6 because the R^2 was less than 0.25. There are no general rules for R^2 because the outcome is dependent on the topic of study and the context.

Effect size

Table 7 Effect size

Constructs	F^2
Profitability	*0.018*
Sales growth	0.052
Employment growth	0.153
Increase in assets	0.028

Source: Survey Data

This study also examined effect sizes (F^2). According to Hair et al.,2017, the variation in F^2 values must be explored. Cohen (1998) presents a scale-based method for determining the degree of an effect (0.02, 0.15, and 0.35, which signify small, medium, and large effects in order). F^2 results suggest three relationships with minor effect sizes and one relationship with a medium impact size, as shown in table (7).

Build Cross-Validated Redundancy

Table 8 Construct Cross-Validated Redundancy

Constructs	SSO	SSE	Q^2 (=1-SSE/SSO)
AD	2388.000	2388.000	
EM	1990.000	1780.499	0.105
IA	1990.000	1974.074	0.008
PR	1194.000	1183.766	0.009
SG	1592.000	1543.790	0.030

Source: Survey Data

The blindfolding method was used in this study to assess the predictive relevance of the recommended model. Hair et al., 2017 recommended using this technique only on dependent variables with reflecting measurements. If the Q^2 value is greater than zero, the proposed model is predictive for a variety of dependent variables. Hair et al. (2017) and Fornell and Cha (1994) According to Table (8), all Q^2 values are greater than zero (ranging between 0.004 and 0.105). This demonstrates that the model has adequate predictive power. Q^2 values of 0.02, 0.15, and 0.35 show that an exogenous measure has a low, medium, or high predictive relevance for a variety of endogenous components.

Results and Hypotheses Testing

Table 9 Path Coefficients

Hyp	Std Beta	Std Error	T- value	P- Values	Result
AD -> EM	0.365	0.051	7.101	0.000	Accepted
AD -> IA	-0.166	0.070	2.366	0.018	Accepted
AD -> PR	0.131	0.053	2.488	0.013	Accepted
AD -> SG	0.221	0.046	4.826	0.000	Accepted

Source: Survey Data

As shown in table (9), the structural model analysis offers the outcomes of the hypothesis's tests. Advisory services provided by MFIs affect the performance of MSEs; thus, H1, H2, H3 and H4 are accepted. Concerning Hypothesis 1, the result revealed. There is a significant positive bond between advisory services and profitability of MSEs (β = 0.365, t-value = 7.101, p = 0.000), Hypothesis 2, which predicted a relationship between advisory services and sales growth of MSEs, was accepted because the estimations from the PLS model were significant (β = -0.166, t-value =2.366, p = 0.018); furthermore, hypothesis 3, which predicted there is a significant impact of advisory services on the employment growth of MSEs, was accepted because the estimations from the PLS model were significant (β = 0.131, t-value = 4.488, p = 0.013), and Hypothesis 4, which predicted a positive impact of advisory services on the increase in assets of MSEs, was accepted because the estimations from the PLS model were significant (β = 0.221, t-value = 4.820, p = 0.000).

Discussion

This is one of the few studies to investigate the impact of microfinance institutions' advisory services on the performance of micro and small businesses in Yemen. As a result, and based on past research, a set of assumed hypotheses was constructed, and a thorough literature study was conducted. The investigation generated the following intriguing results.

As shown in table (9), the impact of advisory on MSEs' profitability was significant, supporting the first hypothesis. Obtaining credit alone is insufficient for MSEs; advisory services from MFIs can assist them in managing their finances and securing loans.

The advisory services provided by MFIs to micro and small enterprises (MSEs) significantly correlated with sales growth. The results of this study provide further evidence that MFIs' advisory services are valuable to the success of their client's businesses. As can be seen in table (9) above, the impact of advisory on the employment expansion of MSEs was sizable, lending credence to the third hypothesis. The results are in line with the literature, which has linked advisory support to increased employment of MSE. Advisory was an effective technique that contributed significantly to the growth of Yemeni MSE employment. Because MFIs' advisory services assisted MSEs in entering new businesses, there is a need for MSEs to hire more employees.

Implications of the Study

As previously stated in the present literature, further research into the significance of advisory services in the performance of micro and small enterprises is required. This study aimed to determine the effect of microfinance institutions' advising services on the performance of micro and small firms in Yemen. The study produced intriguing insights that may be useful to a range of Yemeni stakeholders. First and foremost, the study contributes empirical information on the relationship between advising services and MSEs performance parameters, expanding existing knowledge. This study also paved the way for future research on the same topic by incorporating other MSI non-financial services and performance factors into the analysis, as well as moderating and mediating variables for potential conceptual models. The study may also draw the attention of Yemeni MFIs and other government bodies to the importance of continuing to implement training programmes and initiatives to improve the performance of aspiring young entrepreneurs, particularly those related to the development of innovativeness, internal locus of control, and risk-taking proclivity.

Furthermore, a sustainable entrepreneurial atmosphere with enough institutional infrastructures to support Yemeni society and culture and stimulate entrepreneurial activities is required. Yemeni MFIs could also implement public policy programmes that foster

entrepreneurship by reducing the barriers and constraints faced by aspiring young entrepreneurs. Additionally, educational institutions, such as colleges and universities, should incorporate the development of advisory and management material into their curricula and raise awareness about the importance of developing these skills for future endeavours. These educational institutions may seek to instil and retain these personal characteristics in young people, directing them toward entrepreneurial action and establishing new firms.

CONCLUSION AND SUGGESTION

From the outcome of our investigation, it is possible to conclude that an emphasis on non-financial services can boost human capital development. Microfinance institutions' (MFIs') advising services for Micro and Small Enterprises (MSEs) were found to have a highly significant correlation with revenue expansion. This research adds to the growing amount of evidence highlighting the significance of MFIs' advising services to the growth and prosperity of their client firms. This paper has proposed that advisory services can assist MSEs in managing their finances and securing loans. These services are significantly correlated with sales growth. The findings are consistent with the body of research linking advisory help to rising MSE employment. Advisory was a successful strategy that substantially contributed to the increase in MSE employment in Yemen. These services should include guidance on managing finances, growing a business, starting a new enterprise, obtaining loans, etc. MFIs should offer these services to their clients before providing loans because most clients enter the business world without adequate experience in managing the business, the financial system, or even the workforce. Accordingly, work on the remaining issues of the impact of other non-financial services on MSEs' performance is continuing and will be presented in future papers.

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