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Small And Medium Enterprises As An Engine Of Economic Growth: Evidence From Pakistan

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	Abstract
<p>Azhar Iqbal Department of Agriculture and Resource Economics, Muhammad Nawaz Shareef University of Agriculture Multan, Pakistan</p> <p>Wakeel Ur Rehman Department of Agriculture and Resource Economics, Muhammad Nawaz Shareef University of Agriculture Multan, Pakistan wakeel.rehman@mnsuam.edu.pk</p> <p>Abu Bakar Nawaz Akram Samuel Vision Catalyst Group, Dubai UAE</p>	<p>This paper seeks for a hypothetically sound and empirically validated justification of small and medium-sized enterprise (SME) growth to serve as a strong base for the growth of the economy and having a dominant effect on the provision of employment opportunities and removal of poverty from the backward areas in Pakistan. Its role in the phase of growth is undeniable. Research has been conducted to analysis it in the area of Khanewal. Collected data shown that contribution of small and medium enterprises is remarkable place in the removal of poverty and unemployment. Income and education emerge as primary engines: A 10% IncS increase could raise EMP by 2.7%, amplifying SMEs' GDP contribution (30% nationally). Conversely, WhL and DsKm's negative signs signal policy needs—excessive hours reduce worker retention, while distance limits urban linkages essential for SME scaling. Also there is a significant role in raising level of income. Policy should be adopted to increase its share in the economy.</p>
Keywords:	SMEs; Poverty; Economic Growth; Unemployment.



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INTRODUCTION

Little and medium measured activities assume a remarkable part in modern financial framework. Particularly, it is more imperative for creating economies having real job and wage scattering challenges. It helps a more prominent yield, as well as the arrangement of occupations in pieces and get to be primary stage for future's extensive activities. Also, it adds simply to aggregate careful and speculations and is included in the advancement of a country's economy.

It is separated into further classes, expansive scale industry and little scale industry. Advancement of Small and Medium Enterprises is a solid wonder that prompts build the Gross Domestic Product. With respect to as the vast segment is concerned, it is the greatest part of the Gross Domestic Product, but in the long way from regions where it is impractical to construct substantial scale industry, it is wanted to assemble Small and Medium Enterprises there.

Our attention is to gather information from Small and Medium Enterprises part and analyze, whether this area is giving vocation opportunities, supplying wares, lessening level of poverty, raising level of income, helping towards Gross Domestic Product or not. There is agreement among arrangement creators, economists and business specialists that Small and Medium Enterprises are drivers of financial development.

The element part of Small and Medium Enterprises in creating nation's positions Small and Medium Enterprises as motors through which the development targets of creating nations could be accomplished – a part that has long been perceived.

An alternate component related with this division is that the majority of the expansive scale industry is arranged in the upper territories, thus, the stream of individuals is towards these regions. This stream makes an immense trouble on some particular urban communities. It is important to construct Small and Medium Enterprises segment to lessen the populace trouble in the urban communities.

One of the noteworthy attributes of a developing economy is a flourishing Small and Medium Enterprises segment. Small and Medium Enterprises assume a discriminating part in the improvement of a country. They help financial advancement in different routes; specifically, by making vocation for a rural and urban work constrain and giving alluring supportability in the economy

Objectives Of The Study

In recent times, Small and Medium Enterprises have come into the forefront of development agenda due to the credit of their contribution in development growth, sustaining global economic recovery, generating employment and reducing poverty (OECD, 2023). SEAF (2024) report identifies a number of channels through which Small and Medium Enterprises can have positive impact on poverty reduction. Growth of Small and Medium Enterprises can reduce poverty through acceleration of economic growth, removal of biases against labor-intensive production, creation of employment opportunities for the low-skilled workers and formation of links with small suppliers.

This study aims to explore the drastic role of the Small and Medium Enterprises in providing employment opportunities and raising their living standard in the less developed areas.

- To analyze the impact of Small and Medium Enterprises on employment opportunities

Scope Of The Study

The estimation of the little business part is perceived in economies around the world, regardless of the economy's formative stage. The commitment towards development, work creation and social advancement is exceptionally esteemed and little business is viewed as a fundamental component in an effective equation for accomplishing monetary development (Vosloo, 2022).

An Overview of Small and Medium Enterprises in Pakistan

We realize that Small And Medium-Sized Enterprises assume an urgent part in the social and monetary advancement of Pakistan, where they create an extensive variety of products, give livelihood to countless and semi-talented laborers in both urban and country territories represent a significant extent of assembling yield and make a real commitment to the nation's offset of installments. In general terms, Small and Medium Enterprises represent around 30% of GDP, 15% of venture, and 80% of work in Pakistan.

They additionally assume a unique part as existing or potential makers of fare merchandise. Small and Medium Enterprises might subsequently be legitimately described as the foremost building pieces of the Pakistani economy, giving the nation various open doors for expanded job (counting female job) and neediness eradication from one perspective, and upgraded profit, intensity and global business entrance on the other.

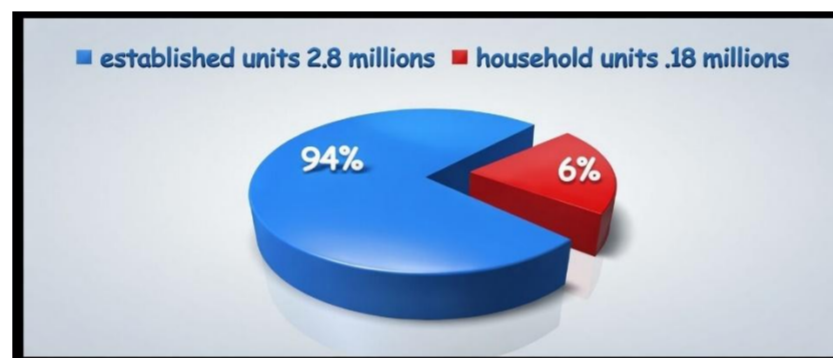
Size Distribution of Pakistan Small and Medium Enterprises

Despite the occasional surveys of Small & Medium Enterprises sector in Pakistan, the number of such units, especially small, is probably much larger than is officially reported. The surveys normally cover those firms that are registered and a large number of very small firms go unrecorded because they seek to remain out of sight or the enumerators are not fully forced to include them in the data.

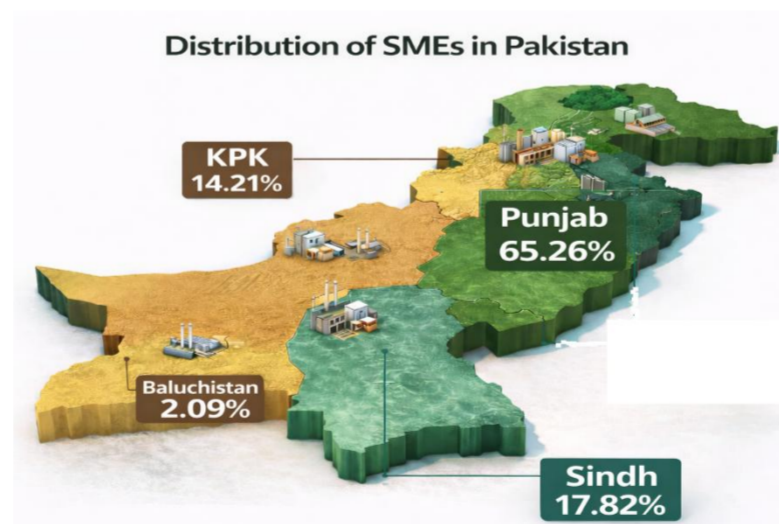
Most of small firms in Pakistan are very small, with limited employment prospective and little chance of growth; their primary concern is survival. In general, the firms with relatively more workers are smaller in number and those with smaller number of workers are in majority. Moreover, most of the firms are owner-managed, supported by family workers. The hired workers are few and found mostly in growing firms.

According to the latest Economic Census of Pakistan (2024), there were 2.96 million units in the country, of which 2.8 million (93.9%) were Establishments and 0.18 million (6.1%) were Household Units.

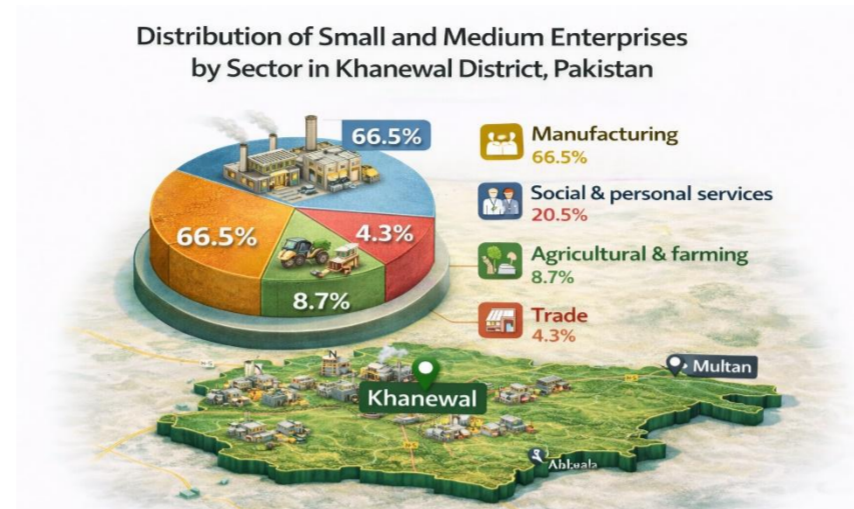
Total Number of Units in Pakistan



Further, Punjab had the largest share of 65.26% in the total establishments in 2024, followed by Sindh (17.82%), KPK (14.21%) and Baluchistan (2.09%)



Among the Household units, the highest share is that of Manufacturing sector (66.5%), Social and Personal Services (20.5%), Agriculture, Poultry Farming, Fishing etc. (8.7%), and Wholesale and Retail Trade, etc. (about 4.3%)



The level of huge amount of Small and Medium Enterprises might be gagged from the actuality that they work in the assembling, horticulture and administrations areas at distinctive creation levels despite numerous institutional and firm-level obligations. Other than they work in urban and country regions however are amassed all the more in the previous. Indeed among little firms, the degree of mixture regarding generation exercises is substantial. It cuts over all areas, however may not be completely recorded in the authority information. Set up together, the Small and Medium Enterprises make a significantly more mind boggling and differing gathering of ventures existing in diverse areas of Pakistan economy.

Small & Medium Enterprises Providing A Gateway To Income Generation

Small & Medium Enterprises are the motor of monetary development. While Small and Medium Enterprises are credited with making occupations, conveying development and bringing gainfulness up in created nations, the guarantee of Small and Medium Enterprises as a driver of financial development and success in creating nation's needs.

Pakistan has risen as the second quickly developing economy in Asia after China in 2004 – 2005, as guaranteed by government and decently acknowledged by universal raters and budgetary organizations. As indicated by Economic Survey 2023-24 this build in true Gross Domestic Product is the politeness of vigorous implementation of vast scale assembling and administrations part. Despite the fact that the huge scale assembling enlisted 15.4% development yet Small & Medium Enterprises is the center issue in the nation's advancement and particularly for the flourishing of masses that are getting by with low scale wage because of which Pakistan positions 135th out of 174 nations on Human Development Index.

In Pakistan Small & Medium Enterprises part is not just the minor sharer till yet, in all reality Pakistan's entire economy is very tried and true on the pace and benefit of Small and Medium Enterprises. Out of Pakistan's 3.2 million endeavors 95% are the individuals who have 99 workers in private modern area and utilize around 78% of non-agribusiness work power. Small & Medium Enterprises helps 25% fare of assembling products and 30% of GDP is the result of business endeavors of Small and Medium Enterprises

They can deliver billions of dollars' worth things that is the reason Small and Medium Enterprises Development Authority is right in expressing its mission as "Transforming potential into benefits". Transforming potential into benefits provides for us a more genuine and reasonable picture of the part of Small and Medium Enterprises in Pakistan. Presently we will see what potential we have and the dangers connected with it and how we can transform potential into benefits by overcoming existing dangers.

It is evident that in the rural areas landless persons or small farmers earns just sustainable life if he produces some commodities. They face the problem of finance, transportation, market access. No doubt lot of efforts has been made but still lots of work will have to be completed for the constant growth and poverty reduction(Asia and the Pacific Division IFAD). Hull.K. (2019) analyze the relationship of economic growth to the unemployment and poverty. For the growth, industry is to be divided into less productive and more productive. Adeleke. A. (2022) analyzes the adverse situation of unemployment in this research paper. The author specifies that government of Nigeria took different steps, build different institutions to eradicate poverty with the spending of massive amount of funds does not help out to reduce poverty and unemployment.

Eberheart.A (2022) presents the relation of Gross Domestic Product Growth, poverty reduction and job creation through the potential of entrepreneurship. Mazmudar (2021) concludes that SMEs have significant role in equitable growth and poverty alleviation, but the problem is just only to recognize the importance of this sector. Gebremariam.H.G. & Gebremedhin.G.T (2019) objective of this study is to analysis the link of Small and Medium Enterprises and poverty alleviation and growth. There is direct relationship

between small business and growth. As the Small and medium enterprises develop it generate the factors of growth in the country. On the other hand there is inverse relationship between Small and medium enterprises growth and poverty. According to Arif & Farooq (2022) this paper population of Sindh and Punjab is mainly trapped into poverty falling at the line of poverty.

Data and Methodology

Important part of the thesis is the data and methodology. All of the research is based on this part so necessary is to consider every aspect related to the topic. This chapter consists on area of study, research design, sampling technique, sample size, data collection tools, operational definitions of variables, theoretical model, statistical tool and on categorization of respondents.

Area of study:

khaneval districts of Punjab province of Pakistan has been selected as area of research. It has four Tehsils, khaneval, Kabirwala, Jahanian, Mian channun. From every Tehsil number of Small and Medium Enterprises selected on the basis of their population size so that represent the true picture of the study. After that labour from these Small and Medium Enterprises selected randomly again this selection is based on the relative size of the employed persons on specific enterprise.



Socio-Economic Indicators

Socio-Economic indicators are given below to observe the overall significances of the District Kahanewal for the analysis of poverty and unemployment

1. Housing

- Ownership of house 86%
- Mean household size 6.6
- Mean number of persons per room 3.6



Research Design:

This study is based on primary data analysis which is divided into two types of data. One is collected from the Small and Medium Enterprises to analyze the Impact of Small and Medium Enterprises on economic growth and the other part is impact of Small and Medium Enterprises on Poverty and Unemployment for this purpose labour of the selected entities are taken and all these information's are collected through survey. The researcher constructed a questionnaire for data collection. The questionnaire of proposed research consists of 35 close ended and open ended questions according to the requirement of research.

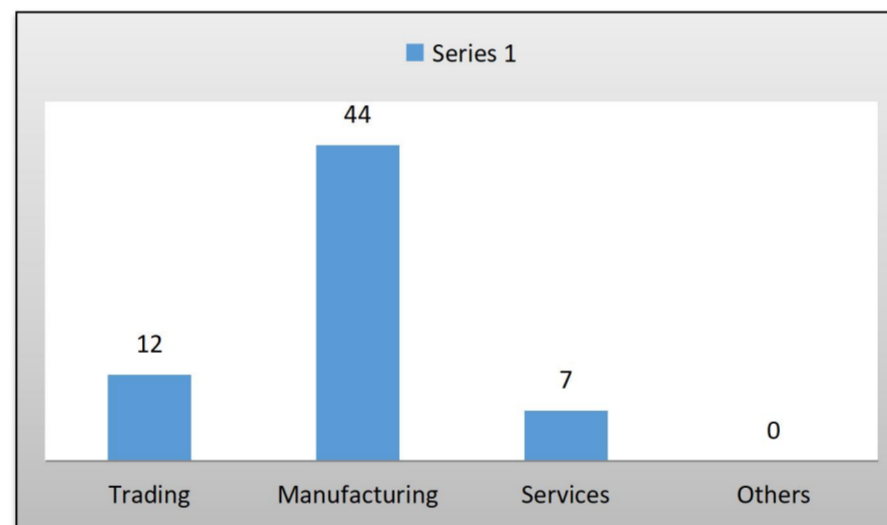
The researcher used random sampling technique for proposed research. Through this sampling technique different types of Small and Medium Enterprises with their labour class were selected to represent their community. The researcher chooses 63 Small and medium Enterprises through stratified random sampling. Number of labour is 250 randomly selected from the Small and Medium Enterprises but the number of selected labour is not specifies for each unit because number of employees varies in each unit.

In this research multiple regression analysis and descriptive analysis is being used for analysis of collected data. In order to investigate the relationship between small and medium enterprises and poverty and unemployment, we applied ordinary least square method (OLS) and Logistic Regression.

Findings and Results

In the table and figure type of business is shown. It describe that most of the organization are engaged in the manufacturing sector and some of the engaged with the trading sector. A little portion of the total organization is related with the services sector. In the figure it is shown that most of the organization is related with these three types of business.

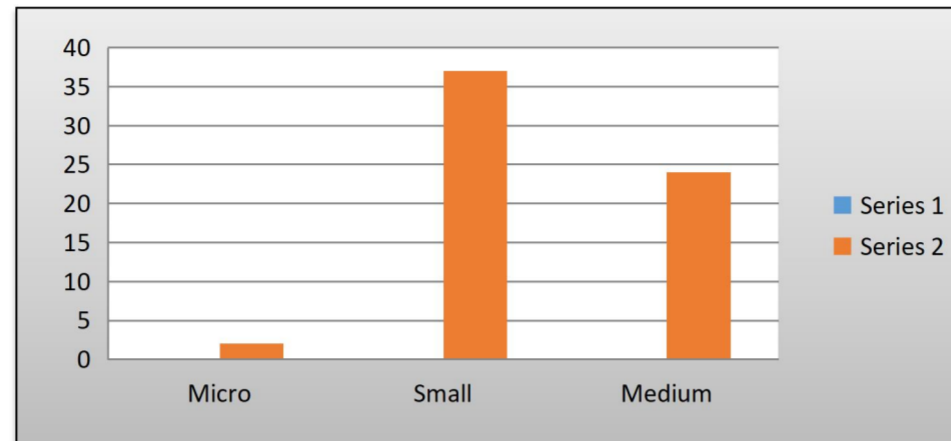
Figure Type of Business



Business Level

In this figure it is shown that at what level Small and Medium Enterprises are working. Some of the organizations are working at the Micro level and huge share of the organization are at small level. Medium organization is at the 2nd level.

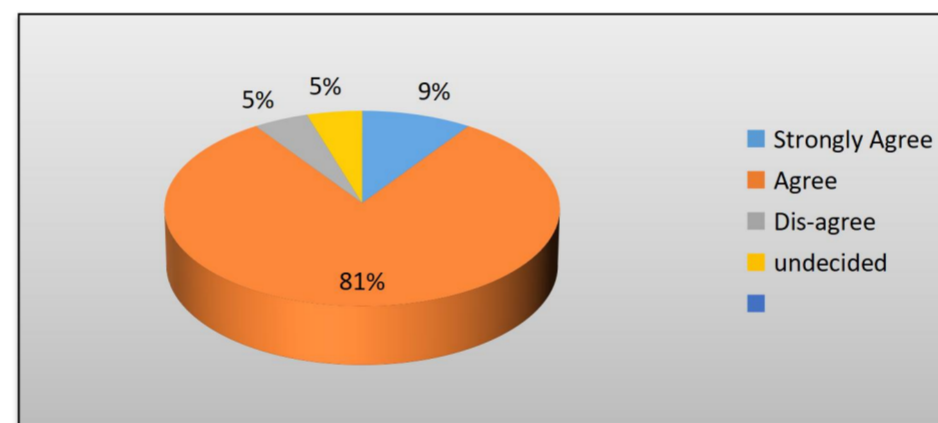
Figure Level of Business



Contribution to Growth

This part of the table is consisted on the comments of the owner of the Small and Medium Enterprises. 81% of the total respondents agree that Small and Medium Enterprises are contributed to the economic growth and other positive indicators of the economy in Pakistan.

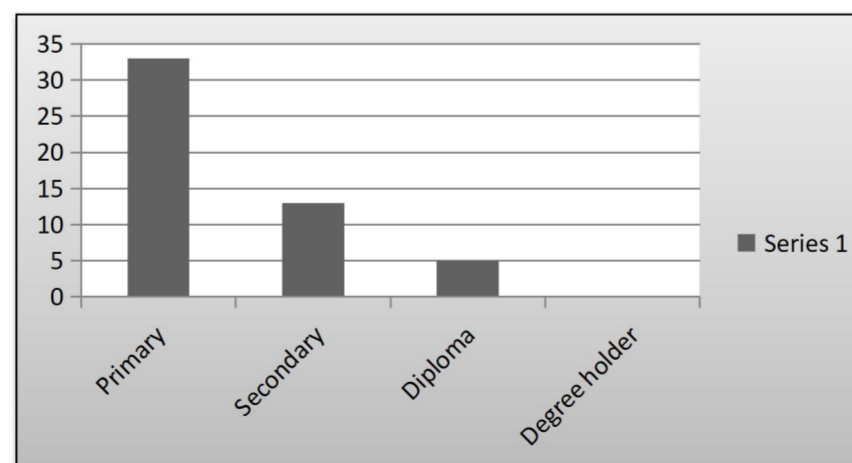
Figure Contribution to Growth



Employees Level of Education

Table shows the level of education of the employees of the Small and Medium Enterprises. It is clear that most of the employees in the SMEs are just primary. From these information another thing is clear that most of the labor working in the SMEs are uneducated or just holding primary education which is not a good sign

Figure Employees Level of Education





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Multiple Regression Model 1

$$EMP = a + b_1IncS + b_2EduL + b_3WhL + b_4DsKm$$

In the above regression model Employed labor force participation is taken at the dependent variable. On the other hand income from the Small and Medium enterprises is independent variable, education of the labor is independent, working hour of the labor is independent labor, distance from the city is expressed in kilometers is also an independent variable.

Results of the Multiple Regression Model

Unweighted Least Squares Linear Regression of EMP

Predictor

Variables	Coefficient	Std Error	T	P	VIF
Constant	0.56571	0.17336	3.26	0.0013	
EduL	0.30462	0.04799	6.35	0.0000	1.1
IncS	0.26694	0.06382	4.18	0.0000	1.2
WHL	-0.07282	0.05689	-1.28	0.2017	1.0
DSKM	-0.05060	0.03876	-1.31	0.1930	1.1

R-Squared 0.2670 Resid. Mean Square (MSE) 0.18497

Adjusted R-Squared 0.2549 Standard Deviation 0.43009

Source	DF	SS	MS	F	P
Regression	4	16.3698	4.09246	22.12	0.0000
Residual	243	44.9487	0.18497		
Total	247	61.3185			

Correlation Matirx of the Multiple Regression Model

Correlations (Pearson)

EMP	EduL	WhL	IncS	
EduL	0.4426			
WHL	-0.0494	-0.0212		
IncS	0.3674	0.3024	0.1327	
DsKm	-0.1029	0.0628	0.0470	-0.1947

POLICY RECOMMENDATIONS

Ist Regression Model And Their Conclusion

$$EMP = a + b_1IncS + b_2EduL + b_3WhL + b_4DsKm$$

$$EMP = 0.56571 + .26694IncS + 0.30462EduL - 0.07282WhL - 0.05060DsKm$$



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Analysis shows that income from small and medium enterprises have positive impact on the employment. As the small and medium enterprises grow there will be a change in the employment opportunities for the people of the Khanewal. Change in the income of the labor 1 percent brings the 26 percent change in the labor force participation of the families. Education of the labor has also positive impact on the employment as the change in education brings positive change in the employment opportunities.

Working hour in the small and medium enterprises has negative impact on the employment because as the working hour is more people are less willing to work in those enterprises. 1 percent change in the working hour will brings 7 percent change in the employment and there is negative impact on the employment as the working hour rises people are less willing to work. Another variable distance from the city in kilometers has also negative impact on the employment. People who have to move from large distance are hesitating to work in the city. They try to work in the native towns or in the nearest towns. So change of 1 percent in the distance brings 5 percent change in the employment of the labor.

Income and education emerge as primary engines: A 10% IncS increase could raise EMP by 2.7%, amplifying SMEs' GDP contribution (30% nationally). Conversely, WhL and DsKm's negative signs signal policy needs—excessive hours reduce worker retention, while distance limits urban linkages essential for SME scaling

Policy Recommendations

The two suggested standard to assess the efficiency of current SME Policy in Pakistan are:

- (i) Has this policy created the truly enabling environment for sectoral growth?
- (ii) How innovative and supportive these policies are for the enterprises?

Finding Suitable Environment for Small Industry

The large size SME sector limits Governments' and the institutions' ability to achieve complete coverage by supporting programmes. Moreover, inconsistent economic policies create perpetual managerial problems at the firm level. Rigid bureaucratic controls and legal requirements make the environment unfavorable for business. A number of public programmes, detailed below have been launched for supporting SMEs, though their impact has been subdued so far:

- A. Supporting institutions and industrial estates
- B. Export processing zones;
- C. Technology up gradation fund;
- D. Non-governmental support, particularly for providing funds to the small enterprises. Among these are the National Rural Support Programme (AKRSP), Punjab Rural Support Programme (PRSP), and others.

SMEs and Economic Efficiency

First and foremost, small firms are generally inefficient and have to be made efficient through proper policy support and guidance. Small industry needs to be made buoyant and progressive partner in development process. The best way to do so is to establish strong small-large links in production, wherever feasible. In this manner economic inefficiencies associated with small-scale as well large-scale production can be reduced through division of labor.

Forward And Backward Linkages

Complementarity of small and large industry is the primary process through which artisan firms are distorted and subsequently from a competitor to a partner with the large producers. Small-large links are of two types: forward and backward. **Promotion of**

Entrepreneurship

Promotion of entrepreneurship through advisory services should be the major objective of SMEs policy in Pakistan. This goal can be reached through training in industrial management for ensuring efficient handling of enterprises. This strategy can be made more effective through SMEDA's supervision of various implementation programmes:



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- (i) Helping small firms to be well prepared for meeting quality standards is going to be the foremost challenge to be taken by the government agencies. This will require promotion of production channels between small and large firms to maximize the technical gains to the earlier;
- (ii) Additionally, special incentives to those who subcontract may stimulate some large-small linkages, though it may turn out to be more nominal than real development. For example, bogus firms may be set up for the purpose of realizing financial benefits on this account. Genuine and voluntary large-small linkages for manufacturing linkages are based on the principle of mutual benefits;

Modernization and Employment

Policy measures always aim at encouraging small (i.e. traditional) firms to adopt modern product design, production methods and sales techniques for raising production, incomes and living standards. However, we have to look at the likely impact of modernization on unemployment situation as well.

Current Targets

Pakistani SMEs need to focus on: (a) development of new products; (b) import replacements; (c) exports goods; and (d) goods with growing demand. It would be appropriate to put the scarce national resources, in particular, capital to use for the production of new products rather than duplicate lines of production that are being carried on, even with inefficiencies. Traditional products require adaptation and modifications in design and quality to meet the current demand trends. SME institutions have to

Access To Financial Needs

Along with conducive economic environment, access to institutional finance is the core and necessary conditions for the promotion of SMEs. As stated above, the institutional financing facility hardly reaches the small firms; instead it is availed by the more resourceful medium firms.

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