

Impact of Small & Medium Enterprises on Poverty: A Case Study of Khanewal District-Pakistan

Prof.Dr.Abdul Ghafoor Awan

Dean, Faculty of Management and Social Sciences, Institute of Southern Punjab-Multan-Pakistan
ghafoor70@yahoo.com

Prof. Dr.Imran Sharif

Chairman, Department of Economics, Bahauddin Zakariya University, Multan

Dr.Nasir Nadeem

Assistant Professor, University of Agriculture, Faisalabad, Burewala-Vehari Campus-Pakistan
Nasir_nadeem@yahoo.com

Azhar Iqbal

M.Phil Scholar, Department of Economics, Institute of Southern Punjab, Multan
azhar94019@yahoo.com

Abstract

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 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. Also there is a significant role in raising level of income. Policy should be adopted to increase its share in the economy.

Key words: Small and Medium Enterprises, Poverty, Economic Development, Ordinary Least Square

Introduction

Small and Medium Enterprises 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 to 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, large scale industry and small 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 piece 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 job opportunities, supplying products, lessening level of destitution, raising level of salary, 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.

An alternate component related with this division is that the majority of the large 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. Arrangement of creating the Small and Medium Enterprises gives the critical brings about the nations like Bangladesh, India, China and so forth. This exploration paper uncovers the quality of Small and Medium Enterprises in Pakistan and its commitment to the reduction of poverty and giving the openings for work in region Khanewal. One of the noteworthy attributes of a developing economy is a thriving 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 career for a rural and urban work constrain and giving alluring supportability in the economy

Main Research Problem

Our main research problem is to measure the impact of small and medium enterprises on poverty alleviation with special reference to Khanewal district, which is situated in the backward area of Pakistan.

Objectives of the Study

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 investigate the role of Small and Medium Enterprises in Pakistan.
- To analyze the impact of Small and Medium Enterprises on poverty.

Scope of the Study

The scope of this study is vast because SMEs' role in poverty alleviation is vital and empirical studies have proved this fact. Our study will definitely contribute into the existing knowledge and widen the scope of this topic, besides paving the way for further research in this field.

LITERATURE REVIEW

Strengthen the Small and Medium Enterprises, strategy for poverty reduction is the concern of this paper. This paper examine the Small and Medium Enterprises and their comparison with the medium and larger industries, Small and Medium Enterprises are the best source of providing hob opportunities and income generation opportunities. As for as the large scale are concerned, they are in key position due to their capital but if the funding problem of Small and Medium Enterprises are eliminated. They can perform much better than a large scale concerns. This can be only done if the government opts the policy for strengthen of the Small and Medium Enterprises in Nigerian. (Sokoto.A.A, Abdullahi.Z.Y).

Vandenberg.P. analyzes the role of Micro and Small Enterprises in the poverty reduction. Three types of issues are discussed in this paper. First one is to transformation of Micro and enterprises into Small and Medium Enterprises. Second is to devise policies for the poverty reduction. Job creation is the best source of poverty reduction and job creation is accorded with the development of Small and Medium Enterprises. As the growth leads to decrease the poverty, the roles of international organization are very much clear in this contest. Strategy of Micro finance, job training, vocational training, access to market, access to better method of production this will enhance productivity level and job opportunities in the economy. (Vandenberg.P.)

This paper analyzes the efforts of IFAD for the development of rural and small enterprises in rural areas to enhance the income and employment opportunities of the people. 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. So plan of IFAD is to remove those obstacles faced by the farmers and non-farmers. Most of the jobs in the rural areas are seasonal and low wages. So need to be providing opportunities of full time working at village level. 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. (2009) analysis the relationship of economic growth to the unemployment and poverty. This paper suggests three strategies to reduce poverty and emerge growth in the economy. For the growth, industry is to be divided into less productive and more productive. It is evident that more productive industry provides, more jobs so policies drawn for the institutional framework that less productive sector becomes more productive sector, and then opportunity for jobs will be increased. (Hull.K. 2009)

Adeleke, A. (2012) analysis the adverse situation of poverty in this research paper. The author specify that government of Nigeria took different steps, build different institutions to eradicate poverty abut with the spending of massive amount of funds does not help out to reduce poverty and unemployment. The author analyzes that for this purpose we have to restructure the institutions of small and medium development along with the agro-based projects. It is necessary to remove obstacles in financing, advisory, legislation, etc. Agricultural sector is sector of Nigeria, agro based small and medium enterprises play significant role in the minimization of poverty and unemployment. (Adeleke. A 2012)

Eberheart.A (2012) presents the relation of Gross Domestic Product Growth, poverty reduction and job creation through the potential of entrepreneurship. Analysis of this theory is given with reference to some policy suggestion. This policy is adopted in most of the countries after 1980, and have to see great impact on their GDP and poverty alleviation strategy, like most of the Asian countries, Singapore, Taiwan, Malaysia, Korea, emphasis the Small and medium enterprises and become examples for others. This also indicate the problems of Small and medium enterprises like issues of financing, marketing problems, transportation linkages to the markets. It is the responsibility of the state to raise the programs for skill development Entrepreneurial skill, methods of production, knowledge. Also provide proper guidance about Small and medium enterprises and assistance at all levels for their growth and contribution to the job creation. (Eberheart.A 2012)

Arif & Farooq (2012) in their paper indicates the poverty situation in Pakistan. Panel data is used for this research process, started from 2001 to 2010. According to this paper population of Sindh and Punjab is mainly trapped into poverty falling at the line of poverty. Two types of poverty are existed in Pakistan, chronic and transitory. At the present time no any direct policy is planned and implemented to remove this poverty trend and minimize the poverty ratio. The author suggest that for the different types of poverty different strategies have to be maintained like, financing facility for one kind of poverty and increase the share of lab our force in

the labour market. Also increase the wages to help them to come out of vicious circle of poverty. (Arif.M.G., Farooq.S.2012)

Ali (2013) study comprises of empirical analysis of Small and Medium Enterprises and poverty. Secondary data is collected for this analysis. It is concluded that there is strong relationship between Small and Medium Enterprises and poverty alleviation in Pakistan. In fact problem is unequal income distribution. The author suggests that redistribution policy is required in Pakistan. Problems of Small and Medium Enterprises are most of the same nature as in the other areas are available. As for as the Small and Medium Enterprises are concerns it accelerate the growth by raising income, job creation and poverty reduction. But need is to properly utilized this sector, because Small and Medium Enterprises growth provide strong base for the development of economy of Pakistan.(Ali.S.2013).

Awan,et al (2014) analyzed policy initiatives to reduce poverty and income inequality in Brazil. He pleaded that government can distribute growth benefits among the low income segments of the society and uplift underdeveloped sector.Similarly, the government can use Small and Medium enterprises for alleviation of poverty and income inequality.

Shafiq & Shah (2011) analyzes the impact of Small and Medium Enterprises on rural development in Sindh. The source of data is primary and Gen-Stat statistical software is used for the analysis of the data. The result shows that policies of Government are not appropriate for developing the Small and Medium Enterprises in rural Sindh. The researcher examined that SMEs play a significant role in reducing unemployment. Exports of SME product are facing problems. Asian countries developed by adopting the exports and industrialization of SMEs. Researcher also presents comparison of Pakistan within Asian countries and suggests some policy guidelines for the development of SMEs in Sindh as well in Pakistan. (Shafiq & Shah 2011)

SME sector is the backbone of all the developing and the developed economies. It is more important for the developing or the underdeveloped countries to focus on the establishment of the Small and medium Sector to flourish their economies. As the research shows that if the countries not realize the importance of this sector at the early stage. They live behind the developed economies and have to spend more time and efforts to push up their SME sector to achieve the targets of employment and reducing poverty, increasing their output level, developing equitable growth. In Sri Lanka efforts had been started earlier but not up to the mark. There need to make institutional and infrastructural arrangement for the growth of the SME sector for the youth and output level. (Gamage 2003)

The objective of this paper presenting is to find out the role of Small and Medium Enterprises in the employment generation and poverty reduction in Nigeria. According to this paper Small and Medium Enterprises sector is a dynamic sector but fails to play its contribution to the poverty reduction strategies. The author examines that due to financial weakness role of Small and Medium Enterprises declines. This paper also put analysis of different financial institutions of Nigeria and their financing to Small and Medium Enterprises. This paper does not present the actual relationship of Small and Medium Enterprises with the poverty and unemployment generation. Main focus was on financing facilities not on the role of Small and Medium Enterprises in the Nigeria (Kadiri.B.I.Nigeria).

SMALL AND MEDIUM ENTERPRISES IN PAKISTAN

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, 1994: i).

The Small and Medium Enterprises Policy (2005) proposed selection of a brought together legitimate definition, which would characterize a Small and Medium Enterprises regarding either "livelihood size" or "possessions (barring land and building) [SMEDA, 2005].

Enterprise Category	Employment Size	Paid Up Capital	Annual Sales
Small & Medium Enterprise (SME)	Up to 250	Upto Rs. 25 Million	Up to Rs. 250 Million

In Pakistan after are the various types of Small and Medium Enterprises are working at present. Bio-building, Sports products, Plastics items, Electro-medicinal gear, Leather and cowhide merchandise, Meat items, Bone Crushing, Hosiery, Computer Software

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 numerous 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. This development, if overall disseminated amongst different land locales and social populace gatherings,

may address the three fundamental financial difficulties confronted by Pakistan today, i.e. Poverty, Rural improvement;

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 (2005), 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.

Table 1 Total Number of Units in Pakistan

Total units	2.98 millions
Established units	2.8 millions
House hold units	.18 millions

Distribution of units

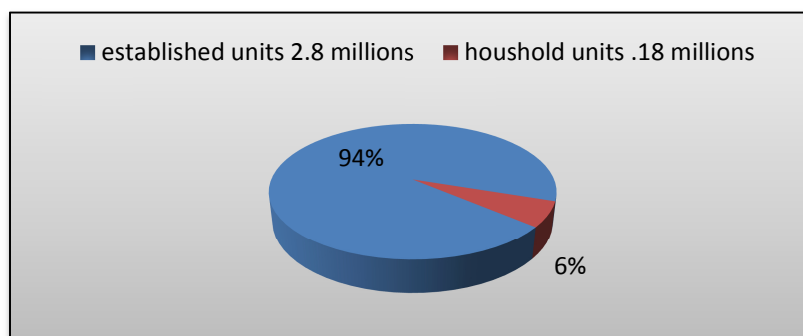
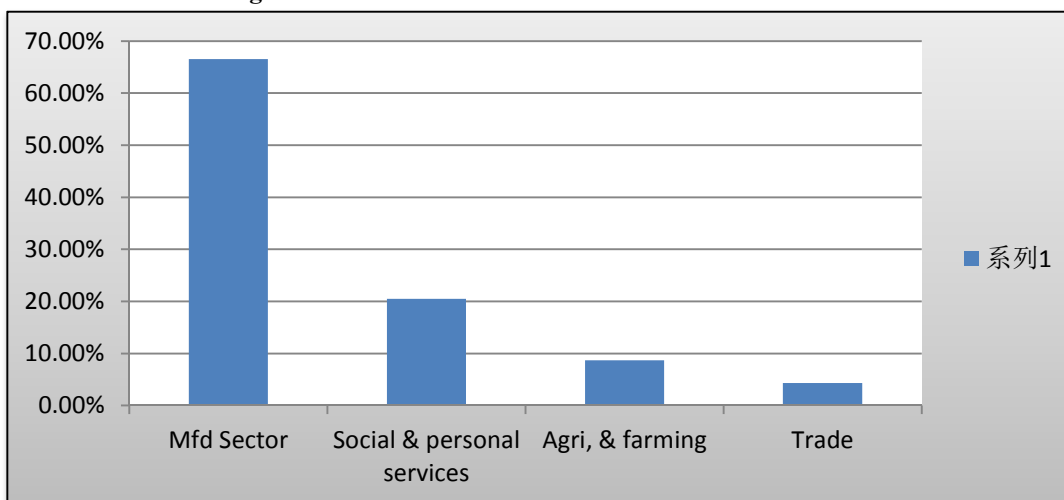


Table Sector wise Distribution of units

Manufacturing Sector	Social & personal services	Agricultural, & farming	Trade
66.5	20.5%	8.7%	4.3%

Diagram 2.1iii Sector Wise Distribution of Units



RESEARCH 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.

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 specified 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.

Findings and Results

We tabulate our empirical findings in the followings:

Unweighted Least Squares Linear Regression of POV

Predictor Variables	Coefficient	Std Error	T	P	VIF
Constant	0.87702	0.19816	4.43	0.0000	
Edu	0.01939	0.03724	0.52	0.6031	2.2
Inc	-0.27957	0.07683	-3.64	0.0003	3.4
NOJ	0.42646	0.08388	5.08	0.0000	3.5
Skilled	-0.08355	0.12936	-0.65	0.5190	4.4
W	-0.07453	0.09334	-0.80	0.4254	4.6

R-Squared	0.3070	Resid. Mean Square (MSE)	0.11602
Adjusted R-Squared	0.2927	Standard Deviation	0.34061

Source	DF	SS	MS	F	P
Regression	5	12.4364	2.48729	21.44	0.0000
Residual	242	28.0756	0.11602		
Total	247	40.5121			

Correlations (Pearson)

	Emp	Edu	Inc	NOJ	Skilled	W
Edu	-0.2123					
Inc	-0.3695	0.5575				
NOJ	0.0071	0.5001	0.4859			
Skilled	-0.5443	0.1041	0.6789	0.2872		
W	-0.3948	-0.4506	0.0387	-0.5616	0.4730	
POV	0.4394	0.1285	-0.1423	0.3840	-0.2097	-0.4432

Cases Included 248 Missing Cases 0

Conclusions

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?

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.

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. 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. In some cases small firms use components/parts made by large firms to make products of their own. In other, a small firm may produce a component or a part for a large manufacturer i.e. subcontracting. This type of arrangement is quite common in Japan, Korea, China, and Taiwan. Generally, small firms are quite dependent on one or a few large customers in these countries. Such production arrangements can serve as a strong basis for ensuring survival, and even growth of small firms in Pakistan [Aftab and Rahim, 1986].

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.

Policy Recommendations

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. Selection of correct policy measures which help in replacing old with new products, especially qualitatively better and price competitive products should end up increasing employment directly and indirectly. The SME policies need to ensure that it does not depress employment in the traditional sector. The key factor in determining the final impact of these developments would be the overall growth in the economy as in a growing economy the employment generating effects of modernization are likely to be greater than the employment reducing effects.

On the basis of the empirical evidence from many countries we can confidently say that modern small industry can contribute to more employment and income provided the major sectors of the economy grow in tandem with the overall economy, [Aftab and Rahim (1986), Berry, et al, (1991)]. The following measures are suggested for inclusion in the new SME policy.

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

Along with conducive economic environment, access to institutional finance are 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. This problem has its origin in the absence of a clear and functional definition of small and medium firms. Government has to clearly define the small and the medium on a permanent basis.

Imported and scarce raw materials are regulated items in developing countries like Pakistan. At times key materials and services produced within Pakistan may also be in short supply. Such items include cement, steel, gas, electricity, water, etc. This results in black market prices which are much higher than the official prices. Such an environment favors large firms, and inefficient small firms which prefer to trade in scarce items rather than produce goods. Genuine small producers should be ensured access to essential materials through removal of trade barriers, tariff and non-tariff.

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