

THE FINANCIAL STRAIN ON SMES IN PAKISTAN

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Abstract

Small and medium Enterprises are crucial to nations that are looking to expand economically and they have abundant resources that have not been utilized. SMEs boost economies by driving innovation, creating employment, and reducing poverty which aids in a country's economic growth. Governments worldwide also pay attention to SMEs and promote and expand them as their national development strategy. According to the World Trade Organization (WTO) SMEs account for over 90% of company employment, 60% to 70% of job creation, and 55% of GDP in industrialized nations, they are not merely a significant economic contributor. They are the economy. In Pakistan, SMEs also contribute significantly to a major part of GDP by creating jobs and enhancing economic growth. Despite this, they encounter significant financial hurdles while operating their business. The objective of this research is to identify the financial challenges and constraints faced by SMEs and the impact of financial literacy, government support, interest rate, and obtaining loans on SMEs performance in Pakistan. To collect the primary data quota sampling was employed and questionnaires were filled out among 205 SME owners, managers, and employees, entrepreneurs on various aspects of their financing experiences. The data was analyzed using Partial Least Squares (PLS) analysis to identify significant factors influencing SME financing. This research results demonstrate that SMEs face obstacles when they seek financing to grow more and there is a significant relationship between financial literacy, government support, interest rate, and obtaining loans on SMEs' financial performance. This research suggests based on the results government should create a more supportive financial ecosystem for SMEs to reach their potential, bringing innovation and contributing toward economic stability.

INTRODUCTION

Small and medium Enterprises have been the main contributors to the economy since the independence of Pakistan. Pakistan had limited inherited industries at the time of independence and the region was primarily dependent on wheat and cotton crops. Pakistan had only 580 Million Rupees worth of industrial assets at that time and the focus of the government was only on public sector investments.

Hydroelectricity telephones and Large industries. The government's plan to expand industrialization in 1960 included water and electricity projects that were intended to increase industrial output by 60%. Similarly, the program for developing and uplifting small-scale enterprises at the time had a five-year plan, and it was anticipated that the growth of SMEs would follow the expansion of the industrial base.

However, this did not occur, and instead of growing in an organized manner, SMEs developed in an unstructured manner without the proper system. The situation deteriorated in 1970 as a result of nationalization, in which the government seized control of numerous industries, leading to the uncontrolled growth of small and medium-sized businesses without the assistance of the government or an appropriate system (Ahmadani et al., 2012.)

Small and medium-sized enterprises (SMEs) play a vital role in job creation, innovation, and economic development, making them a crucial component of a country's economic growth. Despite this significant contribution, SMEs face considerable challenges, particularly limited access to finance. This limitation hinders their potential in areas such as working capital, fixed investment, and trade finance. The number of employees and Annual sales in SMEs vary from country to country, but in Pakistan, it contains less than 250 employees and an annual revenue of up to PKR 250 million. SMEs contribute to every sector of the economy and their main focus is to develop new ideas and bring innovation to be successful. Small and medium-sized enterprises (SMEs) make up a significant portion of businesses in nearly every country. In both developed and developing nations, SME presence has contributed to a more than 90% improvement in employment rates. While larger companies tend to reduce their workforce, SMEs are continuing to create jobs around the world (Amir et al., 2020)

Small and Medium Enterprises (SMEs) play a vital role in the economic development of underdeveloped countries, particularly in Pakistan. SMEs are considered the backbone of the national economy, with over 5.2 million SMEs operating in both formal and informal sectors. They engage in a variety of activities, including manufacturing and services, generating income and job opportunities that help reduce unemployment rates. This, in turn, contributes to the Gross Domestic Product (GDP) of Pakistan. SMEs hold a crucial position in the country's economy, making up 90% of businesses, 80% of employment, and accounting for 40% of Pakistan's GDP (Arshad, 2020).

Problem Statement:

SMEs face numerous challenges, particularly when it comes to growing startups. They often have limited access to finance and struggle to secure outside investment. Banks tend to be hesitant to lend to them due to their size, and SMEs frequently must meet strict collateral requirements before obtaining financing. If approved, the application process is lengthy and complicated, and the interest rates are higher than those of other types of businesses (Khaliq et al., 2022). These challenges result in an inadequate business structure that negatively affects performance and pushes SMEs toward informal financing options, which are unsustainable and costly (Cheong et al., 2020). Moreover, SME employees lack the basic knowledge, skills, and behavior which is required to make financial decisions leading to poor engagement with financial services and higher borrowing costs, which negatively affect business sustainability and growth. The low level of financial literacy and poor financial decision-making among SMEs results in a high failure rate. Poor financial literacy leads to money mismanagement, low enrollment in formal financial systems, and poor usage of financial services. The consequences are poor business concerns' performance and the untimely closure of (Eniola & Entebang, 2017). According to (Liaqat & Razzaq, 2017.), small and medium enterprises (SMEs) in Pakistan face significant challenges regarding government support. Historically, their role in economic development has not been adequately emphasized. Although there has been a recent acknowledgment of their importance, SMEs continue to struggle with complex legal structures and stringent regulations, making it difficult for them to establish formal frameworks. One issue is that regulatory bodies have inadequately provided financial support, which limits SMEs' access to essential capital for growth. These combined factors create obstacles that hinder SMEs from securing financing and realizing their full potential.

This study will address the gaps by exploring access to finance, an interest rate, financial

literacy, and government support toward the performance of SMEs in Pakistan, which have implications for policy reforms for the establishment of an attractive financial environment for SMEs.

Scope of the study:

The goal of this analytical study project is to look into a number of significant issues pertaining to small and medium-sized businesses (SMEs). Identifying SMEs' financial needs, describing the actions required to alleviate their financial limitations, and investigating the elements that provide functional and internal barriers to SME finance are among the goals. Furthermore, the study will offer suggestions for developing government regulations that assist SMEs and promote their growth and development.

Literature review:

SMEs play a crucial role in the economic development of the country because they generate employment, reduce poverty and they can produce innovative products and services to remain competitive in the market. Despite their significant contribution small and young businesses face the substantial financial constraints of external financing and loans due to their less diversification and business structure. Since they are credit-constrained compared to other large firms, this results in low productivity and a decline in their liquidity, and increases the rate of insolvencies among them (Godke Veiga & McCahery, 2019). Similarly, another study stated that SMEs are a great source of country growth and development in both developed and developing countries and financing them significantly impact their contribution to growth and development of the country however funding remains a major challenge to them specifically in developing countries. It is crucial to understand the preferences of SMEs, they prefer short-term financing because it seems affordable to them and low cost of borrowing, and this short-term credit helps in adjusting the needs of firms (Manyanga et al., 2023).

SMEs are crucial for increasing economic growth in developing economies and financial literacy has the power to enable the Manager of SME to conduct

research, understand loan requirements, and financial products, maintain accurate financial records, and make informed financial decisions that are aligned with the firm objectives. Financial literacy enables them to make initiatives that improve the overall financial performance of SMEs (Buchdadi et al., 2020), the author carried out an in-depth analysis of financial literacy's influence on SME performance. The study stated that access to finance and financial literacy enhances the financial performance of SMEs in Brebes Indonesia and financial literacy has a positive significant relationship with the financial performance of SMEs. (Buchdadi et al., 2020) also highlighted that SME managers face problems in getting financing from the banks as they are not familiar with banks' products more than 30% were not financially well versed and limited financial literacy often results in growth constraints for SMEs. SMEs are the source of creating job opportunities, and human development and are considered a global engine. The SMEs need to realize the worth of possessing financial literacy and pay attention to enhancing those capabilities that are beneficial for the SME's financial performance (ALI & LI, 2021). The author examines the role of financial literacy, and fundamental capabilities impact on the SME managers/owners in the United Arab Emirates and China. This study was based on the quantitative research method and had samples of 150 and 120 questionnaires that were collected from both managers/owners from UAE and China. Using the structural equation modeling the finding reveals that there was a significant positive relationship between maintaining financial literacy and market competence to SMEs performance. The author highlighted the importance of financial literacy and recommended that SMEs adopt a market-oriented approach that helps them respond to uncertain market conditions.

Government financial assistance is crucial to SMEs and plays a substantial role in overcoming SMEs' financial obstacles. The government plays its role by providing or helping to generate cash flows and assisting SMEs to have easy access to finance or loans. (Xiang & Worthington, 2017) conducted a study on the impact of financial assistance on SMEs' financial performance to examine whether the SMEs that received financial assistance from the

government helped to improve their performance and found that government support resulted in improved performance compared to conventional financing. Financial assistance programs increased the income as well as reduced liquidity challenges of the SMEs. The government has a significant role in determining the creditworthiness of SMEs as an independent third party to loan transactions, as the author also discovered that SMEs are expected to participate in nongovernmental financial aid because they have access to government support, this type of financial assistance would help SMEs to improve present and future performance that measured by overall income and profitability. On the other hand, factors such as size, location, and business model, play a significant role in terms of securing loans for SMEs.

Small and medium-sized firms (SMEs) are economic drivers because of their contributions to employment, human capital development, innovation, and social mobility to sustain a diversified entrepreneurial ecosystem while government support in terms of both financial (grants, credits, subsidies, incentives) or non-financial (technical and training, advisory, and trade-related) has a remarkable direct or non-direct impact on both entrepreneurial orientation and performance of SMEs (Prasannath et al., 2024) The SMEs are often constrained by limited resources due to which they require government support, to determine the impact on government support the author aims to investigate how government supports impact SMEs performance and entrepreneurial orientation. The systematic review was conducted and the PRISM methodology was followed to determine the relationship between the constructs. The results reveal that there are both direct and indirect effects that can impact SMEs' performance and entrepreneurial orientation. (Prasannath et al., 2024) suggested that policymakers should develop the policies as per the specific needs of the SMEs as they vary in culture, industry, and country, they must review that the policies are aligned with their strategic objective.

SMEs are important for the economic development of Pakistan; they are not only providing the desired results but contributing significantly to the growth of the country compared to other developing countries.

Despite their significant contribution, they face a lack of financial resources that also include financial management practices. Mainly the study was to examine the role of financial management practices in SMEs' profitability in Faisalabad as Pakistan is also falling under developing countries and the importance of SMEs cannot be ignored, to examine the impact author used primary data and analyzed 200 SMEs however result reveal that there was the strong relationship between financial management practices and SME profitability but there was not any impact of moderator that was agency cost (Muneer et al., 2017). Furthermore, the SMEs have the potential to grow more and serve the economy and recommended that policymakers must provide training regarding financial management practices to SMEs so that they may adhere to it and enhance their profitability.

Small and medium-sized enterprises SMEs are the primary source of shaping economies all over the world; they bring innovation with unique ideas and create jobs for the people of the nation by expanding their businesses; they are adaptable to change and can easily balance a negative economic trend; thus, it is critical for an economy that its SMEs contribute efficiently. SMEs seek innovation to remain competitive in the market and compete with their competitors, and the constant expansion in competition allows them to continuously diversify their operations to stand out in the market and boost customer happiness, resulting in consumer loyalty to them. Innovation requires investment, and since SMEs don't have large budgets at first, they need funding to bring innovation. However, they have trouble obtaining funding, which can be classified as either internal or external. SMEs must rely on external funding, which is detrimental to their innovation efforts because financing necessitates borrowing costs, and paying for borrowing costs at the beginning of a business is difficult for all companies. Small and medium-sized businesses typically prioritize internal equity to meet their financial needs, turning to external funding when they find that equity is insufficient. Consequently, it indicates that SMEs do not favor finance because they encounter difficulties obtaining it and incur additional costs (Kokot-Stepień, 2022).

The importance of SMEs is recognized globally and Pakistan SMEs can have magnificent growth and development capacity. Entrepreneurial SMEs are key players in the development of Pakistan and make remarkable contributions to the economy by generating employment opportunities and increasing the production capacity. Entrepreneurial SMEs' growth highly depends on financial resources and in Pakistan, they face financial obstacles such as lack of capital and finance which hinder their growth. Several hurdles result in SMEs' failure such as financial and economic hurdles, as well as infrastructure management. Having lack of funding is the root cause of SMEs' failure and another factor hindering their growth in Pakistan is the high interest rate and heavy requirement for collateral. On the other hand, government and financial institutions, strict policies regarding the procedure reduce the motivation of SME owners to seek financing. In addition, the majority of SME owners lack financial literacy and do not know the management of the business, record-keeping, inventory management, and lack of awareness regarding rules and regulations that lead them to failure. Therefore, government must make some policies and training programs in favor of SMEs that provide them relief to boost their business (M. A. Khan, 2022).

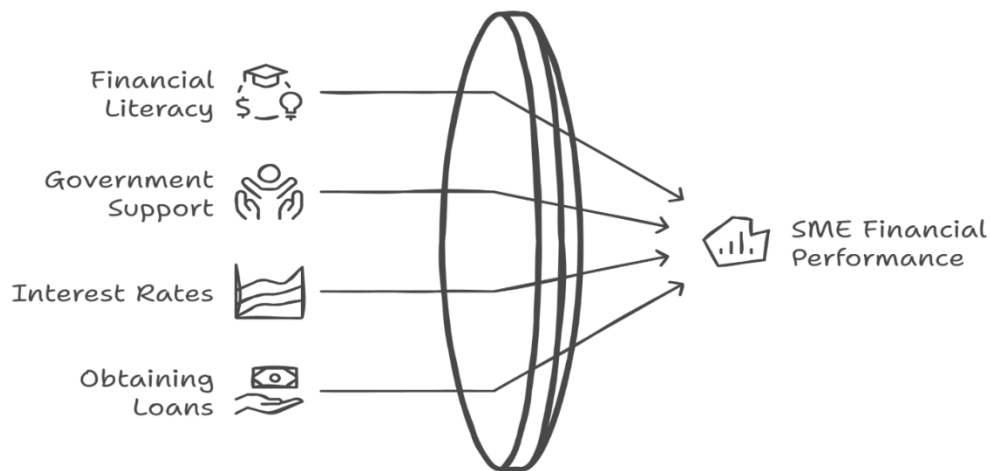
Research Methodology:

A questionnaire was given to managers, bankers, employees, and finance students involved with small and medium-sized businesses (SMEs) in order to assess the research's premise. The study used Partial Least Squares Structural Equation Modeling (PLS-SEM) using Smart PLS 4. According to (Lohmöller, 1989), For measuring latent variables, PLS-SEM is a proven method that allows for both formative and reflective computation. When assessing intricate cause-and-effect relationship models in business research, this approach is useful. This study focuses on gathering and analyzing quantitative data to offer empirical support and insights into the financial obstacles that Pakistani SMEs must overcome.

Data collection Process:

The data was collected through personal visits and online questionnaires aimed at business owners, SME employees, entrepreneurs, and finance students. A total of nearly 300 questionnaires were distributed, resulting in 208 responses. Of these, 205 were usable, while three responses were excluded due to missing data. The questionnaire was made to be simple for respondents to complete and Five-point Likert scales were used to score these questions: 1 meant "strongly disagree," 2 meant "disagree," 3 meant "neutral," 4 meant "agree," and 5 meant "strongly agree."

Conceptual Framework:



Hypothesis:

H1: Higher financial literacy in SMES correlates with better business performance.

H2: Improved government support for SMEs will significantly increase their financial performance

H3: SMEs that face difficulties in obtaining loans exhibit poor performance:

H4: Low interest rates for SMEs will drive growth in their financial performance.

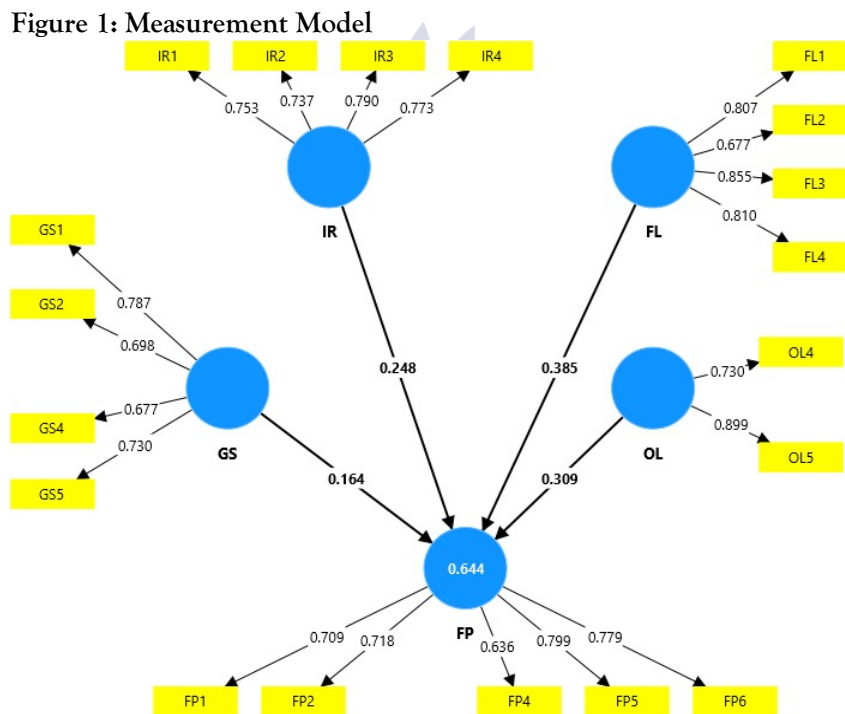
Data Analysis and Results:

This section of the study presents the findings of the research as this study aimed to explore the relationship between the independent variables that are related to financial constraints and the dependent variables that are related to SMEs' financial performance. The results of the study are organized based on the objective of the study, hypothesis, and partial least square analysis (PLS-SEM) was conducted to identify the relationships.

PIS- SEM has become a robust and flexible tool for analyzing the cause-and-effect relationship between complex variables (Hair et al., 2011), additionally he argues that partial least square structural equation modeling act as a silver bullet in that kind of circumstances where stringent data sample size restriction may cause typical covariance-based SEM technique to fail however (Hair et al., 2011) highlighted that PLS-SEM is suitable for exploratory research, and complex model structures as it aims to maximize variance explained (R2 values) rather than just test models.

PLS-SEM Model:

The data collected from the questionnaire was subjected to partial least square structural equation modeling, which displays the proposed relationships between the latent variables that are included in the diagram model below.



The following Figure shows the relation between dependent and independent variables and how different variables influence SMEs' performance, independent variables are Financial Literacy, difficulties in obtaining loans, low interest rates, and Improved

Government Support which directly on Dependent variables i.e. SME performance.

Reliability and Validity:

The reliability and validity of all five variables were evaluated through Cronbach's Alpha and Composite

Reliability (CR). In a PLS-SEM, composite reliability provides a better suitable metric, and it should be higher than 0.07 (Hair et al., 2021). Moreover, he presented several threshold criteria defining the PLS-SEM model assessment, including the rule that the AVE should be greater than 0.5 to determine convergent validity. Besides, he pointed out that such criteria must be adhered to while preparing theories and in the empirical validation process in

finance research. The overall sample was accessed and the items that have factor loading of below five were excluded. Table 1 below demonstrates the constructs FL, FP, GS, IR, and OL have sufficient composite reliability, with values exceeding the 0.70 threshold, indicating internal consistency. The AVE for all constructs exceeded the recommended threshold of 0.50, establishing strong convergent validity.

Table 1. Construct Reliability and validity

Constructs	Cronbach's alpha	Composite reliability	Average variance extracted
FL	0.798	0.868	0.624
FP	0.78	0.85	0.533
GS	0.722	0.815	0.524
IR	0.762	0.848	0.583
OL	0.526	0.801	0.671

Discriminant Validity:

The degree of experimental differentiation between a construct and the other constructs in the structural model is measured by discriminant validity. The Fornier and Larcker criterion, which requires that each construct's square root of AVE be greater than

its strongest correlation with another construct, is frequently used (Hair et al., 2021). The results of the cross-loadings approach and the Fornell and Larcker Criterion were used to assess discriminant validity, and they are presented in Table 2, demonstrating the significance and accuracy of the study's conclusions.

Table 2. Fornell and larcker Criterion:

Constructs	FL	GS	IR	OL
FL	0.79			
FP	0.657			
GS	0.255	0.724		
IR	0.519	0.26	0.764	
OL	0.33	0.134	0.443	0.819

Latent Descriptive Statistics:

The latent variable descriptive statistics in Table 3 show that the data is standardized as evidenced by the zero mean and unit standard deviation for all constructs. The observed ranges also denote considerable variability in the data set, which supports robust analysis in the PLS model. Negative

skewness values represent left-skewed distributions, but the fact remains within acceptable bounds and therefore ensures that data patterns are reliable. Excess kurtosis values, especially for FP (3.523), suggest data clustering and outliers, which were retained to maintain the integrity of the dataset and sample representativeness. The results confirm that

the data is appropriate for structural equation modeling.

Table 3. Descriptive statistics

Constructs	Mean	Median	Observed min	Observed max	Standard deviation	Excess kurtosis	Skewness
FL	0	0.297	-3.565	1.585	1	1.595	-1.076
FP	0	0.093	-4.316	1.916	1	3.523	-1.209
GS	0	0.081	-2.733	2.307	1	-0.167	-0.447
IR	0	0.041	-3.411	2.012	1	1.482	-0.797
OL	0	0.496	-3.193	1.726	1	1.318	-0.959

PLS Predict LV summary:

The Q² assesses both the predictive value of the endogenous constructs and the predictive relevance of the model. The model is well-reconstructed and has predictive relevance if Q² is greater than zero.

The endogenous constructs' Q² values exceed zero, as indicated by the financial performance (FP) Q² projection of 0.284. Thus, predictive relevance was determined.

Table 4.

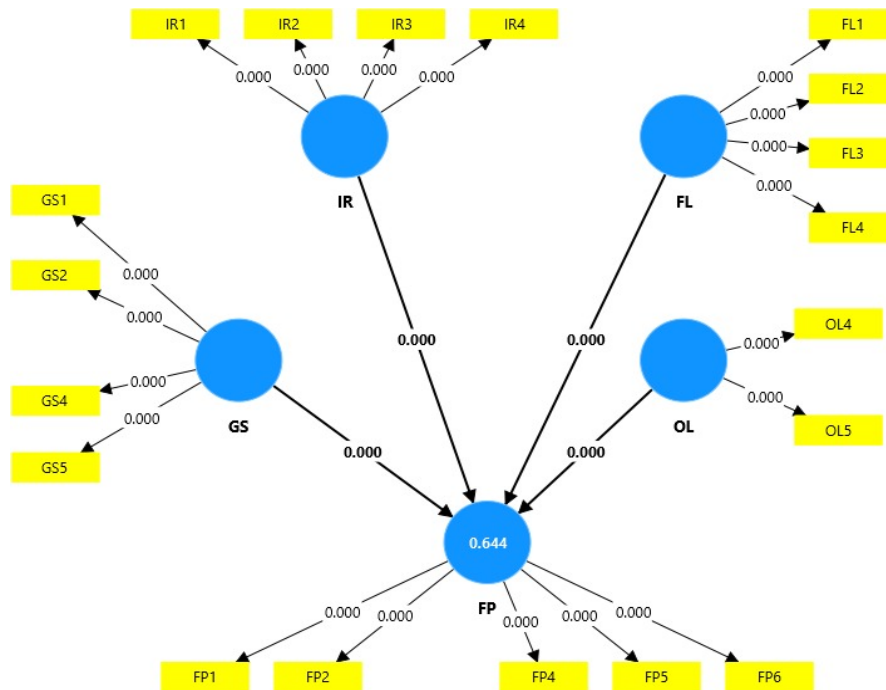
	Q ² predict	RMSE	MAE
FP	0.623	0.626	0.477

Structural Model Analysis:

We next use a structural model, which is attached below, to examine the proposed relationship

between the variables in order to identify the connections between constructs and their impact on SMEs' performance.

Figure 2:



The overall sample result is shown in Table 5, where all the variables have a positive relationship with the independent variable since the P value is below the threshold of 0.5. P value and T statistic is the common practice for testing hypotheses in various fields (Kock, 2016). He emphasizes that the bootstrapping method is important to attain standard errors and t-statistics for path coefficients. (Kock, 2016) also provided an interpretation of these statistics suggesting that a P value lower than 0.05 represents statistical significance between variables and that the t-value exceeds approximately 1.96 represents statistical significance.

The findings reveal that hypothesis one is accepted because the Table 5 below clearly demonstrates the positive coefficient between FL->FP (0.385) suggesting a positive strong relationship between financial literacy and SME Financial performance. The T statistic of 5.907 further supports the significance of this relationship, indicating that higher financial literacy leads to better business performance. The hypothesis that government support for SMEs will significantly increase their financial performance is

also accepted (GS -> FP) because the findings show that a positive coefficient (0.164) and significant P value 0.00 indicate a strong positive relationship between government support and financial performance. The T statistic 3.361 further validates the significance of this relationship, suggesting that improved government support significantly increases SME financial performance. Table 5 results show that there is a significant relationship between IR and FP due to The positive coefficient of 0.248 and the t statistic greater than 1.96 additionally, the P value below 0.05 indicates that the significant level of the relationship is accepted low interest rates significantly boost SME financial performance and drive growth. Table 7 bootstrap output shows the impact of OL and FP as they have the t-statistics of 5.86, and (p < 0.000 and 0.005), respectively which indicates that obtaining loans has a positive impact on firm performance and the result is accepted therefore the finding concludes that H1, H2, H3, and H4 are accepted and have a positive significant relationship with the financial performance of small and medium enterprises in Pakistan.

Table 5. Path Coefficient:

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
FL -> FP	0.385	0.386	0.065	5.907	0.00
GS -> FP	0.164	0.168	0.045	3.631	0.00
IR -> FP	0.248	0.247	0.056	4.442	0.00
OL -> FP	0.309	0.307	0.053	5.86	0.00

Discussion:

Partial Least Analysis (PLS) shows that the financial factors that are deployed by this study have a significant influence on the financial performance of SMEs in Pakistan. The findings of the study reveal that financial literacy has a significant positive relation with the SME's financial performance. Financial literacy impacts SMEs' performance and sustainability because it accesses the ability of business owners, entrepreneurs, and managers to understand how effectively they understand financial information to make, better resource management, informed decisions, and successful attainment of business objectives. Managers who have a strong financial concept can secure favorable financing and allocate resources efficiently to improve the profitability of the business (Eniola & Entebang, 2017) and concludes that managers who possess financial awareness, attitude, and knowledge can make informed decisions and enhance business growth..

Findings for the overall sample reveal a positive relationship between government support and the financial performance of SMEs. Government has a big role in enhancing the financial performance of small and medium-sized enterprises (SMEs). Empirical evidence by (Hoai Thu Thi Nguyen et al., 2018), highlighted that several kinds of incentives from the government such as tax rebates, financial assistance programs, soft loans, and investment incentives can boost the performance of SMEs and he found that policy uncertainties, corruption, and prejudice against non-state SMEs frequently hinder government support programs from having the desired impact. It has also been determined that formal registrations of stronger organizations

managed to be on a better edge to avail of government aid; informal enterprises couldn't reach for equivalent benefits.

The study results also confirm that possession of lower interest rates tends to boost their cost-minimization and make informed decisions that enhance the overall performance of SMEs. Our study affirms the conclusion of the previous study which remarks that interest rate has a significant impact on SME performance as they determine their borrowing cost, investment decisions, and overall operational liquidity (Finnegan & Kapoor, 2023). concluded in research that lower interest rate increase enhances the credit access of SMEs due to lower borrowing costs enabling them to invest in growth initiatives to flourish. Another study aligns with our research results.

The findings of studies on loan acquisition further support the idea that SMEs' performance is positively impacted by increased loan accessibility. Research hypothesis 4, which we demonstrated in our previous demonstration, proposed that obtaining a loan significantly affects the performance of the SME. It turned out that the hypothesis was correct. This result is entirely consistent with the findings of earlier research, including that conducted by (Manyanga et al., 2023). According to him, whether it be short-term or long-term, financing SMEs has proven to be difficult for many SMEs globally. SMEs continue to receive insufficient funding, particularly in developing nations, despite the fact that they reduce poverty and boost employment, industrial sector productivity, and competitiveness.

Conclusion:

The financial factors considered in this study were financial literacy, government support, interest rate, and obtaining loans to see their impact on the financial performance of SMEs. The testing of the research hypothesis resulted in that there is a strong relationship between financial literacy and the financial performance of SMEs. This means financial literacy is a strong determinant for SMEs as it accesses the ability of business owners, entrepreneurs, and managers how utilize resources efficiently, and make informed decisions. This study has a significant contribution to previous literature and our findings reveal that government support has a significant impact on the performance of SMEs. It was also concluded by (Hoai Thu Thi Nguyen et al., 2018)). Similarly (Ayyagari et al., 2007) highlighted that government is crucial for SMEs' growth and their contribution to the economy. Furthermore, this study elaborates on the low interest rate to navigate SMEs since the results show a large and significant positive relationship between low interest rates and SMEs. The low interest rates make their borrowing less expensive; thus, the scope of their investment becomes cheaper and also their liquidity. At last, this study shows that there is a positive significant relationship between having a loan and its impact on the performance of SMEs. Easy access to loans results in a way that SMEs can invest in growth initiatives, they can improve their operations, and navigate market uncertainty. Financing SMEs has been a significant challenge so financial institutions make financial schemes that are tailored to their specific needs with fewer collateral requirements and a simplified application process. In addition, these research findings contribute to existing literature and provide empirical evidence regarding the crucial drivers of SMEs' financial performance.

Recommendation:

As a result, this research advises that small and medium enterprises must focus on that their employees are well financially aware, to make them financially well versed there should be internal training for them which should be mandatory for the company to attend for everyone so it will make sure that employees such as manager can use resources efficiently and make a more informed decision that is aligned with the strategic objective of the company.

The policymaker should make policies in favor of SMEs so that they can grow and contribute to the economy by creating more employment opportunities and reducing poverty.

The interest rate should be low for SMEs because it increases the borrowing cost that have to pay back. The State Bank of Pakistan should provide support to SMEs through monetary policy and make it in favor of SMEs and encourage banks to lend to SMEs with a low interest rate.

To improve the performance of SMEs in Pakistan and enable them to effectively contribute to the country's economic growth, it is critical to provide easy access to financing at a low cost so that they can use financing more effectively rather than worrying about financing costs.

Limitations and Future Lines of the Study:

This study possesses several limitations and is open to the different future lines of the research. Firstly, this study was conducted on a sample of 205 respondents and responses were mixed such as SME employees, bankers, and entrepreneurs so the future study can be conducted on the larger size of the sample and the target audience can be only SME employees to understand the impact of variables. This study limits to only variables such as financial literacy, government support, interest rate and obtaining loan impact on the performance of SMEs and future studies can also check other variables such as technological adoption and high inflation. This study is not focusing on any specific industry however future studies can implement this study on the specific industry such as manufacturing and service industry.

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