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EXPANSION OF SMALL ENTERPRISES IN PAKISTAN AND ITS IMPACT ON POVERTY ALLEVIATION

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ABSTRACT-The objective of this research paper is to analyze the determinants of the expansion of small enterprises and its impact on the poverty alleviation in Pakistan. A time series data is taken for the period of 1974 to 2014. Data is collected from the World Bank database. Poverty head count ratio is used as the dependent variable while gross domestic product, growth rate per capita, public expenditure on education as percentage of GDP, volume of exports as percentage of GDP, patent applicant for non-residents, trademark applications, high technology exports and inflation rate are independent variables. Vector Auto Regressive Distributed Lag model is used due the different order of the unit roots testing. Error correction model (ECM) is used to analyze the short run behavior of variables. Our study results show that long run and short run positive relationships exist between determinants of expansion of small enterprises and poverty headcount ratio in Pakistan. Our study suggests that government should take steps to enhance the education level and employment opportunities through encouraging the small enterprises in Pakistan.

Keywords: SME, GDP, ARDLM, VECM, Growth rate per capita.

Type of study**:** **Original Research paper**

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1. INTRODUCTION

Population is growing very fast and according preliminary figures of 2017 census, Pakistan population has crossed 200 million. Growing population causes unemployment, which is the main problem of our country. The Government alone cannot resolve the issue of unemployment. For this purpose, Small and Medium enterprises can play important role in creating jobs in different field. For this purpose, these enterprises must be provided necessary financial incentives, besides removing legal and regulatory bottlenecks so that they can play their effective role in eradication of unemployment. But the problem is that there are a lot of legal and procedural hurdles in starting business in Pakistan and due to this reason the pace of the development of small and medium enterprises is very slow. In other countries, small firms are doing innovations and generating employment on large scale. We must study the policies of developed countries regarding the promotion of small and medium enterprises and a new framework must be developed for this sector.

1.1. Main Research problem

Our research problem is to study the "Expansion of small enterprises in Pakistan and its impact on poverty alleviation".

1.2. Objective of the Study

The main objective of the study is to determine the role of micro or small enterprises in reducing the poverty. Since poverty is considered as one of the complex problem for achieving development. So our objectives are stated as under:

1.To study the role of SMEs in poverty alleviation.

2. To study the importance of SMEs in economic development.

3.To make suggestions how SMEs sector can be expanded and efficient.

2. LITERATURE REVIEW

Awan and Farah (2015) have studied the problems of small enterprises and concluded that small enterprises must be promoted through

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fiscal incentives because their role in elimination of unemployment and poverty is significant.

Awan and Hashmi (2014) analyzed the marketing strategy of small enterprises and argued that such type of business firms are playing very important role in production and distribution of goods and services in their respective markets. They contended that entrepreneurs who have experience in relevant field perform better than those who do not have experience of business. They pointed out that small firms are operating without any financial assistance of the government and are relying on the capital of their sole owners.

Scott (1991) says that little firms have brighter environment than substantial enterprises. Supervisors of little firms are more dependable to their representatives. (Scott 1991). He gives a positive picture of little association's surroundings. Directors are more given in little firms than administrators of extensive firms. They give complete hold to workers with consistency and supervision. He says little firms producing the openings for work to easing of destitution in creating nations. In any case, the proprietor of the little firm is more adaptable as contrast with the huge firm.

Sachs (2005) takes note of that the disposal of destitution stays one of the key targets of governments worldwide and that neediness can be finished before 2025. Beck et al. (2005) propose that one of the approaches to diminish destitution is the improvement of the SME segment. As per the Parliament of the Republic of South Africa (2005), the legislature of South Africa distinguishes SMEs as a key to neediness lightening, salary correspondence, occupation and manageable monetary development. "The incitement of SMEs must be seen as a major aspect of a coordinated procedure to take this economy onto a higher street - one in which our economy is differentiated, neediness is diminished, profitability is upgraded, speculation is invigorated and business enterprise flourishes". The New Association for Africa's Advancement (2012) concurs that "SMEs offer huge prospect for

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expanded occupation, destitution easing, expanded use of Africa's beneficial and scholarly assets, enhanced duty base for government incomes and minimal effort available venture open doors for nearby populaces".

Triegaardt, (2006) comments that regardless of some monetary increases, gigantic incongruities stay in South Africa. Despite the fact that there is proof to propose that wage disparity has contracted to some degree in the course of the most recent decade, South Africa's wage imbalance stays one of the most astounding on the planet. Imbalance has two similarly vital implications. In a sociological sense, imbalance is a normal for social force relations. Disparity is said to be available if participation of various social gatherings is connected to profoundly differential force relations. In this sense, imbalance is firmly connected to the idea of social prohibition, in that unequal force relations might be connected to differential access to political or financial rights. Disparity can likewise be connected to the presence of profoundly organized social chains of importance, as amongst bosses and hirelings in slave and post slave social orders, or in social orders where class personality and race are firmly connected. In a much smaller quantitative and financial sense, disparity can elude to lopsidedness in the dispersion of specific assets, for example, salary, in a particular populace. In a very much resourced nation, the presence of neediness can be said to be an indication of disparity (Studies in Destitution and Imbalance Organization, 2014).

3. RESEARCH METHODOLOGY

The current study is based on the expansion of small enterprises in Pakistan and its impact of poverty alleviation for the period of 1974 to 2014. Poverty head count ratio is used as the dependent variable and the explanatory variables are as follows gross domestic product growth rate per capita, public expenditure on education perchance of GDP, volume of exports as percentage of GDP, patent

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applicant for non-residents, trademark application total, high technology exports, inflation rate.

Table 1 summary of independent and dependent variables.

Variables	**Description of the variables**	**Source**
Dependent variable		
PHC	Poverty headcount ratio	Alam & Chughtai 2014
Independent variables		
PAN	Patent applicant for non-residents	Alam & Chughtai 2014
VEGDP	Volume of exports percentage of GDP	Alam & Chughtai 2014
HTEX	High technology exports	Alam & Chughtai 2014
TMAT	Trademark application tool	Alam & Chughtai 2014
GDPC	Gross domestic product per capita	Alam & Chughtai 2014
PEXEDU	Public expenditure on education	Alam & Chughtai 2014
INFR	Inflation rate	Alam & Chughtai 2014

Autoregressive distributed lag model should be acceptable on the strength of the Augmented dickey fuller test as if all the selected determinants are integrated at dissimilar order like 1(0) and 1(1), is the basic requirement to use the autoregressive distributed lag model. Otherwise if all selected variables are integrated at 1(0) order then a simple OLS method is used, while, if order of integration is at 1(1) Johnson co-integration test is used. Table 2 presents the results of ADF test.

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Table 2. Dickey Fuller Test Augmented

Variables	**At level**		**At 1st Difference**		**At 2nd Difference**		
	Intercept	Intr. & trend	Intercept	Intr. & trend	Intercept	Intr. & trend	Integration
PHC	-		-426.8798	-	-	-	I (1)
GDPC	-4.731211	-	-	-	-	-	I (0)
HTEX	-4.050307	-	-	-	-	-	I (0)
INFR	-4.652447	-	-	-	-	-	I (0)
PAN	-	-	-5.532313	-	-	-	I (1)
PEXEDU	-	-	-6.287954	-	-	-	I (1)
TMAT	-	-	-5.072938	-	-	-	1(1)
VEGDP	-	-	-6.420338	-	-	-	1(1)

Mix trend of co-integration is observed as some variables are integrated at level as gross domestic product per capita, high technology exports and inflation rate, while poverty headcount ratio, patent applicant for non-residents, public expenditure on education, trademark application tool and volume of exports percentage of GDP are co-integrated as 1st difference. So the results of above Table 2 show that variables are

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integrated at different order, so it is justified to use ARDL method. We have developed the following equation to measure the impact of small scale enterprises on the poverty alleviation:

$$PHC = \beta 0 + \beta_1 PAN + \beta_2 VEGDP + \beta_3 HTEX + \beta_4 TMAT + \beta_5 GDPC + \beta_6 PEXEDU + \beta_7 INFR + \varepsilon_i$$

Whereas,

ε_i = Residual term

$\beta 0$= intercept term

$B1, \beta 2, \beta 3, \beta 4, \beta 5, \beta 6, \beta 7$ = slope coefficients

The equation depicts the impact of expansion of small enterprises on poverty alleviation in Pakistan through Gross domestic product, which is taken as dependent variable. It is shown in the following: -

$$GDPC = \beta 0 + \beta_1 \text{PAN} + \beta_2 \text{VEGDP} + \beta_3 \text{HTEX} + \beta_4 \text{TMAT} + \beta_5 \text{PEXEDU} + \beta_6 \text{INFR} + \varepsilon_i$$

Whereas,

ε_i = Residual term

$\beta 0$= intercept term

$B1, \beta 2, \beta 3, \beta 4, \beta 5, \beta 6, \beta 7$ = slope coefficients.

3.1 General ARDL equation;

Unrestricted vector error model is presented below: -

$$\Delta (PHC)_t = \gamma_0 + \sum_{i=1}^{a} \gamma 1 (PHC)_{t-i} + \sum_{i=0}^{b} \gamma 2 (\text{PAN})_{t-i} + \sum_{i=0}^{c} \gamma 3 (\text{VEGDP})_{t-i} + \sum_{i=0}^{d} \gamma 4 (\text{HTEX})_{t-i} + \sum_{i=0}^{e} \gamma 5 (\text{TMAT})_{t-i} + \sum_{i=0}^{e} \gamma 6 (\text{GDPC})_{t-I} + \sum_{i=0}^{e} \gamma 7 (\text{PEXEDU})_{t-I} + \sum_{i=0}^{e} \gamma 8 (\text{INFR})_{t-I} + \gamma_9 (PHC)_{t-1} + \gamma 10 (\text{PAN})_{t-1} + \gamma 11 (\text{VEGDP})_{t-1} + \gamma_{12} (\text{HTEX})_{t-1} + \gamma_{13} (\text{TMAT})_{t-1} + \gamma_{14} (\text{GDPC})_{t-1} + \gamma_{15} (\text{PEXEDU})_{t-1} + \gamma_{16} (\text{INFR})_{t-1} \ldots (1)$$

Equation 1 is the Auto regressive distributed lag model equation which presents the long run and short run relationship between explained and explanatory variable. γ_0 is

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the intercept term and short run coefficient of the determinants are as follows $\gamma 1, \gamma 2, \gamma 3, \gamma 4, \gamma 5, \gamma 6, y7, y8$ and the long run coefficients in auto regressive distributed lag model of the variables are as follows $\gamma 7, \gamma 8, \gamma 9, \gamma 10, \gamma 11, \gamma 12, y13, y14, y15, y16$ whereas, ε_I is the disturbance term.

3.2 Wald test (F- statistics):

Wald test is used to set up the long run association between explained and explanatory determinants.

3.3 Null Hypothesis

H_0 = $\gamma 9, \gamma 10, \gamma 11, \gamma 12, y13, y14, y15, y16 = 0$

(No long run relationship exists)

3.4 Alternative Hypothesis

H_1 = $\gamma 9, \gamma 10, \gamma 11, \gamma 12, y13, y14, y15, y16 \neq 0$

(A long run relationship exists)

If the tabulated value is less than the F-statistics value then the alternative hypothesis is accepted and null hypothesis is rejected, whereas if the tabulated value is greater than the F-statistics value than the alternative is rejected and null is accepted.

3.5 Long Run Relationship:

The long run relationship between dependent and independent variable is shown in the following equation.

$$(PHC)_t = \alpha + \sum_{i=1}^{z1} \alpha 1i(PHC)_{t-i} + \sum_{i=0}^{z2} \alpha 2i(\mathrm{PAN})_{t-I} + \sum_{i=0}^{z3} \alpha 3(\mathrm{VEGDP})_{t-i} + \sum_{i=0}^{z4} \alpha 4(\mathrm{HTEX})_{t-i} + \sum_{i=0}^{z5} \alpha 5(\mathrm{TMAT})_{t-i} + \sum_{i=0}^{z6} \alpha 6(\mathrm{GDPC})_{t-i} + \sum_{i=0}^{z7} \alpha 7(\mathrm{PEXEDU})_{t-i} + \sum_{i=0}^{z8} \alpha 8(\mathrm{INFR})_{t-i} + \varepsilon_i \ldots \quad \ldots(2)$$

3.6 Short run relationship:

The short run relationship between explained and Variables has shown in the equation 3rd. Error correction term lagged Model (ECM)t-1 is added in the equation to adjust the results.

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$$\Delta(PHC)_t=\gamma_0+\sum_{i=1}^{k1}\gamma 1i(PHC)_{t-i}+\sum_{i=0}^{k2}\gamma 2i(\mathrm{PAN})_{t-i}+\sum_{i=0}^{k3}\gamma 3i(\mathrm{VEGDP})_{t-i}+\sum_{i=0}^{k4}\gamma 4i(\mathrm{HTEX})_{t-i}+\sum_{i=0}^{k5}\gamma 5i(\mathrm{TMAT})_{t-i}+\sum_{i=0}^{k6}\gamma 6i(\mathrm{GDPC})_{t-i}+\sum_{i=0}^{k7}\gamma 7i(\mathrm{PEXEDU})_{t-i}+\sum_{i=0}^{k8}\gamma 8i(\mathrm{INFR})_{t-i}+\lambda(ECM)_{t-i}+\varepsilon_I \ldots\ldots (3)$$

(ECMt-i) Error correction model shows the short run effect on X and Y variable, long run effect on X and Y variable and speed of adjustment.

$$\Delta P_t = \gamma + \delta\Delta_{t-1} + \lambda\,(ECM_{t-1}) + \varepsilon_I \ldots\ldots (4)$$

$ECM_{t-I,}$ error correction term is shown by equation 4, in this equation δ shows the short run effect and λ shows speed of adjustment. Disequilibrium value is shown by the error correction term. The results of bound testing for co- integration are summarized in table 3

Table 3 The results of Bound Test.

Equation	F-Statistics Calculated	Lower Bound Critical Value	Conclusion
Equation (1) PHC / GDPC, HTEX, INFR, PAN, PEXEDU, TMAT, VEGDP	2.39 [0.0118]	2.26 (90%)	Co-integration exist

Source: authors' calculation, note computed F-statistics: 2.39 (significance at 1% marginal values). Critical values at k = 6-1= 5 is cited from parson et al (2001), case 111: unrestricted intercept and no trend. The numbers in parenthesis is shows the probabilities of F-statistics. Bound test shows that all the variables have long run association.

4. FINDINGS AND RESULTS

4.1 Long run Model

Long run period the relation between variables is discussed as, the value of coefficient shows one-unit increase in gross domestic product per capita will cause -0.0008-unit decrease in poverty headcount ratio in Pakistan and it is statistically

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significant. At the same time, one-unit increase in high technology exports to a 0.37-unit increase in poverty headcount ratio but the probability value of this variable is 66.35 which shows it is statistical not significant. The value of coefficient shows the one-unit increase in inflation will increase 0.38 percent increase in poverty headcount ratio and probability value is 0.000 which shows it is statistically significant. The value of coefficient shows one-unit increase in patent application for non-residents will decrease -0.020 percent poverty headcount ratio in Pakistan and this relationship is statistically significant. The value of coefficient shows the one-unit increase in public expenditure on education will decrease -0.0370 percent poverty headcount ratio and it is statistically significant at 10% level of significance. The value of coefficient shows that one-unit increase in trademark application will increase 0.460 percent poverty headcount ratio and it is statistically significant. The value of coefficient shows that one unit increase in volume of exports as percentage of GDP will decrease -0.05260 percent poverty headcount ratio and it is statistically significant. The behavior of variables shows that there exist the long run relationships between the determinants of small enterprises expansion and poverty headcount ratio in Pakistan

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Table 4: Long run results

Dependent Variable: PHC				
Method: Ordinary Least Squares				
Sample: 1974-2014				
Included observations: 41				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	-0.154888	0.049180	-3.149395	0.0033
GDPC	-0.000810	0.002299	-0.352319	0.0267
HTEX	0.370054	0.024576	-1.914631	0.6635
INFR	0.387001	0.015977	24.22275	0.0000
PAN	-0.020020	0.001390	1.452984	0.0549
PEXEDU	-0.037080	0.001454	-0.259894	0.0964
TMAT	0.460560	0.024576	-1.914631	0.0023
VEGDP	-0.05246	0.001454	-0.259894	0.0218

4.2 Short Run Model

Table 5 Short run results

Dependent Variable: D(CPI)				
Method: Least Squares				
Sample (adjusted): 1973 2010S				
Included observations: 40 after adjustments				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	0.010713	0.003953	2.710049	0.0118
D(PHC(-2))	0.244354	0.161099	1.516787	0.1414
D(GDPC)	-0.000228	0.000674	-0.338566	0.0377

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D(GDPC(-2))	0.001164	0.000630	1.848633	0.0759
D(HTEX)	-0.023337	0.016115	-1.448149	0.0595
D(HTEX(-2))	0.000687	0.016281	0.042174	0.0967
D(INFR)	0.063558	0.028951	2.195361	0.0373
D(INFR(-2))	-0.030368	0.039500	-0.768813	0.4489
D(PAN)	0.001146	0.000546	2.099993	0.0456
D(PAN(-2))	0.000986	0.000604	1.632373	0.0047
D(PEXEDU)	0.002303	0.001057	2.179133	0.0386
D(PEXEDU(-2))	0.000955	0.000786	1.215683	0.2350
D(TMAT)	0.033001	0.001057	2.179133	0.0450
D(TMAT(-2))	0.000955	0.000786	1.215683	0.0212
D(VEGDP)	-0.000228	0.000674	-0.338566	0.0377
D(VEGDP(-2))	0.001164	0.000630	1.848633	0.0759
ECT(-1)	-0.238412	0.102692	-2.321615	0.0284

In the ARDL (auto regressive distributed lag model) the vector error correction model is used to estimate the behavior in short run association of the variables. Short run relationship among the explanatory and explained variable is presented table 5. Results of the above tables highlighted that the gross domestic product and the high technology exports shows the relationship with the poverty headcount ratio at 10% probability level. Inflation rate value shows that there is no relationship between inflation rate and poverty headcount ratio in short run. The Value of the patent application for non-residents and public expenditure percentage of GDP describes that short run relationship exists between patent application for non-residents and poverty headcount ratio. Trademark application

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and volume of exports % of GDP values presents short run relationship with poverty headcount ratio in Pakistan.

4.3 Stability test:

CUSUM stability test in Auto Regressive Distributed Lags model (ARDL) show the stability of the data. The data are stable because the cumulative sum of recursive residuals (CUSUM) graph is within the limits of 5% significance level and cumulative sum of square of recursive residuals CUSUMSQ graph is also within the limits of 5% significant.

Figure 1 CUSUM data

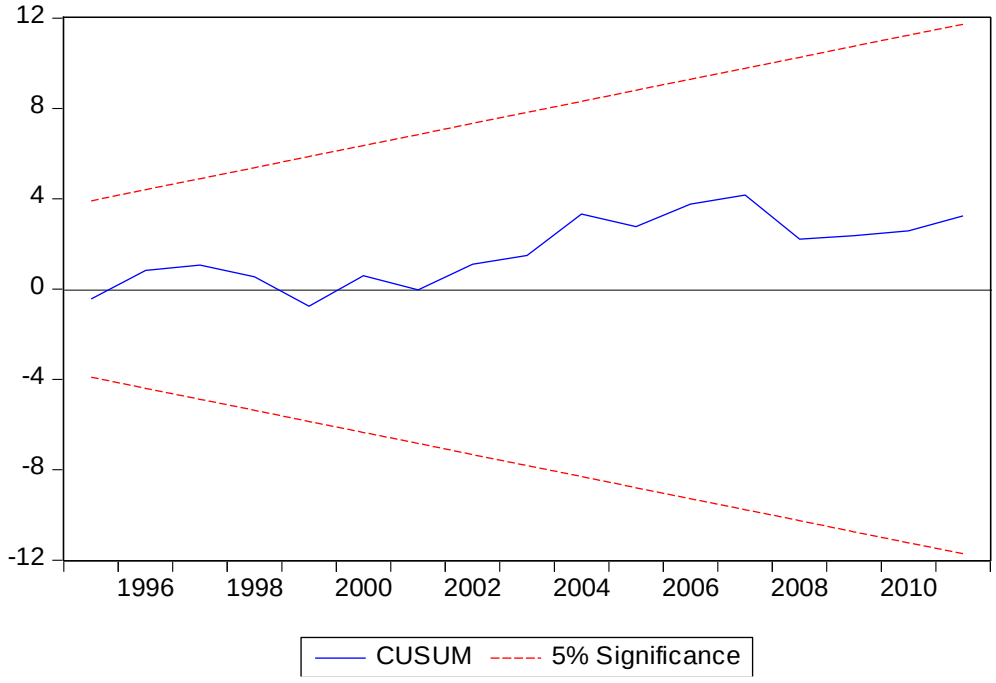

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Table 6 Regression Analysis Results

R-squared	0.681595	Mean dependent var	0.016220
Adjusted R-squared	0.242331	S.D. dependent var	0.023062
S.E. of regression	0.020074	Akaike info criterion	-4.717596
Sum squared resid	91.01047	Schwarz criterion	-4.163076
Log likelihood	104.9931	Hannan-Quinn criter.	-4.518639
F-statistic	2.012818	Durbin-Watson stat	2.107896
Prob(F-statistic)	0.025895		

R-squared value .6815 in table 5 shows that our dependent variables have 68% dependence on independent variable while the other 32% is the residual value or error term value. The probability value of F- statistics is below the 5% (0.025%) which shows the overall significance of the model. D- Statistics value 2.1078 which is near about 2 so we have concluded that there is no autocorrelation in our model.

Table 7. Regression Analysis of GDP per capita as Dependent variable

R-squared	0.511695	Mean dependent var	0.018121
Adjusted R-squared	0.342441	S.D. dependent var	0.012151
S.E. of regression	0.020544	Akaike info criterion	-4.515586
Sum squared resid	68.02101	Schwarz criterion	-4.149565
Log likelihood	78.9931	Hannan-Quinn criter.	-4.523544
F-statistic	3.042358	Durbin-Watson stat	1.978096
Prob(F-statistic)	0.019455		

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R-squared value .5116 shows that our dependent variables have 51% dependence on independent variable while the other 49% is the residual value or error term. The probability value of F- statistics is below the 5% (0.025%) which shows the overall significance of the model. D- Statistics value 1.9780 which is near about 2 so we can conclude that there is no autocorrelation in our model.

Diagnostic Tests

Table 8 Results of Diagnostic Test

Test Statistics	**LM Version**	**F Version**
Serial Correlation	CHSQ (1) =.014643[.904]	F (1,26)=.010022[.921]
Functional Form	CHSQ(1) = 1.1227[.289]	F (1, 26)= .79153[.382]
Normality	CHSQ(2) = .19879[.905]	Not applicable
Heteroscedasticity	CHSQ(1) = 3.1105[.078]	F (1,36)= 3.2095[.082]

Source: Author's calculation

Diagnosing test results shows the non-existence of serial correlation and heteroscedasticity between variables.

5. CONCLSIONS

Determinants of small enterprises show the statistically significant relationship with the poverty headcount ratio in Pakistan. Some variables have positive significant relationship while others are negative relationship. Gross domestic product growth rate of per capita, inflations rate, patent application for non-residents, public expenditures on education, trademark, patent application, volume of exports shows the long run relationship with the poverty headcount ratio, while the variable, high technology exports, does not have long run relationship with poverty headcount ratio. High technology exports and gross domestic product per capita growth rate presents short run relationship with poverty headcount ratio. The value of inflation rate shows that there is no relationship between inflation rate and price

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level in short run. Values of patent application for non-residents and public expenditure as percentage of GDP describes that short run relationship exists between patent application for non-residents and poverty headcount ratio. Trademark application and volume of exports % of GDP values presents short run relationship with poverty headcount ratio. Poverty is the extreme problem of all over the world especially in the developing and poor countries. Now a day's developed countries are also facing this problem. The number of people below poverty line is increasing day by day due to unproductive expenditures on wars. Governments of these countries try to reduce the number of poor people with the help of its development projects. Small scale enterprises are an effective tool to reduce poverty. Small scale enterprises are business organizations that not have high amount to start business. These are the small business organizations that are run by individuals through their own resources. Governments and financial institutions provide debt facilities to start small enterprises for the purpose of reduction in poverty level.

6.POLICY RECOMMENDATIONS

On the basis of the above discussion, we make the following recommendations: -

1.Government of Pakistan should take measure to promote the education to get rid of this vicious circle of poverty.

2.Investment should be made in small, medium and large scale enterprises to promote business activates and to reduce the severity of poverty.

3.Government should promote the employment opportunities through expansion of small enterprises.

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