

Majors: FINANCE

S. No. FIN/3

The impact of financial borrowing choices on the Growth of SME's in Pakistan



By:

DANYAL AHMAD AZHAR

(01-121192-002)

Supervisor:

Dr. MOHSIN RAZA

Department of Business Studies

Bahria University Islamabad

Fall-2020

FINAL PROJECT/THESIS APPROVAL SHEET

Viva-Voce Examination

Viva Date 15/2/2021

Topic of Research: The impact of financial borrowing choices on the growth of SME's in Pakistan.

Names of Student(s):

- Danyal Ahmad Azhar Enroll No: 01-121192-002

Class: MBA 1.5

Approved by:

Dr. Mohsin Raza

Supervisor

Dr. Taqadus

Examiner-I

Rabia Sharif

Examiner-II

Dr. Syed Haider Ali Shah

Research Coordinator

Dr Muhammad Ali Saeed

Head of Department

Business Studies

Acknowledgements

The research study had provided me a great amount of knowledge and gain experience in my own life. In this particular research study, I had gathered skills and understandings that will help me to apply in my business or company. I have experienced the real world's business issues related to product design. The research study would have not been possible without the help of my family, friends, and supervisor.

Thanking you,

Abstract

This paper explores the effect of various forms of sources of financing on the development of small and medium-sized enterprises (SMEs) in an emerging economy, by using Pakistan's case study. The Informal financial borrowing choices is the major cause of decline in the growth of SME's in Pakistan as access to formal finance is difficult. The aim of thesis is to find the ways to improve formal financial borrowing system, that fulfills the financial needs of SME's in Pakistan with fairness and dignity. The literature review consists of many sub-parts. It has been describing the theory of Market Power and theory of the financial growth life cycle. A research methodology has been conducted. The research philosophy for this research had been positive. A descriptive qualitative research analysis took place. A systematic review showed finding related to the topic. Business Survey Results of world bank are used from over 3 years of 35 SMEs in Pakistan, i.e. 2007, 2010, and 2013. The findings suggest that banks have a constructive role to play in promoting SME development over the study era. In the other hand, informal sources have had a negative influence on the development of small and medium-sized businesses between 2007, 2010 and 2013. A discussion has been conducted which showed an interpretation of the findings. A set of recommendations had been provided, a conclusion had been done to show the overall research on the influence of financial borrowing choices on the growth of SME's in Pakistan.

Keywords: Small and medium enterprises _ Access to finance _ Financial institutions _ Entrepreneurship

ABBREVIATIONS:

| | |
|-------|---|
| SME | Small and Medium Enterprise. |
| NBFC | Non-Banking Financial Company. |
| OTC | Over the counter. |
| SBP | State Bank of Pakistan. |
| SMEDA | Small and Medium enterprises development authorities. |

TABLE OF CONTENTS

| | |
|---|----|
| CHAPTER 1- INTRODUCTION | 8 |
| 1.1) Background of Study | 8 |
| 1.2) Research Gap | 12 |
| 1.3) Problem Statement | 14 |
| 1.4) Research Questions..... | 15 |
| 1.5) Research Objectives | 15 |
| 1.6) Significance of Study | 15 |
| 1.7) Rationale of Study | 16 |
| 1.8) Scope of Study..... | 17 |
| 1.9) Research Contribution | 18 |
| CHAPTER 2: LITERATURE REVIEW | 19 |
| 2.1) Financial Borrowing Choices | 19 |
| 2.1.1) Informal Sector Financing | 20 |
| 2.1.2) Formal Sector Financing (Financial Institutions)..... | 21 |
| 2.1.3) Equity Participation (Money Lender and Farmer) | 22 |
| 2.2) Demand and Supply Side of Credit Market..... | 22 |
| 2.3) Growth of SME's in Pakistan compared to it financial access: | 25 |
| 2.4) Theoretical Framework and Hypothesis Development: | 27 |
| CHAPTER 3 - METHODOLOGY: | 29 |
| 3.1) Philosophical Stance: | 29 |
| 3.2) Research Approach: | 29 |
| 3.3) Data collection Strategies: | 30 |
| 3.4) Research Design and Method:..... | 30 |
| 3.5) Time Horizon:..... | 30 |
| 3.6) Data Collection and Data Analysis: | 31 |
| 3.7) Population and Sampling | 31 |
| 3.8) Model Specification | 31 |
| CHAPTER 4 - EMPEIRICAL RESULTS: | 33 |
| 4.1) Descriptive statistics | 33 |
| 4.1.1) Sales | 33 |

| | |
|---|----|
| 4.1.2) Bank | 34 |
| 4.1.3) NBFC..... | 34 |
| 4.1.4) On Credit from Suppliers | 34 |
| 4.1.5) Friends and Family | 34 |
| 4.1.6) Internal Sources | 34 |
| 4.2) VIF | 35 |
| 4.3) Hausman test | 36 |
| 4.4) Random effect regression model..... | 37 |
| 4.4) Random Panel data regression analysis..... | 38 |
| 4.4.1) Formal finance | 38 |
| 4.4.2) Informal sources | 39 |
| 4.4.3) Internal Source..... | 39 |
| CHAPTER 5 - IMPLICATIONS OF RESULTS, DISCUSSIONS AND CONCLUSION | 40 |
| 5.1) Discussions | 40 |
| 5.2) Conclusion..... | 41 |
| 5.3) Recommendations | 41 |
| 5.4) Reflections | 43 |
| References | 44 |
| Appendices..... | 48 |