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# DIGITAL FINANCIAL INCLUSION AND ECONOMIC EMPOWERMENT OF SMALL AND MEDIUM ENTERPRISES IN PAKISTAN

**Kinza Ishaq**

BS, Department of CS Computer Science, The Cosmic Degree College (For Women) ,University of Okara

## ABSTRACT

Digital financial inclusion has emerged as an important factor in promoting economic empowerment, business sustainability, and financial accessibility among small and medium enterprises (SMEs) in developing economies. In Pakistan, SMEs play a significant role in employment generation, entrepreneurship, income creation, and economic development; however, many businesses continue to face difficulties in accessing formal financial services, affordable credit, and reliable payment systems. Digital financial services, including mobile banking, digital wallets, electronic payments, internet banking, and digital lending platforms, offer opportunities to overcome traditional financial barriers and improve business operations. This study examines the role of digital financial inclusion in the economic empowerment of SMEs in Pakistan, with particular attention to financial accessibility, business growth, operational efficiency, and entrepreneurial development. The study adopts a qualitative research approach based on secondary academic literature concerning digital finance, financial inclusion, entrepreneurship, and SME development. The literature is examined thematically to understand the potential benefits and challenges associated with digital financial service adoption. The study proposes that improved access to digital financial services can facilitate transactions, strengthen financial management, increase opportunities for formal financing, and support business expansion. However, these benefits depend on digital literacy, technological infrastructure, affordability, cybersecurity, and trust in financial institutions. The study provides a conceptual understanding of how digital financial inclusion may contribute to SME empowerment and offers insights for policymakers, financial institutions, and business owners seeking to strengthen Pakistan's digital financial ecosystem.

## KEYWORDS

Digital Financial Inclusion, Small and Medium Enterprises, Economic Empowerment, Digital Banking, Financial Accessibility, Pakistan, SME Development.

## INTRODUCTION

Digital financial inclusion has become an important component of economic development because it enables individuals and businesses to access and use formal financial services through

digital technologies. These services include mobile banking, digital wallets, electronic payment systems, online transfers, and digital credit facilities that can reduce the need for traditional banking procedures. Digital financial inclusion is particularly relevant in developing economies, where geographical barriers, administrative requirements, limited financial knowledge, and high transaction costs can restrict access to formal finance. Ozili (2018) explains that digital finance can create opportunities to expand financial inclusion, although its effectiveness depends on the economic, institutional, and technological environment. Similarly, Demirgüç-Kunt et al. (2022) highlight the importance of account ownership and digital payments in expanding financial access and enabling people to participate more effectively in the formal economy. These developments suggest that digital financial inclusion can serve as an important mechanism for improving financial accessibility and strengthening the economic participation of small businesses.Small and medium enterprises (SMEs) are an essential part of Pakistan's economy because they contribute to entrepreneurship, employment generation, production, trade, and household income. These businesses operate across manufacturing, retail, agriculture-related activities, services, and other sectors, providing economic opportunities to individuals who may not have access to large-scale employment or substantial investment capital. Despite their importance, many SMEs encounter difficulties in obtaining affordable credit, maintaining formal financial records, managing cash flows, and establishing relationships with financial institutions. Beck and Demirgüç-Kunt (2006) identify financing constraints as an important issue affecting the development and growth of small and medium-sized enterprises. Such limitations can restrict business expansion, reduce investment in productive assets, and increase dependence on informal sources of finance. In Pakistan, digital financial services may help address some of these barriers by simplifying payments, improving transaction records, and creating additional channels through which SMEs can engage with formal financial institutions.

The expansion of digital financial services has changed how businesses conduct financial transactions and manage their daily operations. Mobile banking applications, electronic payment gateways, digital wallets, and online account services enable enterprises to receive customer payments, pay suppliers, transfer funds, and monitor transactions more conveniently. These services can reduce the time and administrative burden associated with cash-based transactions while improving the availability of financial information. Suri and Jack (2016), in their research on mobile money in Kenya, demonstrate that access to digital financial services can produce important economic benefits, although the scale and nature of these effects depend on the surrounding context. For SMEs in Pakistan, digital transactions may support more efficient financial management, strengthen relationships with customers and suppliers, and help businesses maintain clearer records of their economic activities. Nevertheless, the benefits depend on whether businesses have access to suitable digital infrastructure and possess the skills needed to use financial technologies effectively.

Access to formal credit is another important dimension of economic empowerment among SMEs. Small businesses often require external financing to purchase equipment, maintain inventory, employ workers, introduce new products, and expand into additional markets. Traditional lending procedures may create difficulties for enterprises that lack collateral, established credit histories, or comprehensive financial documentation. Digital financial services may help improve access to finance by creating transaction records and enabling financial institutions to assess aspects of business activity more efficiently. Demirgüç-Kunt et al. (2022) discuss the importance of digital payments and formal financial access in the broader process of financial inclusion. However, digital access does not automatically guarantee credit approval or affordable financing. The availability of suitable financial products, lending criteria, data protection, and institutional trust remain important considerations. Therefore, digital financial inclusion should be examined not only in terms of access to technology but also in terms of whether SMEs can use digital financial services to obtain productive resources and strengthen their economic independence.Pakistan's digital financial ecosystem presents both opportunities and challenges for SME development. Digital payment systems and mobile banking services can provide businesses with more convenient alternatives to cash transactions, while digital platforms may help connect enterprises with customers, suppliers, and financial service providers. However, differences in internet connectivity, smartphone access, digital literacy, financial awareness, and confidence in electronic transactions can influence adoption. Ozili (2018) emphasizes that digital finance has potential benefits but also presents risks associated with technological access, consumer protection, and the quality of financial services. These concerns are relevant for Pakistani SMEs operating in rural areas, smaller cities, and economically disadvantaged communities, where access to reliable infrastructure and specialized financial support may be limited. Consequently, the effectiveness of digital financial inclusion depends on coordinated efforts by financial institutions, policymakers, technology providers, and business owners to develop accessible, affordable, and trustworthy financial services.

Although digital financial inclusion has received increasing attention in financial and development research, further analysis is needed to understand how it can contribute to the economic empowerment of SMEs in Pakistan. Economic empowerment involves more than opening a bank account or using a digital payment application; it also includes the ability to manage financial resources, access productive financing, improve business performance, increase income-generating capacity, and make independent business decisions. Beck and Demirgüç-Kunt (2006) establish the importance of financing constraints for smaller enterprises, while Suri and Jack (2016) demonstrate that digital financial access can influence economic outcomes in a developing-country setting. Building on these contributions, the present study examines the relationship between digital financial inclusion and SME empowerment by focusing on financial accessibility, operational efficiency, business growth, and the barriers

affecting digital adoption. The study aims to develop a contextual understanding of how digital financial services may support the sustainable development of small and medium enterprises in Pakistan.

## RESEARCH OBJECTIVES

1. To examine the role of digital financial inclusion in promoting the economic empowerment and growth of SMEs in Pakistan.
2. To analyze how digital financial services influence financial accessibility, business operations, and entrepreneurial development among SMEs.
3. To identify the major barriers affecting digital financial inclusion and the effective use of digital financial services by SMEs in Pakistan.

## RESEARCH QUESTIONS

1. How does digital financial inclusion contribute to the economic empowerment and growth of SMEs in Pakistan?
2. How do digital financial services influence financial accessibility, business operations, and entrepreneurial development among SMEs?
3. What major barriers limit the adoption and effective use of digital financial services among SMEs in Pakistan?

## LITERATURE REVIEW

Digital financial inclusion has become an important area of research because of its potential to improve access to financial services and support the development of small businesses. Demirgüç-Kunt et al. (2022) examined financial access, digital payments, savings, and borrowing across economies and highlighted the growing role of digital technologies in expanding financial participation. Their research provides a useful foundation for understanding how digital financial services can help businesses conduct transactions and engage with formal financial institutions. Access to digital payments and financial accounts may enable SMEs to receive payments more conveniently, manage their funds, and establish transaction histories. However, meaningful financial inclusion requires more than account ownership because businesses must also be able to use financial services regularly, affordably, and safely. In Pakistan, this distinction is important because SMEs may have different levels of access to banking facilities, internet connectivity, and digital financial knowledge. Consequently, digital financial inclusion should be evaluated in terms of both access to financial services and their practical contribution to business development.

Financial constraints represent a major concern in the development of small and medium enterprises, particularly in economies where smaller businesses face difficulties obtaining formal credit. Beck and Demirgüç-Kunt (2006) examined financing constraints and the development of SMEs, emphasizing the importance of access to finance for business growth. Limited access to external financing can prevent enterprises from purchasing equipment, increasing inventory, hiring employees, and entering new markets. Digital financial services may help reduce some of these difficulties by improving transaction documentation and providing additional channels for interaction with financial institutions. Nevertheless, digital transaction records do not automatically eliminate lending barriers, particularly when businesses lack collateral, stable income, or formal registration. This suggests that digital financial inclusion may be most effective when accompanied by appropriate lending products, transparent eligibility requirements, and financial services designed to meet the needs of smaller enterprises.

Ozili (2018) discussed the opportunities and challenges associated with digital finance and financial inclusion, highlighting the potential for technology to broaden financial access while also introducing new risks. Digital financial services can reduce certain transaction costs, improve the convenience of payments, and enable customers to use financial services without visiting physical bank branches. For SMEs, these advantages may contribute to improved cash-flow management, faster supplier payments, and more convenient collection of customer payments. However, digital finance can also create challenges involving cybersecurity, consumer protection, digital exclusion, and limited technological knowledge. Businesses that lack the skills to manage online transactions may remain dependent on cash despite the availability of digital services. In Pakistan, these considerations suggest that expanding digital financial inclusion requires not only technological development but also accessible training, reliable customer support, and appropriate safeguards for business users.

Research on mobile money also provides insights into the potential economic benefits of digital financial inclusion. Suri and Jack (2016) investigated the long-term effects of mobile money in Kenya and found evidence of positive economic outcomes, including poverty reduction and improvements in economic opportunities, particularly among women. Although their study focused on households rather than Pakistani SMEs, it demonstrates how access to digital financial services can influence economic participation by making financial transactions more accessible and flexible. For small businesses, similar mechanisms may support the receipt of payments, the transfer of funds, and the management of working capital. Nevertheless, the results of research conducted in one country cannot automatically be generalized to another because financial regulations, market structures, and technology adoption patterns differ. The study nevertheless provides a useful conceptual basis for examining how digital financial inclusion may contribute to the economic empowerment of SMEs in Pakistan.Recent research

has examined the relationship between digital inclusive finance and technological innovation among Pakistani SMEs. Ahmad et al. (2025) investigated the role of digital inclusive finance in technological innovation and considered financing constraints as part of this relationship. Their study reported a positive relationship between digital financial inclusion and technological innovation among the SMEs examined. This research is relevant because access to digital financial services may help businesses manage financial transactions and address some of the limitations associated with financing and investment. Technological innovation can, in turn, enable enterprises to improve products, enhance operational processes, and respond to competitive pressures. However, digital financial inclusion and economic empowerment are related but distinct concepts. Access to digital finance may create opportunities for innovation, but the extent to which those opportunities translate into sustainable growth depends on business capabilities, market demand, and the availability of complementary resources.

Rizvi and Siddiqui (2026) examined digital financial inclusion among SMEs in Pakistan, focusing on regulatory support, financing barriers, market opportunities, digital financial literacy, and trust. Their research reported positive associations between regulatory support and digital financial inclusion and between market opportunities and digital financial inclusion, while financing barriers were negatively associated with inclusion. The study also identified important roles for digital financial literacy and trust in shaping certain relationships. These findings highlight that financial technology adoption depends on more than the availability of digital platforms. SMEs must understand how to use the services, trust the institutions providing them, and operate within an environment that supports affordable and reliable financial access. This perspective is particularly important for Pakistan, where differences in digital skills, financial resources, and institutional support may influence whether smaller enterprises can benefit from digital finance.

The literature overall suggests that digital financial inclusion may support SME economic empowerment through improved payment efficiency, better financial management, increased opportunities to access formal finance, and greater potential for technological innovation. Demirgüç-Kunt et al. (2022) provide evidence concerning the broader development of digital financial access, while Beck and Demirgüç-Kunt (2006) explain the significance of financing constraints for smaller enterprises. Ozili (2018) and Suri and Jack (2016) contribute further perspectives on the opportunities and economic implications of digital finance. More recent studies by Ahmad et al. (2025) and Rizvi and Siddiqui (2026) provide context-specific insights into digital finance and SME development in Pakistan. However, the effectiveness of digital financial inclusion depends on whether businesses can overcome barriers related to financial literacy, technology, trust, affordability, and access to appropriate financial products. The present

study synthesizes these themes to examine how digital financial inclusion can contribute to the economic empowerment of SMEs in Pakistan.

## METHODOLOGY

The present study adopts a qualitative research methodology based on secondary data to examine the relationship between digital financial inclusion and the economic empowerment of small and medium enterprises in Pakistan. The study draws on existing academic journal articles, scholarly publications, and relevant research concerning digital financial services, SME development, financial accessibility, and entrepreneurship. The selected literature is examined according to its relevance to the research objectives, its contribution to understanding digital financial inclusion, and its discussion of business development and financial constraints. The methodology incorporates established research by Beck and Demirgüç-Kunt (2006), Ozili (2018), and Demirgüç-Kunt et al. (2022), together with more recent studies concerning digital finance and Pakistani SMEs. The information is analyzed to understand how digital payments, mobile banking, digital wallets, and electronic financial services may influence business operations and financial opportunities. Particular attention is given to the barriers associated with digital financial literacy, technological infrastructure, affordability, institutional trust, and access to formal credit. Since the study relies on secondary literature, no primary surveys or interviews are conducted. The methodology therefore focuses on synthesizing existing knowledge and developing a contextual understanding of digital financial inclusion in Pakistan.

## RESEARCH DESIGN

The study employs a qualitative, descriptive, and literature-based research design to investigate how digital financial inclusion may contribute to SME economic empowerment in Pakistan. This design is appropriate because the research seeks to understand financial accessibility, business development, digital technology adoption, and the challenges faced by smaller enterprises rather than test statistical relationships using newly collected data. Relevant academic studies are reviewed to identify recurring themes related to digital payments, financial management, access to credit, business innovation, and entrepreneurial growth. The research also considers contextual factors, including differences in digital infrastructure, financial literacy, institutional support, and business resources. The selected literature is organized around the three research objectives to maintain a clear connection between the evidence reviewed and the questions being investigated. Findings from different studies are compared to identify common conclusions and areas requiring further investigation. The design provides a structured basis for examining the possible contribution of digital financial inclusion to SME development while recognizing that outcomes may differ across businesses and economic settings. The study does not claim to establish causal relationships through primary empirical testing.

## DATA ANALYSIS

The study applies thematic analysis to information obtained from the selected academic literature. The analysis begins by identifying relevant discussions concerning digital financial inclusion, economic empowerment, SME growth, financial accessibility, and digital technology adoption. The information is then organized into major themes corresponding to the research objectives. The first theme focuses on financial accessibility, including the use of digital payments, mobile banking, and electronic transactions. The second theme examines economic empowerment through improved financial management, access to financing opportunities, operational efficiency, business innovation, and potential market expansion. The third theme identifies barriers such as limited digital literacy, inadequate infrastructure, transaction costs, cybersecurity concerns, and insufficient trust in financial institutions. The literature is compared to identify similarities, differences, and contextual limitations in the findings reported by previous researchers. Studies by Ahmad et al. (2025) and Rizvi and Siddiqui (2026) provide Pakistan-specific insights, while Demirgüç-Kunt et al. (2022) and Ozili (2018) contribute broader perspectives on financial inclusion and digital finance. Because the study uses qualitative secondary data, the analysis does not involve statistical testing or the calculation of new numerical estimates. Its purpose is to develop an evidence-informed interpretation of the potential relationship between digital financial inclusion and SME empowerment.

## FINDINGS

The literature review indicates that digital financial inclusion may contribute to the economic empowerment of SMEs by improving access to financial services and making routine transactions more convenient. Digital payments, mobile banking, and electronic transfers can help businesses receive customer payments, pay suppliers, monitor financial transactions, and maintain more accessible records. Demirgüç-Kunt et al. (2022) highlight the broader role of digital financial services in expanding financial access, while Ozili (2018) discusses their potential to improve inclusion and reduce certain barriers to financial participation. For SMEs in Pakistan, these services may provide practical opportunities to improve financial management and reduce dependence on cash-based transactions. However, the extent of these benefits depends on the affordability, accessibility, and reliability of the services available to business owners.

The reviewed literature also suggests that digital financial inclusion may support business growth by improving opportunities to engage with formal financial institutions and manage financial resources more effectively. Beck and Demirgüç-Kunt (2006) emphasize the importance of financing constraints for SMEs, while Ahmad et al. (2025) report a positive relationship between digital financial inclusion and technological innovation among the Pakistani SMEs examined in

their study. These findings suggest that digital finance may support business development by facilitating financial transactions and helping enterprises address some financing-related limitations. Nevertheless, digital financial inclusion should not be treated as a guarantee of increased profits or business expansion. Its economic benefits depend on the availability of appropriate financing, effective management, productive investment opportunities, and the capacity of enterprises to use digital financial services strategically.

The literature further indicates that financial literacy, institutional trust, regulatory support, and technological infrastructure are important considerations in the effective use of digital financial services. Rizvi and Siddiqui (2026) identify associations between digital financial inclusion and factors including regulatory support, financing barriers, and market opportunities, while also examining the roles of digital financial literacy and trust. These findings suggest that access to digital platforms alone may not be sufficient to empower SMEs economically. Businesses must also understand how to use digital services, recognize financial risks, protect transaction information, and select suitable financial products. In Pakistan, efforts to improve digital financial inclusion should therefore combine accessible financial services with digital literacy initiatives, appropriate consumer protection, reliable infrastructure, and support for small businesses. Such measures may help enterprises use digital finance more effectively and strengthen their potential for sustainable development.

## CONCLUSION

This study examines the role of digital financial inclusion in the economic empowerment of small and medium enterprises in Pakistan through a qualitative review of existing academic literature. The reviewed research suggests that digital financial services can improve financial accessibility, simplify transactions, support financial management, and create opportunities for business development and technological innovation. However, these benefits depend on the availability of affordable services, digital financial literacy, reliable infrastructure, institutional trust, and appropriate access to formal financing. Digital financial inclusion should therefore be understood as a means of supporting SME development rather than an automatic guarantee of economic success. Policymakers and financial institutions can support this process by improving digital payment infrastructure, developing accessible financial products, strengthening cybersecurity protections, and providing financial education to business owners. SMEs can also benefit from adopting suitable digital tools and maintaining reliable financial records. The study concludes that digital financial inclusion has the potential to strengthen SME economic

empowerment in Pakistan when supported by effective institutions, appropriate technology, and informed business practices. Since the research relies on secondary literature, future empirical studies involving SME owners and managers could further examine the relationship between digital financial inclusion, business performance, and long-term economic empowerment.

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