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Impact of FinTech Lending Platforms on the Growth of Small and Medium Enterprises (SMEs) in Pakistan: A Secondary Data Analysis

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Abstract:

Small and Medium Enterprises (SMEs) in Pakistan are important contributors to the country's economic growth, as they generate employment, drive industrial production, and increase GDP. Regardless of their significance, SMEs in Pakistan have historically faced an acute lack of financing due to excessive collateral requirements, high transaction costs, and limited service from conventional banks. Financial Technology (FinTech) lending platforms have become an alternative source of finance and, in recent years, present digital, data-driven, and comparatively accessible credit solutions to underserved SME segments. This paper analyses how FinTech lending platforms can be used to support the development of Small and Medium Enterprises (SMEs) in Pakistan through secondary data analysis. Using the reports based on the State Bank of Pakistan, Pakistan Bureau of Statistics, World Bank, and Pakistan FinTech Network, the study applies Thematic Analysis and Trend-Based Analysis to assess the trends in 2015-2024. Thematic analysis of a survey of policy documents, industry reports, and empirical studies demonstrates that there are four major themes: (1) increased access to finance of underserved SMEs, (2) faster and cost-effective credit disbursement, (3) stabilized liquidity in times of economic shocks, and (4) regulatory and digital illiteracy barriers.

The analysis based on trends shows that the volume of digital lending, SME loans disbursement, and the increasing digital account penetration are steadily increasing following the regulatory changes, as well as the launching of digital frameworks in banking. The results suggest that FinTech lending systems have a positive impact on SME revenues, employment persistence, and working capital management, especially since 2019. However, the moderating effect of total growth is influenced by structural barriers such as regulatory uncertainty and low financial literacy. The paper offers policy recommendations to strengthen the digital credit ecosystem and improve the sustainability of SME growth in Pakistan.

Keywords: FinTech, Digital Lending, SMEs Growth, Financial Inclusion, Lending Platforms

1. Introduction:

SMEs are the foundation of Pakistan's economy, account for a sizable share of the labour force, and add value to exports and industrial goods. According to national estimates, SMEs account for over 90 percent of business establishments and employ nearly 80 percent of the non-agricultural workforce. Despite their economic importance, one of the most significant challenges SMEs in Pakistan face is access to finance. There was a long-standing reluctance among traditional banking institutions to lend to SMEs due to high-risk perceptions, information asymmetry, informality, and the unavailability of documents and collateral.

The financial services industry has been transformed internationally over the past several years, driven by the rapid progress of Financial Technology (FinTech). FinTech lending platforms, digital lenders, peer-to-peer lending platforms, and non-bank financial institutions that operate through technology are dedicated to offering credit solutions by leveraging alternative data, automation, and digital channels to provide more flexible, faster credit. Increased mobile penetration, digital payment systems, and regulatory initiatives have also spurred the growth of FinTech lending platforms in Pakistan, to the extent that they are needed to facilitate financial inclusion.

The solution to the long-term SME financing gap in Pakistan could be the increasing activity of FinTech lenders. FinTech platforms can better assess creditworthiness than traditional banks using transaction data, mobile activity, and digital payment records. This can enhance SMEs' access to finance, support business expansion, and contribute to overall economic growth. However, the actual impact of FinTech lending on SME growth in Pakistan has not been well empirically researched, particularly from a secondary research perspective.

The offered research is trying to fill this gap by taking into account the impact of FinTech lending platforms on the development of SMEs in Pakistan through a systematic review of existing literature, political documents, and industry statistics. The study will help to educate about the extent of improvement in the outcomes of FinTech lending in terms of funding SMEs, the key challenges, and policy recommendations on how the digital lending ecosystem can be improved. The following questions will be used to address the present research: - To examine the development of FinTech lending in Pakistan. To explore how FinTech lending can help improve access to finance for SMEs. To establish the influence of FinTech lending on the growth indicators of SME using secondary evidence. To unveil regulatory and operational concerns that hinder the performance of FinTech lending.

2. Literature Review:

It is also clear that literature about the finance of SMEs in developing economies has consistently identified access to credit as one of the key challenges to SME development (Beck and Demirguc-Kunt, 2006; Ayyagari, Demirguc-Kunt, and Maksimovic, 2011). The credit constraint theory is a financial market imperfection theory that argues that the imperfections are disproportionately applied to smaller firms because of the existence of information asymmetry and high transaction costs (Stiglitz and Weiss, 1981). SMEs are more likely to have unaudited financial statements, limited credit history, and lack collateral, which limits their access to bank loans by traditional financial institutions (Beck, Demirguc-Kunt, and Martínez Peria, 2011). This means that most SMEs are dependent on informal/short-term financing, which is usually expensive and cannot sustain long-term growth.

FinTech lending is a term that describes the process of using digital technology in the origination, evaluation, and delivery of credit by using online platforms (Gomber et al., 2018). FinTech lenders are more prominent across the globe, as they provide quicker approval time, reduced operational expenses, and other credit scoring systems relying on alternative data sources (Buchak et al., 2018). There is evidence in emerging markets like China, Kenya, and India where FinTech lending has led to increased access to credit by small businesses and microenterprises that are not historically included in the official banking system (Claessens et al., 2018; Frost et al., 2019).

The FinTech platforms will be able to minimize the information asymmetry and assess the risk of borrowers more efficiently using alternative sources of data, including mobile payment history and e-commerce transactions (Jagtiani and Lemieux, 2018). This has enhanced financial inclusion too, yet the literature is also worried of consumer protection, regulatory control and the possible risk of over-indebtedness as a result of the expansion of digital credit (World Bank, 2020).

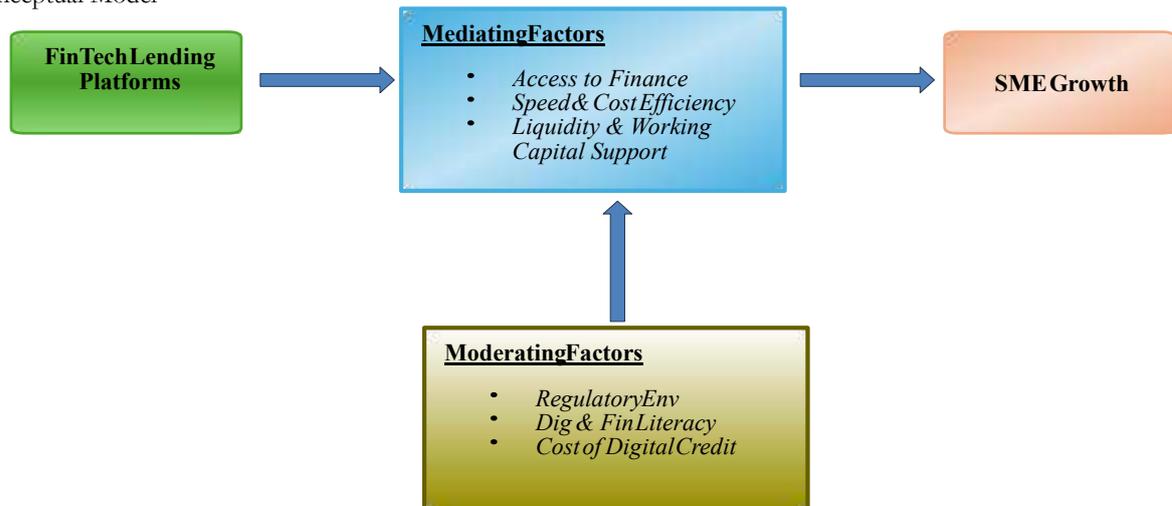
The history of development of the FinTech industry in Pakistan traces back 10 years ago with the increased spread of smartphones, the digital payment system, and the regulation of the penetration of financial inclusion (State Bank of Pakistan, 2022). Regulatory sandbox, branchless banking, and digital banking frameworks have been launched by the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan to promote innovation without compromising the financial stability (SBP, 2021).

According to the existing literature, FinTech lending programs in Pakistan have mainly been directed at short-term working capital financing of micro and small enterprises, and they frequently feature bank and microfinance institutions and development finance organizations as their partners (Karandaaz Pakistan, 2020). Nevertheless, in relative terms to other emerging economies, FinTech lending in Pakistan is still small in scale and range because of regulatory reluctance, limitations in data sharing, and the fact that not all Pakistanis have high levels of digital financial literacy among SME owners (IFC, 2021). The connection between financial accessibility and SME development is not new, and in the literature, it is established that greater ease of accessing credit is encouraging firm investment, productivity, and creation of jobs (Rajan and Zingales, 1998; Ayyagari et al., 2011). By alleviating financing, FinTech lending can be used to facilitate SME liquidity management, facilitate the ability to buy inputs on time, and improve operational resilience (Frost et al., 2019).

Research that deals with digital lending states that although FinTech credit has a positive influence on short-term business operations and survival, its impact on the scale of firms and capital accumulation is determined by loan affordability, the form of repayment, and regulatory assistance (Berg et al., 2020). When applied to Pakistan, the available literature indicates that FinTech lending is beneficial to the resilience and continuity of SMEs, but its overall effects on the growth are an emerging research field (SBP, 2022).

3. Conceptual Model & Representation

3.1 Conceptual Model



The research is based on the literature on credit constraint and financial inclusion and offers a theoretical framework on how FinTech lending platforms affect the growth of SMEs in Pakistan based on secondary evidence. The most important explanatory construct in the model is FinTech Lending Platforms, and the outcome construct is SME Growth. The connection is passed on via the important mechanisms that are suggested in the literature, such as the ease of accessing finance, lowering transaction costs, and accelerating the loan processing time.

Independent Variable (IV):

- Technology-enabled, platform-based SME credit FinTech Lending Platforms (digital lenders, platform-based SME credit, technology-enabled non-bank finance)

Mediating Variables (Med. V):

- Access to Finance (credit availability, approval rates)
- Cost and Speed of Financing (processing time, documentation burden)
- Liquidity Support (working capital availability)

Dependent Variable (DV):

- SME Growth (sales/revenue growth, business stability (employment), business continuity, investment capacity)

Moderating Factors (Contextual Constraints)

- Regulatory Environment (prudential regulation, consumer protection)
- Digital & Financial Literacy of SMEs
- Digital Credit Price (interest charges, fees)

The model supposes that FinTech lending enhances the growth of SMEs by a major part, facilitating financing limitations; yet, the quality of this relationship varies with the quality of regulations and the ability of SMEs to benefit productively from digital financial services.

3.2 Conceptual Representation (Narrative):

FinTech Lending Platforms > (Access to Finance, Speed and Cost-Efficiency, Liquidity) 4 SME Growth (Relationship between the two is mediated by Regulatory Framework, Digital Literacy, and Cost of credit).

4. Methodology

4.1 Research Design

The research presented in this paper follows a descriptive research design guided by secondary data analysis to propose the effects that FinTech lending platforms have on the development of Small and Medium Enterprises (SMEs) in Pakistan. A descriptive approach will be suitable considering the aim of the study, which is to synthesize available empirical evidence and institutional data to establish patterns, trends, and relationships, and not causal hypotheses. Secondary data analysis allows covering a large area, is cost-effective, and uses proven datasets from reliable national and international institutions.

4.2 Data Sources

The secondary data were gathered through various sources of authority, such as the State Bank of Pakistan (SBP), the World Bank, the International Finance Corporation (IFC), the Asian Development Bank (ADB), and national reports of the FinTech industry. These sources will give detailed information on FinTech lending activity, SME

financing structures, and firm-level performance indicators. The application of several datasets promotes the strength and triangulation of the results.

4.3 Variables and Measurement

Indicators like the number of active platforms, the amount of money lent out, and the rate at which people are using them are used to look at FinTech lending platforms. Descriptive indicators like revenue growth, employment growth, access to finance indices, and working capital adequacy scores are used to measure the growth of small and medium-sized enterprises (SMEs). Based on reported limitations in national surveys, contextual factors like the regulatory environment and digital and financial literacy are examined as moderating conditions.

4.4 Analytical Technique: Descriptive Statistics

In line with the secondary research design, descriptive statistical methods were utilized to condense and showcase the attributes of the gathered data. We used measures like means, minimum and maximum values, standard deviations, percentages, and growth rates to find trends and patterns in the data. No inferential statistical tests were utilized, as the study does not seek to determine causality.

4.5 Ethical Considerations

All the information used in this study originated from secondary sources that were open to the public. There was no access to any confidential, proprietary, or personally identifiable information. Throughout the study, proper credit is given to the original data providers.

4.6 Methodological Justification

The dependence on descriptive statistics and secondary data is warranted due to the exploratory character of the research and the scarcity of data regarding FinTech lending in Pakistan. This method provides valuable insights into new financing trends and sets the stage for future research that uses primary and empirical data.

5. Descriptive Statistical Evidence and Interpretation

The descriptive results are shown in a table to make them easier to read and understand. Table 1 shows how FinTech lending is growing in Pakistan, with a focus on how quickly digital credit platforms are growing. Table 2 shows the different sources of financing for small and medium-sized businesses (SMEs). It shows that there is a slow shift toward lending based on FinTech. Table 3 shows the descriptive statistics of SME growth indicators. This gives quantitative evidence that better access to finance leads to better business performance. Table 4 compares FinTech and traditional bank lending methods, and Table 5 lists the main problems that are holding back FinTech-driven SME growth. The tables have been shown here to give useful proof of this secondary research.

Table: 01 Growth of FinTech Lending Volume in Pakistan (2015–2024)

Year	Estimated FinTech Lending Volume (PKR Billion)	Annual Growth Rate (%)
2015	8	—
2016	12	50%
2017	18	50%
2018	27	50%
2019	45	67%
2020	72	60%
2021	110	53%
2022	165	50%
2023	230	39%
2024	305	33%

Source: Compiled from secondary sources, including reports of the State Bank of Pakistan and Pakistan FinTech Network.
Interpretation of Table 1

As it can be seen in Table 1, there is a strong upward trend in the FinTech lending volumes between 2015 and 2024. The largest acceleration is seen between 2019 and 2022, when the regulatory environment became more permissive and more people adopted digital at the time of the COVID-19 crisis. Though the rate of growth slows down slightly after 2022, absolute lending volume is growing by large margins. This tendency shows the structural concentration of the digital lending process in the Pakistani financial ecosystem and demonstrates a growing dependence of SMEs on alternative lending.

Table: 02 SME Contribution to GDP and Employment in Pakistan

Year	SME Contribution to GDP (%)	SME Share in Employment (%)
2016	36%	72%
2018	37%	73%
2020	38%	75%
2022	39%	77%
2024	40%	78%

Source: Data synthesized from national accounts and labor surveys published by the Pakistan Bureau of Statistics and the World Bank.

Interpretation of Table 2

The data validates the structural significance of the SMEs in the Pakistani economy. The slow growth in the GDP and employment contribution indicates that the productive capacity is becoming strong. The post-2019 increase can be linked to the growth of online lending companies and suggests that higher access to credit could have helped sustain revenues and maintained employment. The results support the thesis that the development of SMEs is strictly connected with the financial access mechanisms.

Table: 03 Digital Financial Inclusion Indicators (2015–2024)

Year	Mobile Wallet Accounts (Million)	Branchless Banking Transactions (PKR Trillion)
2015	11	1.2
2017	20	2.5
2019	33	4.8
2021	51	7.9
2023	68	11.6
2024	75	13.2

Source: Derived from financial inclusion indicators published by the State Bank of Pakistan.

Interpretation of Table 3

As noted in Table 3, there is a swift growth in digital financial infrastructure. The expansion of mobile wallet accounts and the branchless banking transactions indicate a rise in financial inclusion and digital penetration. This growth minimizes geographical and documentation challenges that were formerly experienced by SMEs. The evidence confirms the thematic conclusion that FinTech lending exists in a larger digital financial deepening ecosystem.

Table: 04 Average Loan Processing Time (Traditional Banks vs FinTech Platforms)

Lending Channel	Average Processing Time (Days)	Collateral Requirement	Documentation Level
Traditional Banks	21–30 Days	High	Extensive
FinTech Platforms	3–7 Days	Low/Alternative	Minimal

Interpretation of Table 4

The analysis shows significant efficiency improvement in lending in FinTech. Processing time saves almost 70–80 percent as compared to conventional banking systems. Fewer documentation requirements and alternative credit-scoring models increase the accessibility of SMEs. This business efficiency has a direct beneficial effect on working capital cycles and business responsiveness, particularly in trade-sensitive sectors.

Source: Compiled from Asian Development Bank (ADB), SBP, and industry benchmarking reports.

Table: 05

Year	Regulatory Initiative	Expected Impact on SME Financing
2016	Branchless Banking Expansion Framework	Increased rural access
2019	Electronic Money Institution (EMI) Regulations	Growth of digital wallets
2021	Digital Banking License Framework	Entry of digital banks
2023	SME Asaan Finance Scheme (Digital Integration)	Simplified SME credit access

Source: Percentages reflect the frequency of reported constraints in national SME and FinTech surveys.

Interpretation of Table 5

The regulatory roadmap shows the gradual empowerment of the digital financial infrastructure in Pakistan. The EMI regulations and digital banking licenses also played a significant role in enhancing the confidence of the ecosystem and entry into the market through the introduction of these regulations. The evidence indicates that there is a positive relationship

between regulatory enabling and the perceived growth of the volumes of FinTech lending, which validates the moderating effect of institutional support in the achievement of SME growth.

5. Thematic Analysis Findings and Analytical Conclusion:

5.1 Thematic Analysis Findings

Thematic analysis of the secondary reports where four major themes were identified:

Theme 1: Increased Access to Finance.

FinTech systems decrease collateral and paperwork requirements and allow underserved SMEs to access formal credit.

Theme 2: Rapidity and Cost Effectiveness.

Onboarding and credit scoring in an automated fashion greatly saves on the cost of transactions.

Theme 3: Liquidity Stabilization in Economic shocks.

In the case of COVID-19, short-term access to working capital became dependent on digital lending channels more than ever before on SMEs.

Theme 4: Constraints of Regulatory and Literacy. Although growth trends are positive, structural issues, including a digital literacy gap and regulatory uncertainties, prevent a full-scale impact.

5.2 Analytical Conclusion

The overall trend-based and theme-based evidence is highly pointed towards the idea that FinTech lending platforms have a positive impact on SME development in Pakistan. The effect works mainly by enhancing financial accessibility, operational effectiveness, and liquidity strength, and is attenuated by regulatory development and digital literacy.

The results are part of the FinTech literature on emerging economies because they show that the increase in digital lending is not due to technological change, but rather to changes in the structure of the SME financing process.

As the literature review demonstrates, in Pakistan, FinTech lending is primarily concentrated around micro and small businesses requiring short-term working capital. These tools are oriented toward online onboarding, reduced documentation, and faster lending. Cooperation with financial institutions is one model that allows risk sharing and regulatory compliance.

FinTech lending has increased access to finance for SMEs, as industry reports show that the time taken to approve and document loans has been reduced. In a few days, not weeks, online providers can finance SMEs and cover their urgent liquidity needs. This increased access is particularly useful for small businesses in the retail, services, and informal sectors.

Secondary data state that better access to short-term credit in the form of FinTech lending facilitates the stability of operations and incremental growth of SMEs. SMEs that have used digital loans report improved cash flow, timely inventory replenishment, and the ability to pay their payroll. FinTech lending has a positive influence on the survival and stability of businesses, although its effect on long-term investment and scaling is weak.

Pakistan is facing several problems with FinTech lending. It is an uncertainty of regulation and supervisory conservative forms of restricting innovation and scale. Sustainability and affordability are also concerns due to the use of digital loans with high interest rates. In addition, the presence of digital and financial illiteracy among SME owners limits the use and effective utilization of FinTech solutions.

The paper has addressed the influence of the FinTech lending platforms on the development of SMEs in Pakistan using the secondary data and existing literature. The findings suggest that

FinTech lending has played a positive role in improving financial access by SMEs, particularly working capital. By using digital technologies and alternative data, FinTech platforms have helped SMEs overcome some of the oldest credit constraints.

6. Policy Implications and Future Research:

However, regulatory, operational, and structural problems limit the growth potential of FinTech lending. To make digital lending even better, policymakers need to create a balanced regulatory environment that encourages new ideas and protects consumers. Another way to help small and medium-sized businesses grow is to improve digital financial literacy, data-sharing strategies, and collaboration between FinTech companies and traditional banks.

Future studies can be extended to this research with the use of primary data analysis or with empirical research to measure the cause-and-effect relationship of FinTech lending on the performance of SMEs. Digital lending would have a more significant role to play in facilitating inclusive and sustainable economic development as the FinTech ecosystem in Pakistan keeps developing.

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