



## Financial Inclusion for SMEs: Role of Digital Micro-Financial Services

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ARTICLE DETAILS	ABSTRACT
<p><b>History</b> Revised format: 30 June 2019 Available Online: 31 July 2019</p>	<p>SMEs play major role in poverty reduction and employment generation, therefore experts considered this sector as engine of economic growth. However, access to finance in developing countries is one of major issue in development of SME sector as well as hurdle in economic growth. Financial institutions banking and non-banking shows reluctant behaviour in providing financing to SMEs and the issue is more severe in emerging economies. Bank financing has been found as main source of funds for SMEs in Pakistan, however, to obtain these funds not easy for small and medium firms. Recently digital micro financial services have been introduced by a number of micro finance banks. Current study looks into the role of digital micro financial services in enhancing SMEs' access to finance and thereby enabling a more inclusive financial market for SMEs especially in context of emerging and developing economies. By digging out the existing literature and secondary data, the study discusses that digital financial services have greatly helped owner managers of SMEs in smooth management of their transactions and finances. The study concludes that to strengthen SME sector for economic growth, it is important to further reduce the cost of using digital financial services and increase the financial product portfolio on digital platforms.</p>
<p><b>Keywords</b> Digitization, Smes, Financial Inclusion, Pakistan, Inclusive</p>	
<p><b>JEL Classification:</b> G10, G15, N10, N15</p>	

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### 1. Introduction

For inclusive growth in countries experts and practitioners consider financial inclusion as powerful tool. It empowers individuals, groups and businesses to easily access financial services or system which is prerequisite for the achievement of policy inclusiveness. Moreover, it allows to cultivate opportunities for greater socio-economic outcomes along with better integration into the economy and improvement in their livelihoods. Small and medium enterprises contribution towards employment generation and economic development has already been accepted and discussed thoroughly (Shofawati, 2019). Despite pivotal role of SMEs in economic development still researchers and policy makers emphasizing on financial inclusion of SMEs. In developing countries the issue is more severe as various internal and external hurdles such as corruption, technological constraints, poor infrastructure etc. slow down the inclusion process. In addition, supply and demand side barriers also have greater impact on financial

inclusion of SMEs (Blancher et al., 2019). To achieve the goal of inclusive finance system no doubt challenging for developing economies, however, governments, financial institutes and related national/international institutes are remain committed towards financial inclusion of underserved individuals and firms in order to build strong economy. Besides various constraints developing countries are trying to pave their weaknesses by focusing on adoption of modern ways of financing for individuals and firms. As in this era of technology to compete globally it's essential for economies to learn and shift their systems towards digitization for rapid growth (Bansal, 2014).

Globally internet penetration growth bringing revolution in businesses and in individuals' life as the way of information sharing, transaction execution and other day to day operations changing quickly. Increase in digital connectivity reshaped consumer behavior as sloping in favor of cost saving, convenience and customized retail experiences. Additionally, firms' also grabbing opportunities emerging from digitization e.g. efficiency in supply chain, enhanced flexibility to address consumer needs and lower costs of transaction. A greater impact of digitization can also be seen on production of commodity-producing sectors through processes such as automation and data handling (Badruddin, 2017). Digitization in financial industry is beneficial not only for users but also for the providers, government and economy. World Bank and G-20 in emerging economies initiated the project to increase financial inclusion by adopting modern financing systems for sake of reduction in poverty. Digitization of financial services not only provide convenience and affordability to users but also it enable low-income individuals or small and micro firms to access financial services easily. Along with convenience it also provide security as compare to keeping paper money and travelling with it (Peterson K Ozili, 2018). Digital financial services includes mobile banking, internet banking, e-wallets, credit and debit cards etc. Although digitization greatly impacting the life globally but challenges are also there for both developed and developing economies. To compete in market governments and policy makers stressing on adoption of digitization, however, negative perceptions preventing nations to enter in technological era where systems are not so strong. Particularly, developing countries who are facing numerous challenges and going through the phase of development not able to provide that level of security and convenience to users which actually required and mandatory for use of digital financial services. Therefore, these countries majorly facing issue of cyber-attacks and poor security systems avert people to adopt digital financial services. Also the issues of poor network coverage, higher cost of transactions and lack of awareness slow down the adoption of technology in financial industry (Rasheed, Siddiqui & Rahman, 2018).

Pakistan also among those struggling countries who are while developing their industries focusing on the implementation and adoption of modern systems. Current paper aims to highlight that how policy makers and institutions in Pakistan trying to achieve the goal of financial inclusion specifically for SMEs and how micro-digital financial services boosting this inclusion process. The paper has primarily discussed how digital financial services helping and improving SMEs financial status which ultimately benefiting country economic condition. Moreover, with the help of secondary data and prior research effect of micro-financial services on SMEs and economy in Pakistan has also been discussed in this paper.

## 2. Financial Inclusion

Economists and policy makers concerned about bottom of pyramid (BoP) nations who are not capable to take advantage of expansion and growth occurred in developing economies. Its' unfortunate in emerging economies that in spite of greater economic growth the income inequality and unacceptable poverty levels remain at the BoP. Researchers discussed about the "financial nomads" the citizens at BoP who are excluded from many sources of financial services and suffer from financial insecurity, simply no access to financial products and services (Realini & Mehta, 2015). Practitioners and policy makers therefore emphasized on financial inclusion as they consider it as main element towards inclusive growth. For the reduction of poverty and increase in economic development financial inclusion importance cannot be denied as it enable households to invest in education, durable goods, health and to expand the consumption (Thomas & Hedrick-Wong, 2019).

Various researchers defined financial inclusion which highlight it as broader concept. Sarma, (2008) defines financial inclusion in multi-dimensional terms "process that ensures ease of access, availability, and active usage of the formal financial system" for the people of an entire society and economy. According to World Bank, (2017) where the citizens of a society who are excluded from access and use of financial products and services need of financial inclusion implies. Additionally, ACCION a leading financial investment organization suggested five dimension of financial inclusion; full access, provision with quality, client financial capability, services for all, diverse and competitive marketplace.

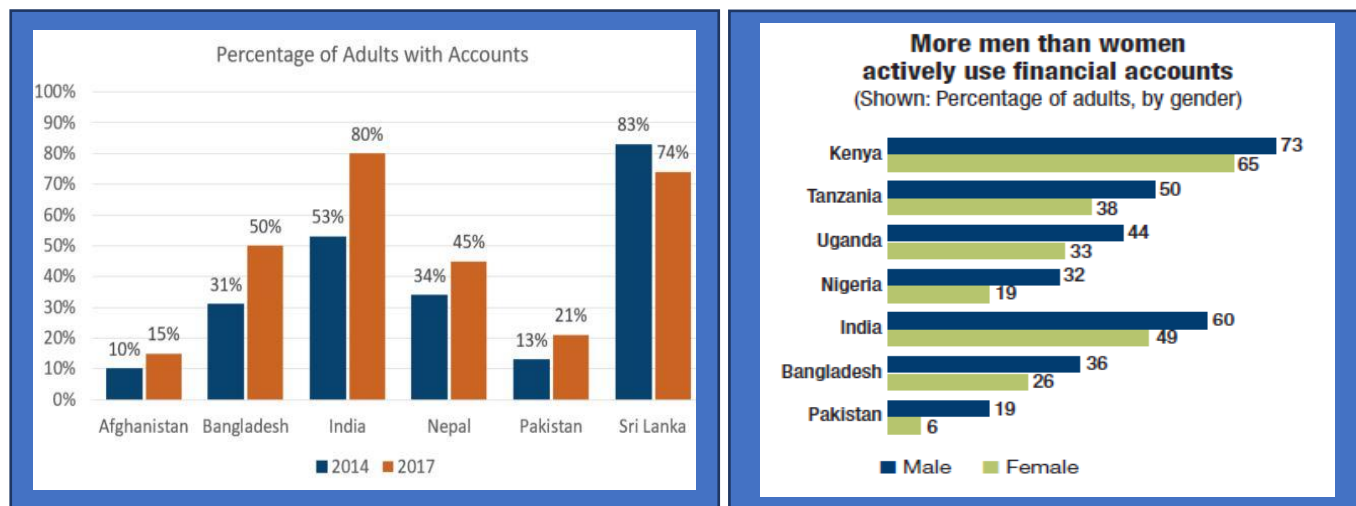
According to World Bank Global Findex Survey (2017), 50 percent of world adult population which is approximately 1.7 billion individuals are not included in formal financial system. Moreover, because of rare account usage or no access to credit around 1-1.5 billion are under-banked. In emerging economies, India and China have the largest share of individuals who are unbanked as globally 24% unbanked adults live in India and China. Moreover, survey of World Bank Global Findex, (2018) revealed individuals with no account in any financial institute or mobile money account in South East Asian countries 52% of total population, out of these financial excluded adults 20% are in China and 20% in India. To shed light on this situation is essential for inclusive growth as the citizens at BoP do not have enough and reliable sources of finance, therefore, ultimately they rely on expensive financial sources. Similar situation facing by the millions of small and medium firms who want to take formal finance to fulfil their business financial needs but not able to obtain from financial institutes because of various demand and supply side factors (Rasheed & Siddiqui, 2018). A study of Park and Mercado, (2015) focused on financial inclusion assessment specifically in Asian economies, for 37 Asian countries they have produced the financial inclusion indicator for each and highlighted the factors which impact financial inclusion. Study revealed that population size, per capita income and rule of law increased while age dependency and associated demographic factors lowered financial inclusion. Similarly, Thomas and Hedrick –Wong, (2019) identified that mobile access and saving priorities are important factors and emphasized more on mobile access because of modern and easy driver of financial transactions. World Bank's Global Findex database mentioned around 100 factors such as household income, gender and age.

## 2.1 Financial Inclusion in Pakistan

As a national priority Pakistan has adopted financial inclusion and left many countries behind. In 1990 the support for the establishment of microfinance banks has been started which ultimately began in 2001 after allowed by the government. Pakistan was the first among other countries who adopted branchless banking in 2008. It was first step taken by the institutes towards digital financial services, however, the support further strengthened in 2015 with approval of national financial inclusion strategy. At the time of approval the level of financial inclusion was one of the lowest in the world as the account holders was only 16 percent of adult population and only 11 percent women had bank accounts (Rusmussen, 2018). Moreover, the provision of formal finance to SMEs, housing and agriculture was also on the lowest level. Therefore, national financial inclusion strategy has been developed by State Bank of Pakistan with consultation of stakeholders, banks, federal, provincial government departments, associations and donor agencies. Under the strategy central bank SBP has decided to achieve the target of financial inclusion ensuring 50 percent of adult population financial inclusion by 2020. Moreover, promotion of digital financial services to achieve universal financial inclusion and increase in lending to priority sectors such as SMEs and agriculture sectors are the main objective of national financial inclusion strategy (NFIS, 2017).

According to World Bank Group – Global Findex Report 2017 over period of two years account holders have grown from 13 to 21 percent as various initiatives under national financial inclusion strategy have been taken by SBP such as Asaan (easy) Mobile Account Scheme and opening of Asaan accounts. Moreover, to facilitate micro, small and medium firms Pakistan financial inclusion and infrastructure project has been launched by SBP specifically for SMEs and women entrepreneurs. In 2016, SBP assigned the targets of finance to banks and development financial institutes (DFIs) which achieved by the institutes efficiently, however, the target of Rs 1 trillion yet to be achieved by financial institutes till 2020. Research revealed that demand of Islamic finance among SMEs is quite high around 25 percent of SME population not obtaining any finance facility because they want Islamic financing as per Shariah principles (Rasheed and Siddiqui, 2018). SBP has assigned financing targets to Islamic banks for uplift the level of financial inclusion, though, it has been observed that Islamic banks shows more reluctance towards lending to SMEs. The financing target for SMEs was Rs 65 billion which Islamic banks have to achieve by Dec, 2017, however, only Rs 42 billion portfolio has been reported. Similarly, the target for the year 2018 was Rs 88 billion and reported Rs 31 billion as outstanding Islamic SME finance. The increase of Rs 199 billion expected from Islamic banks in SME finance portfolio by Dec, 2020 (SBP, 2018).

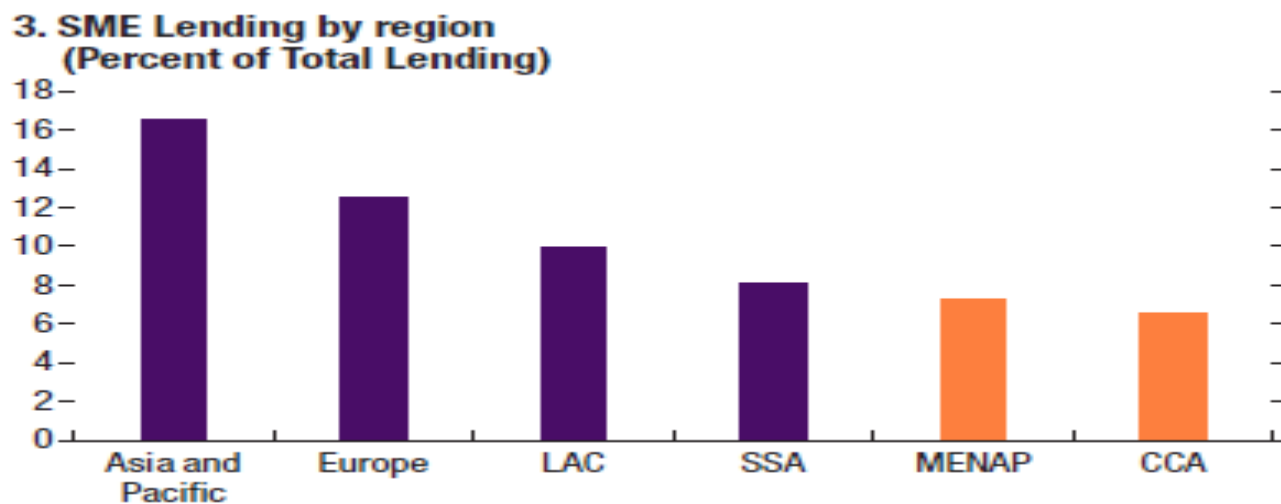
Despite various projects data shows financial inclusion progress is not up to the mark. World Bank 2017 Findex shows (figure 1) slow progress of financial inclusion as from 2014 to 2017 the percentage only rose 8 percent in Pakistan as compare to neighbour countries such as India and Bangladesh. The situation not much improved as the latest Blancher et al., (2019) IMF report on financial inclusion in Middle East and Central Asia highlighting Pakistan still at the bottom in percentage of male and female using financial accounts among other developing countries.



**Figure 1** – Percentage of Adults Accounts 2014-2017 World Bank Findex, (2017)

**Figure 2** – Adults Population using Financial Account IMF, (2019)

However, Figure 2 showing the dominance of male account holders which is common in almost all developing countries. Similarly, SME sector still suffering from lack of finance as in Pakistan average share of SMEs in total bank lending is only about 7 percent, which is lowest in the world. Although, SBP has announced various schemes and projects under national financial inclusion strategy for provision of formal finance to SMEs, however, the performance of financial institutes not remarkable. According to Blancher et al. (2019) report on financial inclusion of SMEs globally Figure 3 shows status of Pakistan in facilitating SMEs financially. IMF report further stated that developing countries can increase their economic growth by 1 percent by closing this financing gap for SMEs. Moreover, financial inclusion of SMEs can help to increase the rate of employment, potentially creating about 16 million jobs by 2025. It is recommended that larger extension to SMEs in credit allows banks to better diversify their credit portfolios and risk exposure which ultimately contribute towards financial stability.



**Figure 3** – SME lending by region (LAC= Latin America and Caribbean; SSA= Sub-Saharan Africa; MENAP=Middle East, North Africa, Afghanistan and Pakistan; CCA= Caucasus and Central Asia) Source: Blancher et al., (2019)

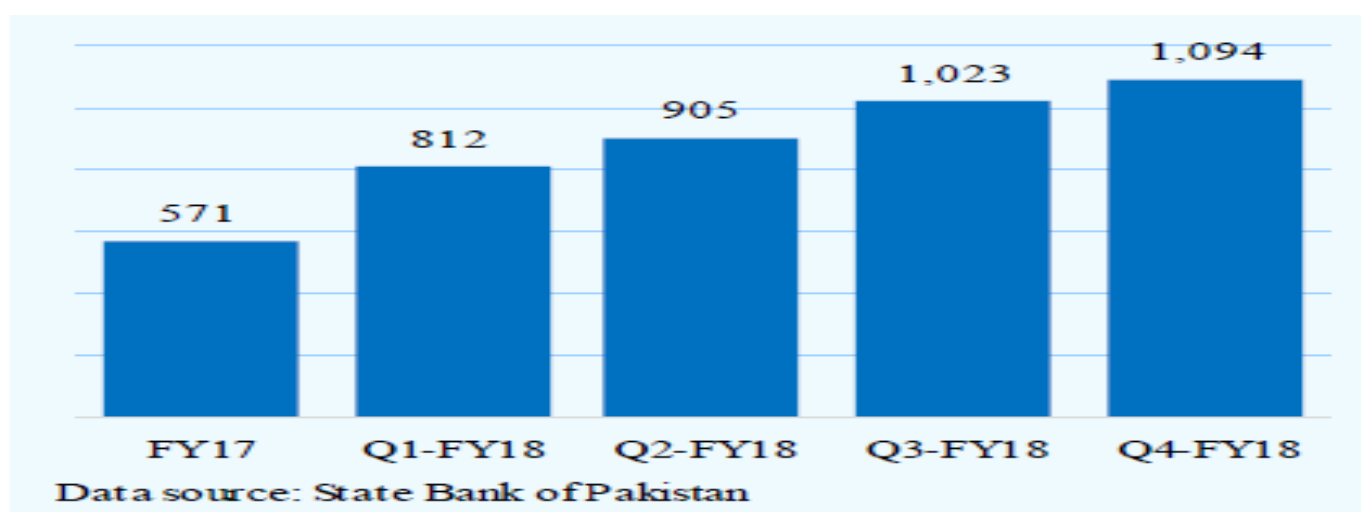
Rasheed and Siddiqui (2018) in their study found that financial institutes in Pakistan not paying much attention on SME sector, therefore, SMEs fulfil their business financial needs by using informal finance. Despite various disadvantages they consider informal finance more suitable because of less requirements, documentation, quick and easy access. Furthermore, Rasheed, Siddiqui and Chaudhry, (2019) discussed that how Islamic banks can help SME sector to grow by facilitating them financially, study revealed that a large population of SMEs interested in Shariah

compliance products and services for their business financial needs. Along with this national and international institutes specifically working on financial inclusion emphasizing on digitization and claiming that provision of digital financial services powering inclusive growth in emerging economies.

### 3. Role of Digitization in Financial Inclusion

Today, digital finance and financial inclusion relevance is under detailed discussion of policy makers and academicians for economic growth. Digital finance means financial services delivered by banks and non-banking financial institutes to their customers through linkage of digital mediums like mobile phones, internet and cards with secure digital payment systems Gomber, Koch, and Siering (2017). Digital finance adoption can overcome the issues that persist for individuals, businesses, governments and economies. Digitization impacting and rising the level of financial inclusion along with several benefits like reduction in financial cost for financial institutes and Fintech providers, convenient and secure financial services, improvement in gross domestic product (GDP) and long-term positive impact for banking performance (Scott, Van Reenen & Zachariadis, 2017). Similarly, IFC, (2018) report on financial inclusion and importance of digital finance mentioned three key benefits of digital financial services, easy access, product market fit and affordability. Further, discussed that availability of financial services limited if distributing only through branches, regulations which only can fill by specific portion of population, moreover access is hampered by complicating the terms and conditions, poor usability and limited transparency. In the second key point report addressed the issue of available products and services which are not as per needs of customers, it can be because of design or the way products and service sold by the institutes. For example, requirements of minimum balance and credit scores and similar other thresholds usually not met by a large population. Along with it strict terms and conditions of prices set by institutes which are mostly too high, inflexible and various hidden charges that makes difficult for customer to afford. Thus, for expansion of financial services it's compulsory to keep prices low and affordable for users. Unfortunately the policies are not changed for SMEs as they are not able to find products and services as per their needs and business requirements (Rasheed & Siddiqui, 2018; Rasmussen, 2018). Financial institutes characterized their needs high in complexity and low in scale, moreover, offering financial services to SMEs tends to have higher cost while often also offering lower revenue streams to the provider.

It can be observed that if government and policy makers are lacking one side with implementation of various policies and regulations improved on the other side. Pakistan moving towards digitization quickly and among those developing countries where digitization creating change in some components of the service sectors. The changes can be observed in e-government, e-commerce and fintech where new approaches to facilitate users rising day by day. Particularly, the significant growth can be seen in e-commerce industry over the last few years (Figure 3) showing changed purchasing behavior of consumer in Pakistan (SBP. 2018).



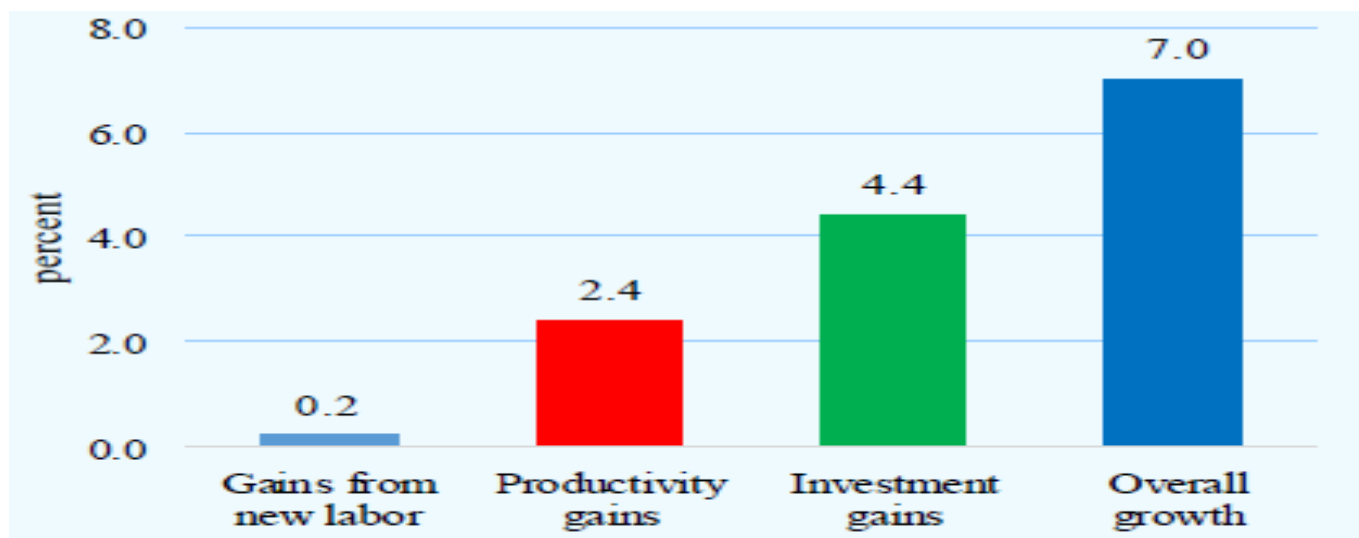
**Figure 3** – Number of E-Commerce Merchants Accepting Digital Payments in Pakistan

Source – State Bank of Pakistan, (2018)

Fintech by devising innovative solutions tackling the imperfections in credit market which ultimately benefitting financial sector largely. Moreover, around 10 banks offering digital financial services the largest of these owned by

mobile telephone companies. Inclusive growth initiatives enable private sector investment in microfinance institutions and digital financial services providers, which has helped to fuel the growth of the financial sector. Moreover, government also taking initiatives to facilitate citizens efficiently through modern systems along with cutting the costs and leakages incurred by implementing authorities. The government payments have also been digitize early as compare to other developing countries, such as Benazir Income Support programme started in 2010 by government of Pakistan People Party (Rasmussen, 2018). In 2014, Pakistan became member of the United Nations' Better Than Cash Alliance, which encourages governments around the world to use digital payments. Similarly, current government of Pakistan Tehreek-e-Insaf has launched their National Digital Policy and set the target of \$10 billion increase in Pakistan's IT exports over the next 5 years. Under the policy the main focused areas are; National digital transformation initiative and e-government, Human capital development, Exports and market access, Infrastructure and connectivity, Innovation ecosystem and entrepreneurship and policies and regulations. Additionally, to support financial inclusion Pakistan has better market infrastructure as compare to other countries. For example, National Identification Authority's (NADRA's) database of biometric ID which covers most adults, and a privately owned switching and clearing company, 1Link, which includes almost all banks (SBP, 2017; Muhammad, 2018).

The current focus on digitization no doubt will enhance the growth from a macroeconomic perspective. According to report of Mckinsey Global Institute (MGI) by Manyika et al. (2016) Pakistan will be able to increase the GDP by 7 percent points cumulative and can create around 4 million job opportunities during the tenure of 2016-2025 because of increase in digital financial services.



**Figure 4** - Expected gain in GDP growth due to digital financial services 2016-2025

Source: McKinsey Global Institute (2016)

McKinsey report further explained that the impact of digital financing services will be huge on financial industry as well as economy. Financial institutes can increase credit to individuals and SMEs to shift saving from informal to formal digital accounts. Currently, lending to SMEs percentage is quite low in the country the investment channel may represent the biggest untapped opportunity from which digital financial services gains can be identified in next few years. The digital technologies are being deployed for mobile accounts opening, introducing electronic payment systems and carrying out funds etc. the improvement in penetration and access to financial services can be observed. In future, this may accelerate the shift in savings to digital accounts, and have further implications for policy goals like financial inclusion (Manyika et al., 2016; Rasheed et al., 2018).

### 3.1 Digital Financial Services in Pakistan

In developed and developing countries mobile phone usage increased with invention of smartphones which is affordable for consumers. Similarly, in Pakistan, the rise in mobile phone adoption maturing 3G/4G and newly launched 5G telecoms services as currently in Pakistan, 145 million NADRA verified cell phone connections have been recorded where more than 48 million with 3G/4G/LTE connectivity. Along with this speedy growth of mobile money solutions, extensive wireless coverage, QR codes and mobile wallets, while cellular density remarkably stands at 71.4 percent of growth as compare to 2008 54.6 percent which shows that institutes and fintech companies

are ready to change the digital landscape in Pakistan. Micro digital financial services within branchless banking framework, over the counter (OTC) model such as Omni, Easypaisa, JazzCash, Upaisa and MobiCash etc. are reliable and provide convenience, however, by limiting customers' access to facilitated transactions it slowing down the pace of promotion of financial inclusion. The shift from OTC to mobile wallet is actual a reason behind this barrier, however, OTC still on the top in terms of volume and value of customers. Though, State Bank of Pakistan approval through biometric system for opening of mobile wallet accounts only takes five minutes, enough to attract customers towards mobile wallet accounts in Pakistan (SBP, 2017; 2018; Muhammad, 2018).

The branchless banking harness by microfinance industry successfully as Pakistan among few countries where microfinance banks have some specific license. Moreover, telecom companies and even courier companies have invested in microfinance banks such as Telenor bank, U-Microfinance bank, TCS bank, Waseela MF bank by Mobilink etc. the same is following by few other countries along with Pakistan (Muhammad, 2018). The main benefit of these micro-financing banks is "one minute account", moreover, the telecom microfinance banks also offer the zero level mobile account opening which is as easy as receiving of single SMS. The zero level mobile wallet bank account enable customer for transaction of Rs. 50,000 and which can be accessed through mobile phone as the Quick response (QR) code technology made it possible for companies to offer such services and customers for easy and speedy transactions. Furthermore, other innovations such as Masterpass, simsim and fone pay also expanding by the companies for quick transactions. Master pass also a digital payment service which allows customer to checkout after storing all shipping information and payment in one secure location, similarly, Fone Pay facilitate consumer for making secure and simple digital payments as powered by QR mobile payments and Masterpass. The FonePay combines mobile wallets, bank accounts and payment cards like credit/debit cards and prepaid products on one platform. In Pakistan, currently, around 30 million users getting benefits with FonePay in collaboration of various banking and non-banking financial institutes to link accounts from Soneri, Meezan bank, Easy paisa and Jazz Cash etc. Consumer can link their debit, credit and prepaid cards and can use the application to make transactions in seconds. Finally, the simsim is a joint effort of FINJA (Pvt) Limited and FINCA Microfinance Bank Limited, it's a unique collaboration where a bank and fintech created digital financial product. Simsim has completed their beta pilot successfully prior to formal approval from State Bank of Pakistan, moreover, under simsim Rs. 600 million transactions have been recorded, where 30,000 in self-registered mobile wallet accounts and a retail network of 500 participating merchants. The expansion of digital financial services growing rapidly, however, Pakistan still lags behind among other developing countries (Nisar, 2018).

#### **4. Digitization and Challenges**

The most important growth factor of any economic activity is finance. Therefore, developed countries focused on financial inclusion for fuller participation of segments which are financial excluded, however, developing countries still under process to strengthen their systems through they can progress in financial inclusion. Similarly, Pakistan also going through this process and in this regard, recently, revised and enhanced national financial inclusion strategy (NFIS) has been approved by the prime minister of Pakistan. The improvement in NFIS pre-requisite because currently, Pakistan standing in terms of financial inclusion is at the bottom among other developing countries list. It's a great step towards development of financial inclusion as government key stakeholders paying attention on achievement of inclusive finance (NFIS, 2017).

According to G20 financial inclusion indicators, Pakistan has the lowest percentage in formal bank account holders as compare to other developing economies, however, the highest percentage of accounts has been recorded in Malaysia. Subsequently, the adoption level of digital financial services also not remarkable as consumer in Pakistan has lack of confidence on digital payment, therefore, only 9 percent of population above age of 15 years using digital financial services (Rasmussen, 2018). World Bank Global Findex, (2017) recorded that share of adults accounts with financial institutes or mobile money service increased from 62 to 69 percent globally between the tenure of 2014 to 2017. However, in developing countries the percentage increased from 54 to 63 percent, though, women account holders percentage on the lowest level and its common almost in all developing countries.

#### **5. Digitization and SMEs**

In Pakistan, currently not enough evidences available to analyze the impact of digitization of SMEs growth and development, however, a study of India has estimated that by adoption of technology GDP can be raised by 10 percent till 2020. Furthermore, study revealed that SMEs who are shifting towards digitization achieving double growth as compare to those still using traditional systems. SMEs with leveraged digital technologies showing

yearly growth of almost 19 percent as compare to offline limited to 10 percent only. The report reflected that SMEs being inseparable part of economy can grow rapidly with adoption of digitization. For example, digitally enables SMEs can increase their production and profits with larger customer base and enhanced revenues, moreover, digitization can greatly impact everyday process of SMEs by reducing lead times, attract better talent and conduct efficient management of human resource. Further, technology usage can enhance the access to resources, internal and external communication and can expand outreach to their customers ( ).

As SME sector suffering the most in Pakistan as only 54 percent have account at formal financial institute in Pakistan as compare to other neighboring countries like India and Bangladesh where the percentage is 85 and 82 percent respectively (figure 5). It also reflects that significant portion of SME population using informal financial services SBP, (2018). According to Rasheed and Siddiqui, (2018), only 7 percent of SMEs in Pakistan using formal finance obtained from banks or other financial institutes. Rasheed, Rahman and Siddiqui, (2017) explained various demand and supply side challenges facing country towards development of SME sector and economic growth.



**Figure 5** – SMEs with Formal Accounts

Source: SBP, (2018)

Therefore, the efficient implementation of technology in SME sector is pre-requisite for sector and economic growth because digitization can resolve various issues of SMEs such as firms bear higher costs for cash management and cash flows as well as increased risk of theft and leakages. However, by employing digital payment systems and undertaking digital transactions, SMEs can play secure and freely in financial market as the modern systems can significantly reduce leakages and better manage their cash flows. In addition, these SMEs will automatically be included in the formal financial economy, which in addition to aiding the financial inclusion target of 50 percent financially include by 2020, will enable SMEs to access credit from formal financial institutions. Furthermore, it will be helpful to reduce the credit demand gap of around Rs. 277 billion (Blacher et al., 2019; SBP, 2018).

Although, digitization can bring tremendous change in SME sector and can boost economy of Pakistan on expected level, however, various challenges hindering the growth and development of SME sector and economy. For example in Pakistan, the literacy level of SMEs owner-managers is very low as they do not have sufficient financial knowledge and technology. Thus, the adoption level of digital financial services not appreciable within their processes and payments. Similarly, SMEs also lacking in skills related to technology as they are not able to adopt and work through digital systems. In addition, cost of digital techniques also a big hurdle towards adoption the lack of supporting infrastructure and technology are also major deterrents in keeping SMEs online (Rasheed et al., 2016).

However, despite these challenges Trade Development Authority of Pakistan (TDAP) a government institute and Ministry of Information Technology (IT) have undertaken the initiatives for the digitization of SMEs in Pakistan. For example, TDAP recently signed a Memorandum of Understanding (MoU) with a global giant in e-commerce Alibaba. The initiative has been taken for promoting exports by SMEs in Pakistan through e-commerce channel like Alibaba. Moreover, as part of MoU Alibaba will take the responsibility of online and offline training programmes to SMEs in Pakistan which help SMEs to learn the skills for adoption and use of digitization. Besides, Ministry of



IT emphasized in its Digital Pakistan Policy 2017 for creation of infrastructure which can enable SMEs easy use and adoption of financial digital services (SBP, 2017; Khan & Ehsan, 2019).

## 6. Conclusion

Globally, financial inclusion is one of the key issue for economies and towards achievement of inclusive growth in both developed and developing countries. Furthermore, prior research highlighted that because of various challenges emerging and developing economies still struggling towards financial inclusion. Moreover, SME sector suffering the most as developing countries not paying attention on financial exclusion of SMEs. Digitalization of financial services has opened a window of opportunity for the financial sector to serve the huge yet dispersed target market of SMEs. Digitalization of financial services allow banks to reach and serve their target market at low cost and with greater customization. Digital financial services are also an opportunity for SMEs to enhance their performance and outreach using these services at low cost. However, secondary data shows that developing countries have been moving slowly in contrast to developed countries towards digital technology in financial sector. Similarly, Pakistan also going through the same situation, though, among developing countries Pakistan not achieving the desired results towards financial inclusion.

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