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Role of SMEs in Poverty Reduction in Nangarhar Province, Afghanistan

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Abstract

The current research has been conducted to investigate the role of SMEs in poverty reduction in Nangarhar province, Afghanistan. To achieve the research objective, the author followed a positivist deductive and descriptive research design with a survey strategy where the data was collected from 150 respondents through an adopted questionnaire for statistical analysis. Finally, the findings revealed that SME management has a negative relationship with poverty. A survey of respondents was conducted, and the results show a strong negative relationship between SMEs and poverty reduction. This means that as SMEs increase, poverty decreases. The research also found that proper management of SMEs is crucial for poverty reduction. Overall, the study suggests that SMEs play a significant role in reducing poverty in the region.

Keywords: SMEs, Poverty, Reduction, Nangarhar, Afghanistan

1. Introduction

Poverty is a stipulation where individuals cannot meet basic economic standards. Poverty is not only a curse for individuals but also has a dynamic impact on developing economies. Developing countries face this challenge more broadly because of political instability (Theng & Boon, 1996). This fact has been realized after comparing it with current and past situations, where earlier, all graduates and specialists got jobs with one hundred per cent guarantees after getting their degrees. They had different opportunities and offers peculiar to their qualifications. This is when the economies of developing and underdeveloped countries should realize their significant role by making sensible decisions to improve their industrial sector so that the upcoming generation can actively play their role (Ali, 2013a). Government opportunities are not enough; our small and medium enterprises can be vital in generating employment, as more human capital is required in this industry. This fact is associated with the increasing population of these countries where the labour supply is increasing rapidly.

Policymakers should give serious attention to raising the economic and social level of the country by generating employment levels, which can be achieved by giving particular importance to the rising industry unemployment problem where the unemployment graph is being raised. That causes disequilibrium in the labour market by increasing unemployment in the industrial sector. Poverty has become a burning issue that needs to be resolved as soon as possible with the assistance of the establishment of small and

medium enterprises in the economy (Turker, 2015). This is the time to realize that the labour market is entirely different from the commodity market as they need complete attention, motivation and remuneration to work at full capacity. To remove poverty from the economy, it is necessary to work on human capital and their needs at social and personal levels. The role of SMEs is apparent in every economy, but the point of ambiguity arises in the context of whether they help to alleviate poverty in the economy. Most of the time, sectors play their role and contribute socially, but they might not help to improve economic issues; the reason for this is the advancement of technology and awareness. So, the need arises to investigate the role of SMEs in removing poverty (Ali, 2013a).

The theory of development indicates that it grows with the development of SMEs, especially in third-world countries (Herman, 2012; Islam, Khan, Obaidullah, & Alam, 2011; Oba & Onuoha, 2013). SMEs have positive effects on the national development of an economy, not only operationally but nominally as well. Small and medium enterprises increase the nation's capacities by providing entrepreneurial training opportunities associated with investment in labour-related operations, a strategy for the economy to decrease poverty among people. Almost throughout the world, SMEs have a dominant role in the economic growth of the nation to reduce poverty. In emphasizing the importance of small and medium enterprises, Agwu and Emeti (2014) stated that they enhance the capacity and abilities of the people executing the entrepreneurial training avenues, which creates more employment opportunities through investments in these entrepreneurial activities. In addition, the economy is working on more labour-intensive products as it adds value to products.

On the other hand, small and medium enterprises play a vital role in boosting economic activities, which are industry-related goods. Therefore, the current study intends to investigate the role of small and medium enterprises in reducing poverty, and based on some limitations, the study area was chosen in Nangarhar province. Since the collapse of the Islamic Republic of Afghanistan, the graph of poverty has been rising day by day and has enlarged the proportion of poor people, ultimately decreasing the level of investment by local, national and international investors, which itself facilitates the path for speed raise in poverty that is an integral and major problem of today's Afghanistan. If the same scenario is repeated for more than a year, middle-class citizens will also be under the poverty line. The need to break this process requires a major intervention. Many favourable struggles are required. This study focuses on promoting SMEs to decrease poverty in Nangarhar province of Afghanistan, which is known as a major and systematic problem with a nationwide effect. The solution will be the life-saving and survival of the citizens.

2. Empirical Literature

Small and Medium Enterprises (SMEs) are essential in economic growth, employment generation and poverty alleviation. Annual time series data has been used to examine the impact of SMEs on poverty in Pakistan between 1972 and 2007. The log-linear autoregressive model has been estimated using the Ordinary Least Squares (OLS) method, which uses the one-year previous value of HCR as the explanatory variable. The study's results confirm a strong and negative impact of small-scale industries' output on poverty levels in Pakistan. The economic policymakers must focus on establishing formal financial markets to overcome the financial constraints faced by the SME sector in Pakistan. Simplifying lending procedures, enforcement of credit rights, and reduction in

credit costs would be helpful for the establishment of a robust SME sector in Pakistan (Ali, Rashid & Khan, 2014).

The SMEs bring actions that ultimately lead them to become major traders of transitional goods and raw materials for small and large-scale industries. Similarly, SMEs also play an important role as mediators for the distribution of finished products of large-scale enterprises and provide chances for the growth of domestic services and technology attainment through adaptation, which ultimately helps to reduce poverty in the economy. Ali (2013b) discussed that an effective and fully funded policy must be designed to develop and improve SMEs. SMEs are supposed to generate employment chances for economic growth and struggle to empower the poor and deprived people of Pakistan. Moreover, SMEs focus on labour-intensive techniques during production, focusing more on rural areas where more labour is easily accessible. In addition, Eneh (2007) shed more light on the causes of poverty, when unemployment increases because of fewer resources and a promotion culture of capital-oriented goods that leads to labour-intensive goods, which ultimately causes increased hunger, malnutrition, bad health and less access to education-like issues. On the other hand, in West Virginia, it has been observed that indices of poverty and the development of small-scale businesses are strongly and negatively correlated. (Gebremariam, Gebremedhin, & Jackson, 2004). However, at the same time, few studies indicate that development usually starts in metropolitan cities rather than the countryside. Hence, SMEs do not play an essential role in rural areas or help reduce poverty.

Nowadays, the role of SMEs in developing different sectors is a burning issue in literature that is not only concerned with economic growth. The particular area is still to explore the role of SMEs in developing unskilled labour to reduce poverty and remove the problem of income inequality in less developing nations (Beck, Demirguc-Kunt & Levine, 2005). Moreover, poverty is a state that different sectors can influence, but poverty usually arrives when people have less access to economic opportunities. Therefore, SMEs help achieve socioeconomic objectives to alleviate poverty by developing employment opportunities at the gross level (Oba & Onuoha, 2013). Moreover, poverty may arise because of other reasons, such as natural disasters, environmental issues, wars, or any structural changes by policymakers to reduce employment levels, which may cause transitory poverty. Adopting labour-intensive industries can help enhance the country's economic growth, which ultimately helps reduce the gap between rich and poor economies (Ali, 2013b; Mazumdar, 2001). Large-scale businesses are capital-intensive industries, whereas SMEs are more labour-intensive, so they can effectively reduce economic poverty (Hallberg, 2000).

Moreover, in income countries, for example, in African economies, SMEs play an essential role in reducing poverty at a massive level. The supporters of pro-manufacturing SMEs disagree that SMEs establish an environment of entrepreneurial and innovativeness, which help to improve the economy's growth and reduce the poverty levels in developing economies (Beck et al., 2005). "The development of SMEs helps the economies to grow in the long run because these enterprises enhance domestic market efficiency and use the limited resources productively" (Abor & Quartey, 2010). However, insufficient infrastructure, lack of a favourable atmosphere for the development of SMEs, the problem of organizations, shortage of water supply, inadequate transport systems, lack of energy, and improper solid waste management cause a lower standard of living to enhance poverty. The lower resources of individuals

are less satisfactory in providing an informally satisfactory living condition because of poverty.

Agwu and Emeti (2014) stated that one problem of SMEs is the absence of scheduled planning. Specifically, in Nigeria, it is observed that less developed countries are weak in physical and social infrastructure, so the growth of SMEs can boost them. SMEs perform poorly because of low capital, and they depend on government support or SMEs' friendly policies from different financial institutes (Mukras, 2003).

Zafar, Waqas and Butt (2018) conducted a study to examine the size of impact of Small and Medium enterprises to eradicate poverty in Pakistan throughout 2001-2017. The study investigates the relationship between small and medium enterprises and poverty reduction using secondary data from the World Development Indicator and estimates a simple linear regression model. Results indicate that small and medium enterprises are negatively associated with poverty. SMEs generate employment opportunities that contribute to poverty alleviation in Pakistan's economy. In contrast, this study will help policymakers by suggesting the exact size of the impact of small and medium enterprises on poverty alleviation.

Beck et al. (2005), exploring the relationship between SMEs, growth, and poverty, found a strong relationship between the importance of SMEs and growth in GDP per capita. The study could not find enough evidence of the poverty-alleviating impact of SMEs in a sample of 45 countries. However, it has been deduced that SMEs are labour-intensive, so these enterprises increase employment more than large-scale industries' growth. Aina and Amnes (2007) suggest a more effective and fully funded policy program for developing SMEs in Nigeria, generating employment opportunities for economic growth, and empowering the poor and deprived.

Agyapong (2010) discusses the role of micro, small and medium enterprises (MSMEs) in poverty alleviation in Ghana. The author believes that town- and rural-based MSMEs help create jobs and increase the income of the people. This increased income helps people obtain better schooling and health facilities and empowers them to get rid of the vicious circle of poverty. Furthermore, the growth of small and medium enterprises (SMEs) contributes to human capital through on-the-job training. The authors also believe that MSMEs contribute to the government's increase in tax revenue.

Poverty eradication has become one of the most important goals of SDGs. Over 160 countries, including Indonesia, have signed and committed to alleviating poverty by 2030. Due to the uncertain global economy, those countries need appropriate strategies to help them achieve their goal.

Many empirical studies have analyzed the correlation between MSMEs and poverty reduction. Some argue they have a strong connection (Abdullahi et al., 2015). Bank Indonesia (2016) rejects the argument that research methodology, especially the approach of an analysis model, is one of the factors leading to differing empirical research findings.

On the other hand, some empirical studies found that MSMEs have not improved poor people's social and economic conditions because of the several problems and barriers they face (Geremewe, 2018). There are many factors inhibiting the MSMEs' solution to poverty, including lack of access to financial services (Ferdousi 2015), inadequate infrastructure, limited market, insufficient training of business management (Geremewe

2018), political instability (Katua 2014), lack of business information (Abdullahi et al., 2015), and low competitiveness (Bank Indonesia 2016).

Debates on the findings of empirical studies are also found in quantitative research. Using a log-linear autoregressive model, Ali, Rashid, and Khan (2014) found that the output of small-scale industry negatively effect Pakistan's poverty level. His study recommended simplifying procedures to access finances and reduce the cost of credit. This empirical finding is supported by a study conducted by Manzoor et al. (2019) through analysis with a data panel model in SAARC. Furthermore, Kowo et al. (2019), using analysis of variance, coefficient of correlation, and regression analysis, found that the development of SMEs influences poverty in Nigeria. However, this is contradicted by previous studies conducted by Beck, Demirguc-Kunt, and Levine (2005), which found that MSMEs did not affect poverty reduction in the 45 countries where they gathered research samples. Vijayakumar (2001) found that the effect of SMEs on the reduction of poverty in Sri Lanka was not statistically significant. In a recent study, Gamo and Gollagari (2020), who combined the method approach using quantitative and qualitative data in Ethiopia, asserted that MSMEs could reduce poverty if local government institutions supported them.

SMEs can contribute to reducing poverty as long as their growth can create vacancies for labour. Herman (2012) did a quantitative analysis and found that SMEs contribute to the absorption of more labour than bigger companies in Romania. Moreover, Kowo et al. (2019) point out that MSEs influence poverty reduction by creating job vacancies in Nigeria. They also found a significant correlation between MSEs and labour absorption in the service industry. Manzoor et al. (2019) found that the growth of SMEs contributes to poverty reduction through economic growth and unemployment reduction. Darma et al. (2020) investigated brown sugar as one of the MSE products in Indonesia. They found that using appropriate technology could absorb more labour and increase the income of rural communities.

To complement these firm and industry-level studies, this paper undertakes the first broad cross-country examination of the impact of SMEs on growth and poverty using a new database on SMEs. Specifically, we first examine the empirical connections between the size of the SME sector and economic growth and poverty. Second, we assess whether these relationships are robust enough to control for simultaneity bias. Third, we examine whether a competitive, contractually sound business environment exerts a causal impact on economic growth. Finally, we evaluate whether SMEs and the overall business environment influence the rate of poverty reduction beyond any links with economic growth.

2.1 Hypothesis of the Study

H0: SMEs have no effect on poverty reduction in Nangarhar province, Afghanistan.

H1: SMEs have a significant effect on poverty reduction in Nangarhar province.

3. Research Methodology

3.1 Population of the Study

As this research aims to study the role of SMEs in poverty reduction relevant to Nangarhar, Afghanistan, the study's population, as many small and medium enterprises

in Nangarhar province, cannot be listed appropriately based on the study’s time frame and resources, therefore, this study’s population is known as the universe of SME owners.

3.2 Sample size

Based on the population’s characteristics, the study’s exact sample size cannot be calculated due to an unknown list of the population of the study. Therefore, the author collected the required data from 150 owners of the SMEs, which is known as the study’s sample size. A structured questionnaire was used as a tool for data collection.

4. Data Analysis

The data analysis involved in this study uses descriptive statistics to describe the data in summary form. In contrast, correlation analysis is carried out to test the relationship between SMEs and poverty. Simple regression analysis is used to study the variation or change in the dependent variable due to unit changes in the independent variable. The regression model or equation is as follows:

$$P = a + b(\text{SMEs}) + E$$

Where SMEs = Small and Medium Enterprises

P = Poverty

4.1 Demographic Statistics

Table 1. Demographic Statistics

<i>Demographic features of the respondents</i>		Frequency	Percentage
Gender	Male	129	86
	Female	21	14
Marital Status	Single	67	44.7
	Married	83	55.3
Age	25-35	61	40.7
	36-44	52	34.7
	45-55	34	22.7
	55>	3	2
Education	12 th Grade	40	26.7
	Bachelor	96	64
	Master	14	9.3
Experience	0-3	17	11.3
	4-5	51	34
	6-10	53	35.3
	10>	29	19.3
Salary	25000-40000 AFN	81	54
	40001-55000 AFN	56	37.3
	55001-140000AFN	13	8.7

Source: Created by the authors

Most of the studies advocate that the gender of an employee has a significant effect on employee behaviour and performance. Gender is a dichotomous and dummy variable. The questionnaire had a question about the gender of the employee. The table above gives a summary of the gender proportion of the study. It can be seen in the table that the gender of the table shows the gender ratio of the study participants. There are one hundred and twenty-nine male respondents in the study, and the number of female respondents is just twenty-one. The percentage of male and female respondents is 86 and 14 per cent, respectively. The ratio of female participants is relatively small compared to male participants. The prevailing culture of the society in Afghanistan can justify this. The marital status is a qualitative and dichotomous variable. A question was asked from the respondents about their marital status. Several studies reveal that marital status has a vital effect on human behavior and organizational issues.

Out of one hundred and fifty respondents, 83 represent 55.30 per cent, while only sixty-seven employees are still single and unmarried. Thus, 44.70 per cent of respondents are not married. The tables mentioned above show the age of the sample's selected employees. The table shows that the first group has the highest frequency. From one hundred and fifty participants, sixty-one employees, who are 41 per cent, have an age group between 25 to 35 years. While 52 employees make, 35 per cent have an age group of 36 to 44 years.

In comparison, thirty-four employees are in the 44 to 55 age group. It can also be seen that only three out of 150 employees are older than 55 years. The above-given illustration gives a summary and presentation about the educational qualification. It can be seen that most of the selected sampling units have graduate and undergraduate levels of education. It can be seen that the highest number of employees of the selected sample have a graduate level of education. Forty employees have an undergraduate level of education. It can also be seen from one hundred and fifty employees, ninety-six employees, which are 64 per cent of the sample, have a graduate-level education. Only 14 employees, 9.3 per cent of the total sample, have a master's degree. Thus, it can be concluded that companies should give proper attention and develop an effective plan for uplifting the education level of their employee because higher education can increase employee performance. The above table represents the experience level of the selected participants of the study. From the 150 employees selected, only twenty-nine participants, representing nineteen per cent of the total sample, have more than ten years' experience. Fifty-three participants, 35 per cent of the sample, have professional experience ranging from 6-10 years. It was observed that most of the employees with experience in this range were working in managerial positions in the telecom sector in Jalalabad.

Out of 150 participants, only 51 participants have 4 to 5 years of experience. At the same time, 11 per cent of the selected sample has experienced less than three. The tables above show the salary breakdown of selected employees working in the SMEs of Nangarhar province. It can be seen that eighty-one employees, representing 54 per cent of the total sample, have a monthly salary between 25000 and 50000. This means that more than 50 per cent of employees in the sample receive a salary of between 25000 and 40000. Fifty-six participants in the study, representing 37 per cent, received salaries from 40001 to 55000. At the same time, only 13 employees, just 7.8 per cent, have a salary of more than 55000 Afghanis per month.

4.2 Descriptive Statistics

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
SMEs	150	2.32	4.68	3.6703	.78122
Poverty	150	1.92	4.46	3.5953	.78583

Source: Created by the authors

The descriptive statistics table represents the number of observations, minimum value, and maximum value, as well as the mean of the collected data and the standard deviation of the data from its mean. The given data in the table has shown that the respondents of the conducted study were 150 owners of SMEs in Nangarhar province, the minimum value in the collected data regarding SMEs is 2.32, and poverty is 1.92, while the maximum value of SMEs is 4.68 and poverty is 4.46. Besides, the mean of SMEs is 3.76, and poverty is 3.59. Despite all this, the standard deviation of the independent variable is 0.781, and the dependent variable is 0.785 from the mean of collected data.

4.3 Correlation Matrix

Table 3. Correlation Matrix

		SMEs	Poverty
SMEs	Pearson Correlation	1	-.747
	Sig.(2-tailed)		.000
	N	150	150
Poverty	Pearson Correlation	-.747	1
	Sig.(2-tailed)	.000	
	N	150	150

Source: Created by the authors

The correlation matrix is used to show the relationship between the variables of the research model. The result of the correlation matrix comes in the range of (-1 & +1); if the correlation result becomes zero, there is no relationship between the variables of the research model. If the result is greater than zero, it reflects a positive relationship among variables, while a lower result than zero is considered a negative relationship among associated variables.

The table's given value shows a strong negative (-74.7%) or (-0.747/1) relationship between SMEs and poverty. In comparison, the conducted research model is significant at the 0.01 or 99% confidence level.

4.4 Regression Analysis

Table 4. Model Summary

Mode	R	R Square	Adjusted R Square	Std. Error of the estimate
1	-.747 ^a	.559	.556	.52387

a. Predictors: (constant) SMEs

Source: Created by the authors

The main focus of the model summary is on the explanatory power of the regression model by the value of R-Square, that how much the dependent variable is explained by the independent variable or how much SMEs explain the poverty, and the remaining value shows the effect of other variables or other factors on the dependent variable of the model.

The given value of R-Square represents that the explanatory power of this regression model is 0.559/1 or 55.8% out of 100%. This means that SMEs account for 55.9% of poverty, while the remaining 44.1% is the effect of other variables on poverty.

Besides, the adjusted R-Square is used to show the explanatory power of the regression model with the specific and collected data. This value always comes lower than the R-Square of the model summary. The Adjusted R-square is 0.556/1 or (55.6%) out of 100%. According to the collected data and specific research model, the dependent variable (poverty) is 55.6%, as explained by SMEs, and the remaining 44.4% is the effect of other factors on poverty.

4.5 ANOVA:

Table 5. ANOVA^b

Mode	Sum of Squares	df	Mean Square	F	Sig.
Regression	51.395	1	51.395		.000 ^a
Residual	40.617	148	.274	187.276	
Total	92.012	149			

- a. Predictors: (constant) SMEs
 b. Dependent variable: Poverty
 Source: Created by the authors

In the ANOVA table, the "F" value shows that the developed model is a good fit. Because the "F" value is greater than "4" and the model is significant at the 0.01 or 99% confidence level. In this table, both values declare that the model is fit and significant.

4.6 Regression Coefficients

Table 6. Coefficient^a

Model	Unstandardized coefficients		Standardized coefficients	T	Sig.
	B	Std.Error	Beta		
Constant	.836	.206		4.056	.000
SMEs	-.752	.055	-.747	13.685	.000

- a. Dependent variable: Poverty
 Source: Created by the authors

The "B" value is used to show the change in the dependent variable due to unit change in the independent variable, and the "t" value is concerned with testing the hypothesis. The null hypothesis is rejected while the "t" value comes beyond the range of (-2 & +2)

The "B" value has shown that if a unit (1%) change or focus takes place in SMEs, it will bring - 0.752% changes in poverty.

Furthermore, the null hypothesis of the research is rejected. The alternate hypothesis is accepted for the conducted research because the "t" value of the regression model is

beyond the range of (-2 & +2). It shows that the research's null hypothesis is rejected, ultimately showing an alternate hypothesis's acceptance.

Despite this, this table is also used to show the significance of the regression model with the sign value of the table. As in previous tables, the model is significant with a 0.01 level or 99% confidence level, while the same is the result in the coefficient table of the regression model.

5. Conclusion

The current research was conducted to investigate the role of SMEs in poverty reduction relevant to Nangarhar Afghanistan because of the lack of scientific knowledge in the mentioned context. The author followed a specific methodology explained above to achieve the research objectives. Finally, the findings of research based on calculated statistical tools and methodology have shown that a strong negative relationship (-74.7%) exists between SMEs and poverty, with 0.01 significant level by the data of 150 respondents. Furthermore, the model summary table of the regression model has revealed the 55.9% overall explanatory power of the regression model. At the same time, according to the sample size and variables of the study, poverty is 55.6%, explained by SMEs, and the remaining values have shown the effect of other variables on poverty. Besides, the ANOVA table's F value revealed the model's overall fitness, which was equal to 187, much greater than the F tabulated value. At the same time, the fitness level was also significant at 0.01 level. Lastly, the beta value of the coefficient table has revealed that if 1% consideration is taken to SMEs, - 0.752% negative change will take place in poverty, and the null hypothesis of conducted research was also rejected by the larger value of the T table from the standard of -2 & +2 with 0.01 significant level. Conclusively, the research findings show a strong negative relationship between SMEs and poverty, and SMEs are known as the dominant factor in reducing poverty in Nangarhar, Afghanistan. Therefore, per the current study's findings, poverty in Nangarhar province, Afghanistan, will decrease if focus and attention are given to SMEs and their management.

5.1 Recommendations

As a result, it is crucial to have effective SMEs and their proper management for poverty reduction because SMEs make a more significant contribution to poverty reduction. Therefore, based on current research findings, the government and private sector of Nangarhar province need to focus on SMEs development to decrease poverty in Nangarhar province. As the role of SMEs in poverty in Nangarhar province has been seen positively, we recommend that others study the same issue using different methodologies. Lastly, the study results have shown that SMEs contribute more to poverty reduction. Therefore, to know the role of SMEs broadly, we recommend that others study the same issue in other provinces and at the country level.

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