Effect of Financial Inclusion on Growth of Small and Medium Enterprises in Pakistan Through Moderating Effect of Shariah-Compliant Financing

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ABSTRACT

The key objective of this study is to check the impact of financial inclusion on the SME's growth by taking Shariah-compliant financing as a moderator. The sample has been based on cluster sampling; it comprises SMEs operating in nine major cities of Pakistan, and its size is 600 in total. Structural equation modeling has been employed on the respondents' responses through SmartPLS4. The direct results show that the impact of financial inclusion is positive and significant on dimensions of the SME's sales growth and workforce growth while insignificant on profit growth and market share growth. Similarly, Shariah-compliant financing positively impacts Market Share Growth and Sales Growth and is statistically significant, while insignificant affects profit growth and workforce growth. Indirect results: Shariah-compliant financing moderates the difference between financial inclusion and dimensions of SME growth, which has a positive and significant effect on market share growth and sales growth. Shariah-compliant financing could be increased by adopting effective strategies and financial knowledge. The financial institutions campaign an awareness program about the products and services offered for SME sectors, rules and regulations of loans, and loan documentation and provide financial literacy to them. Furthermore, SMEs use Shariah-compliant financing that improves the firm's sales and market share growth because those firms avoid borrowing from informal channels. Islamic banks review their business plans profoundly and help them with organizational restructuring to stabilize growth.

***Keywords**: Small and Medium Enterprises, Financial Inclusion, Shariah Compliant Financing, Workforce Growth, Profit growth, Market Share Growth, Sales Growth, SmartP*

INTRODUCTION

Initially, the essential purpose of financial inclusion is to deliver financial services to the low-income class of society at an affordable cost. The concept of financial inclusion evolved into four dimensions during the last decades, including alternatives customers are brought while stiff competition between service providers, the sustainability of the financial institution based on institutional sustainability, and financial sustainability, all of the households and enterprises have easy access of finance and supervision and prudential regulation are guided by sound institutions. According to Beck and Kunt (2008), commercial banks cover a percentage of the population through ATMs, lending to SMEs and households, and borrowing from SMEs and households. In this way, financial inclusion is measured. Although the presence of financial services is not equivalent to financial inclusion, people voluntarily restrain themselves from financial inclusion due to religious and cultural factors. Although they can afford the bank service charges and have access to finance. Similarly, small business is defined by the State Bank of Pakistan as working employees in the firm who should have less than 50 workers and annual sales of less than Rs 150 million. A medium business is an entity that is not publicly limited but has the strength of employees, including contract employees, which is 50 to 100. The criteria for employees in services and manufacturing is 50 to 250. In terms of sale turnover, SME's sales exceed Rs 150 million to 800 million. The financing threshold for SMEs is Rs.25 Million to Rs.200 Million". The SME sector plays a significant role in the country's economic growth. According to the Pakistan Economic Survey (2009-10), SMEs contribute 90% of the business as a whole, 35% to manufacturing businesses, and 25% to exports. 80% of labor is engaged in non-agriculture SMEs for their livelihoods. The SME sector of Pakistan faces too many hurdles: a lack of skills and capital, mismanagement of resources, and marketing practices (State Bank of Pakistan, 2009).

Islamic finance has two characteristics: risk sharing and development of entrepreneurship, and these features are of the SME. The human-centered sustainable development and social justice expectations are fulfilled based on the equitable and asset-based economic model of Islamic SME finance. The Islamic modes of financing musharakah and mudarabah are well suited to SME financing. Both forms serve a useful purpose: they provide investors with high liquidity at low risk. Islamic banks were recently encouraged to offer more profit-sharing finance and are developing arrangements to reduce risks and funding costs.

The poor and lower class of society are considered to be unbanked people. Similarly, some firms are treated as unbanked firms that are SMEs because of the low literacy of the owners and insufficient capital. Therefore, financial institutions consider them unbanked firms, and due to this, they are facing financial constraints. Thus, the benefits of financial inclusion are transferred to unbanked firms to contribute further to the country's development, which can be possible due to SME growth. Islamic financing is a parallel financial system compared to a conventional one. Therefore, we check the moderating effect in the presence of financial inclusion and SME growth. How does it affect the relationship between financial inclusion and SME growth?

LITERATURE REVIEW

Utilizing Theories of Financial Inclusion

The following theories of financial inclusion are conceptual frameworks;

Systems Theory of Financial Inclusion

Financial, economic, and social systems are subsystems of the existing system to achieve financial inclusion. It relies on these sub-systems and positively impacts the sub-systems on which it depends. The expected outcomes of financial inclusion could be affected through these sub-systems. If any regulation is imposed on the sub-system (economic and financial systems), particularly on suppliers of financial services and economic agents, their interests are aligned with the primary use of the financial services; it compels the economic agent and suppliers of financial services to offer high-quality financial services at affordable prices within the framework of the rules and regulations that protect them from price discrimination and exploitation.

Financial Inclusion Theory

It is processed through which suitable financial products and services are made accessible by major financial institutions to all segments of society generally including lower parts of the community at an affordable cost, transparently and fairly (Sarma & Pais, 2011). Oppositely, the word used for financial inclusion is financial exclusion. Notably, low-income and vulnerable society groups are kept from participating in the financial system. The barrier to financial access is categorized into four categories: lack of documentation, appropriate products and services, physical barriers, and affordability barriers (World Bank, 2008).

Public Good Theory of Financial Inclusion

The arguments of the public good theory of financial inclusion are (i) the formal financial services are to be delivered to the whole population, delivery of formal financial services to the entire population and (ii) financial inclusion should be treated as a public good; it should be accessed and used by everyone in the population. Thus, no one is excluded from its usage. The primary financial services are to be enjoyed by all individuals without paying for their usage. The availability of access to financial services to one individual does not minimize its presence for others. Everyone could be better off by bringing all population members into the formal financial sector. The beneficiaries of financial inclusion are all members of the population. The free debit cards will be offered to all or any business on account opening. They are charged No ATM fee while using ATMs for transactions, etc.

Review of the Empirical studies

The proper enforcement of financial inclusion can enhance economic activity and bring improvement in the performance of SMEs (Martinez, 2011; Khan, 2011; Goodland et al., 2012; Okafor, 2012; Egbetunde, 2012; Mbotor & Uba, 2013; Yaron et al., 2013; and Onaolapo, 2015). In addition, financial inclusion can be influenced by the level of employment in any country (Alshardan et al, 2016). Likely, Oshora et al. (2021) identified determinants for financial inclusion as the cost of borrowing, collateral requirements, supply-side factors, demand-side factors, institutional framework, and market opportunity. Based on the findings, the SME's performance and access to finance at a low cost can be improved due to financial inclusion (Ratnawati, 2019). Generally, better implementation of financial inclusion can achieve high economic performance. The advantage of financial inclusion is that it reduces adverse selection and selection problems (Nanziri, 2020).

The factors that impede SMEs from financial inclusion identified by Oladimeji and Adegbite (2017) are financial literacy, an unfavorable business environment, etc. Therefore, the financial inclusion of SMEs needs to be reflected in the country's economic growth due to the abovementioned factors. Additionally, economic growth can expand through the SMEs' business expansion via channeling deposits and microcredit. Likewise, Wilkinson (2002) states that MSMEs will develop and grow by providing support from regulation and the environment. In addition, Joni et al., (2019) and Phornlaphatrachakorn and Na-Kalasindhu (2020) state that the attainment of the goals and objectives, market share and profitability of the business, the satisfaction of the executives on the business’s outcomes, and the stakeholder accepts the organizational activities are the measurement of the firm’s performance. Moreover, labor, sales, growth of its market share, and profit are tools to measure the firm’s performance (Rokhayati, 2015). Similarly, Oshora et al. (2021) state that the growth of SMEs can be reflected through sales growth, market share growth, profit growth, and workforce growth.

Additionally, Mustafa et al. (2017) state about the lending behavior of Islamic banks that these banks lend out less than 5% of their total lending because they are concerned about the threat of lending to SMEs. Furthermore, Haq et al., (2017), there is anticipation that the role of Islamic banks’ participation increase in the financial sector shortly through the development of their capacity and product line. The SMEs cannot borrow from banks due to religious views. Furthermore, Mehrotra et al. (2015) state how many SMEs use financial products offered through conventional bank platforms for survival, contrary to their religious beliefs. These SMEs would borrow from alternative options upon the availability of the other financing options, meeting their spiritual principles. Firstly, a limited number of Islamic banks fulfill their financing criteria. Secondly, some SMEs want to use Islamic financing, but some financial facilities do not meet their financial requirements. Therefore, the religious view impedes the proper funding for SME owners. An estimated number of SMEs is 20% to 25% which do not opt for any financial assistance or use any banking channel to meet their necessities. Recently, the trend has changed as people have become aware of the Islamic mode of financing or practice of Islamic finance in the banking sector, which provides material assistance and spiritual satisfaction (Raza, 2017).

Moreover, Muneer et al., (2017) studied the Impact of Financing on SME Profitability with Moderating Role of Islamic Finance, comprising a sample of only 200 SMEs and 70 bank branches from the Faisalabad region. Hassan and Ali (2019), stated that Shari'ah compliance is the primary motivation of Islamic banks. They need to work according to the terms and regulations of Shari'ah. Therefore, Khan, Anwar, and Abbasi (2021) worked on the FI of SMEs: An Analysis of Ijarah Based Financing in Pakistan. Moreover, Kamran (2018) studied qualitative analysis of the role of Islamic Banks in Serving the Poor Unbanked Population in Pakistan. The study was based on qualitative research and no quantitative study was conducted on it. Hassan and Ali (2019), stated that Shari'ah compliance is the primary motivation of Islamic banks. They need to work according to the terms and regulations of Shari'ah. So, this study will use Shariah compliance products as a moderating variable between financial inclusion and SME growth in Pakistan.

H1: Shariah-compliant financing significantly moderates the relationship between financial inclusion and SME growth.

METHODOLOGY

Theoretical framework

The theoretical framework has been derived from the System theory of Financial inclusion and, the public view of Financial inclusion. According to the system theory of financial inclusion, the system is an integrated and dependent part. So, the economic system comprises the financial system including Islamic banks, conventional banks, SMEs, etc. Conversely, the interest rate, collateral requirements, and other financial requirements by traditional banks hinder financial inclusion. Financial inclusion through Shariah-compliant financial institutions is more accessible through risk-sharing mechanisms and redistribution principles. Therefore, all these segments of the economy would be part of the financial system so that the efficiency and profits of both sectors are enhanced.

Ratnawati (2020) states that dimensions of the SME growth are Profit growth, Sales Growth, Workforce growth, and Market share growth. According to the World Bank (2015), financial inclusion measurement uses storage service finance, access to finance, and quality of financial services. An additional variable in financial inclusion measurement is the benefits for well-being (Okello et al., 2017). G20 (2012) financial inclusion measurement indicators are (i) access to financial services, (ii) usage of financial services, and (iii) the quality of products and services delivery. Faisal (2017), states, the Financing Composition of the Islamic Commercial Bank and Islamic Business Unit are Musharakah, Mudarabah, Murabaha, Istishna, Ijara, Qardh, and Salam. The major Islamic finance products are Murabaha, Musharakah, and Mudarabah. The best-suited modes of financing for SMEs is Musharakah (equity-based partnership), Mudarabah (profit-sharing-based collaboration), and Wakalah (principal/agent), which is an agency contract, used to monitor and minimize moral hazards. SMEs commonly use Ijarah (lease) to reduce their initial startup cost and provide lenders with security (Iqbal and Xiaochen, 2012). The rationale behind adding shariah compliant financing is that `the SMEs face financial constraints therefore, the Shariah Compliant financial instruments could help to be part of the financial system.

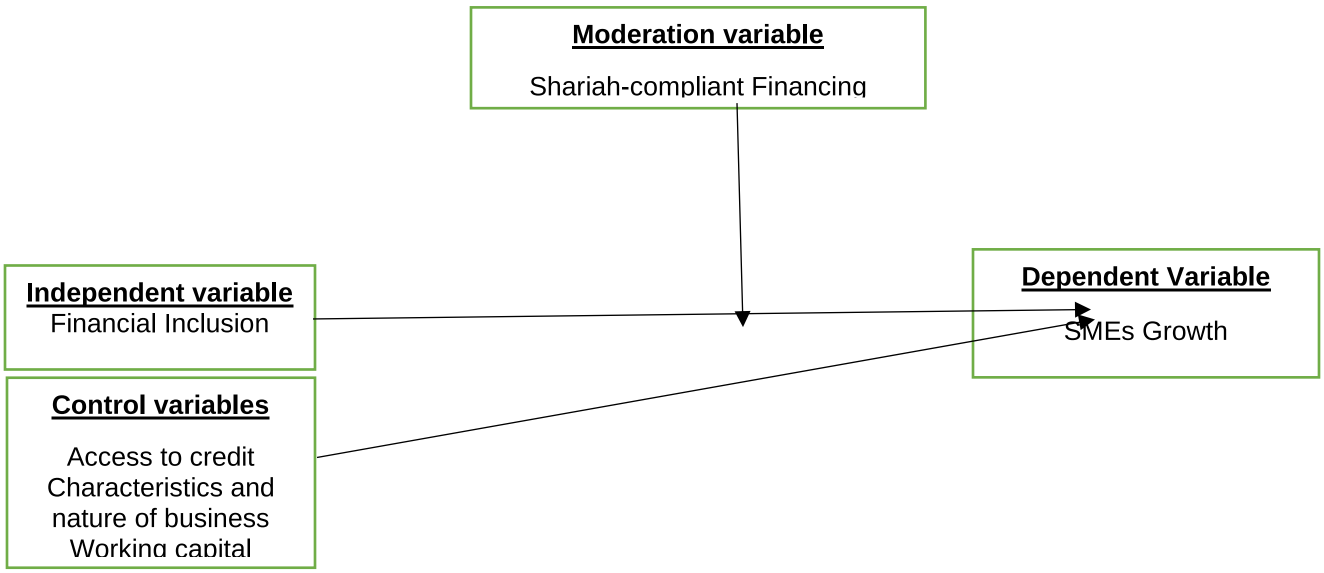

Figure 1: Moderation of Shariah-compliant financing between financial inclusion and SME growth

Research Design

The study adopts cluster sampling whereby a particular portion will be selected from the different types of SMEs in four provinces of Pakistan, including Islamabad.

The whole target population will be placed in clusters based on the kind of business they handle, and then, from each cluster, respondents will be randomly selected to be part of the respondent list for the study. According to Barreiro and Albandoz (2001), cluster sampling is a type of sampling technique whereby the sample is selected from a population divided into units or groups representing the population. The questionnaires are administered through an online survey platform and printed forms are filled by SME owners/managers. SMEs of the following cities are included: Quetta, Peshawar, Lahore, Islamabad, Karachi, Rawalpindi, Turbat, Gwadar, Hyderabad, Sukkur, Mardan, and Mingora. The sample size for the study used was 600, with 150 samples taken from each of the four provinces and 50 samples taken from each three different cities of the province. Descriptive and inferential statistics are used for analysis. Structural equation modeling of SmartPLS4 has been employed for the estimation of data.

Measurement of variables

The definition and indicators for measuring SME growth, Financial inclusion, and Shariah Compliant financing are in the table below.

Table 1: Definition and Measurement of dimensions for each of the variables

Variables	Definition	Indicators & Symbols
SMEs Growth (Dependent variable)	The outcomes of activities of an individual or a team or a work function in a certain period to achieve commonly shared goals (Delmar et al., 2003; Davidsson et al., 2006; Chauvet & Jacolin, 2014; and Rokhayati, 2015).	Workforce Growth Profit Growth Market share Growth Sales Growth
Financial Inclusion (Independent variable)	Efforts are made to increase the participation of the people in a proper financial system and ensure its availability so that they benefit from it and other economic agents (Beck et al., 2008; Klassen, 2010; Ardic et al., 2011; Claessan, 2016; Okello et al., 2017; and Lee et al., 2019).	Benefits for Well-being Use of storage Service for Finance Access to Finance Quality of Financial Services
Shariah-compliant financing (moderating variable)	Musharakah (Joint venture) Musharakah refers to a joint partnership in which two or more people combine their capital or labor to form a business, in which all partners share profits according to a fixed ratio, and losses are shared according to the proportion of capital invested. (Usmani, M.I. 2002).	Usage of Shariah-compliant products and services
	Mudarabah (Profit sharing) One partner provides capital, and another partner manages funds. The profits arising from the project are distributed according to a predetermined ratio. The resulting losses are borne by the investors (Iqbal, 2002). Murabaha (Cost plus finance) It is a sale contract in which cost and profit are explicitly shown to the client (Kenya Bankers Association, 2013).	Does the use of Shariah-compliant financing improve SME performance or not?
	Ijara (leasing) In a lease contract, the asset owner permits another party to use its asset-based Shariah permissible objectives (Salman, 2010). Wakalah (Agency contract) It is an agency contract in which a person authorizes another person to perform a specific task. Managers	Alternative Financial Accessibility to Conventional Banks

	are an agent of their shareholders. (Bank Negara Malaysia, 2015).	
Access to credit (Controlling Variable)	The financing cost credit procedures, and administrative costs are impediments, created by financial institutions as felt by SMEs. (Lusimbo and Muturi, 2016; and Ramadhan, 2018).	Formal Credit Procedures SMEs costs in Accessing capital
Characteristics and nature of business (Controlling Variable)	According to Cunningham and Rowley (2008), the essential criteria for defining the SME in every country are sales in terms of money, the size of the workforce, the economic value of its assets, and the output volume.	Industry in which SMEs operating SME Ownership Legal status number of employees working In which year did business operations start
Working capital (Controlling Variable)	According to Khlu (2009), the excess of the current assets over current liabilities. It includes the management of the current assets and financing for the current assets through current liabilities.	Cash management Creditors management Inventory management Receivables management

ANALYSIS AND RESULTS

Demographic analysis of the sample

The sample has been taken from four provinces of Pakistan, including the capital, Islamabad.

In addition, 50 observations were taken from three major cities of each province, including provincial capitals, and the sample size is 600. Participation with respect to gender was 90.3% male and 9.7% female. In consideration of age in the sample, the majority of the SME owners or managers are between 31 and 35 years old. Then, SME owners or managers are aged between 26- 30 years, comprising 21% of the total sample. The qualification of the majority of SME owners and managers is graduation. In terms of percentage, it is 42%, and 26% of the SME owners have secondary education.

Correlation Analysis

Table 2: Pearson Correlation Matrix Shariah Compliant Correlation between financial inclusion and SME growth

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) Work Force Growth	1									

(2) Profit Growth	.864**	1								
(3) Market Share Growth	.829**	.873**	1							
(4) Sales Growth	.876**	.838**	.828**	1						
(5) Financial Inclusion	.339**	.451**	.472**	.416**	1					
(6) Shariah Compliant Financing	.235*	.314**	.350**	.232*	.131	1				
(7) Shariah Compliant * Financing Inclusion	-0.232**	-0.008**	-0.352*	-0.059**	-0.014*	0.016*	1			
(8) Access to Credit	.280**	.418**	.447**	.366**	.586**	.396**	.691**	1		
(9) Characteristics and Nature of Business	.724**	.745**	.742**	.755**	.440**	.210*	.320**	.409**	1	
(10) Working Capital	.753**	.671**	.636**	.700**	.246**	.369**	.164**	.231**	.697**	1

.** Correlation is significant at the 0.05 level (1-tailed). *** Correlation is significant at the 0.01 level (1-tailed).

The correlation between financial inclusion and Shariah-compliant financing is weakly positive. The Shariah Compliant Financing*Financial inclusion is negatively correlated to market share growth, and profit growth rate but positively correlated to Sales Growth and Workforce Growth. Financial Inclusion positively correlates to market share growth, profit growth rate, Sales Growth, and Workforce Growth.

Kaiser Meyer Olkin Test

Table 3: KMO and Bartlett's Tests

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.790
Bartlett's Test of Sphericity	**Approx. Chi-Square**	4945.341
	Df	780
	Sig.	.000

The statistics value of the KMO is 0.790 which is treated as Middling per the threshold set by (Kaiser, 1974). The probability value of Bartlett's test of sphericity is statistically significant (0.000), showing that the sample is adequate and depicts measurements accurately.

Variance Explained and Rotated Component Matrix

The Principal Component Analysis (PCA) by using Quartimax orthogonal rotation is used to check the suitability of the items of EFA (Exploratory Factor Analysis). We have decided by considering eigenvalues greater than 1 and the elements are eliminated with loading factors less than 0.3 for all latent constructs. The test reveals the seven aspects of the rotated solution; the listed factors below explain 15%. No severe threat emerges from standard method variance because unrotated solutions do not generate a general factor.

Table 4: Total Variance Explained

Component	Initial Eigenvalues		Extraction Sums of Squared Loadings		Rotation Sums of Squared Loadings	
	Total	% of Variance	Total	% of Variance	Total	% of Variance
1	15.001	37.503	15.001	37.503	9.801	24.502
2	6.449	16.121	6.449	16.121	7.729	19.322
3	4.386	10.965	4.386	10.965	6.733	16.832
4	2.721	6.803	2.721	6.803	2.944	7.361
5	1.682	4.206	1.682	4.206	2.511	6.278
6	1.404	3.511	1.404	3.511	1.779	4.448
7	1.008	2.520	1.008	2.520	1.154	2.886

Extraction Method: Principal Component Analysis

Confirmatory Factor Analysis (CFA)

According to Hair Jr et al. (2016), two sub-models are combined to test the path model. Firstly, the inner and structural models show relationships between latent variables. The outer measurement model is the relationship between each construct and its indicator.

Table 5: Cross Loadings

	AC	CNB	FI	MSG	PG	SG	SCF	WFG	WC	SCF x FI
AC1	0.757									
AC2	0.646									
AC3	0.697									
AC4	0.869									
CNB1		0.773								
CNB2		0.687								
CNB3		0.905								
CNB4		0.744								
FI1			0.947							
FI2			0.953							
FI3			0.790							
FI4			0.915							
FI5			0.885							
FI6			0.927							
FI7			0.782							

FI8	0.905							
MSG1		0.928						
MSG2		0.966						
MSG3		0.951						
PG1			0.850					
PG2			0.959					
PG3			0.975					
SCF2					0.962			
SCF3					0.982			
SCF4					0.804			
SCF5					0.979			
SCF6					0.946			
SCF7					0.984			
SCF8					0.990			
SCF9					0.993			
SG1				0.846				
SG2				0.913				
SG3				0.875				
WC1							0.618	
WC2							0.902	
WC3							0.869	
WC4							0.805	
WFG1						0.922		
WFG2						0.872		
WFG3						0.828		
SCF x I								1.000

Where, list of the abbreviations used in the above table are, AC= Access to credit, CNB= Characteristics and nature of business, FI= Financial inclusion, MSG= Market share growth, PG= Profit growth, SG= Sales growth, WFG= Workforce growth, WC= Working capital, SCF= Shariah-compliant financing

Reliability and validity tests

The Cronbach’s alpha and composite reliability (CR) statistics are more significant than 70%, showing that each construct's measurement scales are highly correlated. It is reliable if the value exceeds 0.6 (Hair Jr et al., 2016). Cronbach’s Alpha is more incredible than 0.701; thus, the reliability is met. The statistical value of the AVE should be more excellent than 50% but the values are greater than 50% in our case depicting convergent validity. On average, the latent variables show more than half of the variance of its indicator.

Table 6: Reliability and Validity Test of Constructs

	Cronbach's alpha	CR	AVE
Access to Credit	0.701	0.797	0.528
Characteristics and Nature of Business	0.783	0.814	0.610
Financial Inclusion	0.962	0.967	0.793
Market Share Growth	0.944	0.944	0.899

Profit Growth	0.920	0.929	0.865
Sales Growth	0.852	0.857	0.772
Shariah Compliant Financing	0.987	1.002	0.915
Work Force Growth	0.846	0.853	0.766
Working Capital	0.763	0.863	0.598

The Fornell-Larcker criterion, cross-loadings, and Heterotrait-Monotrait Ratio are examined to investigate the discriminant validity. The latent variables correlate more significantly with their indicators than other latent construct variables in the study. The AVE square root value of each latent variable is more than that of other variables, as detailed in Table 6.

Table 7: Construct Correlation - The Fornell -Larcker Criterion

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) Access to Credit	0.727								
(2) Characteristics and Nature of Business	0.203	0.781							
(3) Financial Inclusion	0.207	0.392	0.890						
(4)Market Share Growth	0.348	0.747	0.426	0.948					
(5) Profit Growth	0.329	0.780	0.389	0.931	0.930				
(6) Sales Growth	0.244	0.792	0.460	0.793	0.869	0.878			
(7) Shariah Compliant Financing	0.201	0.344	0.156	0.399	0.359	0.272	0.957		
(8) Work Force Growth	0.250	0.677	0.398	0.743	0.841	0.786	0.259	0.875	
(9) Working Capital	-0.009	0.653	0.205	0.459	0.475	0.496	0.249	0.549	0.773

Table 8: The Heterotrait-Monotrait Ratio (HTMT)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) Access to Credit										
(2) Characteristics and Nature of Business	0.369									
(3) Financial Inclusion	0.240	0.437								
(4)Market Share Growth	0.394	0.859	0.443							
(5) Profit Growth	0.378	0.906	0.414	0.413						
(6) Sales Growth	0.285	0.854	0.508	0.877	0.778					
(7) Shariah Compliant Financing	0.275	0.391	0.152	0.395	0.356	0.272				
(8) Work Force Growth	0.303	0.822	0.432	0.824	0.853	0.830	0.266			
(9) Working Capital	0.232	0.817	0.227	0.479	0.521	0.619	0.320	0.673		

(10) Shariah Compliant Financing x Financial Inclusion	0.264	0.135	0.358	0.098	0.038	0.120	0.054	0.186	0.126

The discriminant validity between two reflective constructs is established when the HTMT statistics are less than 0.90. The table below shows that HTMT values are less than 0.90, indicating that all constructs are discriminately valid

Structural (Inner) Model

Figure 2. Shows the structural model with moderation analysis between financial inclusion and SME growth dimensions of the total effect between constructs and the correlation between constructs and their items.

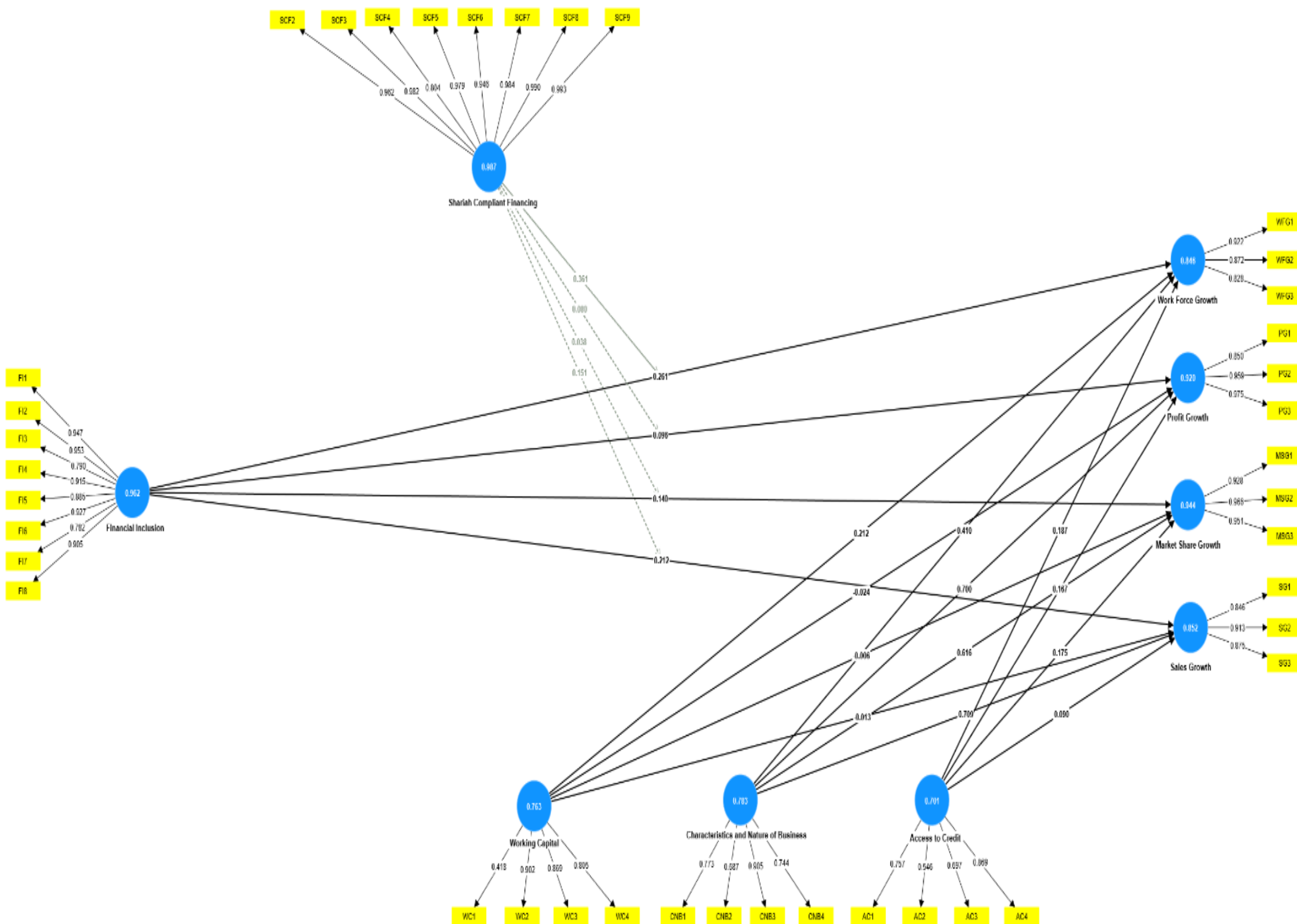

Figure 2: Moderation Effect

We have checked the impact of financial inclusion on the dimension of SME growth (market share growth, workforce growth, profit growth, and sales growth). In the first dimension of SME growth, we check the impact of financial inclusion on profit growth, resultantly, it is statistically insignificant but impacts positively. Similarly, the result of financial inclusion is positive on Market Share Growth, and its P-value (0.055), is insignificant. Financial inclusion likely positively impacts sales growth with a P-value (0.015) and is statistically significant at a 5% level. Likewise, the result of financial inclusion is positive on workforce Growth, and its P-value (0.014), is significant at a 5% level.

Now, we evaluate the direct effect of Shariah-compliant financing on the dimensions of the SME's growth. Shariah-compliant financing positively impacts Market Share Growth and has a statistically significant p-value of 0.026.

Direct Relationship Analysis

Table 9: Direct Relationship Analysis Results

	Original sample	T statistics	P values	Decision
Financial Inclusion -> Market Share Growth	0.140	1.603	0.055	Not Supported
Financial Inclusion -> Profit Growth	0.096	1.039	0.149	Not Supported
Financial Inclusion -> Sales Growth	0.212	2.177	0.015	**Supported**
Financial Inclusion -> Work Force Growth	0.261	2.188	0.014	**Supported**
Shariah Compliant Financing -> Market Share Growth	0.131	1.940	0.026	**Supported**
Shariah Compliant Financing -> Profit Growth	0.073	1.041	0.149	Not Supported
Shariah Compliant Financing -> Sales Growth	0.025	1.421	0.046	**Supported**
Shariah Compliant Financing -> Work Force Growth	0.026	0.269	0.394	Not Supported
Working Capital -> Market Share Growth	-0.006	0.045	0.482	Not Supported
Working Capital -> Profit Growth	-0.024	0.212	0.416	Not Supported
Working Capital -> Sales Growth	-0.013	0.156	0.438	Not Supported
Working Capital -> Work Force Growth	0.212	1.848	0.032	**Supported**
Access to Credit -> Market Share Growth	0.175	2.540	0.006	**Supported**
Access to Credit -> Profit Growth	0.167	2.633	0.004	**Supported**
Access to Credit -> Sales Growth	0.090	1.511	0.065	**Not Supported**
Access to Credit -> Work Force Growth	0.187	2.748	0.003	**Supported**

Characteristics and Nature of Business -> Market Share Growth	0.616	3.948	0.000	**Supported**
Characteristics and Nature of Business -> Profit Growth	0.700	6.874	0.000	**Supported**
Characteristics and Nature of Business -> Sales Growth	0.709	8.595	0.000	**Supported**
Characteristics and Nature of Business -> Work Force Growth	0.410	4.195	0.000	**Supported**

Similarly, funding shariah-compliant positively impacts Profit Growth but has a statistically insignificant p-value of 0.149. Conversely, Shariah-compliant financing positively impacts sales growth and is statistically significant at a 5% P-value (0.046). Likewise, Shariah Compliant financing impacts workforce Growth positively, but it is a statistically insignificant p-value of 0.394.

The controlling variable, Working Capital, positively impacts the dimensions of SMEs' growth and is statistically insignificant except for Work Force Growth. Access to credit impacts the SMEs' growth positively and significantly, except for sales growth. Characteristics and Nature of Business positively impact SME growth dimensions and are statistically significant at a 5% level.

The Moderating Effect of Shariah-compliant financing between financial inclusion and SME growth

Table 10: Indirect Relationship Analysis (Moderating effect) Results

	Original sample	T statistics	P values	Decision
Shariah Compliant Financing x Financial Inclusion -> Market Share Growth	0.361	2.905	0.002	**Supported**
Shariah Compliant Financing x Financial Inclusion -> Profit Growth	0.080	0.757	0.225	Not Supported
Shariah Compliant Financing x Financial Inclusion -> Sales Growth	0.151	1.421	0.038	**Supported**
Shariah Compliant Financing x Financial Inclusion -> Work Force Growth	0.038	0.392	0.347	Not Supported

Shariah-compliant financing moderates between financial inclusion and market share growth positively and has a statistically significant p-value of 0.002. Similarly, funding shariah-compliant moderates between Financial Inclusion and Profit Growth positively, but the statistically insignificant p-value is 0.225. Conversely, Shariah-compliant financing moderates between financial inclusion and sales growth positively and statistically significantly at a 5% P-value (0.038). Likewise, Shariah Compliant Financing moderates between financial inclusion and workforce growth positively and p-value (0.347); therefore, it is statistically insignificant.

Table.11. The Goodness of Fit for Moderation Effect

	R-square	R-square adjusted

Market Share Growth	0.628	0.599
Profit Growth	0.653	0.626
Sales Growth	0.669	0.644
Workforce Growth	0.585	0.553

Our findings are confirmed by Muneer, Ali, and Ahmed (2017), who explain that the profitability of SMEs could be affected either positively or negatively when Islamic financing acts independently and impacts negatively or has an insignificant impact on SMEs' growth due to moderators as the mode of financing.

The statistical values of R square for Market Share Growth, Profit Growth, Sales Growth, and Workforce Growth are 0.628, 0.653, 0.669, and 0.585. It depicts a 58.5% variation in Workforce Growth due to financial inclusion. Similarly, due to financial inclusion, there is more than 62% variation in the Market Share Growth, 65.3% in the Profit Growth, and 66.9% in the Sales Growth.

According to International Financial Corporation (2013), when selecting banks, consumers first check Shariah adherence and compliance as primary factors. Likewise, SMEs prefer strongly Shariah-compliant financial products. The State Bank of Pakistan is collaborating with other scheduled banks to develop Islamic banking windows or complete conversion into Islamic banks. The Shariah-compliant financial products are developed following the financial requirements of SMEs. It has strong appeal due to matching the population's religious beliefs to attract itself. On the contrary, SME owners or managers need to gain Islamic finance knowledge, particularly Shariah-compliant financial products and services offered by Islamic banks that suit their business needs. This limitation is not only limited to SMEs, but these deficiencies exist at the staff level of Islamic banks regarding knowledge of Shariah-compliant financial products and services.

Additionally, SMEs still need help accessing finance from Islamic banking across Pakistan, which causes barriers to the growth and development of SMEs. The first barrier is more confidence in repaying the borrowed amount to banks and financial institutions from SMEs. Therefore, they are reluctant to provide loans to SMEs. The second barrier is the need for more financial knowledge among SME owners and managers.

It is easier for SME owners to borrow from informal channels due to a need for knowledge about financial products and services offered by banks and financial institutions. The third barrier is excessive paperwork and formalities according to SME owners. Conclusively, the processes, paperwork, formalities, and need for knowledge about banking products and services. Moreover, Muneer, Ali, and Ahmed (2017) confirm our findings that explain that the profitability of SMEs could be affected either positively or negatively when Islamic financing acts independently and impacts negatively or has an insignificant impact on SMEs' growth due to moderators as the mode of financing.

CONCLUSION

The study aims to check the impact of financial inclusion on the SME's growth by taking Shariah-compliant financing as a moderator. The direct results of financial inclusion positively impact profit growth and market share growth but are statistically insignificant. On the other hand, the impact of financial inclusion is positive and significant on the dimensions of the SME's sales growth and workforce growth. Likely, Shariah-compliant financing positively impacts Market Share Growth and Sales Growth and is statistically significant. Conversely, Shariah-compliant financing positively impacts profit growth and workforce Growth but is statistically insignificant. As a direct result of the moderating effect, Shariah-compliant financing moderates between financial inclusion and dimensions of SME growth. However, it is statistically significant and positively impact on market share growth and sales growth while insignificant with Profit Growth and workforce Growth.

Finally, the following policies are recommended based on our findings for our three significant stakeholders: the first one is government, the second is SME owners and managers, and the third is financial institutions. The first policy recommendation for the government is that Financial inclusion is considered an economic strategy and can play a significant role in SME finance to ease SMEs' financial constraints because SMEs are considered unbanked firms by financial institutions. The government should focus on SME Shariah-compliant financing so that SMEs play a role in the development of the economy. Policy recommendations for financial institutions, The Islamic financial institutions campaign an awareness of their Shariah-compliant financing products and services offered for SME sectors, by differentiating themselves from the conventional banking system. The financial institutions campaign an awareness program about the products and services provided for SME sectors, rules and regulations of loans, and loan documentation. They also offer financial literacy to them with a business restructuring plan from traditional to contemporary organization. Policy recommendations for SME owners and managers: SME owners and managers should be self-monitoring to learn about new financial rules and regulations from financial institutions and the government's newly launched schemes for SMEs. Keep proper documentation and prepare financial statements to secure loans formally to avoid informal sector loans. Furthermore, SMEs use Shariah-compliant financing that improves the firm's sales and market share growth because those firms avoid borrowing from informal channels.

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