RESEARCH ARTICLE

The Role of Small and Medium Enterprises in Poverty Alleviation and Economic Well-Being

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ABSTRACT

In socio-economic development and poverty reduction, particularly in countries with agrarian economies and a high proportion of rural populations small and medium-sized enterprises (SMEs) are essential. Due to limited government resources for supporting social sectors, SMEs become means for job creation, household income growth, and economic stimulation. The purpose of this study is to examine the role of SMEs in well-being development and poverty reduction in Kazakhstan. For this purpose, there was conducted regression analysis and the study was focused on three main independent variables: SME share in GDP, employment in agriculture, and employment in individual entrepreneurship. The data covers the period from 2013 to 2023. The results showed that the SME contribution to GDP has a significant positive effect on household incomes and thus key role in enhancing economic well-being. Employment in individual entrepreneurship was directly associated with income growth and improved well-being, particularly in rural areas. Employment in agriculture demonstrated a dual effect: while it remained an essential source of income, its impact was constrained by low labor productivity and seasonality. However, crucial effect on poverty reduction and well-being improvement was achieved through the combined influence of SMEs, individual entrepreneurship, and agricultural employment. Thus, there is great need in diversifying income sources and adopting a comprehensive approach to economic development for effective poverty reduction.

1. INTRODUCTION

Small and Medium Enterprises (SMEs) role in fostering economic development and mitigating poverty-related issues is on academic and policy attention agenda. The contribution of SMEs is attributed to the well-being of the population; they are regarded as drivers of employment, income generation, and regional development; SMEs are often considered the backbone of economies in both developed and developing nations. Their contributions extend beyond economic metrics, influencing societal well-being and equitable resource distribution. However, the multifaceted nature of SME operations and their impacts necessitates a deeper understanding of the specific mechanisms through which they affect poverty alleviation and economic outcomes.

Over the past five years, Kazakhstan has demonstrated significant progress in key socio-economic indicators, particularly in developing the small and medium-sized enterprise (SME) sector, employment, and poverty reduction. The growth of SMEs, reflected in their increasing contribution to GDP from 28% in 2018 to 36.4% in 2023, highlights their growing role in economic diversification and employment generation. SMEs now account for the employment of approximately 43.6% of the economically active population, offering new opportunities for labor market participation, particularly in regions with limited access to formal employment. Simultaneously, unemployment has declined from 4.9% in 2022 to 4.7% in 2023, supported by the growing capacity of SMEs to absorb labor. These changes have contributed to a reduction in the national poverty rate, which fell to 5.3% in 2022, down from significantly higher levels in previous decades. The observed socio-economic shifts underscore the role of SMEs as a catalyst for sustainable development, poverty reduction, and economic inclusion in Kazakhstan.

Recent research underscores the importance of SMEs in generating employment opportunities, particularly in labor-intensive sectors and underserved regions, while also highlighting their potential to reduce poverty by integrating marginalized populations into formal economic systems. These enterprises are critical bridges between rural economies and broader markets, contributing to household income growth and community resilience. Despite their potential, SMEs face structural challenges, including limited access to credit, infrastructural deficits, and regulatory barriers, constraining their ability to achieve sustained growth and impact.

This article aims to explore the role of SMEs in poverty alleviation by examining their contributions to employment, income generation, and overall economic well-being. Focusing on key factors such as SME share in GDP, employment in agriculture and individual entrepreneurship, poverty rates, and per capita income, the study synthesizes insights from existing literature to comprehensively understand how SMEs shape socio-economic development. By identifying the key drivers and constraints of SME performance, this research seeks to inform policy strategies that enhance their effectiveness in addressing poverty and promoting sustainable development.

2. LITERATURE REVIEW

The role of Small and Medium Enterprises (SMEs) has been extensively analyzed across various domains, reflecting their influence on poverty alleviation, employment generation, and broader economic performance. As pivotal drivers of economic development, SMEs impact multiple facets, including employment, income distribution, and well-being. Studies collectively emphasize their potential to foster economic inclusivity but also highlight complexities and disparities in outcomes depending on contextual variables.

In countries where economy is resource and rural-dependent economy, agriculture usually serves as the primary source of income for a significant portion of the households. In this context, small and medium-sized enterprises (SMEs) become the driver for diversifying

income sources, and mostly through the development of the agro-industrial sector (Okpara, 2011). As rewarded by Van Vliet and Wang (2015), SMEs have a more immediate and direct impact on household incomes, unlike public spending on education and health, as it yields results over the long term. Manzoor et al. (2019) confirmed that SME completes a set of objectives, unlike direct government spending. First, it generates local employment opportunities and sustains income growth, particularly through labor-intensive activities such as agricultural processing and the production of value-added goods. It offers a decentralized, market-driven approach and contributes to short-term poverty alleviation. As a result, SMEs contribute to job creation and provide stable sources of income for rural households, making them a more effective tool for poverty reduction compared to the indirect effects of public investments (Nursini, 2020).

Some studies explored the relationship between SMEs and economic development. According to Beck et al. (2005), although there is a statistically significant positive association between the relative size of the SME sector and GDP per capita growth, this association does not imply a causal relationship. In other words, economic growth might create favorable conditions for the expansion of SMEs rather than SMEs being the primary cause of the growth. Vandenberg (2006) highlighted issues such as financial accessibility and the need for integrated policies that enhance SME sustainability. Similarly, Sokoto and Abdullahi (2013) argued that SMEs in developing regions like North-West Nigeria significantly contribute to poverty reduction by generating localized employment opportunities. Moreover, microfinance institutions, vocational training, and market accessibility are important as key interventions to enhance SME contributions to poverty alleviation. Further, Maksimov et al. (2017) advocated for a complex approach that combines structural reforms, capability enhancement, and strategic support to amplify the poverty-alleviating impact of SMEs. Rather than focusing solely on direct financial support or subsidies, they advocate for systemic interventions that address the root causes of SME underperformance in least-developed countries.

SMEs are often lauded for their role in employment generation. De Kok et al. (2011) stated that SMEs are responsible for net employment growth within the EU. In particular, micro-enterprises disproportionately contribute to net job creation compared to medium-sized enterprises within the SME category, and they tend to experience higher job losses than large enterprises during downturns but recover more dynamically in favorable economic conditions. Galabova and McKie (2013) stressed the relationship between human capital development and employee well-being in enhancing SME productivity and competitiveness. Happier and more engaged employees contribute positively to enterprise performance; hence, SMEs have unique approaches to managing human capital and well-being that are driven by resource constraints and closer relationships between employers and employees. That is why SME managers place significant value on "soft" skills, such as enthusiasm, willingness to learn, and adaptability, over formal qualifications.

Agriculture is regarded as a key mechanism in reducing poverty. Some studies focus on modernizing agriculture, while others regard it as a source for attracting foreign capital and investment and stress the impact of side factors. Separate studies relate to the relationship between agricultural and non-agricultural employment opportunities. Christiaensen et al. (2011) and Bello (2020) revealed the direct impact of agriculture on income growth and well-being. Specifically, agriculture helps to reduce extreme poverty and is widespread in rural or extremely poor regions. According to Page and Shimeles (2014), Dev (2017), and Sikandar et al. (2021), agriculture is the main source of income in developing countries, and it is dependent on external capital and aid in enhancing agricultural productivity and supporting agri-value chains. Moreover, foreign capital inflows contribute to the increase in exports, and as a result, rural

employment and household incomes are driven by agricultural development.

SMEs provide essential support in processing, packaging, and distribution, increasing agricultural output value. Abisuga-Oyekunle et al. (2019) underscored SMEs' transformative role in sub-Saharan Africa through employment and sustainable development. The labor-intensive nature of SMEs makes them particularly effective in addressing unemployment and underemployment and promoting inclusive growth by providing opportunities for marginalized groups, such as women and youth. In agricultural contexts, Banerjee and Rahman (2019) highlighted the relationship between SMEs and agricultural sectors, where SMEs facilitate value addition, thereby increasing income levels and reducing rural poverty. In other words, SMEs are a critical bridge between agricultural production and broader market integration. Examining per capita income as a proxy for well-being, Azmi (2020) explored the dual impact of SME growth on business success and owner well-being. Maharaj and Doorasamy (2024) stated that financial planning observed among SME business owners enhances SMEs' resilience and contributes to long-term income stability.

To sum up, SMEs and the agricultural economy play a significant part in maintaining an adequate income level for the population and reducing extreme poverty. Therefore, it is important to analyze the relationship between SMEs' development and population living standards, such as poverty reduction and income increase.

3. METHODOLOGY

The literature review conducted revealed the main sectors of the economy that are affected by the development of individual entrepreneurship or small and medium-sized businesses. Initially, the analysis was built on the assumption that identified variables through the literature review might have a direct or indirect impact on dependent variables. Table 1 presents the variables applied at the initial stage.

TABLE 1. List of variables

Set	Variable	Coding	Type
1	Poverty Rate	Poverty_rate	Dependent
	Food Basket Expenditures	Food_Basket_Poverty	Dependent
	Below 60% Median Income	Below_60%_Median_Income	Dependent
	Poverty Severity	Poverty_Severity	Dependent
	Poverty Depth	Poverty_Depth	Dependent
	Poverty Rate	Poverty_Rate	Dependent
2	Per Capita Income	Per_capita_income	Dependent
	Per Capita Expenditures	Per_Capita_Expenditures	Dependent
	Real Income Index	Real_Income_Index	Dependent
	Income-Subsistence Ratio	Income-Subsistence_Ratio	Dependent
	Household Income Consumption	Household_Income_Consumption	Dependent
3	SME Share in GDP	SME%GDP	Independent
	Employment in Agriculture	Employed_Agro	Independent
	Employment in Individual Entrepreneurship	Employed_IE	Independent
4	Inflation Rate	Infl_R	Independent
	Exchange Rate	Exch_R	Independent
	Foreign Direct Investment	FDI	Independent
	Public Spending on Education	PS_Educ	Independent
	Public Spending on Health	PS_H	Independent

Note: compiled by authors

There were used four sets of variables. The first two sets of variables were considered dependent variables as they reflected the state of well-being and poverty in Kazakhstan. However, to ensure the validity of the analysis and the correct selection of dependent variables, there a conducted centrality plot analysis. Centrality analysis was used as a part of network analysis to identify which variables have the most significant connections to other key variables in the dataset. The results for the independent variables through ANOVA analysis showed that the fourth set of variables failed to pass the statistical significance threshold (e.g., $p > 0.05$) and, therefore, were excluded because they did not explain enough variation in the dependent variables. Removing irrelevant or weakly connected variables allowed focus on the most significant factors that directly impacted employment, well-being, and poverty. Moreover, this allowed for the avoidance of redundancy and reduced multicollinearity by removing variables with overlapping effects and allowing for more stable and interpretable coefficient estimates. Table 2 presents the list of applied variables in the analysis.

TABLE 2. Cleaned list of variables

Set	Variables	Role	Coding
1	Per Capita Income	Wellbeing (M_1)	Per_capita_income
	Poverty Rate	Wellbeing(M_2)	Poverty_Rate
2	SME Share in GDP	Independent	SME%GDP
	Employment in Agriculture	Independent	Employed_Agro
	Employment in Individual Entrepreneurship	Independent	Employed_IE

Note: compiled by the authors

The cleaned list of variables allowed for proper and deep analysis. Complete analysis and results for variable selection are provided in the results part of the research. The following hypotheses were formed:

Hypothesis 1. The share of SMEs in GDP, employment in individual entrepreneurship, and agriculture together significantly impact wellbeing.

Hypothesis 2. The share of SMEs in GDP, employment in individual entrepreneurship, and agriculture combined have a significant impact on the poverty rate.

Hypothesis 3. The share of SMEs in GDP has a significant impact on poverty levels and well-being.

Hypothesis 4. Employment in agriculture significantly influences poverty reduction and economic well-being, reflected in income- per capita.

Hypothesis 5. Employment in individual entrepreneurship significantly influences poverty reduction and economic well-being, reflected in income- per capita.

Overall, the analysis included four stages.

Network analysis. A network analysis was conducted to determine the most central and potentially dependent indicators. This method allowed for identifying interdependencies among variables, with centrality measures highlighting key indicators that act as significant connectors within the network. This analysis identified poverty rate and per capita income as central indicators, suggesting their relevance as dependent variables for further analysis.

Regression analysis involved multiple regression analysis to assess the relationships between per capita income and the independent variables. The model's explanatory power was evaluated using R-squared and adjusted R-squared values, while the statistical significance of each predictor was examined through P-values and F-tests.

Collinearity diagnostics. To ensure the accuracy of the regression model, the Variance Inflation Factor was calculated to identify whether there is multicollinearity among predictors.

Marginal effects analysis plots were used to visualize each predictor-dependent variable's impact and understand the relationships between variables.

4. FINDINGS AND DISCUSSION

Individual entrepreneurship plays a significant part in ensuring income and financial stability for the population. However, its role and importance are usually understudied due to emerging economic issues such as inflation or global crises. Therefore, the initial stage of the analysis is devoted to selecting core variables for further analysis and focusing attention on real issues.

The first stage of the analysis of the network of identified variables is that the data was divided into two groups. The first group included five indicators, and nine non-zero connection networks were revealed, indicating a highly interconnected structure. The network sparsity was very low, 0.100, or only 10% of potential connections were missing, and there was a high degree of interdependence among the indicators. The indicators in the first group were closely related, with mostly significant associations (Figure 1).
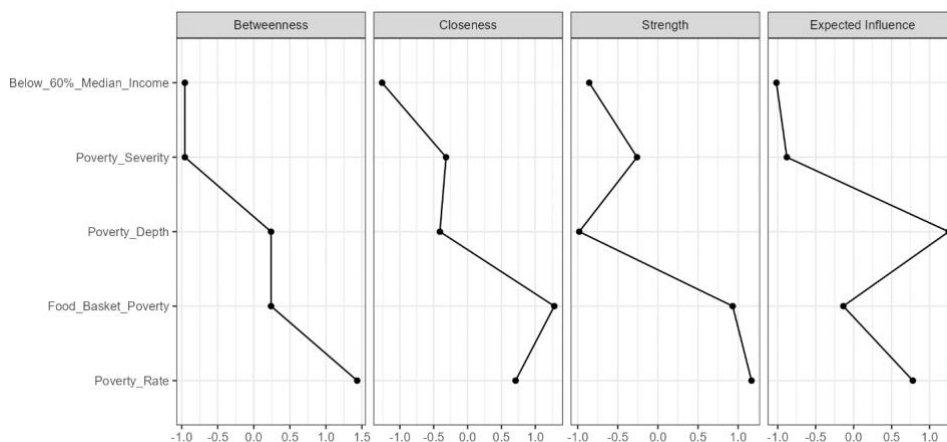

FIGURE 1. Centrality measures per variable, group 1

Note: compiled by authors

The centrality measures highlight Poverty_Rate as the most central indicator in this network, making it a strong candidate for a dependent variable to represent welfare levels in Kazakhstan. Poverty_Rate has a betweenness score of 1.434, the highest among the indicators, and connects other variables. Additionally, a closeness score of 0.708 and a strength score of 1.168 showed that Poverty_Rate is central in the provided network of variables and is a key factor in understanding the population's well-being. Therefore, changes in Poverty_Rate affect the whole network and have strong direct connections to other indicators and accessibility to the broader network. Other indicators, Poverty_Severity and Below_60%_Median_Income, have negative betweenness and closeness scores and a weak network impact. Poverty_Rate was identified as the central indicator, capturing core welfare dynamics and a comprehensive measure for assessing the well-being landscape in Kazakhstan.

The second group network included five nodes with a moderately interconnected structure (Figure 2).
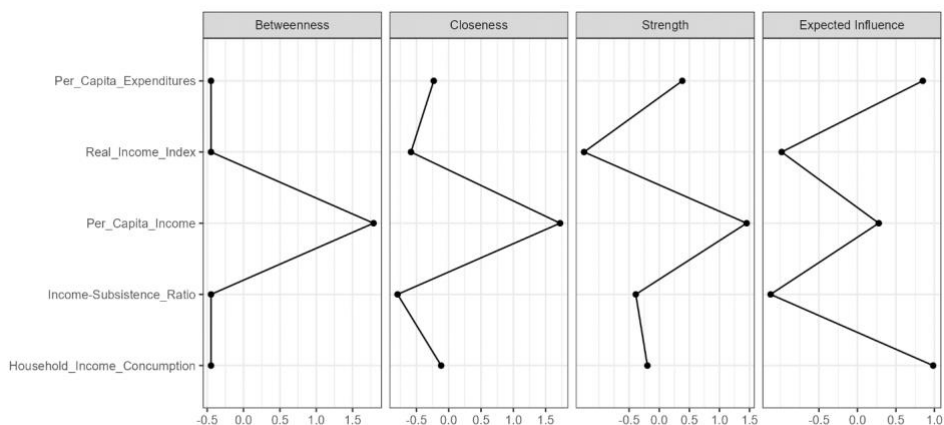
FIGURE 2. Centrality measures per variable, group 2

Note: compiled by authors

Per_Capita_Income was identified as the central indicator in the second group (betweenness (1.789), closeness (1.722), strength (1.451)): significant influence over other variables; links key indicators and complex interdependencies. Therefore, Per_Capita_Income define the economic landscape conditions in Kazakhstan. Others, showed moderate centrality.

Based on the analysis of the two groups, Per_Capita_Income and Poverty_Rate were selected as the dependent indicators.

Table 3 presents the models summary for regression analysis.

TABLE 3. Models Summary

Model	R	R²	Adjusted R²	RMSE
Wellbeing (M₁)	0.943	0.890	0.843	13829.040
Poverty rate (M₂)	0.952	0.907	0.867	0.409

Note: compiled by authors

The analysis for per capita income has an R-squared of 0.890, or 89% of the population's income level change is affected by the independent variables. The adjusted R-squared of 0.843 confirms the model's reliability. SMEs and individual entrepreneurship are closely linked to higher income levels. Thus, it confirms the crucial impact of SME development on the well-being of the population. The second model examines poverty rates and has an R-squared of 0.907. In other words, the same variables explain 90.7% of the increase and decrease in poverty rates. The adjusted R-squared of 0.867 and RMSE of 0.409 confirm the model's precision.

In table 4, the results of ANOVA analyses are presented.

TABLE 4. ANOVA results for both models

Model		Sum of Squares	df	Mean Square	F	p
Wellbeing (M₁)	Regression	$1.081\times10^{+10}$	3	$3.602\times10^{+9}$	18.834	< .001
	Residual	$1.339\times10^{+9}$	7	$1.912\times10^{+8}$		
	Total	$1.214\times10^{+10}$	10			
Poverty rate (M₂)	Regression	11.457	3	3.819	22.813	< .001
	Residual	1.172	7	0.167		
	Total	12.629	10			

Note: compiled by authors based on calculations

SSR results showed that the variance explained by the model significantly exceeded the unexplained variance. The F-value of 18.834 and a p-value below .001, the model surpassed acceptable significance threshold thus the model is statistically significant. Thus, Hypotheses 1 and 2 are accepted.

The strong connection between variables in the context of Kazakhstan is explained through the direct role independent variables in income generation and poverty reduction. Thus, SMEs drive job creation and income diversity. For example, SMEs in retail, services, or small manufacturing provide employment opportunities for a large share of the population, particularly in urban areas, increasing household income, which, in turn, boosts consumption and overall economic activity. Individual entrepreneurship has a similar impact by enabling people to start businesses, often in sectors like trade or local services, which generate income even in regions with fewer industrial jobs.

Table 5 presents the regression coefficients for Model M_1 and Model M_2.

TABLE 5. Coefficients

Model		Unstandardized	Standard Error	Standardized	t	p	Collinearity Statistics	
							Tolerance	VIF
M_1	(Intercept)	-18263.137	32338.437		-0.565	0.590		
	SME%GDP	1026.609	1932.268	0.180	0.531	0.612	0.137	7.315
	Employed_Agro	-0.030	0.013	-0.392	-2.352	0.051	0.567	1.765
	Employed__IE	0.082	0.047	0.525	1.760	0.122	0.177	5.663
M_2	(Intercept)	4.745	0.957		4.960	0.002		
	SME%GDP	0.044	0.057	0.240	0.771	0.466	0.137	7.315
	Employed_Agro	-2.047×10^{-6}	3.729×10^{-7}	-0.839	-5.488	< .001	0.567	1.765
	Employed__IE	-4.741×10^{-7}	1.384×10^{-6}	-0.094	-0.342	0.742	0.177	5.663

Note: compiled by authors based on calculations

The coefficients in Model M_1 indicated that SME%GDP has a positive coefficient with no statistical significance, suggesting a limited direct impact. Employed_Agro shows a negative coefficient that is marginally significant, indicating an inverse relationship with the dependent variable. Employed_IE has a positive coefficient but lacks statistical significance, indicating an inconclusive association with Per_Capita_Income. Collinearity diagnostics revealed manageable multicollinearity among predictors, though SME%GDP has a higher VIF, suggesting moderate redundancy with other variables. The coefficients highlighted Employed_Agro as the most influential predictor on Per_Capita_Income in this model. To sum up, the results revealed the following hypotheses testing.

SME%GDP does not significantly impact well-being (p = 0.612) or poverty rate (p = 0.466). Hypothesis 3 was rejected.

Employment in agriculture has a significant effect on poverty rate (p < 0.001) and a marginal effect on well-being (p = 0.051). Hypothesis 4 is partially accepted.

Employment in individual entrepreneurship does not significantly impact well-being (p = 0.122) or poverty rate (p = 0.742). Hypothesis 5 was rejected.

The descriptive statistics in Table 6 present the mean, standard deviation, and standard error for each variable in the model.

TABLE 6. Descriptives

Variable	Mean	SD	SE
Per_Capita_Income	91526.091	34848.986	10507.365
Poverty_Rate	3.791	1.124	0.339
SME%GDP	27.245	6.121	1.846
Employed_Agro	759303.455	460958.581	138984.242
Employed__IE	$1.267 \times 10^{+6}$	222432.964	67066.062

Note: compiled by authors based on calculations

Per_Capita_Income has a mean of 91,526.091 and a standard deviation of 34,848.986, indicating variability in income levels. SME%GDP shows an average of 27.245 with a standard deviation of 6.121, indicating moderate consistency in the share of SMEs within GDP across observations. Employed_Agro has a mean of 759,303.455 and a standard deviation of 460,958.581, reflecting variation in agricultural employment levels. Employed_IE has the highest mean at 1,267,000 and a standard deviation of 222,432.964, showing variability in individual entrepreneurship employment figures. The standard errors (SE) indicate the precision of each variable's mean estimate, with Per_Capita_Income having the most significant SE, aligning with its wide range in income distribution. The descriptive statistics summarize the data's spread and central values, which support interpretations in the regression model.

Figure 3 illustrates the relationship between agricultural / IE employment and two socioeconomic indicators—poverty rate and per capita income.
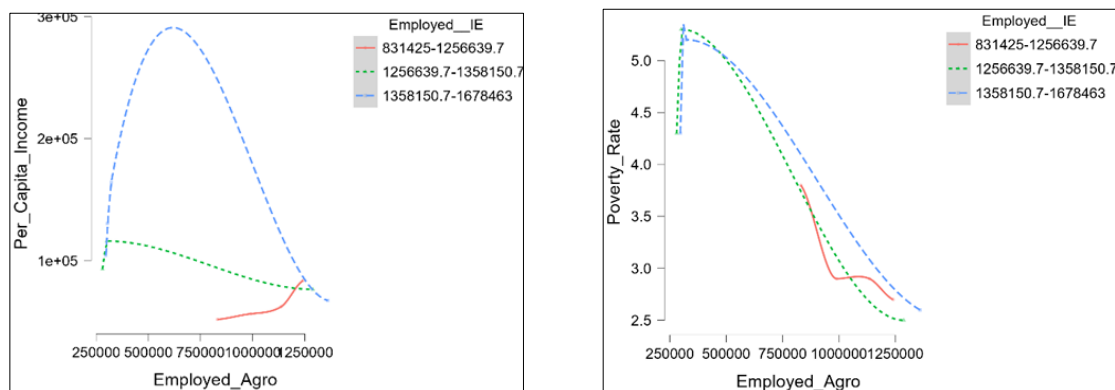

FIGURE 3. Dynamics of the relationships between SME contribution, employment and poverty reduction

Note: complied by authors based on calculations

In the first graph, poverty rates decrease as agricultural employment rises, but the extent of this reduction varies depending on industrial employment levels. At low industrial employment levels (red line), increasing agricultural employment substantially reduces poverty, indicated by a steep initial decline that then stabilizes. The poverty reduction is more moderate at medium levels of industrial employment (green line). In contrast, at high levels of industrial employment (blue line), the decline in poverty is gradual, suggesting that higher industrial employment mitigates the poverty-reducing effect of agricultural employment. This may imply that when industrial employment is high, income sources

become more diversified, reducing reliance on agriculture for poverty alleviation.

The second graph shows that per capita income initially rises with increasing agricultural employment but then declines, with the income peak varying across industrial employment categories. At low industrial employment (red line), per capita income exhibits limited growth with rising agricultural employment. At medium levels of industrial employment (green line), income rises modestly, reaching a small peak. At high levels of industrial employment (blue line), income sharply increases at lower levels of agricultural employment, peaks, and then declines as agricultural employment continues to grow. This pattern suggests that when industrial employment is high, additional agricultural employment initially drives income gains but yields diminishing returns as agricultural employment increases further, potentially due to a shift from higher-wage industrial jobs to lower-wage agricultural roles.

Simply supporting SMEs is not enough to guarantee accelerated economic growth. Without addressing broader institutional factors such as property rights, access to finance, and lowering barriers to business, SME support may not effectively contribute to growth or poverty alleviation.

5. CONCLUSIONS

In this study, the objective was to analyze the impact of the share of SMEs in GDP, agricultural employment, and employment in individual entrepreneurship, poverty rate and wellbeing in Kazakhstan. Based on this goal, several hypotheses were formulated to assess the relationships and significance of these factors in shaping welfare dynamics.

There was revealed to be no significant impact of the SME share in GDP on poverty and well-being. Hence, simply increasing the share of SMEs in the economy does not automatically lead to improvements in the well-being of the population or reduce the poverty rate. As the base recommendation, the creation of high-quality jobs within SMEs should be considered. Moreover, policies could be directed at developing sectors with higher added value.

The significant impact of employment in agriculture on poverty reduction bridged emerging needs. As a productive sector for the population, tactics must be considered to modernize the agricultural sector and reduce the proportion of the population engaged in low-productivity agricultural work. Again, here is the issue of quality job availability, as employment in agriculture is often associated with low wages and informal labor, which results in an increase in poverty.

The lack of a significant impact of individual entrepreneurship on poverty and well-being is a consequence of the large proportion of the population engaged in individual entrepreneurship (the majority as self-employed or solo entrepreneurs), which is engaged in low-income activities that do not guarantee higher incomes or improved living conditions.

Overall, the findings showed that the situation for population wellbeing in Kazakhstan needs a complex approach and provision of quality employment. There should be developed policies that consider specific support for private small businesses.

AUTHOR CONTRIBUTION

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