

## The Impact Of Current Fiscal Policy On Small And Medium Enterprises In The Kingdom Of Bahrain

Mohamed Hasan Ali Thabet<sup>1</sup>, Muhammad Abrar ul Haq<sup>2</sup>, Vinodh K Natarajan<sup>3</sup>, Farheen Akram<sup>4</sup>

<sup>1</sup>College of Administrative & Financial Sciences, AMA International University-Bahrain

<sup>2</sup>College of Business Administration, University of Bahrain, Bahrain

<sup>3</sup>College of Administrative & Financial Sciences, AMA International University-Bahrain

<sup>4</sup>College of Business Administration, University of Bahrain, Bahrain

<sup>1</sup>hamood.ramos@gmail.com, <sup>2</sup>mohdaulhaq@gmail.com, <sup>3</sup>vkatarajan@amaiu.edu.bh,

<sup>4</sup>farheen.akram@outlook.com

**Article History:** Received: 10 January 2021; Revised: 12 February 2021; Accepted: 27 March 2021; Published online: 28 April 2021

**Abstract:** In economies all around the world the small and medium enterprises (SMEs) play a major role in the development of the economies, this impact is especially shown in developing countries. SMEs are the most contributors to the economic development of the country and the creation of jobs in the economies worldwide. Therefore, the key aim of the current study was to measure the effect of the fiscal policy along with real interest rate and literacy rate on the growth of SMEs registered in the Kingdom of Bahrain. For this purpose, the time-series data of the last 20 years from 1998 to 2018 was collected from the world bank and the official government database. ADF unit root test was applied to check the stationarity of the variables and the Ordinary Least Square (OLS) method was applied to analyze for further analysis as all the variables were found stationary at level. The regression results show that the fiscal policy and literacy rate has a positive impact on SME's growth of the country; however, the real interest rate has a negative effect on SME's growth. Based on the current findings, the study recommended that the government should spend more to develop the basic infrastructure to support the SME's development as well as related education and training programs especially the technical education for small businesses.

**Keywords:** Fiscal policy; literacy rate; real interest rate; SME's growth

### 1. Introduction

The economies of the world are mostly composed of Small and Medium Enterprises SMEs, in most parts of the world and SME is defined as any company that is employing 10 to 250 employees and any company that has less than 10 employees is defined as a micro firm. A solid definition for SMEs does not exist due to the variability between economies and SMEs vary in nature from producers to services providers. (WTO, 2016). In economies all around the world the small and medium enterprises SMEs play a major role in the development of the economies, this impact is especially shown in the developing countries. SME's are the most contributors to economic development and the creation of jobs in the economies worldwide. Worldwide, SMEs account for around 50% of the employment and 90% of the business in the world. In the countries with emerging economies, SMEs account for almost 40% of the GDP and that is taking into account the formal SMEs in the economy if your account for the informal SMEs as well the rate is a lot higher than 40%. The projected need worldwide for the rapid growth of economies is around 600 million jobs by 2030, this need makes SMEs a very integral part of the economy and is a major concern in decision making state size. SMEs will be responsible to cover 50% of this workforce need which is around 300 million jobs (SMEs – The World Bank 2017).

SMEs in the gulf cooperation council (GCC) region is as vital to the economy as they are worldwide, and due to that importance, the governments of the GCC region have noticed their influence and role in the development of the individual and collective economies in the GCC. To foster the SME sector the governments in the GCC have taken various initiatives to develop that community and launched dedicated investment portfolios to assist in achieving these goals and encouraging hopeful entrepreneurs. Recent studies in the region a potential of \$920 million to be the collective value of the SME sector in the region with a projected growth rate of 156% in the upcoming 5 years, the employment rate in the SME sector in the GCC region will include 22 million people by the next five years, the nature of the GCC countries are mostly urban areas this is good to foster a developing place for SMEs (Smart SME Mena, 2019).

Around 9 out of 10 companies in Kuwait, Oman, and Saudi Arabia are SMEs and 7 out of 10 companies are SMEs in Qatar. These figures are a reflection of the importance of SMEs in the GCC region. Oman has 43% of its workforce in SMEs, Saudi Arabia has 60% in SMEs, Kuwait has 23% and 20% in Qatar (Ahmad Khamis, 2016). Taking into account the various population growth rates in the GCC, SMEs play a critical role in the progress and growth of the GCC countries and also SMEs in GCC play an important role in the stability of society. As the

government sectors are reaching saturated employment SMEs are now critical for societal stability to account for the increase in population (TradeArabia, A Khamis, I Hweij, 2016).

In Bahrain as in the other GCC countries the role of SMEs is very important as the machine that dynamically drives the growth of the economy, SMEs are the leading source of creativity, innovation, and entrepreneurship. Moreover, SMEs in Bahrain had an amazing role in the distribution of wealth created by economic progress and most importantly were the source of job creation and job meeting the demand of jobs pressured by the population increase (Kasi, 2016).

Research and studies on the significance of SMEs and their direct impact on the economy were lacking in the past, and only in recent years were the lawmakers and researchers acknowledging the importance of the SMEs to the economy and their strong impact, which lead to their relatively recent definition, recent laws and policy were put in place to govern their activity and official governance known as SMEs Development Board was created. SMEs were grouped on criteria of a number of employees, and investment and income (Kasi, 2016; Abrar-ul-haq, Razani, Jali, & Islam, 2015)

The SMEs are an integral part of the growth and stability of the Bahrain economy that's why the national plan was to push the SMEs into success. Jafar al-Sayegh, a member of the Bahrain Economists Association, estimated the size of SMEs between 28 and 30 percent of the Bahraini economy (Al-Suhaimi O, 2020). SMEs in Bahrain make up 42% of the trading sector business, 14.48% of the manufacturing business in Bahrain, and 13.70% of the construction business in Bahrain (Alrabeei & Kasi, 2014; Akram, Ul Haq, & Umrani, 2019).

The business world around the globe is made mostly of SMEs and their presence and impact on the world economy are significant, as they account for 67% of the employment in the private sectors (WTO 2016). In the economy as the SMEs account for 50% of the employment and 90% of the collective business world, this is a highlight on their global importance for economic development and expansion (World Bank, 2017). Not long ago the significance of SMEs in the GCC was recognized, and measures and initiatives were taken to secure and prosper this vital part of the economy (Smart SME Mena, 2019). Bahrain followed the footsteps of the neighbours in GCC and vigorously aimed to grow the SME sector and by adopting new laws and policies and creating an oversight board to govern this significant part of the economy (Kasi, 2016; Wahid, Shah, Khurram, Phil, & Abrar Ul Haq, 2015).

SMEs all over the world face many collective problems and the same in Bahrain. In Bahrain, SMEs face two main problems that this research addressed. The first problem is the growth, SMEs in Bahrain face the obstacle of growth all over the different sectors in the economy. The second problem is the business continuity, business in Bahrain face a hard time creating and operating effective and holding for the long terms, a significant number of new entrants don't make it to their first birthday (Bahrain Chamber of Commerce and Industry, 2016). Therefore, the current study had analyzed the effect of government fiscal policy, real interest rate, and literacy rate on the growth of SMEs.

## 2. Literature Review

SME's standard definition is not agreed upon all over the world. Each country has its definition as the size of the SMEs is a reflection of the size of the local economy. For purposes of global studies and statistical analysis SMEs are defined as companies with less than 250 employees (OECD, 2017). In many countries in the world, economies face challenges that deter economic growth and investments. These conditions lead to social turbulence, to face such challenges there is a need to use strong tools that will permit the economy from benefiting from open market policies and enhancement of technology. SMEs play a leading role in the progress and growth of economic systems and they are usually aggressively seeking the technological transformations that the economy is usually struggling with (OECD, 2017).

SME's part of the economy has a vital role in the development of the local economy and employment as well. SMEs either have a strong influence on the economy's introduction to technology and innovation. Various types of SMEs exist, or they are normal SMEs that adjust market pressure in the innovative and driven aspects. And the other type in the economy are the SMEs driven by poverty, they are but a reflection of the high unemployment rates and breakdown of social and free enterprise (HansJorg Herr, 2018). SMEs have a big impact on the developing country's economy and social structures, but to get the most of these SMEs policies and rules should be placed and subsidies must be implemented, these policies and subsidies must be tailored to each category of SMEs to benefit most from their implementation.

As SME's importance is growing continuously, they are considered drivers of expansion in the economies. As this importance was noted, Lawmakers paid attention and influenced the growth of SMEs by setting rates and manipulating the borrowing rates. This study examines that direct impact in the economy of Ghana, as setting and adjusting these policies by the lawmakers had a direct impact on the growth of SMEs, and this impact reflected directly in the economy as a reflection of the importance of SMEs in the developing economies. As strong as the Fiscal policies effect in Ghana, the research found that the Monetary policies had a stronger effect with higher velocity, the monetary and fiscal policies should be designed in a way to stimulate the SMEs and also employment growth, this direction ultimately improves the health of firms and the development of the economy, the impact of SMEs in the economy of Ghana is very important to the country, so the health and growth of small and medium enterprises are as much as important, steering the SMEs state is managed by the governing bodies with the use of such policies (Augustine O, Aseidu E, 2017).

Research in the Czech Republic was made to assess the impact of education on SMEs and how they observe and perceive the business environment. The research analyzed the impact of education and its effect on the insight of entrepreneurs on the surrounding environment. The research found the business owners with higher education were more alerted to the hurdles at the initiation of the business, higher educated business owners had a better grasp and the established environment around them and can better assess its growth and can quickly and actively respond to the changes in the economy productively and positively. However, lower educated people were contempt with the current state of the business environment and do not actively seek and perceive changes and weakness in the economy, and by extension are not equipped to face the obstacles that face the businesses they own, the less educated of the business owners are less likely to promptly and positively react to business opportunities and cannot face the business obstacles as well as the higher educated individuals. The higher the level of education the more the entrepreneur was dissatisfied with the support of the state, and the lower the rate of education the more satisfied the business owners were with the support they receive (Virglerova, Dobes, Kramolis, Kotaskova, 2017).

The impact of Higher education and the effect of universities on the progress and growth of small and medium businesses in Zimbabwe is significant (Kasim, 2011). The effect of providing the entrepreneurs of SMEs with the related knowledge to run their business and the adequate skills to develop their companies is an important factor in the survival and growth of Small and medium businesses in Zimbabwe. A study was developed to study the effect of higher education on the growth of small and medium businesses, the study engulfed the HEI (High Education Institutes) and how they provided the entrepreneurs with the relevant training, and knowledge transfer in process of education and development of small and medium enterprises. The study showed how critical and important the results of higher education assist the entrepreneurs in the all-around efforts to develop the SMEs in Zimbabwe (Bomani, 2014).

Improving the education and awareness of business owners through the transfer of knowledge and skills from the mature to the young generation in Germany, the importance of SMEs in the local and European economies is critical to the growth and market. Giving young entrepreneurs the right support and relevant skills is a key factor in their success as business owners (Hamburg, 2014). The study reveals that Small and Medium Enterprises provide a cover of more than 50% of the business's addition to the economy and the growth of the economy. since most of these enterprises are small in size and lack the fundamental knowledge and skill base that are necessary for the growth of the economy and the going concern of the SMEs, the importance of education and training comes in, ensuring that the new business survives and develop in the European competitive market. The study highlighted the importance of knowledge in the progress and development of SMEs, focusing more on the knowledge transferred from experienced entrepreneurs to the young generation and the effect of gaining these skills on achieving the goals of survival and growth of SMEs (Hamburg, 2014).

A study was conducted to assess the Impact of entrepreneur education on the Growth of SMEs in Kenya. The research found that the education of the business owner favourably influenced the performance and growth of SMEs, the higher education enhanced the skills of the business owner and his knowledge of the business and the economy. the research also found that the continuity of the business was positively affected by the education of the business owners. Showing a high positive correlation between the education of the entrepreneur and the growth profitability and the development of SMEs. Both the long-term continuity of the business and the growth and performance of the small and medium enterprises are greatly connected to the level of education (Mukui M, 2017; Qamri, Abrar-ul-haq, & Akram, 2015).

The impact of interest rates on SMEs is observed in the research in Accra. The result of the research should that there is a strong interdependence between the profitability of SMEs and the current interest rate in the economy, the positive relationship between profitability and interest rates. On the other hand, the higher the interest

rates the lower the business size growth. The level of growth is hurdled by access to finance. This shows the reliability of Banks and SMEs on each other. The operation of SMEs is often facing difficulties and the interest rates fluctuate as the access to funds and lending fluctuates with the interest rates (Mnang'al, 2016; Abrar ul Haq, Jali, & Islam, 2019).

The effect of Interest rate on the growth and development of SMEs is observed in West Pokot Country in Kenya, the Interest rate is the cost of borrowing money for a specific period (Mnang'at, 2016). Being compensated for lending money is a reflection of the time value of money and the opportunity cost of not possessing the money for a period of time. Giving a relatively low interest rate would result in an Incentive in the economy for growth but on the other hand, it will cause an increase in the rate of inflation. Giving a relatively high interest rate would the inflation rate would fall down but so will the growth of the economy (Ingram, 2011). When the interest rates are high people in general tend to refrain from getting loans because the cost of money is very high and they would struggle to get give back these loans, and the opposite happens when the interest rates are low, people will increase their loans to take advantage of the low cost of money. Since the SMEs rely mostly on micro-loans taken by the business owners the described effect be seen in these small businesses. The study focuses on the effect of interest rate on the performance of SMEs, taking into account the borrowing rates, processing fees, and time. And the results show that the interest rates directly impact the growth and progress of the business and the processing time and fees for the micro-loans have a dissatisfying impact on the business owners and their pursuit of progress (Mnang, Namusonge, Oteki, 2016).

A study conducted in the Tanzanian city of Tanga to examine the effect of interest rate on the performance and the growth of small and medium enterprises. A questionnaire collected data from over 80 respondents, the study aimed to examine the effect of interest rates on SMEs performance and how the loans the entrepreneurs receive have an impact on the growth of their businesses and see the views the borrowing party has on the interest rates in the market and finally examine the obstacles faced by the small and medium enterprises. The impact of interest rates has been a global issue and a very important part of the agenda of economic development and setting governing bodies in a country, the study focused on how the loans interest rates impacted the performance and development of small and medium enterprises, the study examined the financing options of the SMEs like micro-loans. The study also included the gender percentage in the timeframe of the study to show how women business owners are growing as a percentage in the economy. The conclusion showed growth of small and medium enterprises is greatly dependent on the availability of funds, and the main source of funds is the micro-loans for entrepreneurs so how much these businesses grow and how they perform relative to the economy, the study also focuses shows that the regulating body review of the current status of SMEs in the country and the prospects must be an active process, to keep making the appropriate adjustments to the interest rates and help SME owners with their obstacles (Msangula, 2015).

Saad Darwish (2014) examined the role of education and SMEs in Bahrain. The importance of SMEs in the country of Bahrain is growing as it is growing in the world, the SMEs play an important role in the development of the economy and the impact they have on the GDP of Bahrain and the economical and industrial activities of Bahrain. Universities have a great impact on SMEs development and growth, the universities are at the top of the education pyramid and are the main source of exceedingly qualified and skilful human capital. This human capital is the driver of innovation and business entrepreneur. The relationship between the universities and the various economic sectors in the country is growing each day and many challenges are facing both these economic sectors and the universities and training providers in meeting the dynamic demand in these sectors. The demand in the world and Bahrain for a competent human capital is vast and this demand must be met and the available channels for education are facing this immense pressure and trying actively to address it. Some issues need to be addressed in Bahrain by the universities, such as lack of effective implementation of support programs to SMEs lack of prior proper training for the owners of new business before the venture starts. Limitation in the access of funds and the high cost of borrowing.

Hussain Al Rabeei and Jon Scott (2014) studied, analyzed and compared the effectiveness of the supports given to small and medium enterprises to overcome the barriers of growth and rise to success inside the Kingdom of Bahrain, to measure the effectiveness of business support. Small and medium enterprises are the dynamic engine that pushes economic growth the innovation and creation shown in these types of enterprises is remarkable and always coming up with something new. Their role includes maintaining a healthy competitive environment and meeting the employment demand that otherwise will grow faster than what the economy can meet. And as the economy in Bahrain is moving away from the dependence on oil as the source of income and towards diversification, the role for the small and medium enterprises is growing rapidly, but this rapid growth is faced with external and internal barriers that must be addressed for these enterprises to succeed. the study was conducted with a questionnaire to 200 business owners and managers and the results showed that a very significant barrier is

financial and business support. The research aimed to both investigate the awareness of business owners to the support programs provided by the official bodies and the effective implementation of these programs to get the most of the support packages available.

The influence of Islamic Banks on the success of entrepreneurs is examined by the study conducted by Dala Tawfiqi, Allam Hamdan, Mohamed Masfaka and Bishar Muwafak (2018). The entrepreneurs have made a strong impression on the economy of Bahrain, their role bounds over the business to include creativity and development of the economy, their role is of great significance because they are the means to meet the national growth and the employment needs of Bahrain. Banks are essential in the economy and the Islamic banks are a good source for financing these entrepreneurs and the paper will aim to find out the part that the Islamic banks play in the success of entrepreneurs in the Kingdom of Bahrain, as the number of entrepreneurs in Bahrain increase significantly since the Kingdom moved away from dependence on Oil and to diversifications of the Islamic banks provide financial services that provide a great opportunity to the entrepreneurs, the rates that the Islamic banks give are very competitive and they do provide nonfinancial services that can be of great help to the entrepreneurs. The study also visited the awareness of the entrepreneurs of the Islamic banks and the services that these banks provide, including a gender study on how women should seize more of the opportunities provided by the Islamic Banks, awareness is key to use the Islamic banks' services. The Islamic banks provide the entrepreneurs with great support and have a positive impact on the business that have a relationship with them.

The SMEs growth and development in the kingdom of Bahrain, the SMEs are a huge part of the private sector in the small kingdom, the amount to 95% of the whole private sector. This shows their significance and how they influence the economy. this crucial role only solidifies the influence they have in the economy and how managing and organizing them with stimuli and regulations is crucial and important to steer the economy in the direction the nations as a whole is moving towards. The best and healthiest market is the one with the healthiest competitive environment. Bahrain is a leader in embracing small and medium enterprises and shows great innovation and progress. That being said, the SMEs in Bahrain face three challenges. First is the economic inactivity and weakness in the demand for local products, these challenges are the results of the small income that is prevailing and the lack of liquidity in the hands of the mass consumers. Another challenge facing the small and medium enterprises in Bahrain rise in costs of initiating the business and keeping it running legally such as licenses and registrations, for SMEs these fees are challenging and sometimes they are the difference between failure and success. The last challenge for the small and medium enterprises in Bahrain is raising capital since most of this business is owned and operated by individuals and most of them are low earners of income, they cannot raise enough capital to brew a successful business, and most of them rely on the relay on luck and advertisement which in the end will fade away without a strongly managed enterprise that is structured well (Abrar-Ul-Haq, Akram, & Farooq, 2015). Other challenges that face the SMEs in Bahrain is the high calibre of human capital, since the headcount in the kingdom is small this is an inevitable obstacle that must be overcome.

These challenges can be met with the support of the government entities, such as Tamkeen, BDB, LMRA, MOIC, and BCCI etc. these entities can provide support to the lacking faced by the SMEs and can give them a chance to expand from the local market to the regional and international market. The research ensures that SMEs should expand their horizon to the outside market, with the facilitation provided by Tamkeen and BDB they have a chance to take that step. And BDB should take extra measures to ensure that these entities have access to capital by providing more loans and longer terms to allow the success of the SMEs plans. Another aspect that can assist the SMEs through Tamkeen and BDB is the supervision of Overheads expenses such as accounting marketing and administration expenses (Al Samman, 2019).

Increasing the contribution of SMEs in Bahrain is a part of the 2030 Bahrain Economic Vision, the government and regulators intend to increase the contribution of SMEs to the gross domestic product to 35% from the current contribution of 30%. This increase reflects the importance of SMEs and how the government sees its future as bright and rewarding. This importance is not only reflected in the GDP contribution but also in the contribution to the employment in Bahrain which SMEs account for 37% of the employment of the economy as a whole. The support of the Bahraini government to SMEs is managed through a system of regulations and support, the most significant of those entities are Tamkeen, BDB and Chamber of Commerce and Industry. The aim of these systems of support to provide financial support, training and other services.

With the first attempt to provide financial support to entrepreneurs in Bahrain through Ebdaa Microfinance Bank back in 2010. The main support now is the Bahrain Development Bank (BDB). The bank owns a huge diversified collection of financial support packages and programs. And the programs provided also cover the industrial sector with a technical support program specially designated to that sector (Al Zeini, 2015).

The non-profit organization that is focused on SMEs in Bahrain is (Bahrain SMEs Society). The society Chairman Dr Abdulhassan Al Dairi in the Arab week of Continuous growth in 2017 praised the growth and the continuity of the SMEs in Bahrain as an example that should be duplicated in other places and highlighted the positive significant influence of the government institutes and related bodies, ensuring that the efforts and funds being invested in the SMEs sector to ensure its continuity and fostering in both the financial and training aspects (Akram, Murugiah, & Arfan, 2017). The society made sure that the support of the government has made it possible for the SMEs to thrive in terms of manpower and expand locally and regionally. The training was in the priorities of the government direction in supporting the SMEs which the UN office of industrial development praised as an example that should be adopted internationally.

Tamkeen has always progressed the support of SMEs and developed strategic objectives to manage that progress. The support programs are created so that the SMEs can effortlessly get business support services that are made to help the SMEs to improve their competitiveness and productivity. The different business support services are made to complement the phase in the business's life. Another mean of support is assisting the business to understand their needs and required support, after that the options of support are clearer to both parties. Another strategic goal of Tamkeen is SME's internationalization acknowledging that this aspect is underdeveloped in the SMEs and needs more support to expand to regional and international markets. Another aim of Tamkeen is to encourage SME's to espouse principles of innovation. Various programs are created to such as Tarwaj: Growth Scheme, Isteeshara: Business Growth Scheme, Jawda: Quality Assurance Scheme, Taswiq: Marketing Scheme and Tachania: Technical Support Scheme.

The reviewed researches revealed the positive effect of managerial skills and government support on the success of SMEs as shown in Pakistan. The research in Malang highlighted individual factors such as the owner's experience and motivation and their effect on SMEs. Government support and training and their positive correlation with the growth of SMEs were examined in South Africa. A consensus that educated business owners are more likely to succeed is obvious. In the republic of Kenya, it is found that the level of education was a serious issue that influenced the success of SMEs in the country, and another factor that affects the SMEs in the Republic of Kenya is the interest rate. It was found that the interest rate in Kenya had a substantial negative effect on the growth and sustainability of SMEs. A study in western Nigeria indicated that the entrepreneurs that have a higher level of education could adapt better to changes and challenges facing their business. The relationship between the interest rates and the SMEs growth and sustainability was conducted in the region Accra in Ghana, the study results showed that there is a positive relationship between the profitability and interest rates on SME's growth and sustainability.

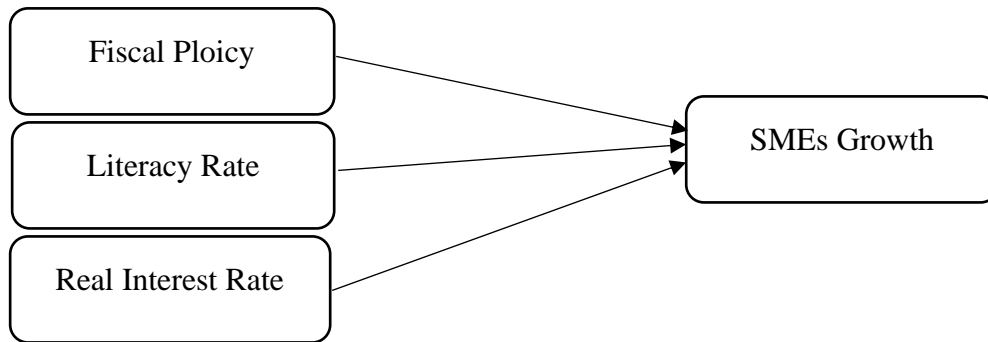
### **3. Methodology**

To get the most out of the research and to make sure that the results of the analysis do reflect the actual state of the SMEs in the kingdom of Bahrain, the appropriate sample size was taken to ensure that the results of the research can be generalized to the state of the market. The data was acquired from the government published data sources and other reliable open sources. The sample covered all the data for each of the variables separately and the data for each variable will be for the past 20 years. The time frame of 20 years was used to get the best result keeping in mind the developing country such as the Kingdom of Bahrain, we took the maximum data possible and available, and ensured the data came from a reliable source. The secondary data for the past years was acquired from reliable sources such as government publications, websites, journals, article, etc. which consists of both local and international organizations.

The maximum data possible were collected to ensure the accuracy of the results. For the Literacy rate variable, the data were collected from 1998 to 2018, since 1998 is the farthest back that we can collect this will be the data sample. The Interest Rate variable data were collected from 1998 to 2018 for all the years since it is established that the maximum time rate to get the results we seek from this research, this was the sample for the secondary data. And finally, the last variable is the Fiscal policy the data will roll back to 1998, as this is the maximum that we can get.

### **4. Econometric model**

The main objectives of the research were created to assess the impact of the fiscal policy on SMEs in Bahrain and to assess the impact of the control variables, which are the literacy rate and the real interest rate on the growth of SMEs in the kingdom of Bahrain. Based on the established aims of the research the Econometric Model is developed. The approach from this model is executed to best achieve the main objectives of the research.



$$SMEs\ Growth = \beta_{1t} + \beta_{2t}Government\ Fiscal\ Policy + \beta_{3t}Real\ Interest\ Rate + \beta_{4t}Literacy\ Rate + \mu_t$$

**Government Fiscal Policy:** The Fiscal policy is a policy established by the government and regulating bodies to control and manage the different types of companies that fall in certain categories under the umbrella of the established policies. The fiscal policy in Bahrain is composed of the enacted subsidies laws that are changing every few years, and another part of the fiscal policy is the tax rates in Bahrain. The data needed is extracted from multiple sources, the data from each source is compared with ones extracted from the other sources it ensured that the data are consistent. Two sources for these data that are reliable were used in collecting the relevant information needed, the first source is the government of Bahrain through their data platform (Bahrain National Data Portal), the other source is the World Data Bank. In the current study, the fiscal policy variable was measured by government spending every year. The data was extracted from the government's yearly published reports.

**Real Interest Rate:** The real interest rate is the interest rate after adjusting it for inflation. The interest rate in Bahrain is set by the Central Bank of Bahrain. The central bank of Bahrain is responsible for setting monitoring and reporting the interest rate in the kingdom. The data for the interest rates that were used in the research are extracted from reliable resources and then were compared with each other to ensure the consistency of the data, and thereof it ensured that the aims of the research are reached in the most beneficial and accurate means possible. In measuring the impact of real interest rate on the growth of SMEs, the data for the real interest rate variable was taken from the world bank open data.

**Literacy Rate:** The literacy rate in Bahrain is the last control variable in this research, this variable is related to the Ministry of Education and the Ministry is responsible for the level of Literacy and all reports related to the level of Literacy. To measure the impact of literacy on the growth of SMEs, again the data of literacy rate of Bahrain was extracted from the world bank open data.

**SMEs Growth:** The SME's growth in Bahrain is considered a dependent variable in the current study. The data for the SMEs growth is maintained by the Economic Development Board, this board manages the SMEs in Bahrain and publishes all the relevant reports related to the SMEs. The SME's growth was measured using the LMRA data that shows how many SMEs are registered every year.

## 5. Data Processing and Statistical Treatment

At the first stage, the stationary of the data was analyzed through ADF (Augmented Dickey-Fuller) unit root test in E-views and results indicate that all the variables are stationary at the level, therefore, to measure how well the independent variable can forecast the dependent variable the best method to analyze the hypothesis of the research was multiple regression analyses.

### Results And Discussion

Table 1 shows that the mean for the SMEs Growth Rate is at 8,072.43 and the standard deviation is 5,507.42. The mean for the Fiscal Policy is at 2,165,906,095.24 and the Standard deviation is 1,167,169,264.45. the Literacy rate has a mean of 90.48 and the standard deviation is at 4.25. finally, the interest rate has a mean of 4.72 and a standard deviation of 9.12.

**Table 1: Descriptive Statistics**

	Mean	Std. Deviation
SME's Growth	8072.4286	5507.42480
Fiscal Policy	2165906095.2381	1167169264.45421

<b>Literacy Rate</b>	90.4857	4.25444
<b>Real Interest Rate</b>	4.7224	9.12586

**Table 2: ADF Stationary Analysis**

<b>Literacy Rate</b>		<b>t-Statistic</b>	<b>Prob.*</b>
<b>Augmented Dickey-Fuller test statistic</b>		-3.907649	0.0372
<b>Test critical values:</b>	1% level	-4.667883	
	5% level	-3.733200	
	10% level	-3.310349	

Null Hypothesis: LITRACY\_RATE has a unit root  
 Exogenous: Constant, Linear Trend  
 Lag Length: 4 (Automatic - based on SIC, maxlag=4)  
 \*MacKinnon (1996) one-sided p-values.

<b>Real Interest Rate</b>		<b>t-Statistic</b>	<b>Prob.*</b>
<b>Augmented Dickey-Fuller test statistic</b>		-4.942223	0.0042
<b>Test critical values:</b>	1% level	-4.498307	
	5% level	-3.658446	
	10% level	-3.268973	

Null Hypothesis: REAL\_INTEREST\_RATE has a unit root  
 Exogenous: Constant, Linear Trend  
 Lag Length: 0 (Automatic - based on SIC, maxlag=4)  
 \*MacKinnon (1996) one-sided p-values.

<b>Fiscal Policy</b>		<b>t-Statistic</b>	<b>Prob.*</b>
<b>Augmented Dickey-Fuller test statistic</b>		-4.717454	0.0070
<b>Test critical values:</b>	1% level	-4.532598	
	5% level	-3.673616	
	10% level	-3.277364	

Null Hypothesis: FISCAL\_POLICY has a unit root  
 Exogenous: Constant, Linear Trend  
 Lag Length: 0 (Automatic - based on SIC, maxlag=4)  
 \*MacKinnon (1996) one-sided p-values.

<b>SMEs Growth</b>		<b>t-Statistic</b>	<b>Prob.*</b>
<b>Augmented Dickey-Fuller test statistic</b>		-4.060343	0.0235
<b>Test critical values:</b>	1% level	-4.498307	
	5% level	-3.658446	
	10% level	-3.268973	

Null Hypothesis: SMES\_GROWTH has a unit root  
 Exogenous: Constant, Linear Trend  
 Lag Length: 0 (Automatic - based on SIC, maxlag=4)  
 \*MacKinnon (1996) one-sided p-values.

Above table 2 shows that all three variables are stationary at the level. The variable literacy rate is constant and has a linear trend as the t-test statistics of ADF is 3.9076 and the probability is 0.0372 which shows that the variable is stationary at a level with 5 percent level of significance. Similarly, the real interest rate is also constant and has a linear trend with 4.942 t-test statistics of ADF and the probability is 0.0042 that shows that the variable is stationary at level. Furthermore, the fiscal policy is also indicate the constant and linear trend as the value of the t-test statistics is 4.7174 and the probability is 0.0070 which indicate that the variable is stationary at a level. Lastly, the SMEs growth variables are depicted the constant and linear trend with 4.0603 t-test statistics value and 0.0235 probability value which shows that the variable is stationary at level. Base on the ADF results, the current study further applied the OLS method to further analyze the impact of the fiscal policy along with real interest rate and literacy rate on the growth of SMEs in Bahrain.

**Table 3: Correlations**



	SME's Growth	Fiscal Policy	Literacy Rate	Real Interest Rate
<b>SME's Growth</b>	1.000			
<b>Fiscal Policy</b>	0.710	1.000		
<b>Literacy Rate</b>	0.778	0.973	1.000	
<b>Real interest Rate</b>	-0.179	0.183	0.208	1.000

The Above table shows the correlations of the relative parameters. The Pearson Correlation illustrates that there is a positive relationship between the SME's growth and the Fiscal Policy equivalent to 71%. And the correlation between the Literacy rate and the SME's growth rate is also positive at the rate of 78%. The correlation between the real interest rate and the SME's growth rate is positive at 18%.

**Table 4: Regression Coefficient**

Model	Unstandardized Coefficients		t-value	Sig.
	$\beta$	Std. Error		
(Constant)	-171986.122	67072.566	-2.564	0.020
<b>Fiscal Policy</b>	4.047	0.985	4.101	0.018
<b>Literacy Rate</b>	2086.742	809.955	2.576	0.020
<b>Real Interest Rate</b>	-0.964	0.410	0.235	0.092
<b>Std. Error of the Estimate</b>	3557.1669			
<b>R Square</b>	0.645			
<b>f-statistics</b>	10.314			
<b>Sig.</b>	0.000			
<b>N</b>	20			

a. Dependent Variable: SME's Growth

The Model Summary table highlights the coefficient of determination “R Square” is at 0.645 and this value means that the variation in the SMEs growth rate is explained at 65% by the three independent variables (Literacy Rate, Real Interest Rate, Fiscal Policy) and this model is significant at 1 percent level of significance. The regression coefficient Literacy rate is 2086.7 and this result is significant at 1% level of significance. It shows that a one-unit increase in the Literacy rate will have a positive increase of 2,086 units in SMEs growth. The importance of SMEs in the development of the economy is undeniable, and examining the significance of the education of the entrepreneurs of SMEs in the development and sustainment of the SMEs in Pakistan was researched and it covered the business in terms of success, vision, strategy, and innovation. And how the education of the entrepreneur impacts them. The results of the analysis researched show that the education of the entrepreneur has a strong and positive relationship with the growth of the SMEs, and how the education level has a positive impact on several aspects of this business (Ganaie M., Akram S., Khan M., Murchant H. 2013)

Apart from that, the regression coefficient of fiscal policy is 4.047, which shows that a 1 per cent increase in fiscal policy will bring a 4.04% increase in SMEs growth in the country and these results are significant at a 1% level of significance. These results reflect the positive and strong relationship between the change in Fiscal policy spending and how it impacts the growth of SMEs. The support of the government and how it affects the growth of SMEs in Uganda is an example that supported our research findings. As economic development hurdles plagued the growth. Government interventions and support seem to be the strongest tool ready for deployment. The research concluded that the lack of financial capital is a great barrier for SMEs and the SME's growth is of great impact on the output of the economy. The findings of the research highlight that the intervention and financial support of the government impacts greatly the conditions of SMEs and their growth and regulating the Fiscal policy and its implementation without wrecking the atmosphere of fair competition is key to SMEs growth and economic growth by an extension (Mwosi, Eton, Edong, Ogwel., 2019).

However, the beta coefficient of the real Interest rate has a negative value which indicates that if the rate of real interest rate will be increased, it will affect the SMEs growth negatively at the rate of 0.964 and this result is significant statistically at 10 percent level of significance. Further, the current results also indicate that the real interest does not have a strong impact on the SME's growth rate as the other two variables. SMEs play an integral

role in Ghana and examination of the impact of Real Interest rate on the growth of the SMEs in Ghana. The results of the research suggested a positive relationship between profitability and the interest rate, but a negative relationship between the interest rate and the size of business reflected in the low growth rates in the business when the interest rates are high. Such results support the conclusions made in our research of SMEs in Bahrain and the impact of real Interest rates on them. As interest rates increase the business access to funds is limited and so is their acquirement of assets (Kisseih K. 2017).

## 6. Conclusion And Recommendation

The research focus was to examine the impact of the fiscal policy along with real interest rate and literacy rate on SMEs growth in Bahrain. For this purpose, the data was collected from the most reliable sources available those include the government publication and data banks and the world data bank for the last 20 years (1998-2018). The results of the unit root test of all the variables in the model are shown that all the variables are stationary at a level and in such situations, we were able to get the coefficient value with the help of OLS.

The empirical results of the regression method depict that the fiscal policy has a positive effect on SME's growth of Bahrain, as the regression coefficient of the fiscal policy is 4.047 significant at a 1 per cent level of significance. Therefore, the results of the study finalize that if the fiscal policy has a significant positive impact to increase the SME's growth in the country. Moreover, the results of the OLS method also showed that the literacy rate had a positive effect on SME's growth as the regression coefficient of the literacy rate is 2086.742 which is significant at a 5 percent level of significance. Thus, the empirical results of the study conclude that the literary rate will increase the SME's growth in the Kingdom of Bahrain. Lastly, the findings of the current study also indicate that the real interest rate has a significant negative effect on the growth of the SMEs as the beta value of the regression coefficient -0.964 which is significant at a 10 per cent level of significance. In this case, the empirical results of the study come to an end that the high interest rate affects negatively the SME's growth in the country.

The Literacy rate is positively affecting the growth of SMEs as the results of the research display. Because of that, the government can increase the growth of the SMEs by focusing on the education of the entrepreneur and facilitating and guiding them towards training and skill development. Such engagement will cause the SME's growth to increase. Fiscal policy also has a positive and strong impact on SMEs growth. That being said, the government can monitor the growth of SMEs and control them as such. The government in an attempt to improve the SME's growth can offer small business subsidy on the electricity and water charges to their commercial bills and can offer rent support packages to small businesses in their first year of business easing it off throughout the year to help the business to establish itself.

Real Interest has a negative impact on the growth of SMEs. Government and formal bodies can positively affect the growth of the SMEs by negatively affecting the Real Interest rate, or by offering small business owners and start-ups with low interest or interest-free financial facilitations or provide youth loans that are less interest composed and less restrictive. The government should encourage SME's and local businesses to enrol in tenders and get governmental contracts to support them to be able to sustain themselves in the long haul and be competitive in the market to avoid shutdowns and bankruptcy.

## Reference

- A. Abrar ul Haq, M., Jali, M. R. M., & Islam, G. M. N. (2019). Household empowerment as the key to eradicate poverty incidence. *Asian Social Work and Policy Review*, 13(1), 4–24. <https://doi.org/10.1111/aswp.12152>
- B. Abrar-Ul-Haq, M., Akram, F., & Farooq, R. M. A. (2015). The Impact of Social Capital on Educational Attainment: Evidence from Rural Areas of Pakistan. *Research on Humanities and Social Sciences*, 5(13), 95–102.
- C. Abrar-ul-Haq, M., Jali, M. R. M., & Islam, G. M. N. (2015). Factors affecting small and medium enterprises (SMEs) development in Pakistan. *American-Eurasian Journal of Agricultural & Environmental Sciences*, 15(4), 546-52.
- D. Abrar-ul-haq, M., Razani, M., Jali, M., & Islam, G. N. (2015). Factors Affecting Small and Medium Enterprises (SMES) Development in Pakistan. *American-Eurasian J. Agric. & Environ. Sci.*, 15(4), 546–552. <https://doi.org/10.5829/idosi.aejaes.2015.15.4.12572>
- E. Akram, F., Murugiah, L., & Arfan, S. (2017). Cultural Aspects and Leadership Effectiveness of Women Leaders: A Theoretical Prospective of Saudi Arabia. *Pakistan Journal of Humanities and Social Sciences*, 5(1).

- F. Akram, F., Ul Haq, M. A., & Umrani, W. A. (2019). Assessing the effect of managerial power on firm performance through the perceptual lens of executive remuneration. *Pertanika Journal of Social Sciences and Humanities*, 27(1), 293–309.
- G. Al Samman, A. (2019). Supporting the Growth and development of SMEs in Bahrain.
- H. Al- Suhaimi O, Bahrain: Plan to Develop More Than 6,300 SMEs. (2020). Retrieved 22 July 2020, from <https://english.aawsat.com//home/article/1152416/bahrain-plan-develop-more-6300-smes>
- I. Alrabeei, H., & Kasi, B. R. (2014). Barriers to growth: Key challenges facing Bahraini small and medium enterprises. *Arabian Journal of Business And Management Review (Oman Chapter)*, 4(3), 45.
- J. Alrabeei, H., & Scott, J. M. (2014). Paper Title: The Effectiveness of Business Support in Overcoming Barriers Facing Bahraini SMEs: The Development of a Business Support Effectiveness Index. In *ICSB World Conference Proceedings* (p. 1). International Council for Small Business (ICSB).
- K. Amaradiwakara, A. U., & Gunatilake, M. M. (2017). Factors Affecting Growth of Small and Medium Enterprises in Sri Lanka. *International Journal of Advanced Research*.
- L. Augustine, O., & Asiedu, E. (2017). Monetary versus fiscal policy effects on SMEs growth in Africa: Evidence from Ghana. *International Research Journal of Finance and Economics*, 164(1), 7-24.
- M. Bahrain Chamber of Commerce and Industry. (2016). *Towards A Unified Strategy Supporting SMEs in Bahrain*. Manama.
- N. Bahrain targets 35% SME contribution to GDP by 2018. (2020). Retrieved 10 May 2020, from [https://www.zawya.com/mena/en/story/Bahrain\\_targets\\_35\\_SME\\_contribution\\_to\\_GDP\\_by\\_2018-ZAWYA20150803100727/](https://www.zawya.com/mena/en/story/Bahrain_targets_35_SME_contribution_to_GDP_by_2018-ZAWYA20150803100727/)
- O. Beca, M., & Nişulescu-Ashrafzadeh, I. (2014). The Effects of the Fiscal Policy on the SME Sector in Romania During the Economic Crisis. *Procedia Economics and Finance*, 15, 334-341. [https://doi.org/10.1016/S2212-5671\(14\)00519-X](https://doi.org/10.1016/S2212-5671(14)00519-X)
- P. Berisha, G., & Pula, J. S. (2015). Defining Small and Medium Enterprises: a critical review. *Academic Journal of Business, Administration, Law and Social Sciences*, 1(1), 17-28.
- Q. Bomani, M., Fields, Z., & Derera, E. The role of higher education institutions in the development of SMEs in zimbabwe. *International Journal of Business and Management Studies*, 11(2), 1-15.
- R. Creswell, J. W., & Guetterman, T. C. (2019). *Educational research: Planning, conducting, and evaluating quantitative and qualitative research*. New York, US.
- S. Darwish, S. (2014). The role of universities in developing small and medium enterprises (SMEs): Future challenges for Bahrain. *International Business and Management*, 8(2), 70-77.
- T. Dladla, L., & Mutambara, E. (2018). The Impact of Training and Support Interventions on Small Businesses in the Expanded Public Works Programme—Pretoria Region. *Social Sciences*, 7(12), 248. <https://doi.org/10.3390/socsci7120248>
- U. Dr Al-Dairi A, 2017 [bahrainsmes.com](http://www.bahrainsmes.com). 2020. Chairman “SMEs”: Bahrain is an example that should be followed in entrepreneurs training| SMEs. [online] Available at: <<http://www.bahrainsmes.com/01-06-2017/>> [Accessed 22 July 2020].
- V. Eton, M., Ebong, C. D., Fabian, M., & Benard, P. O. (2018). Government interventions in supporting SME growth in Lira district, northern Uganda.
- W. Ganaie, M. A., Murchant, H., Akram, S., & Khan, M. A. Impact of SME Entrepreneur’s Education on Quality of Doing Business in Pakistan.
- X. Gibson, T., & Van der Vaart, H. J. (2008). Defining SMEs: A less imperfect way of defining small and medium enterprises in developing countries.
- Y. Hamburg, I. (2014). Improving Young Entrepreneurship Education and Knowledge Management in SMEs by Mentors. *World journal of education*, 4(5), 51-57.
- Z. Herr, H., & Nettekoven, Z. M. (2018). The role of small and medium-sized enterprises in development: What can be learned from the German experience? (No. 53). *Global Labour University Working Paper*.
- AA. Ingram, D. (2011). The Effects of low Interest Rates on the Economy.
- BB. Kasi, R. (2016, July). An Overview of Bahrain’s SME Sector. In *Proceedings of 11th Annual London Business Research Conference* (pp. 25-26).
- CC. Kasim, R.S.R. (2011). Malaysian Higher Education Institutions: Shaping an Entrepreneurial Agenda. *International Journal of Information and Education Technology*, 1(2), 163-170.
- DD. Khamis, A. (2016) SMEs are key engines of GCC economic and job growth: BLOOVO.COM research.
- EE. Khamis, A., & Hweij, I. (2016). SMEs driving GCC economic and job growth: study.
- FF. Kimunduu, G., & Erick, O. (2016). A Study On The Influence Of Financial Literacy On Financial Performance Of Small And Medium Enterprises In Ruiru Town, Kiambu County, Kenya. *International Journal of Economics, Commerce and Management*, IV (11), 416-433.
- GG. Kisseih, K. G. (2017). The Impacts of Interest Rate Fluctuations on the Growth of Small and Medium Enterprises (SMEs) In Accra. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 7(2), 44-53.

- HH. Mngang'at, S. A., Namusonge, G., & Oteki, E. B. (2016). The effects of interest rate on financial performance of micro enterprises: a case study of Makutano Township in West Pokot County. *International Journal of Novel Research in Marketing Management and Economics*, 3(3), 22-29.
- II. Mngang'at, S. A., Namusonge, G., & Oteki, E. B. (2016). The effects of interest rate on financial performance of micro enterprises: a case study of Makutano Township in West Pokot County. *International Journal of Novel Research in Marketing Management and Economics*, 3(3), 22-29.
- JJ. MOFNE. (2019). Fiscal Balance Program. Ministry of Finance and National Economy: MOFNE.
- KK. MOIC (2019). SMES DEVELOPMENT. Moic.gov.bh.
- LL. Msangula, L. Y. (2015). An Examination of the Effect of Loan Interest rates to SMS'Performance and Growth in Tanga City: A Case of Vision Fund Tanzania (Doctoral dissertation, Mzumbe University).
- MM. Mukui, P. N. (2017). An evaluation of entrepreneurship education as a tool used by the government to promote growth and development of SMEs in Kenya: A case study of the KPMG top 100 SMEs.
- NN. Nyumba, E. O., Muganda, M., Musiega, D., & Masinde, S. W. (2015). Loan interest rate and performance of small and medium enterprises in Kenya. *International Journal of Management Research and Reviews*, 5(10), 712.
- OO. Oecd. (2017). Financing SMEs and Entrepreneurs 2017: An OECD Scoreboard. OECD.
- PP. Organisation for Economic Co-operation and Development. (2017). Enhancing the contributions of SMEs in a global and digitalised economy. In Meeting of the OECD Council at Ministerial Level, Paris (Vol. 7, No. June, p. 2017).
- QQ. Qamri, G. M., Abrar-ul-haq, M., & Akram, F. (2015). The Impact of Inflation on Stock Prices: Evidence from Pakistan. *Microeconomics and Macroeconomics*, 3(4), 83–88. <https://doi.org/10.5923/j.m2economics.20150304.01>
- RR. Sarwoko, E., & Frisdiantara, C. (2016). Growth determinants of small medium enterprises (SMEs). *Universal Journal of Management*, 4(1), 36-41.
- SS. Sitharam, S., & Hoque, M. (2016). Factors affecting the performance of small and medium enterprises in KwaZulu-Natal, South Africa. *Problems and perspectives in Management*, 14(2-2), 277-288.
- TT. SMART SME MENA – SME SECTOR AND GCC – SMART SME MENA 2019.
- UU. Tamkeen bh, 2017. Strategic Plan 2015-2017. [online] Available at: <<https://www.tamkeen.bh/sysimages/fileupload/source/strategy-2015-2017-eng.pdf>> [Accessed 22 July 2020].
- VV. Tawfiqi, D. N., Hamdan, A., Masfaka, M. M., & Muwafak, B. M. (2018). The Role of Islamic Banks in the Entrepreneurial Success: Evidence from Bahrain. *International Journal of Entrepreneurship*, 22(2), 1-22.
- WW. UNESCO, (2019). Literacy rate | UNESCO UIS. Uis.unesco.org
- XX. Virglerova, Z., Dobes, K., Kramolis, J., & Kotaskova, A. (2017). THE INFLUENCE OF SME OWNERS'EDUCATION ON THEIR PERCEPTION OF BUSINESS ENVIRONMENT IN CZECH REPUBLIC. *Economics & Sociology*, 10(3), 321-332.
- YY. Wahid, S., Shah, A., Khurram, S., Shahzad, M., & Abrar Ul Haq, M. (2015). Human Capital and Economic Growth: Evidence from Selected Asian Countries. *Journal of Resources Development and Management Journal*, 11.
- ZZ. World Bank SME Finance. (2017). SMALL AND MEDIUM ENTERPRISES (SMES) FINANCE.
- AAA. WTO | Ministerial conferences -MCII in brief. (2016). Micro Small and Medium Enterprises.