T.C.
ISTANBUL GEDİK UNIVERSITY
INSTITUTE OF GRADUATE STUDIES

THE EFFECT OF ECONOMIC POLICIES ON SMALL BUSINESSES IN IRAQ

MASTER'S THESIS

Mohammed Abdulhaleem Abdulzahra OLIWI

Business Administration Department

Business Administration Master in English Program

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Thesis Advisor: Prof. Dr. Abuzer PINAR

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DECLARATION

I, Mohammed Abdulhaleem Abdulzahra OLIWI, do hereby declare that this thesis titled as “Mohammed Abdulhaleem Abdulzahra OLIWI’nin “The Effect of Economic Policies on Small Businesses in Iraq” is original work done by me for the award of the masters degree in the faculty of Business Management. I also declare that this thesis or any part of it has not been submitted and presented for any other degree or research paper in any other university or institution. (14/12/2021)

Mohammed Abdulhaleem Abdulzahra OLIWI

DEDICATION

It is in my pleasure to dedicate my thesis work to the soul of my beloved father, who was my first teacher in this life. He taught me many lessons that become the guide of my life. His words and advices still encourage me to work hard and achieve my goals. I also dedicate my thesis work to my dear, lovely mother. She always stands for me and gives support. I dedicate my thesis work to my amazing brothers and sisters. I feel so greatly privileged to have them in my life. I dedicate my thesis work to my amazing family (My wife and Kids). Without them, I could not make and progress in my life.

PREFACE

Getting a master’s degree was a challenging decision to make. However, having supports from family, friends makes that easy. First, I would thank my supervisor Prof. Dr. Abuzer PINAR for all support and guidance throughout my research work. It was all fruitful advice during my academic career. It is in my pleasure to thank my family and friends for their help and support. Finally, I would like to thank all participants who took part in the study and enabled this research to be possible.

December 2021 **Mohammed Abdulhaleem Abdulzahra OLIWI**

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ABBREVIATIONS

EP : Economic Polices
LBP : Loans for Business Program
APP : Appendix
LRM : Linear Regression Model

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ABSTRACT

Iraq started new economic and political systems after 2003. They Iraqi government adopt an economic reform program that was designed to transfer the Iraqi economy to depends on private businesses. That is because private businesses, especially small businesses, can play a significant role in economic development. This study tests the effects of different economic policies in Iraq on small businesses. The study focuses more on evaluating the impact of loans for businesses program on the small businesses in Iraq. The study is supposed to help policy makers in Iraqi to evaluate the effect of loans program on its targets. The study contribution is that it present statistical measurements to the impact of economic policies on small businesses in Iraq. The data used in this study were taken from the Iraqi ministry of finance, the ministry of trade, the central bank of Iraq, and the office of businesses registration. This data is monthly time series data from 2003-2019. The data sample has 192 observation. The results of this study obtained by using linear regression model (LRM) and R programing. The results show that the Loans for small businesses program has positive and insignificant impact on small businesses in Iraq. The results show that the monetary, fiscal, and trade policies have negative and insignificant impact on small businesses in Iraq. The results show that the learning and training programs have positive and significant impact on small businesses in Iraq. The results do not confirm the hypothesis that loans for businesses program can significantly impact the number of small businesses in Iraq. However, the learning and training program is confirmed to be an important policy to motivate small businesses in Iraq. Therefore, the study suggests that policy maker in Iraq should focus more on the learning and training programs in motivating small businesses.

Keywords: *Economic policies, Small businesses, Iraq*

EKONOMİ POLİTİKALARININ IRAK'TAKİ KÜÇÜK İŞLETMELER ÜZERİNDEKİ ETKİSİ

ÖZET

Irak, 2003'ten sonra yeni ekonomik ve siyasi sistemlere başladı. Irak hükümeti, Irak ekonomisini özel sektöre bağımlı hale getirmek için tasarlanmış bir ekonomik reform programı benimsiyor. Bunun nedeni, özel işletmelerin, özellikle küçük işletmelerin ekonomik kalkınmada önemli bir rol oynayabilmeleridir. Bu çalışma, Irak'taki farklı ekonomik politikaların küçük işletmeler üzerindeki etkilerini test etmektedir. Çalışma, daha çok işletme kredilerinin Irak'taki küçük işletmeler üzerindeki etkisini değerlendirmeye odaklanmaktadır. Çalışmanın, Irak'taki politika yapıcıların kredi programının hedefleri üzerindeki etkisini değerlendirmelerine yardımcı olması bekleniyor. Çalışmanın katkısı, ekonomik politikaların Irak'taki küçük işletmeler üzerindeki etkisine istatistiksel ölçümler sunmasıdır. Bu çalışmada kullanılan veriler Irak maliye bakanlığı, ticaret bakanlığı, Irak merkez bankası ve işyerleri kayıt ofisinden alınmıştır. Bu veriler, 2003-2019 yılları arasındaki aylık zaman serisi verileridir. Veri örneğinin 192 gözlemi vardır. Bu çalışmanın sonuçları doğrusal regresyon modeli (LRM) ve R programlama kullanılarak elde edilmiştir. Sonuçlar, Küçük İşletmeler için Krediler programının Irak'taki küçük işletmeler üzerinde olumlu ve önemsiz bir etkiye sahip olduğunu göstermektedir. Sonuçlar, para, maliye ve ticaret politikalarının Irak'taki küçük işletmeler üzerinde olumsuz ve önemsiz bir etkiye sahip olduğunu göstermektedir. Sonuçlar, öğrenme ve eğitim programlarının Irak'taki küçük işletmeler üzerinde olumlu ve önemli bir etkiye sahip olduğunu göstermektedir. Sonuçlar, işletme kredileri programının Irak'taki küçük işletme sayısını önemli ölçüde etkileyebileceği hipotezini doğrulamamaktadır. Ancak, öğrenme ve eğitim programının Irak'taki küçük işletmeleri motive etmek için önemli bir politika olduğu onaylandı. Bu nedenle, çalışma Irak'taki politika yapıcıların küçük işletmeleri motive etmede öğrenme ve eğitim programlarına daha fazla odaklanması gerektiğini öne sürüyor.

Anahtar Kelimeler: *Ekonomi politikaları, Küçük işletmeler, Irak*

1. INTRODUCTION

1.1 An Overview

The economy of Iraq is used to be a socialist economy for a long time. That is, it is mainly depends on the public sector, and almost all organizations are owned and managed by Iraqi government. However, after 2003 the situation was changed. Iraq has new government and they adopt an economic reform program. The main goal of the new reform program is to transfer the Iraqi economy to the capitalism system (Bassam 2007).

The new economic reform is focusing more on the private sector. That is, the Iraqi policy makers have formed many economic policies such as fiscal, monetary, loans, and other polices to help establishing new private businesses. One of these important policies is the loans for small business, which is the policy that this study interested in.

Before explaining in details the economic polies in Iraq, it is important to understand why these polices focus on small businesses. In other words, it is important to understand the roles of the small businesses in the economy. In other words, it is important to explain why these economic policies focus on small businesses.

Theoretically, the small businesses can play a significant role in an economy especially in developing countries. That is because, they are easy to be established, and the can have many advantages. For example, they do not need big financial resources, and they can reduce the unemployment. In addition, they can provide a variety of products. It is important to indicate that the role of small businesses is depend on the sizes and the distribution of them (Brock & Evans 1989).

According to the study conducted by Storey, (2016), the small businesses can have great contribution in any economy output. However, small businesses especially in the developed countries can have many problems (Storey 2016).

For example, many of them do not officially register; many of them have very short life. In addition, many of them are very small, and it is hard to count their contribution.

The study conducted by Storey, (2016), indicates also that there is no single definition to the small businesses. However, an economic definition was formed to define them. The economic definition specify that a business can be small business if it meets three criteria. The first one is that it has small share in the market. The second one is that it is managed by the owner. The third one is it is not related to big business (independent). More details will be given on small business in the theoretical sections of this study.

Starting up new (small or big) business usually face many problems. Some of these problems are related to the situation of the whole economy in terms of stability and different regulations. Some of these problems are related to the market conditions such as the competition (Keasey & McGuinness1990).

However, there is a common problem that affect the decision to start up new business, which is the financial funds. That is because businesses cannot be established without getting financial resources. Therefore, Iraqi government adopted economic policies to stimulate the new businesses such as the loan for business program (LBP). Figure (1.1) shows that the share of small business in Iraqi GPD has increased over time.

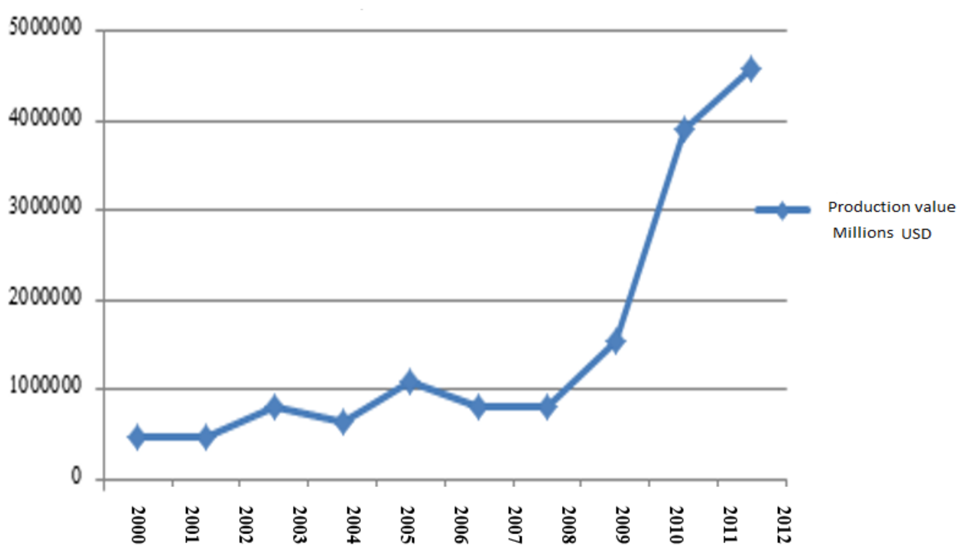

Figure 1.1: The share of small business In Iraqi GPD over time.
Source: https://www.merefa2000.com

Figure (1.1) shows that in 2008, the share of small business In Iraqi GPD. That reflects the increase in the number of small businesses in Iraq.

Many factors can lead to increase the number of small businesses. Some of these factors are related to individual decisions, while the other are related to the effect of economic policies (Gibson & Cassar 2002).

Sometimes, even when the economy does not have stimulated economic policies, individuals try to start their own small businesses. Most types of these businesses are characterized to be very small in terms of capital invested and their activity. In addition, most of them are doing trade activates (buy and sell) such as small stores.

However, this study is interested in the small businesses that are started under the motivation of many economic policies. Even it is hard to sort these types of small businesses, the assumption made is that all types can be effected by different economic policies. In other words, the study will focus on the period when the Iraqi economy adopted economic policies that motivate the private small businesses.

The general form of economic policies that can affect the number of small business are the fiscal policy, and the monetary policy.

The fiscal policies are any action taken by the government to achieve specific goals. For example, changing the tax rate, and increasing the government spending to help establishing small business (Wyplosz 2005).

The monetary policies are any action taken by the Central Bank of a country to achieve specific goals. For example, changing the interest rates, increasing the available credits, and increasing the loans for businesses to help establishing small business (Bofinger et al. 2001).

1.2 The Study Topic

This section explains the reasons that led to select the study topic. The topic of this study was selected because Iraqi government have adopted an economic reform that have many economic policies to motivate the private small businesses. Iraq is recognized as one of the developing countries, and have very limited number of small private businesses.

In addition, the private sector in Iraq has small contribution in the economic output (Bassam 2007). However, after 2003, Iraqi government put a plan to motivate the private sector using different economic policies. Therefore, the study was conducted to evaluate the effect of these policies on the small private businesses in Iraq.

1.3 The Purpose and the Importance of the Study

The purpose of the study is to empirically test the effects of economic policies on small businesses in Iraq. More specifically, the study focus more on testing the impact of loans for businesses program on the small businesses in Iraq.

The importance of the study is to help policy makers in Iraqi to evaluate the effect of loans program on its targets. The study contribution is that it present statistical measurements to the impact of economic policies on small businesses in Iraq.

1.4 Literature Review

This section reviews some studies in the literature that tests the impact of economic policies on small businesses.

The study conducted by Pingui, and Guohua, (2013) investigateed the impact of monetary policy in China (bank loan) and businesses credit. The study also presents evidence on the transmission mechanism of the monetary policy in China (Pingui & Guohua 2013).

The results of the study indicated that the impact of monetary policies stronger on firm borrowing during the contraction phase of monetary policy. This results of this study indicted that transmission mechanism of the monetary policy can also impact the firms behaviors.

The study conducted by Kandrac, (2012) provided a statistical test about the effect of monetary policy on bank lending to small firms. The study used the balance sheet as a channel of monetary policy (Kandrac 2012).

The study used data from all domestic banks to test the effect of monetary policy on their lending patterns. The study results indicate that banks decreased their lending to the small firms (high-risk barrowers) as a response to tightening monetary policy.

The study conducted by Cull, (2002) compares between foreign banks' lending and domestic banks lending to small businesses. Data sets from four of Latin America countries was analyzed in this study (Cull et al. 2002).

The results of this study indicated that small foreign banks lend less than small domestic banks. However, the difference in lending for large banks is less. The study showed that foreign bank has increased their lending in Latin America in the recent years. That has affected the small businesses in these countries.

The study conducted by Arestis, (2013), focuses on new way of thinking about economic policies. The study indicated that the central bank should focus on financial stability. It showed that the fiscal policy should address the demand side. In addition, the interest rate policy should be in line with trend rate of growth in the economy. Fiscal and monetary policies should be coordinated closely (Arestis 2013).

The study indicates that central bank should control the foreign exchange rates. In addition, it is necessary to create capacity by adopting industrial and regional, and income policies. Furthermore, the study indicates that the income and wealth distribution are important policies in case of economic recession.

The study constructed by Arestis & Sawyer, (1998), indicates that economic policies should focus on both demand and supply sides. The paper starts with the concepts of Keynesian theory (aggregate demand) to set up the level of economic activities (Arestis & Sawyer 1998).

The study constructed by Yousif, (2006), showed that many inappropriate economic policies were applied in Iraq. The Iraqi authority tried to transfer to the liberalization of prices and markets. The goal of that is to improve efficiency in the allocation of resources and to expand output (Yousif 2006).

The results of the paper showed that Iraqi economy has many problems and difficulties, which can make the economic policies less efficient. In addition, they can make the transmission to the liberalization very hard. For example, people in Iraq feel insecure when they work for the private sector.

The paper by Gertler & Gilchrist (1994) tested the effect of monetary policy on small versus large manufacturing firms.

In other words, the paper analyzed the responses of small and large firm to the changes in monetary policy. The study goal is to investigate how important is the funding mechanism on economic activities (Gertler & Gilchrist 1994).

The results of this paper indicate that small firms are responsible for big manufacturing decline as a response to a tightening monetary policy. With tightening monetary policy, small firms try to reduce their stocks as they expect the demand to be reduced. However, large firms response to this policy by borrowing to increase their inventories. The results of this paper indicate that in the short-run, the tightening monetary policy affect large firms more than small firms.

The study conducted by Brady, (2013) tested the importance of financial mechanisms the behavior of small and large firm. The paper indicates that the changes in the credit market can influence business cycles. Then, the change in business cycle behavior will be transfer to affect all firms. The results of the paper indicate that the level of effect depends the firms' ability to access the credit markets. The paper conclusions is that small firms has less ability to access the credit market than the big firms have (Brady 2013).

The study by Bougheas, et al (2006) tested the firms' ability to access bank loans and market finance. The study was based on the differences in firms' characteristics. That is, the study used firms' characteristics such as size, risk to determine their ability to access bank loans and market finance (Bougheas et al. 2006).

The study used these characteristics because they can lead to more or lesser available credit especially with high interest rates. The study applied an empirical test on a large number of UK firms. The results of this study indicates that small and young firms are significantly affected by credit conditions than large firms. That is because small firms are more risky than large firms in terms of lending conditions.

The study by Fatoki and Asah, (2011) indicates that the small and medium-sized enterprises (SMEs) have positive and significant roles in the economic growth. For example, they could reduce the unemployment and the poverty rate in South Africa. However, the study showed that there are high rate of failure among these SMEs in South Africa. That is because, there is very limited availability of financing in South Africa for new or unsecure firms (Fatoki & Asah 2011).

This study tests the impact of SMEs characteristics on accessing the debt finance in South Africa. The study used the questionnaire survey method to collect data. The study used statistical analyses such as correlation test and linear regression to analyze the data. The results of this study indicate that firm characteristics especially firms' size have impacts on accessing the finance resources. The study suggestion is that the firms' owners or firms' managers should provide collateral, and be trained to improve their ability to access the financial resources.

The study by Banerjee, and Duflo, (2014) tests whether or not the firms are credit constrained. This article depended on the variation in the access to the lending program. The study showed that constrained and unconstrained credit firms want to get directed credit. That is because it may be cheaper than other financial sources. In addition, the constrained firms can use it to increase their production, while the unconstrained firms can use it to replace other borrowing sources (Banerjee & Duflo 2014).

They study was applied on firms in India that adopted directed credit policy in 1998. The results of this study showed that the directed credit is not used as a substitute for other credit sources. However, the direct credit was used to increase the size of production. The results also showed that the credit program led to rapid increase in the growth rate of sales and firms' profits.

The study by De Schoenmaker, et al, (2014) Showed that most researchers focus on the impact of fiscal policy at the federal (macro-level) on firms. However, this study focused on the impact of fiscal policy on firms at the local level (micro level) (De Schoenmaker et al. 2014).

The study tests the effect of local taxes (as fiscal policy), and spending on firm profitability. The study was applied on firms within the Flemish hospitality industry.

The study selected firms within the Flemish hospitality industry because they have faced different local taxes, and most of them are specified to the hospitality industry.

The results of this study showed that the local taxes have a negative effect on firm profitability. However, the public spending has a positive effect on firm profitability. The results indicates that the effect of local tax exceeds the effect of public spending.

1.5 The Study Hypothesis

The study has two hypotheses:

1. The Monetary policy (national lending for businesses program) in Iraq has positive and significant impact on the number of small businesses.
2. The fiscal policy (Taxes and public spending targeting businesses) in Iraq has positive and significant impact on the number of small businesses.

1.6 The Study Plan

The rest of the study includes four section as shown below:

1. Chapter one which discusses the small businesses economics.

1. Chapter two which discusses the concepts and theories of economic policies.

3. Chapter three which is the empirical work that includes data, model, methodology, and the results.

4. The conclusion.

2. SMALL BUSINESSES

2.1 An Overview

Studding small firm's concepts and their behavior has paid more attention. The reason of that is the small firms have a significant role in economic growth especially in the developing countries. Identifying firms as "small firms" is not absolute. However, it depends on the sector. For example, small firm in petrochemical industry can have more capital and employee than small firm in trade industry. Therefore, the definition of small firms, which use measure like size, number of employee, profitability, and others is differ from sector to the other (Storey 2016).

According to Bolton, (1971), there are two definitions to the small firms. The first definition is the economic definition, and the second is the statistical definition. The economic definition states that the firm is considered as small if it meets three criteria (Bolton 1971).

- The firm has small relative share of its market.
- The manager of the firm is the owner or part owner, and it is managed without using an advance management system.
- The firm is not part of big companies (independent).

The statistical definition was formed based on three issues. The first issue is the measure of the firm's size in its sector and its contribution to the economy such as its contribution to GDP (Gross Domestic product). The second issue is related to the extent that the small firm could change its contribution to the economy over time. The third issue is related to the comparison between small firms' contribution in one country to the other.

Table (2.1) illustrate the concept of statistical definition of small firms. Table (2.10 shows that criteria that used to distinguish between small firms in different sectors.

Table 2.1: The statistical definition of small firms

Sector	Statistical Definition
Manufacturing	200 employees or less
Constriction	25 employees or less
Mining	25 employees or less
Retile	Turnover of £50,000 or less
Services	Turnover of £50,000 or less
Motor trade	Turnover of £100,000 or less
Road Transport	Five vehicles or less

Source: (Bolton, 1971)

Some specialist argued that the Bolton's two definitions to the small firms might have some problems. For example, the economic definition states that the small firm is managed by the owner or part owner, and without using structure management system. However, the statistical definitions to the small firms states that the small firms has 200 or less employees in the manufacturing sector. Therefore, these two definitions are not compatible. Having 200 employees requires at least some supervisors or simple kind of structure managements (Bolton 1971).

The new concept of small firms has been developed over time. That happened because of many reasons especially the changes in the economic conditions around the world. The new economic era presented the small firms as the firms that identified by their type of business. For example, manufacturing firms, service firms, and trade firms. In addition, the small firms are classified in three categories, which are (Bjerke & Hultman 2004):

1. Marginal firms

   The marginal firms are the new and independent firms that started based on providing some types of services.

2. Lifestyle firms

   The Lifestyle firms are the new and independent firms that started based advanced skills. Their goal is to provide good salary, but not growing.

3. High potential firm

This type of firms are the new and independent firms that started to be growing and become big company. In addition, their main goals are to increase sales and profits.

In general, there are no single unique definition to the small firms. However, what clear is that every definition has a purpose and meaning. Finally, the definition to the small firms are differ from economy to the other and from sector to the other.

2.2 Small Firms and Large Firms (Advantages and Disadvantages)

The firs and important question that can be askes when discussing the small firms and large firms and their economic roles is what the differences between them are. In other words, what the advantages and disadvantages of them are. In fact, the size is not the only difference between them; there are many other differences (Tether 1998).

For example, the small firms represent the majority of firms in every economy while large firms not. Small firms are mostly founded in retail and services, while big firms are in manufacturing. Small firms are considered as important sources of new jobs and innovations than large firms. Small firms can started new market and provide more choices for customers, but it is hard for large firms. Small firms are perfect places for training the employees. They provide good opportunities to their owners for self-development and making more money (You 1995).

The disadvantages of small firms is that running these kind of firms is usually associated with uncertainty. In addition, small firms usually face economic risks and possibility of short life especially in the beginning. Small firms is usually associated with their owner style which is an important factor of fail. Small firms usually do not focus on skilled managers, which can lead them to leave the market. Small firms do not have organizational structure which can impact their performance. Most of these disadvantages are not exist in large firms or they may exist with moderate degrees.

Despite all these disadvantages of small firms, they can play significant role in any economy. Small firms can contribute to employment and reduce the unemployment. They also can provide new technologies and improve the economy.

They have the ability to quick response to the changes in the market and provide more options of goods and services to satisfy the customers (Rothwell 1989).

2.3 Starting Small Firms

2.3.1 The reasons for starting small businesses

Many reasons have led individuals to start up new small firms. In most cases, these reasons are related to personal issues. Understanding these reasons can help policy maker adopt good economic policies that motivate small businesses (Shaver et al. 2001). Therefore, it is important to review most of these reasons.

1. Free Time

   One of the important reason for starting a business is the free time. When individuals have more free time, they fell that it is good for relaxing. However, after a while, they get poring and they will try to do something to fill this time gap. As result, the most common idea to fill this time gap is by starting their own business, which is usually, small business (Kvedaraite 2014).

2. Owning the business

   Even owning a business is the dream of most individuals, not everyone can do it. However, individuals' motivation to do their own business, instead of working for other, is very important factor that lead to start many businesses. It can be done when individuals work hard, save money, and start their own business (Shaver et al. 2001).

3. Stimulation programs

   Stimulation programs are important factor that help start up business. Many studies showed that stimulation programs could increase the small business in both developed and developing countries. For example, the tax exemption that designed for small businesses can support the financial situation of these businesses. In addition, the loans for small businesses also can motivate individuals to start new businesses (Longenecker 2013).

4. Achieving the goals

When individuals start their small businesses, they fell that they are proud of what they did.

They feel that they achieve their goals and dreams. Sharing these experiences and feelings can motivate other individuals to start their own businesses (Kvedaraite 2014).

5. Inheritance

Doing something to benefit their family and kids is a goal of most people. This idea may motivate individuals to start their own businesses. Even with the expectation of fail the business, many individuals believe that their new business may grow up and continue to benefit their next generations (Shaver et al. 2001).

6. Feeling safe

It is well known that most workers especially the low skills workers always feel unsafe regards their jobs. In other words, they feel that they may lose their jobs at any time and for many reasons. For example, in the recession time, employers reduce their employees to reduce the cost. In some cases, employers fire workers for personal reasons. Therefore, individual believe that when they start their own business, nobody can fire them (Kvedaraitė 2014).

7. Social benefits

When individuals have their own businesses, the will make many social and work relationships. This idea may motivate many individuals to start their businesses (Panwar et al. 2016).

8. New experiences

Starting new business is viewed by some individuals, as new experiences, and that itself a good motivation to start business. That is because most people like trying something new especially with the possibility of getting more money (Shaver et al. 2001).

9. Skills improvement

The skills improvement is one of the important factor that motivate individuals to start businesses. Most individuals believe that they cannot improve their skills as the want when they work for others. However, the can do that when the have their own businesses. The skills in this case are mostly related to the management, marketing, accounting, and others (Kvedaraitė 2014).

10. Financial independency

This is an important factor since individuals who have their own business can manage their financial resources independently (Jarvis et al. 1996).

11. Create new jobs

One of the most efficient way to help people is to give them a job. This idea seems to be a mix between the socialist and economic issues. In other words, when individuals start new business, they will create new jobs that can help their society and operate their businesses. Therefore, this idea may motivate individuals to start new businesses (Panwar et al 2016).

12. Competition

Most people love to compete each other. The willingness to become number one in the market can lead many individuals to start new business to win the competition (Agmon & Drobnick 1994).

2.3.2 The steps to start small businesses

Small business are usually characterized by using small amount of capital. In other words, they do not need a large capital. In addition, they do not require renting big headquarters, and they do not have pay high amount taxes. That can help reduce the total costs and motivate individuals to start their small businesses (Hormozi 2004). In general, there are some steps for starting a small business as following:

1. Selection the business idea

The first step to start new business is to select the idea of that business. The idea of the business is the general framework of it. This idea should explain the product or services that the business will provide to customers. For example, it may be the provision of maintenance services for household devices, maintenance for computers or smartphones. It may be producing some products such as different types of foods, furniture, and other ideas that have the possibility of working (Hormozi 2004).

2. The name of the business

Many people think that choosing the name of the business is not important, while other people choose the name randomly. Choosing the name of the business without taking into account whether the name is appropriate or not can influence the business.

The name of the business is necessary and directly affects the success or failure of that business. Therefore, it is necessary to choose a suitable name that remains in the minds of customers. The name must be exclusive and specific to the business. The name may be used to register the business in the official records of the city or region where business will work (Pakroo 2018).

3. The business supplies

One of the important steps of business success is preparing its supplies. The owner must think about and prepare all the supplies that needed for the business. For example, the workplace if it requires an office, shop or warehouse, depending on the nature of the business. In addition, any raw materials that the work may need, and any other logistics such as equipment, a place to display goods, operating supplies, and others (Roddick & Rickman 2005).

4. The mechanism of work within the business

The mechanism of work in this case is the structure of the business. More specifically, the owners of the businesses should decide whether they would work in the business alone or with team (Pakroo 2018).

In addition, the owners of the business should decide whether they could finance the businesses alone or with partners. They should decide whether they have all the expertise and skills necessary for the businesses or they need others with more experience.

These matters determine what the business will look like, and how the work on it will be. These matters need to be taken into account and determined from the preparation stage.

5. Studying the market

The next step after finding the business idea is to do market study. Studying the market is crucial step to turn the idea into a profitable and successful project. Studying the market includes finding out whether there is a good or service similar to what the project idea offers or not. In addition, it also includes, standing on all the developments that the market has, and know the basic requirements that the customers need. The market hear refers to the place, the people who will buy, and the community in which the business will provide the service or product (Dunn & Cheatham 1993).

6. Knowing the competitors in the market

There is no doubt that the most challenge faces all small projects is competition. That is because many different parties in the same market can provide same service or goods (Dunn & Cheatham 1993).

The study of competitors is important to identify all the strengths and weaknesses. That can help providing the opportunity to strongly renew and change. The study of competitors can also improve the products and services provided by avoiding the mistakes made by the competitor.

7. The budget determining

The step is the most important one to start business. Even small businesses do not need large capital, still this issue a challenge. For small businesses, setting the budget do not need to use an accounting specialist to take over this aspect of the project (Ang 1991).

Doing this step is only need to calculate the costs that will be needed by the project and make sure that the available capital is enough. The available capital could be the available cash by hand or the available loans for businesses. In some case, individuals can get money by selling something from their private property or obtaining.

8. The plan

Any small or large business needs a work plan. The plan is a blueprint for the work stages from the establishment stage through the project development stages and the expansion of work. The plan should include the steps until the achievement of the specified objectives of the business (Roddick & Rickman 2005).

The plan can be large, detailed and comprehensive and cover all stages of the work. However, the plan can be also brief covering the stages of project work, the timetable for each stage, and the goals of each stage of work.

9. The registration

The registration step is necessary to document and officially register the business. Registering the business can be done at the relevant authorities in the city where the business will start. The important of registration step is to protect (under active laws and regulations) the business and the brand that is going to be established (Williams & Kedir 2016).

The registration step may cost some additional expenses, but this is better than working informally, which may lead to losses later.

10. The marketing

The marketing plan is considered one of the urgent necessities that small firms need. Marketing can help potential customers knowing the business, and the product and services provided by that business. Therefore, marketing is the best option to reach potential customers. Every owner or manager of small business should pay attention to the marketing side. Recently, the internet is considered the reliable and effective channel or method of most marketing operations (Cronin 2012).

2.4 The capital and employment of small firms

This section discussed the capital and employment issues in small businesses economics. These important issues need to be understand since they are crucial factors of business success.

2.4.1 The concept of capital for small business

In general, the capital of small business can be define as all the money and tools required to establish a productive, commercial or service business, and to achieve profits. The process of converting the business ideas into successful projects requires a suitable capital. Therefore, the early stages of business require careful planning especially when determining the business costs (Pissarides 1999).

Based on that, starting a business requires that the owner must determine the total costs and the required capital of that business. The first important thing that owners should do is to learn about the financial costs involved in running the business. The owners who do not think about whether they can afford to start their small businesses are always unable to continue in business. Without financial planning process, the business may be in high risk of fail in the future.

The idea of small business capital includes all costs or the financial expenses that used in the process of building small business. In addition, it includes the value of all tools and equipment that used in that business. The costs include a business plan, research expenses, borrowing costs, and technology expenses (Bradley et al.2012).

In addition, it includes advertising, promotion, labor and staff wages, maintenance and development costs. Furthermore, it includes various types of commercial structures.

Most small businesses need to provide some modern equipment and technologies that help in completing the work. For example, to establish a company to manufacture and provide products that the market needs, it needs some important equipment. These equipments can be a truck, production lines, and techniques that speed up the process. All of these equipments require financial costs that must be known.

2.4.2 The capital problem of small businesses

Obtaining capital is one of the obstacles facing the small businesses especially at the start up stage. Some studies showed that there are indications that small businesses have poor access to financial resources (Pissarides 1999).

That is because of the high rate of deficit in repayment and the high cost of managing small loans. This is why the owners of small businesses are usually imposed to get finance with high interest rates.

In many cases, the lack of financial resources for small businesses is not real. That is because they do not tend to make optimal use of the financial resources available to them. However, some of them were able to make good use of their limited financial resources.

That have lead most individuals to believe that the lack of capital is the main obstacle or the only obstacle facing the start-up businesses (Bradley et al.2012).

Many individuals were not able to start their projects because they do not have the basic capital or they do not use available capital efficiently. However, some businesses are very successful due to their efficient use of the available capital. The use of capital differs from one business to another and from one stage of to another. Although the owners of small businesses disagree about the reasons for their need of capital, they may agree about their financial inability to invest due to lack of capital (Artzner et al. 2009).

In some cases, the small business owners link their frailer or weaknesses to external factors rather than internal factors. That is, even they fail due to misuse of capital, they often link their frailer to poor funding or lack of capital. For example, some businesses' owners keep a stock of unsold goods. Some of them borrow money to buy such goods to increase capital, but that increase does not have a positive effect on profitability.

However, some businesses' owners benefit from the optimum utilization of their limited financial resources. They do that by increasing the speed of working capital circulation. That can lead to more sale and profits. An example of this is a shoemaker who employs one worker and produces a specific set of shoes. The shoemaker sells to a merchant for cash in order to buy new raw material and produce another batch on the same day to sell it at night. Then, the shoemaker repeats the process the next day so that the rate of capital turnover in this case is at least twice a day (Durand & Vargas 2003).

The lack of capital may be an obstacle to start a business, but the most important issue is the use of available capital. That is, the capital must be effectively used before thinking of expanding it.

2.4.3 The capital sources for small businesses

There are many types of capital resources that can be used to finance the small businesses. The following are most common ones:

1. Support funds and loans for small business

   This type of funding is usually promoted through the governments programs to motivate small business. The governments adopt policies or programs that support and remove the obstacles facing individuals in establishing small businesses. Some government agencies offer financing programs for emerging and small projects at the lowest costs and easy procedures (Filbeck & Lee 2000).

2. Funding from friends or family

   Family and friends are the people who are most confident about what their family members do and want to achieve. Therefore, obtaining fund and support from them may be reasonable and better than getting funds from banks. In addition, financing from friends or relatives may be less expensive and less risky. That is because the financing can be in the form of investing in a certain percentage of the business (Coleman & Carsky 1999).

3. Bank loan

   Banks usually provide different types of loans to small businesses. These loans could be part of these banks normal operation, or could be loans related to specific stimulating programs.

   In most cases, these loans require several documents such as the company's business plan, the expected annual profit value, and other documents. Banks ask for these documents to assess the businesses' credit status and their ability to fulfill their financial obligations (Peek & Rosengren 1995).

4. Credit Card

The credit cards often enables the individuals to finance their businesses' expenses in the short term. However, if they were late in paying the amount due, this will affect their businesses' credit status. Therefore, many individuals consider this method associated with a high degree of risk. As a result, using the credit card to support the cash flow of the business must be associated with a commit to pay the amounts due regularly (Lahm et al. 2011).

5. Crowd funding

The crowd funding is one of the modern financing methods for small business. The project owner presents his idea in detail on some specialized websites for a specific period. Then, those interested in the idea contribute through investment or financing (Schwienbacher & Larralde 2010).

6. Factoring

The Factoring is one of the financial transaction in which the businesses sell their receivable accounts to the other party with discounts. Businesses factor their receivable assets cover their cash needs. In other words, it is one of the methods of financing through selling the business dues or customers' bills to a third party with discounts to obtain cash in advance (Salaberrios 2016).

Factoring differs from a bank loan since it focuses on the value owed and not on the reputation or credit standing of the business. Factoring is not considered as a loan, but rather a purchase of assets. Factoring includes three parties while a bank loan includes only two. One of the disadvantages of this method is that the factoring service fee is estimated at a certain percentage of the amount or the value of the invoice. That can make it more expensive than bank loans.

7. Collecting future profits

This method is based on offering the businesses' products and services on the market or websites.

Then collecting in advance part of the sales value or part of the future profits as a deposit, which provides cash liquidity. This is one of the best ways to get a cash flow away from interest or fees (Filbeck & Lee 2000).

8. Venture Capital

The venture capital is a capital that comes from investors or from capital funds organizations that specialized in investing. In this method, the investors that provide funds own a certain share of the business. It is like an exchange process in which the business owner get funds and the investors own part of the business (Maier & Walker 1987).

9. The internal financing (self-funding)

The owners may finance their businesses through their personal savings or through the sale of some of their property such as lands and others (Bougheas 2004).

2.4.4 The employment of small businesses

One of the most important factor of small businesses success is the size and the quality of employees. That is because small businesses have limited resources and they should eliminate the risks to the minimum value. Therefore, small businesses must carefully determine the number of employees needed. In addition, they must carefully hire employees who have the skills needed to operate businesses (Abdurakhmanova 2020).

Obtaining good employment requires that employer do some steps that ensure getting the right employees. That does not mean looking at issues such as belief, and skin color. However, it should focus on educational level, practical experiences, and the ability of the potential worker to perform the job tasks.

In general, there are few steps should be done when detraining the small business employment (Stines & Kleiner 2003).

1. Background checking

The background checking is the first step to select employment. In this step, the employer usually use the potential employees' curriculum vitae to check their work and education history. Most business owners require that the potential employee have previous experiences to appoint them.

However, this criterion may not be right in many cases especially when examine the employees' role in their previous work. That is because, they may be work for a successful institution, but their role was limited. In other words, only working for a good company is not sufficient unless having a contribution in the company's success.

2. Checking the interest

When looking for employees, the employers should focus on those who have sufficient interest and belief for working in small businesses. That is because whoever works for a large company may have some other incentives, such as a large salary or other benefits that push it to work hard. However, the situation is different when working for start-up businesses that do not have these benefits. Therefore, the interest will play a role in accepting the job without many conditions.

3. Checking the Experience

Employers should seriously consider the factors of experience when choosing employees for their businesses. The experience has advantage and disadvantage. The advantage of experience is that employees can do their jobs' tasks very well, which can be very beneficial to the business. However, employees with significant experience may not accept new work styles because they think that they are more experienced than everyone else.

4. Selecting employees (Hiring)

Hiring employees or selecting employees from the pool is not random. When choosing the employees, the employers should select the right employees for each job. When hiring people, employers have to meet their businesses' needs and required skills with those who have these skills.

It is important to indicate that choosing employees who worked in large companies may be very expensive especially when the business does not need all their skills. Hiring such employees can increase the costs. In addition, the work environment in a large organization differs from that of the small businesses can lead such employees to work inefficiently.

Regardless of the hiring process, small business consider one of important solution to unemployment problem in any economy. Small businesses can create jobs and act as a support engine for various economic activities.

That is, they can provide raw materials for industries and other economic activities. They can provide many investment opportunities with modest capitals. They can contribute in opening new markets and preserving some traditional professions. All of these roles can provide more jobs and hire more people (Dennis et al 1994).

Small businesses can also play an important role in motivating young people and helping them start their own businesses, which can generate more job opportunities. All advantages that are achieved through small businesses can positively affect the overall economic performance. They can also improve the living conditions of workers.

Small businesses can play a role in expanding productive and increasing exports, which can also generate more job opportunities in various geographical locations. Small business are considered an important tool for spreading the idea of self-employment. When people has the motivation for self-employment, more jobs opportunities will be available.

The important of small business in role in providing new jobs and achieving economic and social security has encouraged most government to support and stimulate small businesses.

2.5 Small Businesses Management

In general, the businesses management can be define as the science that focus on organizing the various processes that are related to specific business. For example, it focuses on organizing, planning, monitoring, evaluation, and other issues.

The purpose of that is to ensure that the business achieves its general and subsidiary goals. In addition, reaches the required level of success, achieves the required competition in the market, and determines the working methods during a certain period (North 1997).

2.5.1 The definitions of the small businesses management

One definition to the small businesses management is that it a group of activities that are carried out within a specific period to achieve specific goals. Another definition indicates that small businesses managing is a set of activities that take place during a temporary period. In addition, it aims to produce a commodity or provide a service and ends when the project is completed and its goal is achieved (Stokes & Wilson 2006).

Managing small businesses also means implementing a number of technical, skill and operational applications to achieve specific goals. Finally, the term Small businesses Management refers to the optimal use of resources through various tools and methods to achieve the objectives of the business.

2.5.2 The importance of small businesses management

The important question here is "why is small businesses management important". The answer to this question is that the small business management can play an important role in converting planned ideas into action. It can help small business in achieving the optimal use of the resources in different areas. It can help small businesses support and develop the local economy (Longenecker 2013).

The small businesses management usually aims to help small businesses achieve the following goals (Longenecker 2013):

1. Increase the production rates by investing in new projects and fields.
2. Reducing unemployment rates, increasing operational capabilities, and providing job opportunities for a larger segment of youth.
3. Reducing production costs as a result of investment and specialization in several productive projects.
4. Completing all the required processes of the business production according to the budget allocated and the announced time.

5. Ensuring the quality of provided products and services.

2.5.3 The processes of small businesses management

The management of small business is crucial process that can lead to the business success. Usually the small business that do not have good management system get out of the market. The processes of small businesses management has many steps, and the following are the most important ones (Hodgetts & Kuratko 1989):

1- Using the accounting books for recording all financial transactions. It is preferable to use simple accounting programs for easy retrieval of information when needed without losing time.

2- The quality of the provided products or services must be preserved. If the quality was becomes bad, the consumers will turn away the profits will decrease.

3- The prices of the provided goods and services must be competitive prices. Setting competitive prices can guarantees that the business keeps its position in the market and achieves a profit margin.

4- The owners of the business should keep working on developing themselves and knowing the methods of business deals.

5- Developing the work environment, such as choosing a better place to gain a greater competitive position and facilitate the access of consumers. In addition, developing the product and services to satisfy customers' tastes and needs that change over time.

6- Training the business’ employees and taken care of them to maintain good quality of the service or product provided. For example, if the workers were work in dangerous tasks, they must be well secured and trained to do that work.

7- Making good relationships with suppliers and merchants. That can help making the business’ products constantly available even in the case of supply decline in the market.

8- The business’ owner must analyze the strengths and weaknesses of the business before each new fiscal year based on the data of the previous year. That can help overcome of any problems in the future.

9 - The business ‘owner must put in place an estimated budget for each activity before the start of each new fiscal year and try to not pass it.

10- It is also necessary to issue financial statements related to the activities after the end of each fiscal year. That can reveal the extent of losses or profits, revenues, expenses and others.

2.6 The Challenges that Facing Small Businesses

Despite the fact that small business can play an important role in economic development, the have facing many challenges especially in the developing countries. Small businesses in most countries are consider to have a capacity and ability more than large enterprises to create job opportunities, However, the small businesses success usually linked to different economic policies that support them. In most cases, the bad or lack in supporting polices can introduce more challenges to small businesses (Gumel 2017). Small businesses have facing several challenges that can be discussed as following:

1. Creating job opportunities

   Small businesses are expected to play an important role in creating job opportunities. They expected to reduce the rate of unemployment in most countries. That can be one challenge that face small businesses. In other words, they have to balance between the job creation and the labor costs (Gumel 2017).

2. Skilled labor

   Skilled worker is the second challenge that face small businesses. Small businesses need, in most cases, high skilled workers in different fields. However, the labor market suffer from the lack or limited number of skilled workers. More than 70% of small businesses suffer from this problem especially in the developing countries (Yoshino & Taghizadeh 2016).

3. The informal sector

   The informal sector represent high percentage of small businesses. This sector has many problems that represent challenges to the small businesses. For example, it suffer from bad employment situation, low productivity, and child labor. In addition, it suffers from the increase in the production costs, instability of employment, and the difficulty of setting training programs for workers (Yoshino & Taghizadeh 2016).

4. External competition

Almost all small businesses today face high competition with foreign businesses. The most challenging issue in this area is the illegal trades (money laundering) . Products coming through this process usually have prices and quality that are difficult to compete. The other challenge in this area is the lack of attention of small investors to being part of the global market (Westerlund 2008).

5. Adopting the modern technologies

New technologies is known to be very useful for every business. However, without good planning and good training to use new technologies, they can create many difficulties. For example, some small businesses that adopted modern technologies showed an additional ability to create new job opportunities (Gumel 2017).

6. Rural development

Most small businesses especially in the rural areas face the problem of rural development.

The high rate of poverty and unemployment are the most challenging problems that face small businesses in rural areas. Despite the efforts made by governments to provide a balance in development between urban and rural areas, the rural areas still have many problems. Therefore, investors must be encouraged to set up projects in villages and the countryside, especially in the agricultural sector, which represent the largest source of livelihood in most of developing countries (North & Smallbone 1996).

7. Official services

Most small businesses in developing countries face problems that are related to the official services or government services. For example, it hard to get license for the business, and it hard to import machines and tools for the business. In addition, many small businesses face the problem of corruption when deal with government agencies, (Yoshino & Taghizadeh 2016).

8. Financial sources

Finding low cost financial sources still the main challenge that face all small businesses.

The small businesses in most developing countries still suffers from a deficiency in financing. According to World Bank data, in 1988, financing small businesses covered about 2 percent of the total need (Yoshino & Taghizadeh 2016).

2.7 Motivating the Small Businesses

Since the small businesses are important in every economy's development, all governments in both developed and developing countries have trying to motivate them. Many different programs such as financial programs and training programs have adopted to motivate small businesses. Motivation small businesses means using different methods that can encourage individuals to start new small businesses. Motivated can be also helping the existence small businesses to be successful and work better (Brush 1992).

Three are several methods or polices that governments can use to motivate small businesses. The first method is that the governments or the authority agencies facilitate the procedures for establishing new small businesses.

That can be done through the (single window platform) that connects all concerned parties and allows the issuance of various commercial approvals and licenses in short time.

The second method or policy to motivate small businesses is providing finance sources. In many cases, small businesses face the financing problem resulting from the inability to meet the list of banks' requirements to get financing. Most governments and central banks adopt specific policies that make it easy to get banks' loans with low costs or interest rates. That can help many individuals to get finance and start their businesses (Shane 2003).

The thirds way is training. Most individuals who wants to establish their businesses have no or limited experiences about what will be done in their work. Therefore, the training programs can provide training and qualification for these aspects in the easiest way. That can help encouraging and motivating the individuals who are not confident about starting their businesses.

Taxes exemptions are another way to motivate small businesses. Most governments adopt fiscal policies that impose no or very little taxes on small businesses. That can reduces the cost and save more capital, which encourage individuals to start their businesses, [60].

Many other method, programs, and polices have been applied to motivate the small businesses. For example, imposing high taxes on foreign or imported goods, direct credit to small businesses, special loans, and others.

2.8 Examples of Small Businesses

Small businesses can be found in any field and sector. They can be found in agriculture, manufacturing, trade, food, financial, transportation, and many other services fields. The following are some examples of small businesses (entrepreneur.com).

1. Fast food restaurants

   Fast food restaurants are the most common small businesses among young people. These types of businesses does not need big finance and high skilled workers. However, making good food and providing good services can be crucial factors of success.

2. Small stores

   Small stores are also very common small businesses that sell different types of products. For example, a small store that sell sunglasses is one of the indispensable accessories for men and women. It can be good business since the purpose of sunglasses is not only protection from the sun's rays, but they are accessories that gives the person more attractiveness, and good appearance.

3. Maintenance workshops

Today, the maintenance workshops have represented big share of small businesses. The maintenance of computers, TVs, cell phones, cameras, and others are become more needed. Therefore, providing high quality services can lead to a successful business.

4. Cars repair shops

Cars repair shops are very good small businesses since most people have cars and they need to fix any problems in their cars. This kind of business is more advanced and need skilled worker.

5. Transportation and delivering

These types of small businesses need more finance since the use cars, trucks, and some special equipment. In additions, they usually pay for the insurance companies, which add extra costs. However, these businesses are good and profitable.

3. THE ECONOMIC POLICIES

3.1 The Concepts of Economic Policies

This chapter review and discusses different economic policies that can affect small businesses. The economic policies can affect small businesses by affecting the demand side or supply side. For example, when economic policy increase the demand for products and services, more small businesses will be established to cover that demand. From the supply side, some economic policies can motivate small businesses as part of development plan (Dixit 1998)

The economic policies are defined as a set of decisions that are taken by the authority (usually) governments. The goal of these decisions is to direct the economic activities towards the desired status. They can also be defined as the rules, methods and tools that the government use to achieve economic goals (Yamamura 2020).

The other definition of economic policies is the direct intervention by governments in the economic system. The direct intervention means that government directly control the important economic variables. For example, controlling the production, investment, and prices. In addition, controlling employment, trades, and exchange rates, and others. All of these variables form an integrated economic system within a country.

When the public authorities take a decision, one or more of these variables will be affected. For example, when the central bank decides decreasing the exchange rate, all the variables in that economy will be affected. The degree and the direction of the effect depend on some factors such the type of the economic system and its markets conditions.

There are several types of economic policies. They are fiscal policy, monetary policy, international trade policy, and investment policy.

In addition, the stabilization policy and structural correction policy (Lawton et al. 2010).

Recently, the economic policies are widely used in both developing and developed economies. That is because many studies and experiments proved that they could play an important role in economic stability. In the long-run, the economic policies can lead to achieving economic development and growth. In addition, in the short-run, they can lead to economic stability. The economic stability is considered as one of the important objectives of any economy. It can achieved by reaching the level of full employment and stable level (Stigler 1975).

The economic polices can be situational policies that aim to restore the financial balances. They can be control policies that are maintaining the general balance and reducing the inflation and unemployment. They can be recovery policies, which aim to motivate the economic activities using the budget deficit and loans (Keynesian idea). They can be deflation policies, which used to reduce the price increase by traditional tools such as deduction, wage freeze, and others.

The long-run structural policy are used to change the structure of the economy based on the changes in the global economic environment. This type of polices is done by direct intervention through designing market mechanisms, privatization, and imposing rules and law. It also include training, technological support, and research support. Their main objectives are achieving the growth rate, reducing inflation and unemployment (Lawton et al 2010).

It is important to indicate that the objectives of economic policies differ in developed countries from developing countries. In the developed countries, these policies are used to achieve rapid and permanent growth. In addition, they are used to achieve full employment, economic stability, and balancing the payments balance. However, the economic policy in developing countries are used to achieve economic development. More specifically, achieving industrialization, develop the agriculture, develop human resources, and achieving social benefits (Stigler 1975).

It is also important to indicate that there are some differences between the macroeconomic policies and microeconomic polices. Microeconomics polices are usually affecting the individuals' behavior and businesses' behavior at the micro level.

For example, they can affect the consumers' behavior to distribute their spending in a way that maximize their satisfaction within their limited income (López 2005).

In particular, microeconomics polices focus on the supply and demand and the determination of prices and production in individual markets.

The macroeconomics polices deal with the performance of the entire economic system. They do not focus on affecting specific industry but on the market industry as a whole. Macroeconomics polices are concerned with studying a variety of phenomena across the economy such as inflation, price levels, growth rate, and gross domestic product.

In general, it is clear that economic policy should aim to promote sustainable economic development that allows for the generation of wealth. Therefore, they should produce short-term effects to address current problems, and then achieve long-term results.

3.2 Types of Economic Policies

In general, there are two groups or economic polies, which are the demand side policies and the supply side polices. This section discusses these policies and their roles in motivating small businesses.

3.2.1 The demand side polices

The macroeconomics polices is the first groups or economic polies that deal with the performance of the entire economy. They are used to affect specific macroeconomics variables such as inflation, unemployment , growth rate, and gross domestic product (GDP) (Warren 2014).

The following are the most important macroeconomics polices:

3.2.1.1 Fiscal policy

The fiscal policy is defined as the controlled changes in government spending and taxes. The changes in government expenditures, or public spending, and taxes can happen at two main levels. The first level is the national level, while the other level is the local level. The governments usually spend the money on a variety of items including benefits for the retired, the unemployed, and the disabled. In addition, it can be for developing education, health care, transportation, defense, and others (Easterly & Rebelo 1993).

Figure (3.1) shows the public spending in the USA, which an example of developed countries. Figure (3.1) shows that the public spending in the USA for the year of 2020 was 21% on healthcare. The public spending was 13 % on education, 15% on social programs. In addition, the public spending was 10% on defense, 12% on welfare, and 29% on other issues. The total amount of public spending in the USA for the year of 2020 was estimated to be 6.55 trillion US dollar.

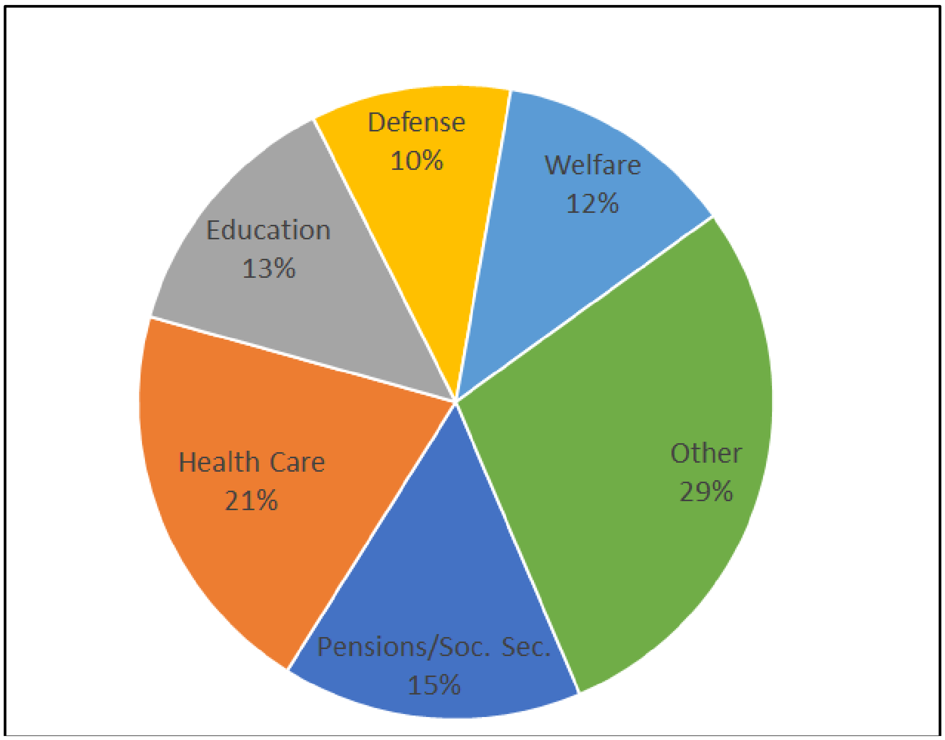

Figure 3.1: The total USA public spending for the year 2020.
Sources: (https://en.wikipedia.org)

Table (3.1) shows examples of the government spending, government revenues of different countries. In most cases, countries try to spend only their available financial resources. The available financial resources are the government revenues that are collected from taxes and others. However, table (3.1) shows that the governments' spending can exceed the their revenues in many cases (Kopits & Symansky 1998).

The government usually specifies plan about how much it intends to spend for one year, and raises it from tax revenues.

This process is called the government budget statement. A budget deficit is happened when the expenditures exceed the revenues. In this case, the government borrow money cover that deficit and to finance its expenditures.

Table 3.1: The government spending and government revenues

Country	Government spending (% of GDP)	Government revenues (% of GDP)
Argentina	41.635	32.766
Australia	44.981	35.032
Bahrain	36.117	17.807
Canada	52.449	41.786
Libya	165.047	62.072
United States	46.179	30.337

Source: https://en.wikipedia.org

However, in some rare cases, which is called the budget surplus, the government revenues exceed its expenditure. A balanced budget occurs when government expenditures equal its revenues. The governments change their expenditures and tax revenue as tools to affect different economic activity (Kolb 2010). These changes of the fiscal policies are shown in figure (3.2).

More specifically, in the expansionary fiscal policy, the government plans to increase aggregate demand by increasing expenditures and reducing taxes. The goal of that is to increase economic growth and employment. Reducing taxes can be done by lowering tax rates, or reducing taxable items. For example, the government may lower income tax rates. This can increase the individuals' income, which will enable them to spend more money. As a result, higher consumption will be achieved, and more investment will be established.

The government may implement contractionary fiscal policy to reduce inflationary pressures. In this case, the government reduces public spending and increases taxes. That may reduce the aggregate demand and the price level (Gavin & Perotti 1997).

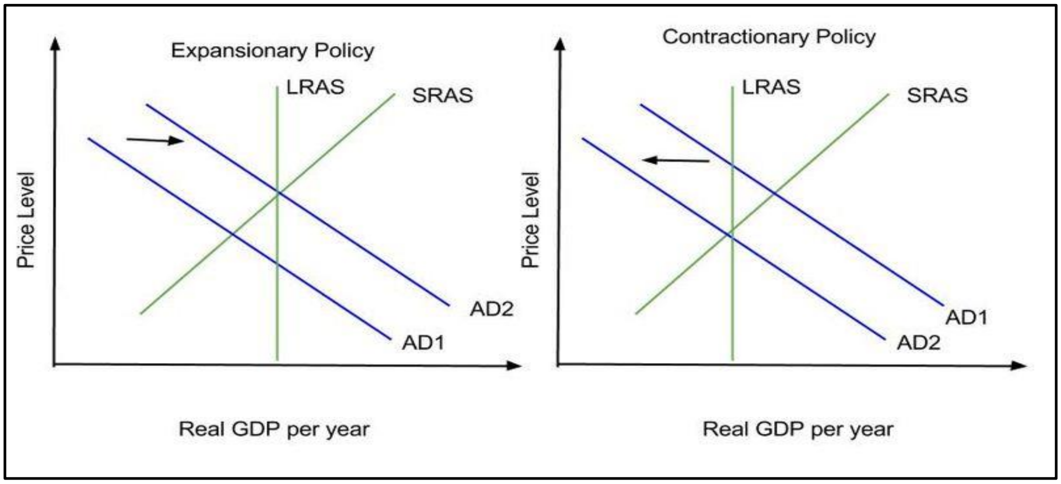

Figure 3.2: The expansionary and contractionary fiscal policies
Sources: https://commons.wikimedia.org

Even taxes are the main source of government revenues; there are many other sources of revenues. These sources can also be used as tools of fiscal policy to achieve specific economic goals. Figure (3.3) shows the structure of the government revenues.

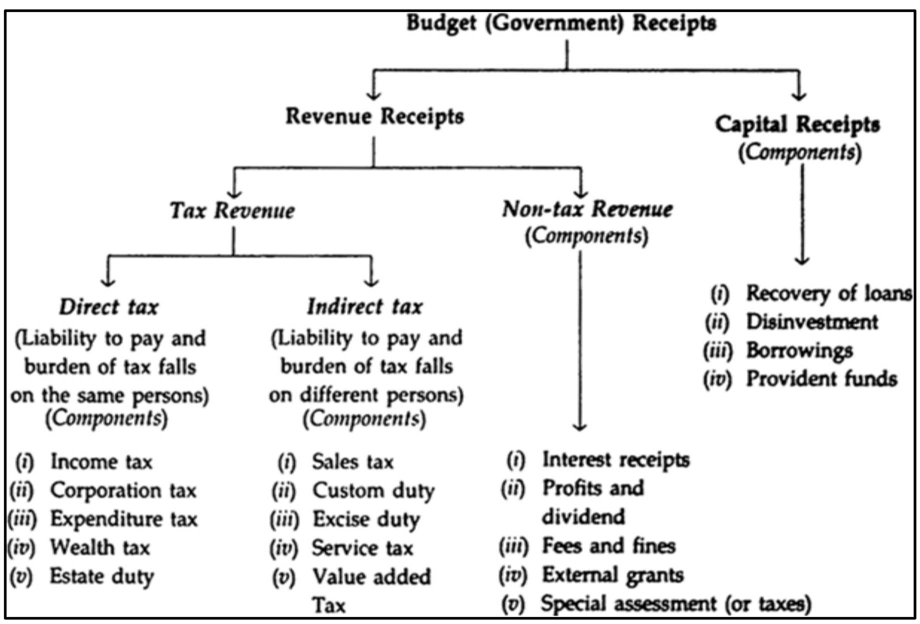

Figure 3.3: The expansionary and contractionary fiscal policies
Sources: https://www.zigya.com

Figure (3.3) shows that the main government revenues is coming from the taxes. The taxes have two main types, which are direct and indirect taxes. The direct taxes are the taxes on income, wealth, and corporations. The indirect taxes are the taxes on sales, services, and value added (Roşoiu 2015). Figure (3.3) shows that the non-taxes revenues are the interests receipts, the profits and dividend, fees and fines, grants, and others. Figure (3.3) also shows government may receive additional financial resources. These resources are recovery of loans, barrowings, and others.

In short, the government can plan strategic fiscal policy that direct different economic activities towards specific goals. The government use two main tools to apply an effective fiscal policy. These tools are the public spending and different types of taxes.

3.2.1.2 Monetary policy

The monetary policy is defined as the actions that are taken by the central banks to affect the entire economy. More specifically, the central bank changes the money supply, interest rate and exchange rate to achieve specific economic goals. The main monetary policy measure that used in most countries is the changes in the interest rate. Some economists consider the changes in the exchange rate as a separate policy (Friedman 1995).

The increase in interest rates can lead to contractionary monetary policy. It can negatively affect the aggregate demand by reducing consumption and investment. In addition, the households will spend less because there is less discretionary income, costly borrowing, and greater incentive to save.

The contractionary monetary policy can affect the businesses investment. Businesses invest less because they expect lower consumption. In addition, the alternative investment cost will be high, and borrowing will be costly. A higher interest rate may also lower aggregate demand by reducing net exports (Leeper et al. 1996).

The expansionary monetary policy can be done by changing the money supply. The changes in money supply, as with changes in interest rates, are implemented by central banks on behalf of governments. If the money supply increases, the central bank prints more money.

In addition, it buys government's bonds or encourages commercial banks to lend more. That can increase the aggregate demand. On the other hand, a decrease in the money supply reduces aggregate demand.

Figure (3.4) shows the effect of expansionary and contractionary monetary policies on aggregate demand. Figure (3.4) shows the expansionary monetary Policy on left side. When the economy recession and at a specific equilibrium output and price level at (Er). Applying expansionary monetary policy can increase the aggregate demand (moving from AD0 to AD1). The new equilibrium will be at (Ep) that represent higher output and price level.

Figure (3.4) shows also the contractionary monetary Policy on right side. The contractionary monetary policy is applied when the economy has pressures of inflationary and high price level. The effect of this policy will shift the aggregate demand from AD0 to AD1. That will lead to move the equilibrium from (Ei) to (Ep) at low level of output and prices.

The monetary policy in most developed countries such as USA and Europe countries expresses the extent of the central bank's ability to control the amount of money supply.

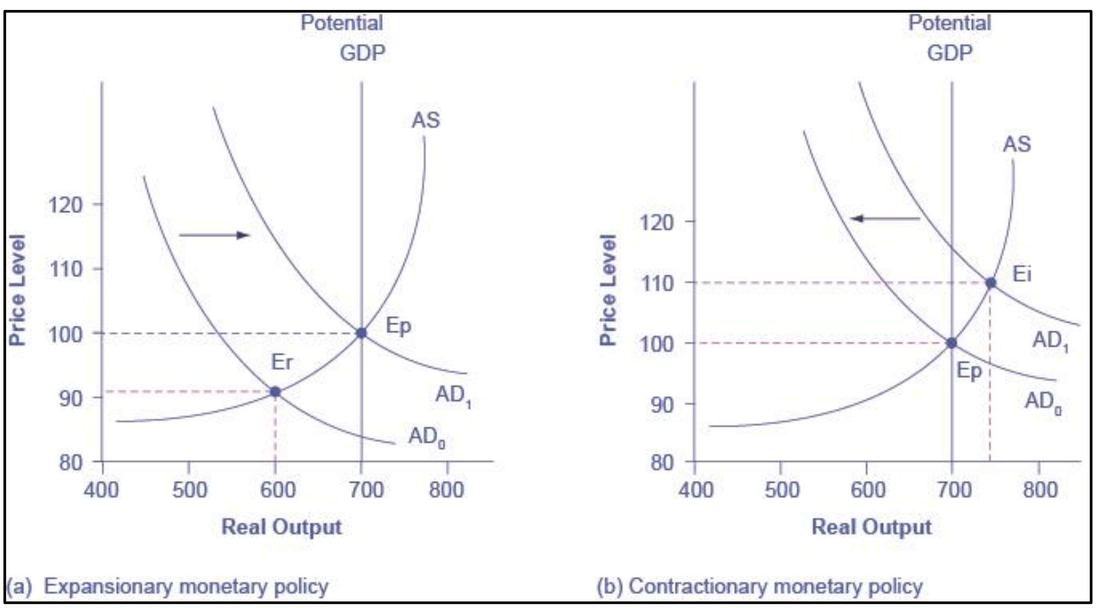

Figure 3.4: The expansionary and contractionary fiscal policies
Sources: (https://courses.lumenlearning.com)

In other words, it represent ability of central banks to control the liquidity available in the economy of the country. The ability of central banks is defined as the set of tools that affect or change interest rates. The ability of central banks is also defined as the power of central banks granted to control the discount rate and legal reserves, as well as open market operations. Most central banks use four common tools to set their monetary policies (Bofinger et al 2001).

These tools are the following:

1- The interest rate

The interest rate is define as money that the commercial banks obtain when they provide loans and credit to individuals. It is also defined as the money that individuals get in return for their savings with commercial banks. Based on these definitions, the interest rate can affect the relationship between the commercial bank and the individual. In other words, it can affect the individual's savings deposited at the bank and the bank's loans credited to individuals.

It is important to indicate that the only authority that has the right to change the interest rate is the central banks. The commercial banks must abide by the maximum interest rate set by the central bank. Many studies have proved that interest rates are the most effective tool of the monetary police of most countries.

2. The discount rate

The discount rate is the rate that central banks use to deal with commercial banks. It is differ from the interest rate because the discount rate represent the relationship between the central bank and commercial banks, but not individuals. When the discount and interest rates are equal, the commercial banks will not make profits. Therefore, it is necessary that the discount rate be prepared slightly less than the interest rate. That can lead commercial banks to make profits.

3- The reserve ratio

The reserve ratio is the percentage that the commercial bank must keep from each deposit in the form of liquidity. Then, the commercial bank deposit them at the central bank as legal reserves. These reserves do not take any interest from the central bank. This ratio represents the minimum reserve that the commercial bank maintains with the central bank.

The importance of controlling this ratio as a monetary policy is that it gives commercial banks the ability to lend and provide liquidity for circulation. The central bank can change this ratio to affect the lending ability of commercial bank.

4- Open market operations

The open market is defined as the operations taken by central banks as monetary policy. In these operations, the central banks buy or sell the government bonds in the open market.

The goal of these operations is to directly affect the volume of cash reserves that commercial banks have. When the central banks buy the government bonds held by commercial banks, reserves will increase cash reserves in banks. This process gives them the ability to lend, which increases the money supply in the national economy. However, when the central bank sell the government bonds, it will reduce the cash reserves in banks. That can make reduce their ability to lend, and thus reduce the money supply in the economy.

There are some advantages and difficulties of monetary policy. One of the advantages of monetary policy is the clarity of its tools and the speed of their identification and putting them in practice. Another advantage is the speed of response to the monetary policy, which is usually faster than the response to other polices. In other words, after identifying the problem and choosing the appropriate procedure, the monetary policy will not be more complex like using the fiscal policy (Woodford 2011).

The fiscal policy usually restricted by many legislations and laws that require more procedures and are difficult to implement. In addition, the impact of fiscal policy takes long time because it depends on taxes and the redistribution of public spending. In addition, the fiscal policy is part of an economic plan, while the monetary policy is not linked to a plan. Furthermore, the monetary policy can be modified and taken at any time, and it may be the means of a quick solution to the economic problems.

Even monetary policy has these advantages, in many developing countries, the impact and effectiveness of monetary policy is as required. That is because of the problems in banking system itself, and because of the weak financial markets. Therefore, these countries depend more on fiscal policy than monetary policy.

In addition, the importance of fiscal policy increases in these countries because of its effectiveness and ability to influence the economic activities.

It is important to indicate that the extent of the superiority of fiscal policy varies depending on the economic system in any country. It also varies depending on the relative role of the public sector in different economic activities within a country. Its importance also depends on the extent of the development of the banking system.

It is important to indicate that the monetary policy is also facing difficulties in developed countries. For example, sometimes when applying an expansionary monetary policy at the time of recession, that will cause capital migration.

More specifically, by reducing the interest rate, this will lead to the outflow of capital that was benefiting from the existing interest rates in the country. This will cause a deficit in the balance payments, which is not desirable to happen. Therefore, taking a certain policy has an impact and may cause problems that prevent achieving the desired effect or limiting its effectiveness and ability to influence.

3.2.1.3 Trade polices

The trade policies are defined as set of government actions that lead to reduce imports or increase exports. The trade policy is mostly related to the idea of protecting local products. For example, the governments intervene and use specific tools for protecting their local economy (Corden 1997).

The trade with other countries is the considered as important factor of economic development of any country. More specifically, it can be an important tool of motivating different types of small and large businesses. It depends on the exchange of goods and services between countries. It can also be considered the bridge that connects countries, and allowing them to dispose of their surplus production. In addition, it allows them to import their needs from the surplus production of other countries.

The differences between countries' economies and their political systems do not mean that they can live in isolation from others. That is because countries cannot be self-sufficient in all products. They always need each other to cover their needs. Therefore, the trade polices were introduced to manage the trade relationship between countries.

The governments must design commercial relations with other countries to obtain the necessary resources.

The importance of trade policies varies from one country to another based on the economic system. The most developed industrial countries such as Western Europe and the United States control most trades around the world. Their share is about two-thirds of the value of world trade. Therefore, the trade policies are very important in these countries (Krugman 1986).

In general, the importance of trade policies can be summarized as the following (Krueger 1980):

1- The trade policies can encourage countries to specialize in the production of goods that have comparative advantage compared to other countries.

2. The resources obtained by the government as a result of trade policies are considered savings that can be directed to more investments.

3. The trade policies can provide new markets, which can motivate local production.

4. The trade policies can increase competition, which can lead to better outcomes.

5. The trade policies can help adopting modern technology.

Recently, the trade policies have become of great importance for both advanced industrial countries and developing countries. That is because it has become impossible for countries to dispense the international exchange and live in isolation from the rest of the world.

There are two main types of trade policies. The first type is the protectionist policy. This type of trade policy is an old style polices that were used in most countries. The main idea of this policy is following the protection system. Some countries such as the United States of America, Germany, and Canada adopted the protection trade system.

During the first half of the twentieth century, the protection system spread everywhere, especially during the great economic collapse (Bown 2014).

However, after World War II, the industrially developed countries made joint efforts to reduce the obstacles to international trade. This was encouraged by the United States of America within the framework of the General Agreement on Tariffs and Trade known as GATT. This was the first official introduce of the free trade system in the world.

The countries that established the free trade system depended on the idea that the free trade must not have any discriminate in treatment even with developing countries. They believe that free trade can lead to the best situation for the world.

People who support the protection policy trade have their reasons. These reasons are the following (Milner & Yoffie 1989):

a- Protecting the national production

b- Motivate local businesses

c- Provide employment opportunities

d- Providing a fair distribution of national income

e- Pervert dumping

F- Reduce the deficit in the balance of payments:

g- Help in national security and independency

h- Help in economic stability

However, people who support the free trade policy have their reasons. These reasons are the following (Brander 1995):

- Free trade provides the opportunity for international specialization.
- Free trade can be complete substitute for the full mobility of the factors of production
- It works to create an internationally competitive environment, which leads to a decrease the cost of production. In addition, it can reduce the possibility of establishing international monopolies.

- It leads to the expansion of the market. That can help businesses reaching their optimum size and benefiting from the advantages of large production.
- Encouraging technical progress.
- The protection policy can lead to more poor people.

The trade policy instruments depends on the idea of customers restrictions. They are two types of instruments, specifically, tariff restrictions and non-tariff restrictions. These instruments obtain their power by laws that issued by the executive authority or the legislative authority. They usually applied for financial and non-financial economic purpose. In other words, they usually applied to obtain financial resources, or to protect a particular industry.

In addition, they can be used to effect the volume of exports and imports and their price, or their geographical distribution (Bown 2014).

The trade policy instruments are applied on goods or services in all forms and stages of production. They are applied when these goods or services crosses the country's borders whether entering or exiting (Brander 1995).

Customs tariff is the payable fees or the assessed tax on the commodity when it crosses the borders of the country in entry or exit. It is defined based on its legal aspect as subjective or independent tariff, and agreement tariff. It is also defined based on the parties that determining it as single, double, multiple tariffs.

The on-tariff customs restrictions is complementary to the first type. It aims to protect the national economy and consumer from the influences external commodities.

This type is divided to three subtypes. The first one is the non-tariff monetary or price restrictions. These include export or import subsidies, reducing the exchange rate, and prevent dumping. The second one is the quantitative non-tariff restrictions. These include the ban or prohibition (total or partial), the import licenses, and the quota system. The third one is the non-tariff regulatory restrictions or administrative procedures. These include the trade agreements, the payment agreement, and the customs unions. They also include the free zones, the administrative protection, and the economic blocs.

In short, the trade policies that applied by different countries, regardless of their economic systems, are mix of freedom and protection policies.

3.2.2 The supply side polices

The supply side polices are associated with the consumer and businesses behavior. The main goal of these polices is to affect decision-making process of individuals and businesses. For example these policies can affect the available resources for individuals and businesses (Rémuzat et al. 2017).

The supply side policies are economic policies that depend on the idea of increasing the supply of goods and services. That increase in production can leads to an economic growth. The main goal of supply-side polices is to affect variables that improve the ability of the economy to supply more goods.

The governments usually use supply-side economic policies to affect different variables that are related to the production requirements or resources. For example, supply-side fiscal policy can affect number of fiscal variables. It seeks to identify and affect the fiscal variables that will lead to an increase in supply and thus economic growth.

The supply side polices have historically focused on corporate income tax cuts, capital borrowing rates, and more flexible business regulations. For example, lowering income tax rates and capital borrowing rates can provide businesses with more cash for reinvestment. In addition, less strict commercial regulations can eliminate long processing times and unnecessary reporting requirements of production.

These three variables can provide incentives for expansion, higher levels of production, and increased production capacity. The supply side polices started first in the period between the two world wars and lasted until the eighties of the twentieth century.

Before starting the supply side polices, the demand side polices were used to solve the economic problems. In the event of high unemployment, the taxes were reduced and an expansionary monetary policy was applied. In the case of inflation, a contractionary monetary policy and a strict fiscal policy are followed (Cohen et al. 2017).

However, some economists noticed, at the end of the seventies, that economic policies were only focus on managing aggregate demand side. As a result, they formed the economic theory that focus on the supply side to achieve economic growth. The new theory's philosophy was to motivate people to work and save. In addition, it proposed to make tax cuts. It indicated that the best way to improve economic performance is to use policies that increase the total supply of goods and services. That can positively motivate small businesses.

The supply side polices also focus on the necessity of different types of incentives. The US president (Ronald Reagan), and the British Prime Minister (Margaret Thatcher) were strongly supporting these policies. They were believe that reducing taxes imposed on the private sector and consumers will encourage individuals to exert greater effort. In addition, lowering tax rates will encourage both investment and savings. This will reflect positively on the aggregate supply.

The economists who support these policies indicated that reducing tax rates will lead to an increase in the government revenues.

This can contribute in balancing the government general budget. The basic idea is to reduce the rate of taxes leads to the expansion of tax bases, and consequently more taxes can be obtained.

The supply side economists indicate that adopting supply side policies can lead to stable economic growth. They proved that the demand side does not have that much of importance. They consider that reducing the marginal income tax is an incentive to prefer work on leisure. In addition, it motivates investors to increase investments.

The supply-side economists believe that the governments' contribution should be little, and comes through increasing purchases.

However, they do not believe that that demand can help the economy getting out of the recessions. The supply-side economists believe that the monetary policy is a money circulation process, and it cannot create economic value.

The supply-side economists depends mostly on the idea of Laffer curve to support their theory. The Laffer curve is a theory developed by supply-side economist Arthur Laffer. It shows the relationship between tax rates and the amount of tax revenue that governments collect. The curve is used to illustrate Laffer's argument that sometimes lowering tax rates can increase total tax revenue (Laffer 2004). Figure (3.5) shows the Laffer curve.

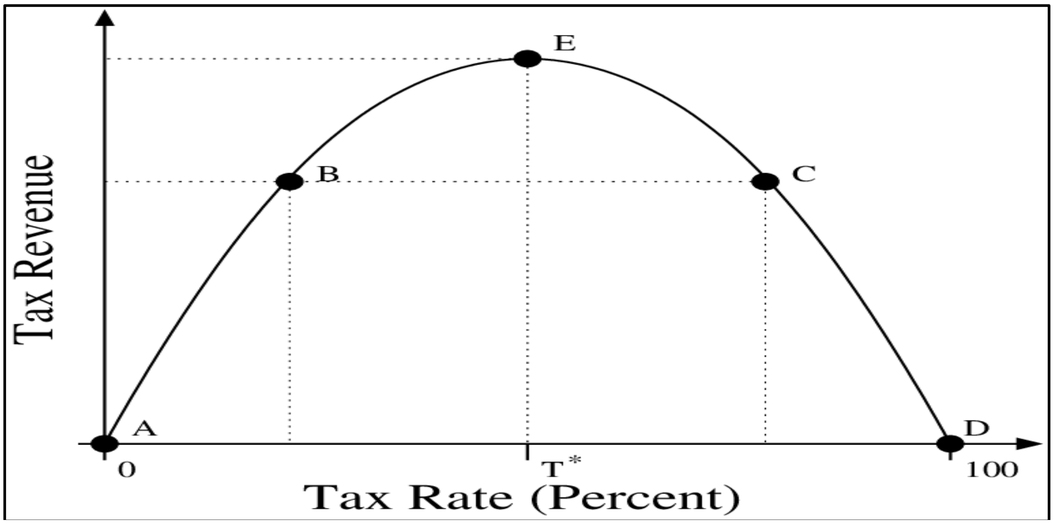

Figure 3.5: The Laffer curve.
Source: (https://www.researchgate.net)

This curve explains two important things about taxes. The first thing is the amount of money the government can raise from taxes. The second thing is the level of taxes at which the government earns less income.

Figure (3.5) shows that the horizontal axis is the percentage of taxes enacted by the government. The vertical axis is the government's tax income compared to the tax rate. When the government imposes a tax rate of zero, this will not bring it any income. Suppose that the government imposes a tax rate of 100%. In this case, no one will work because no one will have an incentive to work if the government will take all the earned money. If no one works, the national income will be zero.

The curve going up from the bottom down is always in the form of a hump. This is natural because the income line should rise in the part with a small tax rate. Then it begin to decline when it gets to the point at 100% taxes. When the tax rate is high, the government achieves less income, and this happened in the crisis of 1929. When the Congress passed the Howley Smooth Tax Law. The law raised taxes on imported products, which decreased the income that comes from those taxes (Wanniski 1978).

Laffer curve shows that the more money from each additional dollar of income in taxes, the less willing to invest. Businesses are more likely to find ways to protect their capital from taxes or move its operations abroad. Investors are less likely to risk their capital if a big percentage of their profits will be taken. If big portion of workers' paychecks is taken, they will lose the incentive to work harder. All of these factors can lower the total revenue if tax rates are high.

3.3 The Loans for Businesses Programs

3.3.1 An overview

The loans for businesses programs are type of economic policies or strategies that most government adopt to motivate small and medium businesses. These programs aim to provide easy financing for existing and start-up small and medium businesses. They also aim to develop these businesses and employ labor in all sectors (Dewar 1992).

The programs give the opportunity for individuals, existing small and medium businesses and others to obtain easy loans at reduced interest rates. The interest rates are ranging between 4-6% without annual commissions, and total payment periods of up to 10 years.

The important question here is "why do small businesses need these programs?"

The small and medium businesses have suffered from multiple problems. Example of these problems are the weak tendency of individuals to save and investment. In addition, the scarcity of local resources in addition to other sporadic problems. The problems that affect small businesses can be classified into two groups. The first group is related to the political, economic and social conditions, which is difficult to be solved (Everett & Watson 1998).

The second group of problems is the internal problems, which are related to the general directions of the businesses' policies. The financing problem is the most important problem that small businesses face. The small businesses usually face difficulties to obtain bank loans for many reasons. They have high degree of risk and lack of sufficient guarantees by the owners. In addition, lack of banking awareness and the lack of accounting records that clarify the future financial position of them.

As a result, most government adopt special programs that provide bank loans for small business. Their goal is to help these businesses getting less costly financial resources to start their operations. In some cases, the government try to support small projects to motivate young people, and help them be successful entrepreneurs (Dewar 1992).

3.3.2 The importance of funding small businesses

The importance of funding small businesses especially in developed countries is to help the do their roles in the economy. These businesses can contribute in obtaining economic and social development that aimed to reduce poverty and unemployment. In addition, it can reduce social inequality and inequality in access to income. This confirms that the role of these businesses can play significant roles in the national economy (Everett & Watson 1998).

However, the problem here lies in the financing opportunities available for these businesses. For this reason, most government have developed financing strategies to provide the necessary funding for them.

Some of these funding programs have their financial resources from the government or financed by the World Bank. In most developing countries, the World Bank provide loans specified for funding small businesses. The World Bank through the government distributes its loans to local banks to lend small businesses.

3.3.3 The borrowing basis

Borrowing from banks and financial institutions must be based on the financial needs of the business. For example, the borrowing could be for the purchase of goods and products for establishing the business (Ortiz & Penas 2008).

It could be for making partnership between two parties that share risks, profit and loss. It could be for funding the required terms of working capital. The financing can be classified according to the time period into three types:

- Short-term financing: Its duration does not exceed one year, and it is used to finance the establishment's needs of materials and production.
- Medium-term financing: Its duration ranges from 2-5 years.
- Long-term financing: Its duration is more than 5-7 years and it has no maximum, as it can reach 20 years or more. It is used to finance purchases of fixed assets.

3.3.4 Choosing the source of financing

The choosing of financing source is one of the most important financial decisions that the small businesses makes. The sources of funding are different and numerous, and the businesses must compare between them to choose the best one (Schwienbacher 2014).

There are many rules or principles for choosing a funding source. These rules that affect the businesses' decision-making regards choosing funding source are:

1. The businesses always seek borrowing loans that have low cost and have conditions that can be achieved.
2. It is important that the sources of funding fit the nature of the assets in the business that will be financed.
3. The permanent assets must be financed through permanent sources, or temporary sources.
4. The financing must be from temporary and short-term financial sources.
5. The sources of financing are either internal sources of financing, or external sources of financing.

3.3.5 The process of financing businesses

Financing businesses is the basically financing their long-term infrastructure and public services. Debt and equity used in financing are paid from the income generated by the businesses. In other words, the financing is a loan structure that depends primarily on the project's cash return for repayment (Ortiz & Penas 2008).

To start a small business loan, individuals can apply to banks or other financial institutions for loans, and this is done through several steps:

1. Determining the reason and amount of the loan.

2. Reviewing the credit history and credit score.

3. Reviewing the borrowing options.

4. Preparing a clear plan of action.

5. Plan a presentation and explain why support is needed.

To explain how the financing process, let take an example. Assume that there is a project needs financing. Then, the project authority talks to a bank or financial institution to get fund. The project authority should show the bank the project's expected cash flow. The bank will talks with few investors who will sponsor the project. Those investors are called project sponsors who provide loans against project real estate. The idea is to repay the loan when the project brings in cash, if the project fails to repay the loan; the project property for which the loan was granted will be foreclosed.

4. The ECONOMIC POLICIES AND SMALL BUSINESSES IN IRAQ

The purpose of this study is to test the impact of economic policies on small businesses in Iraq. Therefore, this chapter reviews and discusses the small businesses status in Iraq. In addition, it reviews different economic policies that Iraq has applied to motivate small businesses. Finally, it empirically tests the impact of economic policies on small businesses in Iraq.

4.1 The Small Businesses in Iraq

4.1.1 An overview

The first chapter of this study discussed in details most issues related to small businesses and their role in the economic development. However, Iraq has special case since it has involved in many wars and civil conflicts. That has negatively impact the economy of Iraq (Foote et al. 2004).

After 2003, Iraq started new political and economical systems that was designed to fix all past problems. Iraq started new economic formation that depend mostly on open economy and private sector. Many international organizations and governments of different countries were involved in thus formation. For example, the World Bank and the USA government were the first parties that provide help and advice in that reform. One of the most important change in Iraqi economy is the shift towards private businesses (Matsunaga 2019).

This reform aims to activate the leading role of the private businesses in different economic activities including the manufacturing and services fields.

The main goal of this reform is r to develop these industries, create job opportunities, and secure a fairer distribution of income. In addition, to develop human resources, and reduce the poverty level.

As mentioned before, motivating small businesses are one of the solutions that most countries use for achieving economic goals. That is because they can contribute to solving many economic and social problems. One of the most important problem is the unemployment, which is considered as serious problem that Iraq has faced. Figure (4.1) shows the unemployment rates from 1999 to 2020 in Iraq.

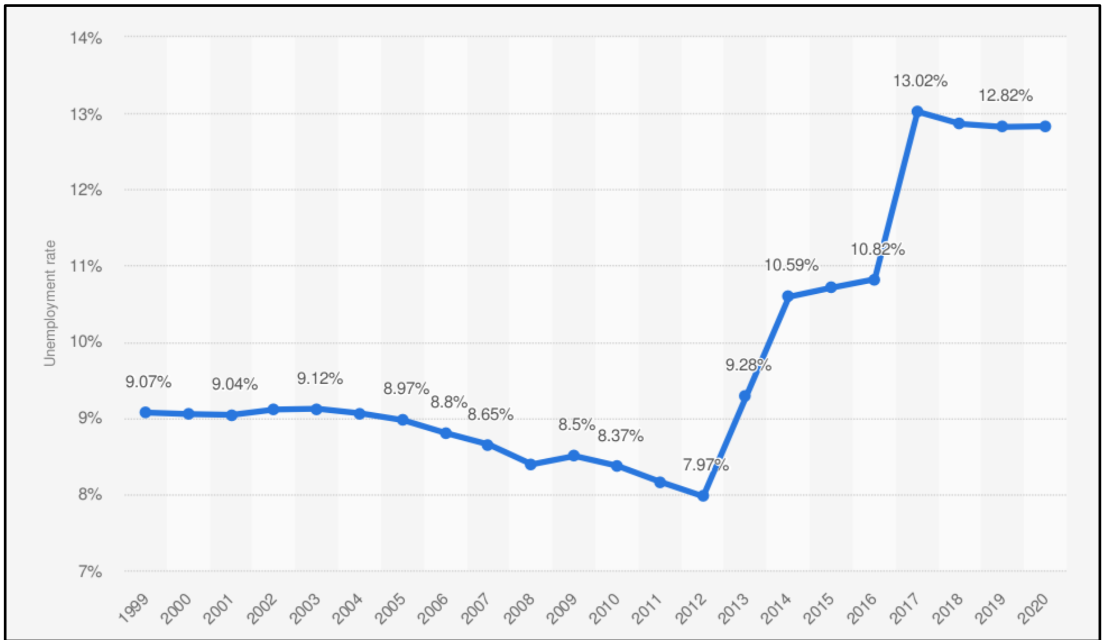

Figure 4.1: The unemployment rates in Iraq

Source: (https://www.statista.com)

The figure shows that after 2003, the unemployment rate decreased from 9.07% in 1999 to 7.97% in 2012. That decrease in unemployment can be due different factors including the economic policies that motivate small businesses. The figure also shows that after 2012, the unemployment rates rapidly increased from about 8% in 2013 to about 13% in 2020. The reason for that is Iraq has many political and social problems such as social conflicts, which negatively affected most of the reform programs.

Based on the information showed in the figure, it is expected that the changes in economic policies targeting small businesses led to the movement of unemployment in Iraq.

In fact, the extent of the success of small business in developing countries including Iraq depends on reforming economic and legal legislation. That is because; they are the main factors of providing a suitable environment for the work of these businesses (Han & Baumgarte 2000).

4.1.2 The challenges that face small businesses in Iraq

The Iraqi economy has suffered from the negative results of the sudden transformation from a socialist economic system to a free decentralized one after 2003. One of these results is the failure of many small businesses, which represent the emerging private sector in Iraq. These small businesses were supposed to be the basis for a free market economy. Many factors including the necessary financial resources, security and political stability have negatively influenced these businesses (Akbay et al. 2016).

However, the Iraqi government tried to solve these problems to provide good work environment for these businesses. For example, it provided through some policies and programs support for the agricultural and industrial sectors. Even some areas in Iraq are not safe, they government was focusing on many areas that have a relatively good security situation.

The statistics indicate the economic transformation to the free market in Iraq was not as required. The statistics showed that the annual growth rate of the private sector for the period from (2006-2009) was (22%). However, the annual growth rate of the public sector was (30%) for the same period. This means that the public sector is still superior to the private sector in an economy (Matsunaga 2019).

Despite the initiatives to motivate the small private businesses, their role in economic development in Iraq of still limited. In 2017, the Central Bank of Iraq adopt a program to finance different types of small businesses with an amount of one trillion dinars. However, their role in reducing the level of unemployment and achieving high growth rates was not as required.

Therefore, economists and some other non-government organizations started searching about the reasons that led to that limited role. Many economists and experts in the field of financing such type of projects believe that the problem is not the financing itself. However, the problem is related to the management of this financing.

For example, financing such projects to only reduce unemployment is not enough. The financing must have long-term strategic goals, which can add value to the domestic product and increase the economic development.

The other problem is that there was no study and research about the psychology and behavior of individuals in Iraq. In other words, introducing such funding programs must be associated with clear analysis about the economic behavior of Iraqi individuals. The goal of such analysis to test whether members of society have tendencies to work in production under the free market conditions. This kind of analysis could be important because Iraqi individual was living under a rentier economy (Abdullah & Mansor 2018).

In the rentier economy, the government provide the citizens with almost everything. For example, despite what they have done, most employee in Iraq get there fixed wages at the end of each month. In addition, the Iraqi citizen completely depend on the government to provide them with jobs opportunities. Therefore, the behavioral and psychological tendency that the Iraqi individual have does not accept the conditions of free market. In other words, Iraqi people only concern working in the public sector.

This economic and social behavior led to a case of laziness and low productivity among the members of Iraqi society. In other words, the behavior of Iraqi individuals is characterized by high consumption than production. It is not surprising to find that many citizens apply for loans, and use them for consumption even if their interest rate exceeds more than 10%. The serious problem related to this issue is some individuals gets loans for businesses, but they do not direct them towards production channels. As a result, it is so hard to involve them in the new market conditions

Based on all the above problems, the Iraqi authority must understand that key solution to these problems is by taking in account both economic and social aspects, and not only economic aspect. For example, education, and training programs can help solve part of the problem.

The government can start education and training programs to create professional generation. That generation should be able to rely on itself and to have the ability and continuity in creating opportunities. This can only be done by researching and studying the individuals' behavior and attitudes.

Then, designing the appropriate strategic economic and social programs and policies to motivate small businesses in Iraq (Salim 2012).

4.2 Motivating Small Businesses in Iraq

4.2.1 Small businesses in Iraqi economy after 2003

Iraq has adopted some important economic policies and programs to motivate small businesses. Before starting discussing the small businesses' motivation programs, it is important to review the problems the face small businesses in Iraq. These problems can be summarized as following (Bahzad 2018):

1- Small businesses in Iraq suffer mainly from financing problem. There is difficulty in obtaining loans from banks. The main reason of that is the lack of the necessary guarantees required by those banks. In addition, the difficult financing conditions in terms of interests, installments and repayment periods.

2- One of the most important factors for the failure of small businesses in Iraq is the lack of knowledge about marketing and promotion factors. In addition, the low quality of their products, which reduces their ability to compete.

3- The simplicity of their administrative systems, which are far from modern administrative methods. In most cases, there are no specialized departments, or integrated administration systems that lead them to be survival.

4- The difficulty of obtaining raw materials is one of the main problems that negatively affect small businesses in Iraq. Most of these businesses depend on raw materials that imported from other countries.

5- The regulatory and legislative procedures followed in Iraq are among the obstacles that prevent the growth of small businesses. For example, there is a complexity of procedures for establishing small projects. In addition, there is difficulty in obtaining licenses to start new business.

6- The other problems face small businesses in Iraq are the lack in technical studies, and the economic feasibility studies. In addition, there is lack in the availability of accurate information about the movement of markets and the work environment.

The shortage of these necessary requirements for establishing small projects have negatively affected them.

These problems seems to be only economic problems. However, in Iraq it is not possible to discuss the development of small businesses without including the political and social dimensions (Dato & Al-Charaakh 2013).

That is because, these two dimensions have played significant role in this issue over time. The number of small businesses in the year of 2000 reached (77167). In addition, they created job opportunities for (58164) individuals, which indicates the importance of these businesses. However, the number of these businesses declined after 2003, due to the deterioration of the economic situation. That situation led to rapid increase in the unemployment due to the layoffs. Table (4.1), shows statistics about different types of businesses in Iraq.

Table 4.1: The statistics about different types of businesses in Iraq.

Years	**Large size businesses**	**Medium size businesses**	**Small size businesses**	**Total number of businesses**	**Percentage of small businesses %**
2003	451	79	17929	18459	97
2004	489	92	17599	18180	97
2005	452	76	10088	10616	95
2006	411	52	11620	12083	96
2007	423	57	13406	13886	96

Source: (https://mop.gov.iq/en)

Table (4.1) shows that the decrease in the number of small businesses started after 2003. More specifically, the number of small businesses decreased 17929 in 2003 to 17599 in 2004. The big and serious decrease happened in 2005 when the number of small businesses dropped to 10088. The reason for that was unstable security situation at the time.

Table (4.1) showed that the situation of small businesses improved during year of 2006. The number of these businesses reached (11620) with an increase (1532) business.

Table (4.1) also shows the importance of the small projects through their contribution compared with large and medium businesses. The percentage of small businesses is more that (95%) of total number of businesses in all years. This indicate the importance of these businesses to the economy despite the difficult security situation at the time.

The improvement in the number of small businesses was due several economic adjustments and polices. The Iraqi government with the help of some international organizations started many programs for funding and training these businesses. The strategic plan includes the central bank of Iraq. The Iraqi central bank adopted some monetary actions such as special loans programs to motivate small businesses.

4.2.2 The economic policies and strategies that motivate small businesses in Iraq

Many governmental and non-governmental agencies have adopted different policies and programs to fund small businesses in Iraq. This section discusses these policies and programs as following:

4.2.2.1 Small loans program to finance small businesses

This program is one of the important programs that supports small businesses in Iraq. That is because it was designed as a response to the deteriorating of economic and political conditions in Iraq after 2003. More specifically, it was designed to employ more individuals who cannot find jobs in the public and private sectors. The main goal of this program is to reduce the unemployment in Iraq, which reached high levels (Yousif 2006).

In April 2007, the Iraqi government decided to start this program. An amount of (30) million dollars was collected to establish small businesses. The program targets individuals who are poor and unemployed. In addition, it targets individuals who suffered from the loss of safety and the absence of laws.

Since Iraq has special case, this program has linked to the social aspects more than the economic aspects. Table (4.2) shows the distribution of loans by gender and provinces for the years from 2007 to 2010. Table (4.2) shows the number of unemployed people that got loans to start their small businesses. The table shows that the program was able to help funding and starting (87010) small businesses during two years. These businesses were located in the capital, in Baghdad, and in different other provinces.

These businesses were in various economic fields such as agricultural, manufacturing, service and commercial.

Table 4.2: The distribution of loans by gender and provinces (2007 to 2010)

The Province	Number of males who start small businesses	Number of females who start small businesses	Total number small businesses
Baghdad	12496	1521	14017
Anbar	4181	215	4396
Babil	6008	295	6303
Basrah	6959	639	7652
Karkuk	3826	174	4000
Nasirya	4691	183	4874
Tikreet	2979	562	3541
Kadisia	5853	360	6213
Karbala	4245	331	4576
Muthana	3275	395	3670
Mysan	3997	374	4371
Najaf	5902	285	6187
Nineveh	10126	145	10271
Wasit	6581	412	6993
Total	81119	5891	87010

Source: (https://mop.gov.iq/en)

The table shows that Baghdad has the highest number of these small businesses. Nineveh ranked second with the number of small businesses at (10,271). That is because these two provinces have the biggest cities in Iraq, and they have big portion of Iraqi population. The surprising thing in this table is the number of small businesses in Basrah, which is (6959). Basrah is one of the big province in Iraq like Baghdad, and it has more than 6 million people. In addition, it is located on the Iraqi water border, south of Iraq, which creates many opportunities for successful small businesses.

The table shows that the number of males who got loans is higher than that of females. That is logical in Iraq because the Iraqi society imposes some social restrictions on females. It is hard for females to start their own businesses, but they can easy work with others.

4.2.2.2 The fiscal policy in Iraq

The fiscal policy was one of the important tools that used to motivate the small businesses in Iraq. The government introduced special funding program the help establishing small businesses in Iraq. The program was part of the government public spending. The goal of this program was to reduce the unemployment by creating job opportunities through starting new small businesses (Hussein & Mohammed 2018).

Table (4.3) shows the amount of money that spent on loans provided for small businesses. These loans was given through two big public banks, which are Al Rafidain and Al Rasheed Banks. The government committed to repay these loans in the case of failing of return them. In addition, the government committed to pay 4% 0f 6% interest rate on these loans, and the barrowers pay only 2%. Therefore, the fiscal policy is expected to have positive effect on small businesses in Iraq.

Table 4.3: The public spending for small businesses

Bank Name	**The amount of money spent (Million USD)**
Al Rafidain	322
Al Rasheed	83

Source: http://www.mof.gov.iq/Pages/MainMof.aspx

It is important to indicate that the taxes system in Iraq is not working well for many reasons such as corruption. Therefore, using the taxes as a fiscal policy tool is more likely to be useless.

4.2.2.3 The monetary policy in Iraq

The monetary policy in Iraq that was designed to motivate the small businesses has two parts.

The first part is using the traditional monetary policy instruments such as interest rates. The central bank is in line with the government plan to motivate small businesses. Therefore, it reduces the interest rates for loans that given for small businesses. The central bank specified low interest rate for lending small and medium businesses that do not exceed 10% annually. This percentage is 30% less than the interest rates. The interest rate depends on the size of the loan and the repayment period (Krayah & Al-Shaibani 2018).

The second part of the monetary policy is that the Iraqi center bank allowed private companies to provide collaterals for barrowers. This policy was the first time policy in Iraq. Its goal is to solve the collateral problem, and start new insurance companies. Based on that, it is expected that monetary policy in Iraq to have significant effect on small businesses.

4.2.2.4 The learning and training policy in Iraq

As mentioned before, the lack in management skills was an important factor that negatively affect small businesses in Iraq. Therefore, the Iraqi government started a program through the Ministry of Industrial to help new small businesses. A learning and training facilities were opened to do that task. The program goal is to provide new businesses mangers with all information that they need to operate their businesses. This program is expected to have significant impact on small businesses (Yousif 2006).

4.2.2.5 The trade policy in Iraq

The trade policy in Iraq is not clear because it does not have specific direction of target. In other words, it sometimes be a free trade policy, and sometimes be restricted policy. It keep changing within very short time and without any effect on the economy. One possible explanations to this is that the Iraqi government tries to support local production. However, when the local production is not enough to cover the increased demand, they change the trade policy (Ali 2013).

4.3 The Empirical Work

This section presents the empirical work of this study including the methodology, the data, the model and variables, and the results.

4.3.1 Methodology

This study tests the impact of different economic policies on small businesses in Iraq with more focus on the loans for small businesses program. More specifically, it test whether the loans for small businesses program, as well as other economic policies, have significant impact on small businesses in Iraq.

The study estimates the effects of small businesses program, monetary policy, fiscal policy, learning and training program, and trade policy on small businesses in Iraq. The study uses the regression method as a statistical estimation tool. The study uses R programming to run the regression model and do the estimation.

The regression method is a statistical method to modeling the relationship between two or more variables. One of them is the response variables (dependent variable). The other variables are the explanatory variables (independent variables). If the regression has one explanatory variable, it is called simple regression. If the regression has more than one explanatory variable, it is called multiple regression (Barten 1968).

4.3.2 The model and the variables

The model used in this study is the linear regression model (LRM). In this model, the relationships between variables are modeled using linear predictor functions. The model parameters are estimated from the data. The LRM is used because its parameters are easier to fit than non-linearly models. In addition, using this model can help easily determine the statistical properties of the resulting estimators.

The goal of using LRM is for prediction, forecasting, and error reduction. In addition, it can be used to fit a predictive model to an observed data set of the response and explanatory variables (Barten 1968). Equation (1) shows the elements of the LRM that is used in this study.

$$Y=\beta + \alpha X + \gamma F + \epsilon \quad \textbf{(1)}$$

Where, the variable (Y) is the variable that represents the small businesses (dependent variable). The number of small businesses recorded at the registration offices measures the small businesses variable.

The variable (X) represents one of the independent variables. The variable (X) in this case is loans for small businesses program. It is measured by the amount of loans given for small businesses.

The variable (F) is the set of other factors, or independent variables including monetary policy, fiscal policy, learning and training program, and trade policy. The monetary policy (F1) is measured by the average interest rates. The fiscal policy (F2) is measured by the average government spending that motivate businesses. It is important to indicate that the taxes system in Iraq is not working well, and there is untrusted taxes records. Therefore, it will not be included as a fiscal policy variable.

The learning and training program (F3) is measured by the average hours of training provided for potential small businesses' managers. Finally, the trade policy (F4) is measured by the size of imports (money spent on imports). That is because Iraq export only oil, and the exchange rates are almost fixed.

The (β, α, and γ) represent the model parameters that will be estimated when running the regression. The (ϵ) represents the error.

4.3.3 The data

The data of this study were taken from the ministry of finance, the ministry of trade, the central bank of Iraq, and the office of businesses registration. This study uses monthly time series data for from 2003-2019. The data sample will have 192 observation. A sample of the data is shown in appendix A.

This study aims to analyze the role of economic policies on small businesses after 2003. Therefore, the data started from 2003. The only limitation of this study is the missing of taxes data. The data set was organized using Excel sheet, so that each variable was put in one column. An example of the dataset is shown in appendix A. Using R programing codes, the data was imported and defined to the software as the model's variables. Then, the software runs the model using these variables. Finally, the software provided the regression results. The R programing codes are shown in the appendix B.

Table (4.4) shows the descriptive statistics of the data. The table shows the variables description, the maximum and minimum values of each variable. In addition, it shows the mean values and the number of observations for each variable.

Table 4.4: The descriptive statistics of the data.

Variable description	Monthly number of registered small businesses (x 10)	Monthly Average amount of loans given for small businesses. (x 1000 USD)	Monthly average interest rates (%)	Monthly average government spending (Million USD)	Monthly average hours of training (Hour)	Monthly average amount spent on imports (Million USD)
Variable symbol	Y	X	F1	F2	F3	F4
Max value	21	100	8	167	88	17
Min value	11	10	4	33	55	11
Mean	15	54	6	99	72	14
Total Observations	192	192	192	192	192	192

4.3.4 The results

Using R programing to run the linear regression model, the results of this study are shown in table (4.5).

Table 4.5: The results of regression model

Variable	Estimated parameter	P- value
Intercept	8.931***	0.000890
Loans for small businesses	0.008	0.631267
Interest rates (monetary policy)	-0.147	0.316567
government spending (fiscal policy)	-0.005	0.445515
Learning and training	0.023***	0.000135
The imports size (trade policy)	-0.105	0.666553

Significant code: 1% ***, 5% **, 10% *

The results in table 4.5 show that the Loans for small businesses program has positive relationship with the number of small businesses in Iraq. When the loans for small businesses increase, the number of small businesses increase by 0.008. This impact direction is expected, but it is very small in amount and not significant.

The results show that the monetary policy has negative relationship with the number of small businesses in Iraq.

That is, the expansionary monetary policy (lowering interest rates), increase the number of small businesses increase by 0.147. This impact direction is expected because low interest rates motivate small businesses to get more funds with low costs. However, this impact is not significant.

The results show that the fiscal policy has also negative relationship with the number of small businesses in Iraq. That is, the expansionary fiscal policy (increasing public spending), decrease the number of small businesses by 0.005. This impact direction is not expected because expansionary fiscal policy should increase the aggregate demand. That can lead to motivate small businesses. However, this impact is not significant. One possible explanation to this is the corruption, which waste huge amount of public spending.

The results in table 4.5 show that the learning and training programs have positive relationship with the number of small businesses in Iraq. Increasing the training hours can lead to increase the number of small businesses by 0.023. This impact direction is expected, and it is significant.

Finally, the results show that the trade policy has negative relationship with the number of small businesses in Iraq. When the imports size increases, the number of small businesses decreases by 0.105. This impact direction is expected because of global competition the negatively affects the decisions to start new small businesses. However, this impact is not significant.

In general, the results does not support the hypothesis that loans for businesses program can significantly impact the number of small businesses in Iraq. However, the results identified the importance of learning and training programs to motivate small businesses in Iraq. This result indicates the policy maker in Iraq should focus more on the learning and training programs to motivate small businesses.

5. CONCLUSION

The economy of Iraq mainly depends on the public sector, and almost all businesses are owned government. However, after 2003, Iraq started new economic and political systems. They adopt an economic reform program. The reform was designed to transfer the Iraqi economy to the capitalism system that depends on private businesses. That is, the Iraqi policy makers have formed many economic policies such as fiscal, monetary, loans, and other polices to help establishing new private businesses especially small businesses. One of these important programs is the loans for small business. This program is expected to have positive and significant impact on small businesses in Iraq.

Many studies have showed that the small businesses can play a significant role in economic development. They are easy to be established, and can have many advantages. For example, they need small financial resources, and they can reduce the unemployment. In addition, they can provide a variety of products. Therefore, it is important to motivate small businesses and benefit from their advantages.

The purpose of the study is to test the effects of economic policies on small businesses in Iraq. The study focuses more on evaluating the impact of loans for businesses program on the small businesses in Iraq. The study is supposed to help policy makers in Iraqi to evaluate the effect of loans program on its targets. The study contribution is that it present statistical measurements to the impact of economic policies on small businesses in Iraq.

The study used linear regression model (LRM) and R programing to do the statistical tests. In this model, the relationships between variables are modeled using linear predictor functions.

The source of the data used in this study were taken from the Iraqi ministry of finance, the ministry of trade, the central bank of Iraq, and the office of businesses registration.

This data was monthly time series data from 2003-2019. The data sample has 192 observation.

The results show that the Loans for small businesses program has positive and insignificant impact on small businesses in Iraq. The results show that the interest rates has negative and insignificant impact on small businesses in Iraq.

The results show that the fiscal policy has also negative and insignificant impact on small businesses in Iraq. The results show that the learning and training programs have positive and significant impact on small businesses in Iraq. Finally, the results show that the trade policy has negative and insignificant impact on small businesses in Iraq.

The hypothesis that loans for businesses program can significantly impact the number of small businesses in Iraq was not confirmed. However, the learning and training programs is confirmed to be an important policy to motivate small businesses in Iraq. Therefore, policy maker in Iraq should focus more on the learning and training programs to motivate small businesses.

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APPENDICES

Appendix A: Data Set

Table A.1: Example of data set

y	x	F1	F2	F3	F4
19	22	6	63	70	33
45	16	6	46	85	39
17	9	8	79	65	79
13	12	4	109	88	39
40	8	7	167	78	69
27	10	7	117	57	53
40	10	5	43	76	72
30	9	7	71	82	86
29	4	5	145	73	39
30	24	4	123	74	22
15	7	5	97	70	52
26	7	7	35	69	24
22	20	5	141	60	13
24	16	8	98	88	92
34	10	5	108	82	44
16	15	6	48	60	98
16	13	4	56	81	49
30	25	5	164	57	48
44	14	7	92	83	45
20	5	4	127	63	26
31	5	4	79	66	93
49	8	7	130	56	47
30	19	8	54	76	76
43	16	4	157	68	83

Appendix B: The Programing Codes

Table B.1: The R programing codes and their functions

The R Code	The Action
> data <- read.delim ("C:/Users/ /Desktop/Ismail/Data/data.txt")	Reading the data file
> View(data)	Checking the data
> attach (data)	Preparing the data for use
> regression <- lm (Y ~ X+Z1+Z2+Z3)	Running Linear Regression Model Y is the dependent variable X, Z1, Z2, and Z3 are the independent variables
> summary (regression)	View the results of the regression

RESUME

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