



Economic Policies and Their Influence on SMEs: The Policy-to-SME Transmission (PST) Framework and an SME Policy Enabling Index (SPEI)

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ABSTRACT

Small and medium-sized enterprises (SMEs) are the backbone of most economies, accounting for the majority of firms and a large share of employment, yet their fortunes are unusually sensitive to the economic policies that governments set. Monetary, fiscal, regulatory, financial-sector, and trade policies each shape the environment in which SMEs are born, survive, and grow—but the channels through which they do so are analyzed in separate literatures, leaving policymakers without a single map from policy lever to SME outcome. This conceptual paper consolidates that evidence into a coherent structure. It advances the Policy-to-SME Transmission (PST) Framework, which identifies five economic-policy levers and the specific transmission channel through which each reaches SMEs—linking monetary and credit policy to the cost of finance, fiscal and tax policy to retained earnings and demand, regulatory policy to entry and compliance costs, financial-sector policy to access to external finance, and trade policy to market size. To make the enabling quality of a policy environment measurable, the paper introduces the SME Policy Enabling Index (SPEI), a transparent weighted composite of the five levers. An illustrative application across three policy-environment archetypes shows how the framework and index expose where reform would most improve SME outcomes. All quantitative values are illustrative simulations calibrated to patterns reported in the literature and are presented to demonstrate the instruments rather than to report

empirical findings. The framework offers policymakers, development institutions, and researchers—particularly those advancing the United Arab Emirates' SME and diversification agenda—a structured basis for designing policy that enables rather than constrains small firms.

Keywords: *SMEs; economic policy; access to finance; entry regulation; monetary policy; entrepreneurship; financial inclusion; conceptual framework*

1. Introduction

Small and medium-sized enterprises (SMEs) occupy a central place in the world's economies. Across countries they constitute the overwhelming majority of firms, and the SME sector's contribution to employment is comparable to that of large firms; in developing economies small firms create the largest share of new jobs and record the highest sales and employment growth, even after accounting for firm age (Ayyagari, Beck, & Demirgüç-Kunt, 2007; Ayyagari, Demirgüç-Kunt, & Maksimovic, 2014). Precisely because they are small, however, SMEs are disproportionately exposed to the economic environment that policy creates. A rise in interest rates, a burdensome licensing requirement, a thin banking sector, or a sudden shift in trade conditions bears more heavily on a small firm with limited buffers than on a large, diversified corporation (Gertler & Gilchrist, 1994; Beck & Demirgüç-Kunt, 2006). Economic policy, in other words, is not a backdrop to SME performance; it is one of its principal determinants.

The difficulty for those who would act on this insight is that the evidence is fragmented. The effect of monetary policy on small firms belongs to one literature (Gertler & Gilchrist, 1994); the effect of entry regulation to another (Djankov, La Porta, Lopez-de-Silanes, & Shleifer, 2002; Klapper, Laeven, & Rajan, 2006); the effect of financial-sector development to a third (Beck, Demirgüç-Kunt, & Maksimovic, 2005; Berger & Udell, 2006); and the role of institutions in shaping entrepreneurship to yet another (Baumol, 1990; Acs, Desai, & Hessels, 2008). A policymaker or development practitioner seeking to understand how a given reform will reach SMEs must currently assemble insight from all of these, with no single framework connecting a policy lever to the channel through which it acts and the SME outcome it ultimately shapes.

This paper offers that connection. It makes a conceptual and integrative contribution of two artifacts. The first is the Policy-to-SME Transmission (PST) Framework, which organizes five economic-

policy levers by the transmission channel through which each reaches SMEs and the outcome it primarily influences. The second is the SME Policy Enabling Index (SPEI), a transparent composite that scores how enabling a policy environment is for small firms. Neither artifact reports a new empirical study; both consolidate established findings into a usable form and set an agenda for validation.

The paper proceeds as follows. Section 2 reviews the background and specifies the research gap. Section 3 develops the PST Framework. Section 4 formalizes the SPEI. Section 5 provides an illustrative application, with all numeric values clearly labeled as illustrative simulations. Section 6 discusses theoretical, policy, and regional implications; Section 7 states limitations and a research agenda; and Section 8 concludes.

2. Background and Theoretical Foundations

2.1 Why SMEs matter—and why they are policy-sensitive

The case for attending to SMEs rests on their weight in the economy. Ayyagari, Beck, and Demirgüç-Kunt (2007) document that SMEs make up the bulk of enterprises worldwide and contribute substantially to employment and output. Ayyagari, Demirgüç-Kunt, and Maksimovic (2014) show that in developing countries small firms are the leading source of job creation. But the same characteristics that make SMEs dynamic—small scale, limited collateral, dependence on local banks and local demand, thin managerial reserves—also make them fragile. Gertler and Gilchrist (1994) find that small manufacturing firms bear a disproportionate share of the contraction that follows monetary tightening, evidence that policy shocks propagate unevenly by firm size. Policy sensitivity is thus not incidental to the SME sector; it is intrinsic to it, and it is the reason economic policy is such a powerful lever over SME fortunes.

The employment stakes give this policy sensitivity its urgency. Because small firms are relatively labor-intensive and are the leading source of net job creation in many economies, the health of the SME

sector translates directly into the level of employment and, through it, into poverty reduction and inclusive growth (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2014). A policy environment that constrains small firms therefore imposes costs far beyond the firms themselves—in jobs not created, incomes not earned, and dynamism not realized. This is why governments across income levels treat SME development as a strategic objective, and why understanding the transmission from policy to small firm is a matter of broad economic consequence rather than narrow sectoral interest.

2.2 The financing constraint

Among the channels through which policy reaches SMEs, access to finance is the most studied and, for many firms, the most binding. Beck, Demirgüç-Kunt, and Maksimovic (2005) show that financial and legal underdevelopment constrains firm growth and that the constraint falls hardest on small firms. Beck and Demirgüç-Kunt (2006) frame access to finance as a growth constraint that policy can relax through financial-sector development and supportive institutions. Berger and Udell (2006) provide a conceptual framework for SME finance that links the available lending technologies—relationship lending, asset-based lending, credit scoring—to the financial and information infrastructure that policy shapes. The implication is direct: the depth and design of the financial sector, both matters of policy, largely determine whether a viable small firm can obtain the capital it needs to grow.

Underlying the financing constraint is a structural feature of small firms: informational opacity. Young, small enterprises typically lack the audited financial statements, credit histories, and pledgeable collateral that lenders rely on, which makes them costly to screen and monitor and therefore prone to credit rationing (Berger & Udell, 2006). Policy shapes how far this opacity binds. Credit registries and bureaus, movable-collateral laws, and simplified accounting standards all reduce the information gap between borrower and lender, and are therefore among the most direct instruments by which the financial-sector lever can be turned toward small firms (Beck &

Demirgüç-Kunt, 2006). This is why access to finance is best understood not as a fixed endowment but as an outcome that policy can actively expand.

2.3 Regulation, institutions, and the environment for entry

Policy also governs whether firms are created at all. Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2002) present cross-country evidence that heavy entry regulation raises the cost and time of starting a business without improving outcomes, and is associated with more corruption and larger informal economies. Klapper, Laeven, and Rajan (2006) find, using European firm data, that costly entry regulation suppresses the creation of new firms—especially in industries that should naturally have high entry—and slows the growth of incumbents. Beneath these specific findings lies a broader principle articulated by Baumol (1990): the total supply of entrepreneurship matters less than its allocation between productive and unproductive activity, and that allocation is steered by the incentives that institutions and policy establish. Acs, Desai, and Hessels (2008) extend this institutional view, linking entrepreneurship to stages of economic development and the surrounding institutional environment. Together these literatures establish regulatory and institutional quality as a second major channel through which policy shapes the SME sector.

2.4 The regional lens: policy and SMEs in the Gulf

Regional evidence in Emirates Scholar's own journal illustrates these channels concretely. Aboualam (2025) examines partnership-based and Islamic financing instruments—Modaraba and Musharaka—as approaches to financing SMEs through non-banking institutions, addressing precisely the access-to-finance constraint at the center of the SME literature. Al Ali (2024) studies how macroeconomic indicators affect financial inclusion across the EAGLES economies, connecting the macro-policy environment to the inclusion that determines whether small firms and households can reach formal finance. Knio, El Hajjar, and Antony (2023) analyze how interest rates, inflation, and the balance of trade affect financial-

market performance in Saudi Arabia, tracing exactly the monetary and trade-policy variables that the PST Framework treats as levers. These regional contributions ground the framework in the Gulf context and confirm that its channels are salient there.

2.5 Research gap and contribution

Three gaps motivate this paper. First, the effects of different economic policies on SMEs are established individually but have never been assembled into a single transmission map. Second, the literature rarely distinguishes clearly between the policy lever, the channel through which it acts, and the outcome it shapes—a distinction essential for diagnosing where a given environment helps or hinders small firms. Third, there is no lightweight, transparent way to summarize how enabling a policy environment is for SMEs. The PST Framework and the SPEI address these gaps by mapping levers to channels to outcomes and by rendering the enabling quality of an environment measurable.

3. The Policy-to-SME Transmission (PST) Framework

3.1 Overview and design logic

The PST Framework rests on a transmission logic: an economic-policy lever does not affect SMEs directly but through an identifiable channel, which in turn shapes a particular SME outcome. Making this lever-channel-outcome chain explicit allows a policymaker to see not only that a policy matters for small firms but how it reaches them and which outcome it moves. The framework identifies five levers—monetary and credit policy, fiscal and tax policy, regulatory and business-environment policy, financial-sector and inclusion policy, and trade and competition policy—each paired with its principal channel and outcome, and it treats targeted SME-support programs and institutional quality as cross-cutting influences that condition all five. Figure 1 presents the architecture.

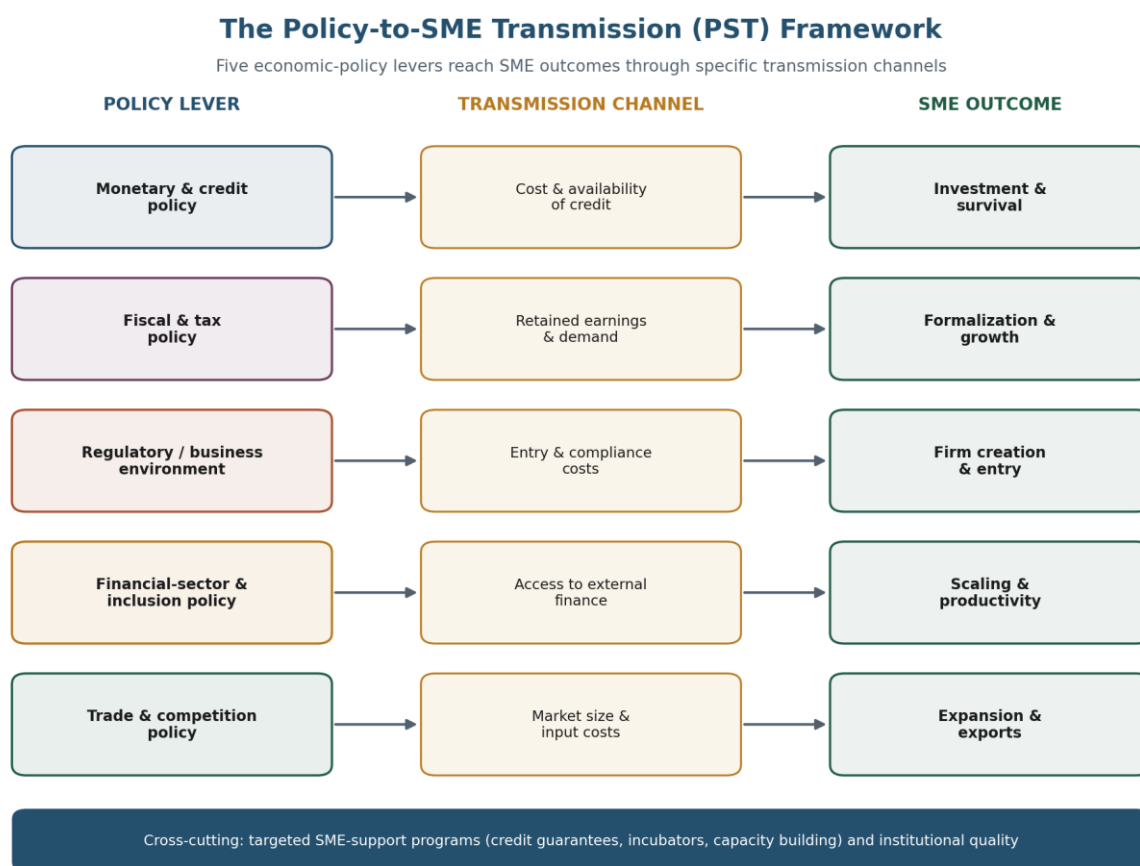


Figure 1. The Policy-to-SME Transmission (PST) Framework.
Five economic-policy levers reach SME outcomes through specific transmission channels, conditioned by cross-cutting support programs and institutional quality.

3.2 The five levers and their transmission channels

Monetary and credit policy → cost and availability of finance. Interest-rate and credit conditions determine the price and quantity of external finance available to small firms, which typically lack access to capital markets and depend on bank credit. Because small firms are more sensitive to credit tightening, this lever bears directly on their investment and survival (Gertler & Gilchrist, 1994; Knio, El Hajjar, & Antony, 2023). Fiscal and tax policy → retained earnings and demand. Tax rates, incentives, and public spending shape the after-tax resources a small firm can reinvest and the aggregate demand it faces. High or complex tax burdens can also push firms into informality, while well-targeted incentives can support formalization and growth (Djankov et al., 2002). Regulatory and business-environment policy → entry and compliance costs. Licensing, registration, and

ongoing compliance requirements determine the cost and time of creating and operating a firm. Costly entry regulation suppresses firm creation and slows incumbent growth, especially in naturally high-entry industries (Klapper, Laeven, & Rajan, 2006; Djankov et al., 2002). Financial-sector and inclusion policy → access to external finance. The depth of the banking system, the credit information and collateral infrastructure, and inclusion policy jointly determine whether viable small firms can actually obtain finance. This lever operationalizes the growth constraint documented across the SME finance literature (Beck, Demirgüç-Kunt, & Maksimovic, 2005; Berger & Udell, 2006; Al Ali, 2024). Trade and competition policy → market size and input costs. Openness, tariffs, and competition policy shape the size of the market a small firm can reach and the cost of its inputs. Trade conditions such as the balance of trade also feed through to the broader financial environment in which SMEs operate (Knio, El Hajjar, & Antony, 2023).

Table 1. The five levers of the PST Framework: channel, outcome, and grounding.

Policy lever	Transmission channel	SME outcome	Grounding
Monetary & credit	Cost & availability of credit	Investment; survival	Gertler & Gilchrist (1994)
Fiscal & tax	Retained earnings; demand	Formalization; growth	Djankov et al. (2002)
Regulatory environment	Entry & compliance costs	Firm creation; entry	Klapper et al. (2006)
Financial-sector & inclusion	Access to external finance	Scaling; productivity	Beck et al. (2005); Berger & Udell (2006)
Trade & competition	Market size; input costs	Expansion; exports	Knio et al. (2023)

3.3 Policy instruments across the levers

Each lever is operated through concrete instruments, and the same lever can be turned toward SMEs or away from them depending on design. Table 2 lists representative instruments, distinguishing those that tend to enable small firms from those that tend to constrain them. The cross-cutting row–targeted SME-

support programs such as credit guarantees and incubators–captures instruments that act on several channels at once and that governments frequently use to compensate for weaknesses elsewhere in the system (Beck & Demirgüç-Kunt, 2006; Aboualam, 2025).

Table 2. Representative policy instruments by lever.

Lever	Enabling instruments	Constraining conditions
Monetary & credit	Accommodative credit conditions; SME refinancing lines	Sharp rate tightening; credit rationing of small firms

Fiscal & tax	Simplified SME tax regimes; targeted incentives	High, complex tax burdens pushing firms informal
Regulatory	Streamlined registration; one-stop shops	Costly, slow licensing; heavy compliance
Financial-sector	Credit registries; collateral reform; guarantees	Shallow banking; weak credit information
Cross-cutting	Credit-guarantee schemes; incubators; capacity building	Fragmented, poorly funded, short-lived programs

3.4 The levers as a system, not a menu

A central claim of the PST Framework is that the five levers form a system rather than a menu from which governments pick independently. The channels interact, so the effect of one lever depends on the setting of the others. A well-capitalized, inclusive financial sector can partly transmit even tight monetary conditions to viable small firms, whereas a shallow banking sector will fail to deliver credit however accommodative the policy rate (Beck & Demirgüç-Kunt, 2006; Berger & Udell, 2006). Likewise, generous credit-guarantee programs achieve little where costly entry regulation keeps firms informal and therefore outside the formal financial system in the first place (Djankov et al., 2002; Klapper, Laeven, & Rajan, 2006).

This systemic view has a sharp implication: the SME impact of a policy environment is bounded by its weakest transmitting lever, much as the flow through a series of pipes is limited by the narrowest segment. It follows that raising the lowest lever often does more for small firms than further strengthening an already-strong one—a proposition the SPEI is designed to surface through decomposition. The framework thus discourages the common practice of celebrating a single flagship reform while leaving a binding constraint elsewhere untouched, and encourages

instead a portfolio view in which the levers are aligned so that finance, regulation, and demand reinforce rather than cancel one another (Baumol, 1990; Acs, Desai, & Hessels, 2008).

4. The SME Policy Enabling Index (SPEI)

4.1 Rationale

Diagnosing a policy environment lever by lever is valuable, but policymakers and researchers also need a compact summary of how enabling an environment is overall. The SPEI provides one. It is a transparent, weighted composite of sub-scores on the five PST levers, designed not to replace detailed analysis but to focus it—highlighting which environments are broadly enabling and, more usefully, which levers drag a given environment down. It is deliberately simple and auditable, in keeping with the caution that composite indices are only as credible as the transparency of their construction.

4.2 Formal specification

Let each of the five levers be scored $s_k \in [0, 1]$, where higher values denote a more SME-enabling stance on that lever. The SME Policy Enabling Index is the weighted sum:

$$\text{SPEI} = \sum_{k=1}^5 w_k s_k, \quad \sum_{k=1}^5 w_k = 1, \quad s_k \in [0, 1]$$

where the weights w_k are non-negative and sum to one, allowing an analyst to emphasize the levers most

consequential for a given economy or sector (a bank-dependent SME sector might weight monetary and

financial-sector policy more heavily, for instance). The index ranges from 0 (uniformly constraining) to 1 (uniformly enabling). Its purpose is comparative and diagnostic rather than absolute: it locates an environment on an enabling-constraining spectrum and, by decomposition, identifies the levers where reform would raise the score most.

4.3 Interpretation and cautions

Three cautions govern the SPEI's use. First, the sub-scores are judgments about policy stance, not precise measurements, and should be sourced transparently. Second, the levers interact: a strong financial sector can partly offset tight monetary conditions, so the index is a starting point for analysis, not a verdict. Third, context matters—the weights appropriate to a diversified high-income economy differ from those for a developing one, consistent with the finding that the entrepreneurship-development relationship varies by stage of development (Acs, Desai, & Hessels, 2008). Used with these cautions, the SPEI turns a diffuse question—"is our policy environment good for small firms?"—into a structured, decomposable one.

5. Illustrative Application

Note on data. The values in this section are illustrative simulations calibrated to patterns reported in the SME and policy literature (Beck et al., 2005; Klapper et al., 2006). They are presented solely to demonstrate how the framework and index operate and must not be read as empirical measurements of any country.

5.1 Three policy-environment archetypes

Consider three stylized policy environments. An enabling environment combines accommodative credit access, simple taxes, light-touch registration, a deep and inclusive financial sector, and open trade. A constraining environment features tight or volatile credit, heavy and complex taxation, costly entry regulation, a shallow banking system, and restricted market access. A mixed environment sits between the two, strong on some levers and weak on others. Figure 2 shows illustrative SPEI sub-scores for the three across the five levers.

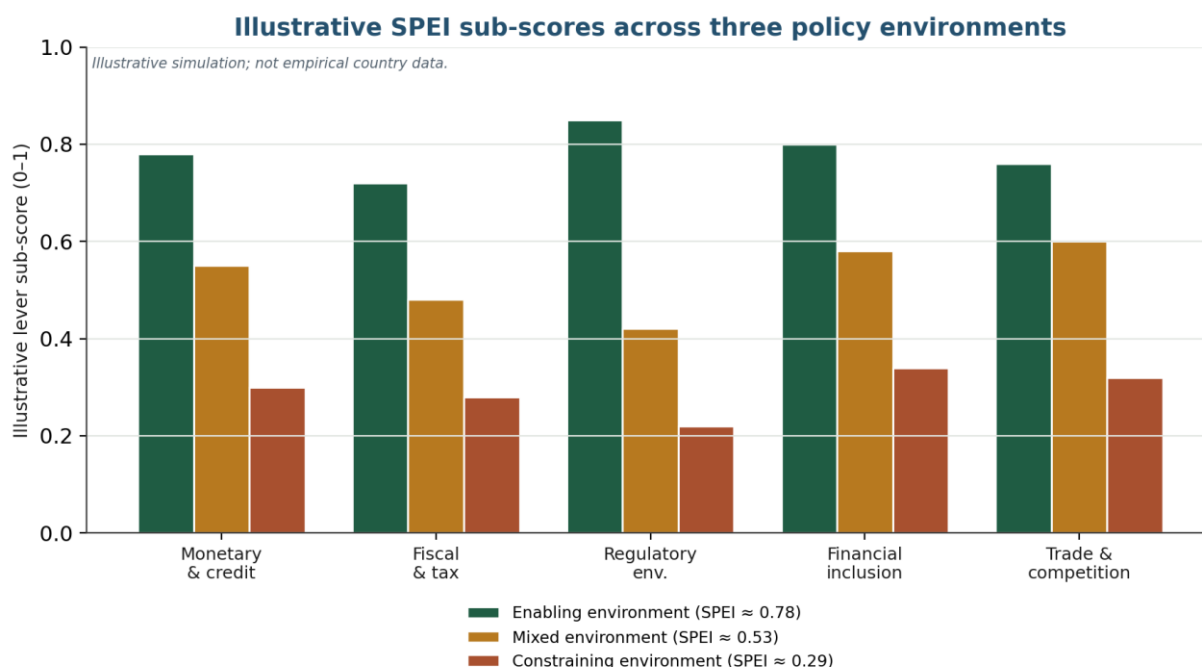


Figure 2. Illustrative SPEI sub-scores across three policy environments (simulated values; not empirical country data).

5.2 Policy enabling-ness and SME outcomes

Aggregating the sub-scores yields a single SPEI for each environment, and the framework predicts that more enabling environments are associated with

stronger SME outcomes—higher firm creation, investment, and growth—consistent with the evidence that finance access, light entry regulation, and supportive institutions raise firm entry and growth (Beck, Demirgüç-Kunt, & Maksimovic, 2005; Klapper, Laeven, & Rajan, 2006). Figure 3 illustrates this

relationship, with the three archetypes located along an upward, concave curve. The concavity conveys a practical point: for a deeply constraining environment, even modest reforms that raise the SPEI can yield sizeable gains in SME outcomes, whereas already-enabling environments see smaller marginal returns.

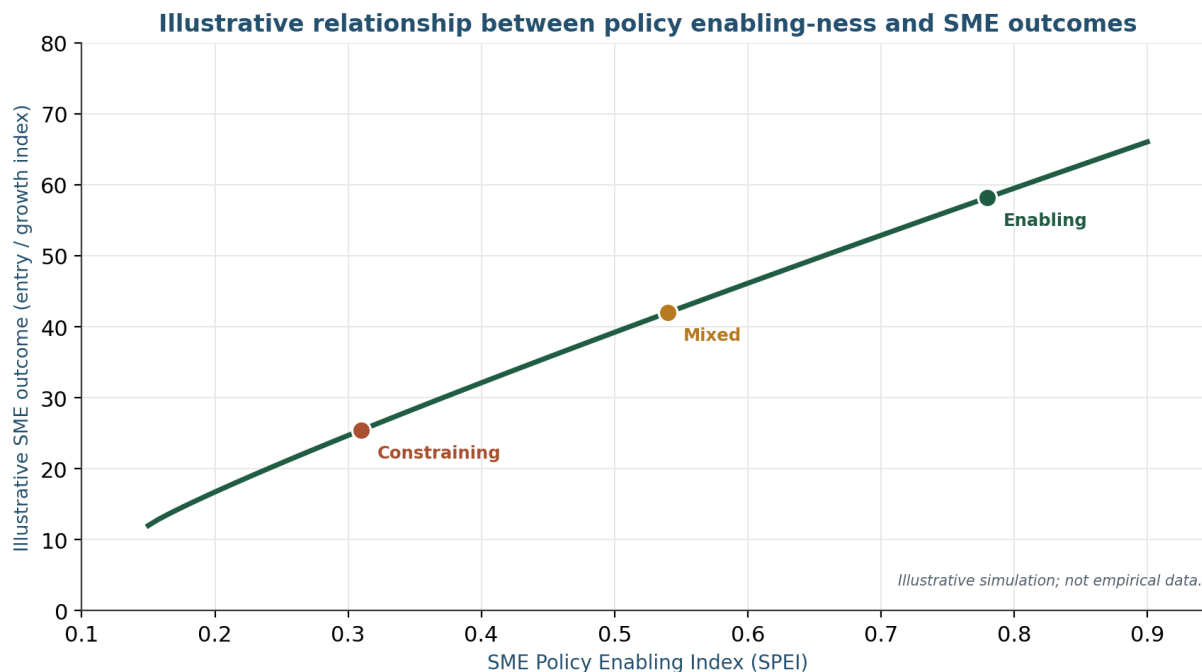


Figure 3. Illustrative relationship between the SPEI and SME outcomes, with three archetype environments marked. Values are simulated to demonstrate the framework's logic, not to report empirical effects.

5.3 Reading the levers for reform priorities

The value of decomposing the SPEI is that it points to reform priorities rather than merely ranking environments. Table 3 reports illustrative SPEI values for the three archetypes together with the lever that most depresses each one. For the constraining

environment, regulatory reform offers the largest single gain; for the mixed environment, fiscal simplification is the binding lever. This is the diagnostic payoff of the framework: two environments with a similar overall score may need very different reforms, and the PST-SPEI pairing makes that visible.

Table 3. Illustrative SPEI and binding lever for three archetype environments (equal weights).

Environment	Illustrative SPEI	Binding (lowest-scoring) lever → reform priority
Enabling	0.78	Fiscal & tax (already high) → fine-tuning only
Mixed	0.54	Regulatory environment → streamline entry & compliance
Constraining	0.29	Regulatory environment → largest single gain from reform

Note: values are illustrative simulations on a 0-1 scale computed from the sub-scores in Figure 2; they

demonstrate the index and are not empirical measurements of any country.

5.4 A worked reform scenario

To show the framework in use, trace a constraining environment (illustrative SPEI ≈ 0.29) through a reform sequence. The decomposition in Table 3 identifies the regulatory lever as binding: costly, slow registration is keeping firms informal and outside the reach of both finance and support programs. A first-stage reform that streamlines registration and lowers compliance costs raises the regulatory sub-score and, because firms can now form and formalize, begins to unlock the financial-sector and fiscal channels that were previously inaccessible (Klapper, Laeven, & Rajan, 2006; Djankov et al., 2002). In the framework's terms, relaxing the narrowest segment widens the whole pipe.

With entry eased, a second-stage reform targets the financial-sector lever—strengthening credit information, collateral registries, and guarantee schemes so that newly formalized firms can actually borrow (Beck, Demirgüç-Kunt, & Maksimovic, 2005; Berger & Udell, 2006). Only once firms can form and finance themselves does a third-stage reform—simplifying the tax regime and deploying targeted incentives—deliver its full effect, since the retained-earnings channel presupposes firms that are formal and financed. The illustrative SPEI rises across the stages, and—because the SPEI-outcome relationship is concave (Figure 3)—the earliest reforms, applied to the most constrained environment, yield the largest gains in firm creation and growth.

The scenario also illustrates the compensation trap the framework warns against. A government that skipped the first stage and instead launched a large credit-guarantee program would find its funds underused, because informal firms cannot access formal guarantees—resources spent compensating for a constraint that direct reform would have removed more cheaply (Aboualam, 2025). Sequencing guided by the binding lever thus dominates sequencing guided by political visibility or donor fashion, and the PST-SPEI pairing makes the correct order legible.

6. Discussion

6.1 Theoretical implications

The PST Framework makes three theoretical contributions. First, it integrates literatures that have developed in parallel—monetary transmission (Gertler & Gilchrist, 1994), entry regulation (Djankov et al., 2002; Klapper et al., 2006), SME finance (Beck et al., 2005; Berger & Udell, 2006), and institutions and entrepreneurship (Baumol, 1990; Acs et al., 2008)—by organizing them around a common lever-channel-outcome logic. Second, by separating the channel from the lever and the outcome, it clarifies why a policy matters for SMEs, not merely that it does, which supports sharper hypotheses about mechanisms. Third, the SPEI translates this structure into a measurable construct, offering a bridge between the qualitative policy-design literature and the quantitative firm-level evidence.

The framework further contributes a way of thinking about boundary conditions. By treating institutional quality and targeted support programs as cross-cutting conditions rather than as a sixth lever, it captures the fact that these factors modulate every channel at once: weak institutions blunt the transmission of otherwise sound policies, while credible institutions amplify them (Baumol, 1990; Acs, Desai, & Hessels, 2008). This structure helps explain a puzzle in the policy record—why identical reforms produce very different SME outcomes across settings. The answer, in the framework's terms, is that the same lever operates through a channel whose conductivity depends on the surrounding institutional environment, so that transmission is strong where institutions are credible and weak where they are not.

6.2 Policy implications

For policymakers, the framework reframes SME policy from a list of disconnected interventions into a system. Because the levers interact and because targeted support programs cut across them, the most effective strategy is rarely a single flagship instrument but a coherent alignment of levers—ensuring, for example, that credit-guarantee schemes (Aboualam, 2025) are not undermined by burdensome

registration or by a banking sector too shallow to deploy them. The SPEI helps here by making the weakest lever visible, so that scarce reform capacity is directed where the marginal return is highest—often, on the evidence, the regulatory environment for entry (Klapper, Laeven, & Rajan, 2006). A recurring failure the framework surfaces is the compensation trap, in which governments layer new support programs on top of an unreformed environment rather than fixing the lever that constrains firms in the first place.

The framework also cautions against importing reform templates wholesale. Because the entrepreneurship-development relationship varies by stage of economic development (Acs, Desai, & Hessels, 2008), the appropriate weighting of the levers differs across economies: a bank-dependent, low-income setting may find the monetary and financial-sector levers most binding, while a diversified high-income economy may gain most from regulatory and competition reforms. The SPEI accommodates this by letting weights vary, but the deeper lesson is that SME policy must be diagnosed locally rather than copied. A reform that transformed one country's SME sector may be irrelevant to another whose binding lever lies elsewhere—which is precisely why a transmission map that exposes the binding lever is more useful than a generic list of best practices.

6.3 Regional relevance

The framework is directly relevant to the United Arab Emirates and the wider Gulf, where SME development is a pillar of economic diversification away from hydrocarbons. Regional research shows the channels at work: partnership and Islamic finance instruments expanding SME funding options (Aboualam, 2025), macroeconomic conditions shaping financial inclusion (Al Ali, 2024), and monetary and trade variables feeding through to financial-market performance (Knio, El Hajjar, & Antony, 2023). Aligning the five levers—rather than pursuing them in isolation—would strengthen the SME base on which the knowledge-economy ambitions of UAE Vision 2071 depend. The SPEI could serve regional policymakers as a simple, transparent scorecard for tracking whether reforms

are making the environment measurably more enabling over time.

6.4 Sequencing and the political economy of reform

Because the levers form a system, the order in which reforms are undertaken matters as much as their content. The framework suggests beginning with the binding lever—the one whose sub-score most depresses the SPEI—since relaxing it unlocks the returns to reforms elsewhere. In many settings the evidence points to entry regulation and financial-sector depth as early priorities, because firm creation and access to finance are preconditions for the other channels to operate (Klapper, Laeven, & Rajan, 2006; Beck, Demirgüç-Kunt, & Maksimovic, 2005). Reforming in the wrong order—expanding credit guarantees before firms can legally and affordably form, for instance—wastes resources and can discredit otherwise sound programs.

Political economy also shapes what is feasible. Some levers, such as streamlining registration, offer visible gains at low fiscal cost and can build momentum for harder reforms; others, such as tax simplification, create concentrated losers who resist change. Sequencing that begins with low-cost, high-visibility wins can therefore assemble the coalition needed for deeper reform. Baumol's (1990) insight is pertinent here: policy shapes not only the quantity of entrepreneurship but its allocation, and reforms that redirect effort from rent-seeking toward productive enterprise may face opposition precisely from those who benefit from the status quo. The PST-SPEI pairing does not resolve these political constraints, but by making the binding lever explicit it clarifies what is worth spending political capital on.

7. Limitations and Future Research

This paper is conceptual, and its limitations follow accordingly. First, the five levers are an abstraction; real policy environments also include labor, education, infrastructure, and macro-stability dimensions that the framework folds into its cross-cutting conditions rather than modeling directly. Second, all quantitative

values presented here are illustrative simulations; neither the SPEI weights nor the shape of the SPEI-outcome relationship has been empirically validated. Third, the framework treats transmission channels as largely independent, whereas in practice they interact—an area the index only partially captures.

These limitations define a research agenda. Priorities include: (i) constructing SPEI sub-scores from observable policy indicators and validating the composite against SME outcomes such as firm density, entry rates, and employment growth (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2014); (ii) estimating lever-specific weights for economies at different stages of development (Acs, Desai, & Hessels, 2008); (iii) testing the transmission channels individually with firm-level data, extending work such as Gertler and Gilchrist (1994); and (iv) applying the framework to the Gulf using regional data of the kind analyzed by Aboualam (2025) and Al Ali (2024). Such work would move the framework from a structured hypothesis toward a validated policy tool.

8. Conclusion

Economic policy is among the most powerful forces shaping the fortunes of small and medium-sized enterprises, yet its influence has been understood in fragments—monetary policy here, entry regulation there, financial-sector development elsewhere. This paper has argued that these fragments can be assembled into a single, actionable structure. The Policy-to-SME Transmission Framework organizes five economic-policy levers by the channel through which each reaches small firms and the outcome it shapes, turning a scattered literature into a coherent map from policy to firm. The SME Policy Enabling Index renders the enabling quality of a policy environment measurable and, by decomposition, points to where reform would help small firms most. Although the paper's quantitative demonstration is illustrative rather than empirical, its conceptual contribution stands on its own and sets a clear agenda for validation. For policymakers, development institutions, and researchers—not least those advancing the United Arab Emirates' diversification and SME agenda—the

framework offers a disciplined way to design economic policy that enables small firms to be created, to survive, and to grow, and thereby to deliver the jobs and dynamism that economies depend on them to provide.

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