

# An Analysis of Government Support Programs for Small Business Development and Growth

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## Abstract

Small and medium-sized businesses (SMEs) are very important for many countries' economic and social growth. They constitute a significant proportion of employment, innovation, and value creation across diverse sectors and regions. But small businesses also have many problems that make it hard for them to grow and be good at what they do. For example, they might not have enough money or the right tools or information to compete. To help small businesses succeed, governments around the world have created programs and policies that give them money, help with their business needs, and help with their organization.

The impact of government support programs on SME development and growth holds significant interest and significance for policymakers, researchers, practitioners, and entrepreneurs. Nonetheless, the evidence regarding the efficacy and efficacy of these programs is ambiguous and uncertain. Some studies have shown that government support helps SME performance indicators, such as sales, profits, employment, productivity, innovation, and exports. Other studies have found that government support for SME outcomes is negative or doesn't affect them at all, or that there is a lot of variation among different types of programs, beneficiaries, contexts, and methods.

This paper aims to provide a comprehensive and critical analysis of the literature regarding the impact of government support programs on the development and growth of small and medium enterprises. It includes both theoretical and empirical studies that examine the rationale, design, implementation, evaluation, and outcomes of various forms of government support for SMEs. A *questionnaire based survey* consisting of geographically unique SMEs was conducted. 68 SMEs had opted to provide responses to the questionnaire based on research the hypothesis of this study. In addition, it discusses the main challenges and limitations of the existing literature, and provides recommendations for further research and practice.

**Keywords:** Government Support Programs, Small businesses, small business development, entrepreneurship

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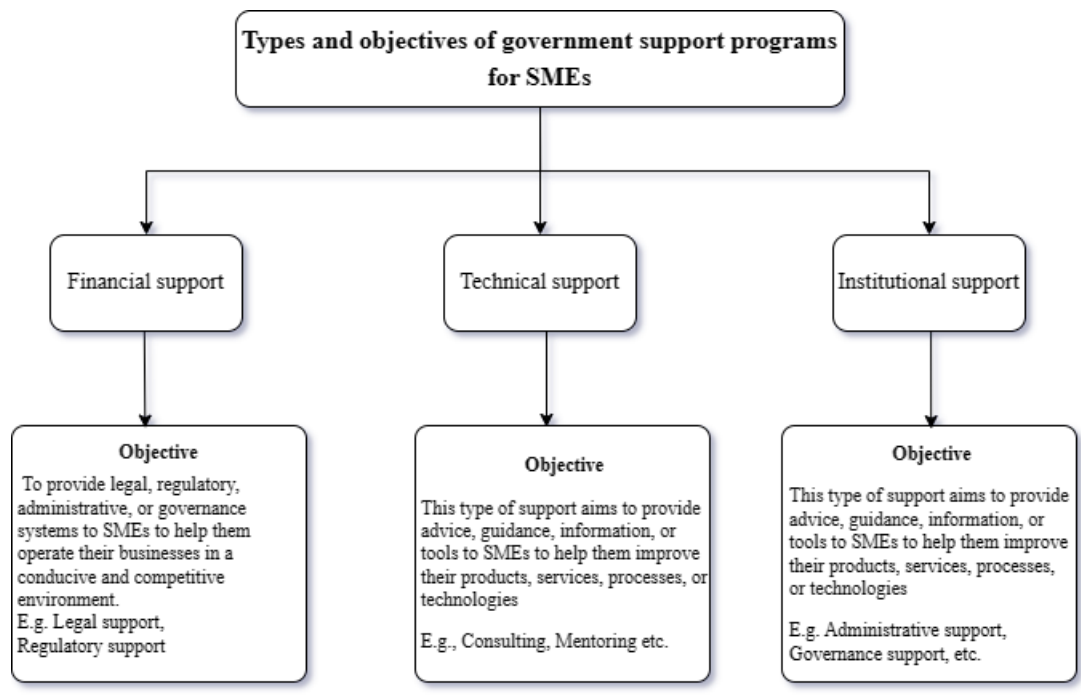
## **Introduction**

Small and medium-sized enterprises (SMEs) serve as the foundation of numerous economies across the globe. OECD countries account for about 99 percent of firms and 70 percent of all jobs, and high-income countries account for more than 50 percent of GDP (Lin et al., 2022). Nonetheless, small and medium-sized enterprises are also confronted with numerous interrelated obstacles in the post-pandemic era, including ensuring compliance with digitalization, reducing their carbon footprint, broadening their market reach, and securing the appropriate workforce. These challenges require SMEs to constantly adapt and innovate, but they may not have the resources, capabilities, or networks to do so effectively.

Hence, it is imperative that governments assume a pivotal role in facilitating the growth and development of small and medium-sized enterprises. Government programs can help people in many ways, like giving them money, making sure loans are safe, lowering taxes, giving advice, helping them become better at what they do, helping them find jobs, and giving them chances to meet new people. These programs can help SMEs overcome their barriers, make them more competitive, create jobs, and help them reach social and environmental goals. This paper examines the impact of government support programs on SME development and growth across various countries and sectors, and offers suggestions for enhancing their design and implementation.

## **Types and Objectives of Government Support Programs for SMEs**

There are various types and objectives of government support programs for SMEs depending on the nature and scope of the assistance provided.



Some common types and objectives are:

*Financial support:* This type of support aims to provide direct or indirect funding to SMEs to help them start-up, expand, upgrade, innovate, or export their businesses. Some examples are:

- Grants: These are non-repayable funds given to SMEs for specific purposes or projects.
- Loans: These are repayable funds given to SMEs with interest rates and repayment terms.
- Guarantees: These are assurances given by the government to cover part or all of the losses incurred by lenders if SMEs default on their loans.
- Equity: These are shares or stakes given by the government in exchange for funds or ownership in SMEs.
- Tax incentives: These are reductions or exemptions in taxes given to SMEs based on their income, expenses, investments, or activities.

*Technical support:* This type of support aims to provide advice, guidance, information, or tools to SMEs to help them improve their products, services, processes, or technologies. Some examples are:

- Consulting: These are professional services given by experts or consultants to SMEs on various aspects of their businesses, such as management, marketing, finance, or innovation.
- Mentoring: These are personal services given by mentors or coaches to SMEs on various aspects of their businesses, such as leadership, strategy, planning, or problem-solving.
- Training: These are educational services given by trainers or instructors to SMEs on various aspects of their businesses, such as skills, knowledge, attitudes, or behaviors.
- Information: These are data, facts, or insights given by sources or platforms to SMEs on various aspects of their businesses, such as markets, customers, competitors, or trends.
- Tools: These are devices, software, or methods given by providers or facilitators to SMEs on various aspects of their businesses, such as quality, productivity, efficiency, or innovation.

*Institutional support:* This type of support aims to provide legal, regulatory, administrative, or governance systems to SMEs to help them operate their businesses in a conducive and competitive environment. Some examples are:

- Legal support: These are laws, rules, or standards given by authorities or agencies to SMEs on various aspects of their businesses, such as contracts, intellectual property, dispute resolution, or compliance.
- Regulatory support: These are licenses, permits, or approvals given by authorities or agencies to SMEs on various aspects of their businesses, such as registration, certification, accreditation, or inspection.
- Administrative support: These are procedures, processes, or services given by authorities or agencies to SMEs on various aspects of their businesses, such as documentation, reporting, filing, or payment.

- Governance support: These are policies, strategies, or plans given by authorities or agencies to SMEs on various aspects of their businesses, such as vision, mission, objectives, or actions.

## **Benefits and Costs of Government Support for SMEs**

The benefits and costs of government support for SMEs can be evaluated from different perspectives, such as:

*Economic perspective:* This perspective focuses on the impact of government support on the economic performance and potential of SMEs and the economy as a whole. Some possible benefits are:

- Increased output: Government support can help SMEs produce more goods and services that can contribute to the GDP and growth of the economy.
- Increased employment: Government support can help SMEs create more jobs that can reduce unemployment and increase income and consumption in the economy.
- Increased innovation: Government support can help SMEs develop new or improved products, services, processes, or technologies that can enhance the productivity and competitiveness of the economy.
- Increased exports: Government support can help SMEs access new or larger markets abroad that can increase the foreign exchange and trade balance of the economy. Some possible costs are:
  - Fiscal burden: Government support can impose a financial burden on the public budget that can increase the deficit and debt of the economy.
  - Opportunity cost: Government support can divert resources from other productive or priority sectors or activities that can reduce the efficiency and effectiveness of the economy.
  - Crowding out: Government support can discourage or displace private investment or initiative that can reduce the dynamism and diversity of the economy.
  - Distortion: Government support can create unfair or inefficient incentives or outcomes that can affect the allocation and distribution of resources in the economy.

*Social perspective:* This perspective focuses on the impact of government support on the social welfare and development of SMEs and the society as a whole. Some possible benefits are:

- Poverty reduction: Government support can help SMEs increase their income and assets that can improve their living standards and reduce their vulnerability to poverty.
- Inclusion: Government support can help SMEs access more opportunities and resources that can enhance their participation and representation in society.
- Empowerment: Government support can help SMEs gain more skills, knowledge, confidence, or autonomy that can strengthen their agency and voice in society.

- Cohesion: Government support can help SMEs build more linkages, networks, or partnerships that can foster social capital and trust in society. Some possible costs are:
- Inequality: Government support can create or widen gaps or disparities among different groups or regions in society based on their access or benefit from government support.
- Dependency: Government support can create or reinforce reliance or expectations among SMEs on government assistance that can undermine their self-reliance or resilience in society.
- Corruption: Government support can create or facilitate opportunities or incentives for fraud, abuse, or misuse of public funds or resources by government officials or SMEs that can erode public trust and accountability in society.
- Conflict: Government support can create or exacerbate tensions or disputes among different stakeholders or interests in society based on their views or values on government support.

### **Theoretical Perspectives on the Impact of Government Support Programs on SME Development and Growth**

There are several theoretical perspectives that can be used to analyze the impact of government support programs on SME development and growth. These perspectives exhibit a range of assumptions, arguments, and implications regarding the role of government, the nature of small and medium-sized enterprises, and the causes and remedies for market failures.

The main perspectives on the impact of government support programs on SME development and growth are:

1. *Market failure perspective*: This perspective assumes that markets are efficient and optimal in allocating resources and opportunities among economic agents, but there are some market imperfections or failures that prevent SMEs from accessing or using the optimal level of resources or opportunities. For example, there may be information asymmetry, externalities, public goods, or coordination problems that affect the functioning of the market. Therefore, the role of government is to correct these market failures by providing subsidies, grants, loans, guarantees, tax incentives, or regulations that can improve the allocation and efficiency of resources for SMEs. This perspective is based on the neoclassical economic theory that emphasizes the rationality, homogeneity, and competitiveness of economic agents, and the equilibrium, stability, and Pareto optimality of markets.
  - Strengths: This perspective provides a clear and consistent framework for identifying and measuring market failures and their impact on SMEs. It also provides a rationale and justification for government intervention in markets to enhance social welfare and efficiency.
  - Weaknesses: This perspective neglects or oversimplifies the complexity and diversity of SMEs and their environments. It also assumes that government intervention is costless and effective, without considering the potential problems or limitations of

government policies or programs, such as fiscal burden, opportunity cost, crowding out, distortion, or corruption.

- Insights and implications: This perspective suggests that government support programs for SMEs should be designed and implemented based on a careful assessment of the nature and extent of market failures affecting SMEs in different sectors or regions. It also suggests that government support programs for SMEs should be evaluated based on their impact on social welfare and efficiency, using cost-benefit analysis or other quantitative methods.
2. *Institutional failure perspective*: This perspective assumes that institutions are important and influential in shaping the behavior and performance of economic agents, but there are some institutional weaknesses or failures that constrain the development and growth of SMEs. For example, there may be inadequate or inappropriate legal, regulatory, administrative, or governance systems that create barriers or uncertainties for SMEs. Therefore, the role of government is to reform these institutional failures by providing clear and consistent rules, standards, procedures, or enforcement mechanisms that can reduce the transaction costs and risks for SMEs. This perspective is based on the new institutional economic theory that emphasizes the role of institutions in reducing uncertainty, increasing information, facilitating coordination, and enforcing contracts among economic agents.
- Strengths: This perspective recognizes and addresses the institutional factors that affect the functioning and performance of markets and SMEs. It also acknowledges and incorporates the heterogeneity and diversity of SMEs and their environments.
  - Weaknesses: This perspective underestimates or ignores the dynamic changes and challenges that require SMEs to adapt and innovate continuously. It also assumes that institutional reform is feasible and desirable, without considering the potential resistance or trade-offs of changing existing institutions or creating new ones.
  - Insights and implications: This perspective suggests that government support programs for SMEs should be designed and implemented based on a comprehensive understanding of the institutional environment affecting SMEs in different sectors or regions. It also suggests that government support programs for SMEs should be evaluated based on their impact on transaction costs and risks for SMEs, using qualitative or mixed methods.
3. *System failure perspective*: This perspective assumes that there are some systemic gaps or failures that limit the performance and potential of SMEs. For example, there may be insufficient or ineffective linkages or interactions among different actors or components of the innovation system, such as firms, universities, research institutes, intermediaries, or networks. Therefore, the role of government is to address these system failures by providing platforms, programs, policies, or partnerships that can enhance the collaboration and coordination among different stakeholders in the innovation system.

This perspective is based on the evolutionary economic theory that emphasizes the role of innovation in driving economic change, growth, and competitiveness.

- Strengths: This perspective captures and reflects the complexity and dynamics of innovation processes and outcomes for SMEs and the economy as a whole. It also considers and integrates the multiple dimensions and levels of analysis involved in innovation systems, such as technological, organizational, institutional, and social factors.
  - Weaknesses: This perspective lacks or provides a vague definition and measurement of system failures and their impact on SMEs. It also assumes that government intervention is necessary and beneficial, without considering the potential problems or limitations of government policies or programs, such as coordination failures, lock-in effects, or rent-seeking behaviors.
  - Insights and implications: This perspective suggests that government support programs for SMEs should be designed and implemented based on a holistic and systemic understanding of the innovation environment affecting SMEs in different sectors or regions. It also suggests that government support programs for SMEs should be evaluated based on their impact on innovation performance and potential for SMEs and the economy as a whole, using network analysis or other qualitative methods.
4. *Dynamic capabilities perspective:* This perspective assumes that there are some dynamic changes or challenges that require SMEs to adapt and innovate continuously. For example, there may be technological disruptions, market shifts, environmental pressures, or social demands that affect the competitiveness and sustainability of SMEs. Therefore, the role of government is to support these dynamic capabilities by providing training, mentoring, consulting, or coaching services that can improve the skills, knowledge, attitudes, or behaviors of SMEs. This perspective is based on the resource-based view of the firm that emphasizes the role of internal resources and capabilities in creating and sustaining competitive advantage for firms.
- Strengths: This perspective focuses and builds on the strengths and opportunities of SMEs and their environments. It also recognizes and supports the learning and innovation processes and outcomes for SMEs and their stakeholders.
  - Weaknesses: This perspective overestimates or assumes the availability and accessibility of external resources and opportunities for SMEs. It also neglects or downplays the constraints and barriers that SMEs face in developing and deploying their dynamic capabilities, such as resource scarcity, market uncertainty, institutional rigidity, or cultural inertia.
  - Insights and implications: This perspective suggests that government support programs for SMEs should be designed and implemented based on a customized and flexible approach that matches the needs and aspirations of SMEs in different sectors or regions. It also suggests that government support programs for SMEs

should be evaluated based on their impact on learning and innovation processes and outcomes for SMEs and their stakeholders, using action research or other participatory methods.

## **Literature Review**

Mallett and Wapshott (2015) did a study to see if a program for small business owners in cities in West Africa helped them. They did a randomized controlled trial. The program offered training in accounting, financial management, marketing, and business planning. The study analyzed survey data from 2,000 microentrepreneurs who applied for the program and were randomly assigned to treatment or control groups. The study measured the outcomes of sales, profits, capital stock, and employment after two years of receiving the training. The study found that the training program had a positive effect on business practices and knowledge, but it didn't have a big effect on business performance or expansion.

Lin et al. (2022) employed a quasi-experimental design to assess the impact of the Small Business Innovation Research (SBIR) program in the United States. The SBIR program provides grants to small businesses for research and development projects with commercial potential. The study used patent data from 1,500 firms that applied for the SBIR program and were either awarded or rejected based on a scoring system. The study measured the outcomes of patenting activity, citations, and sales after five years of receiving or not receiving the grant. Despite its positive and significant impact on patenting activity and citations, the SBIR program had no impact on sales.

Disi (2021) used survey data from 1,200 SMEs in Korea to examine the impact of government R&D subsidies on innovation performance. The research employed propensity score matching to match subsidized SMEs with non-subsidized SMEs based on their distinct characteristics, including size, age, industry, location, and R&D intensity. The study measured the outcomes of innovation output (such as new products or processes) and innovation input (such as R&D expenditure or personnel) after one year of receiving or not receiving the subsidy. The study found that government R&D subsidies had a positive and significant impact on innovation output, but no impact on innovation input.

Peter et al. (2018) used panel data from 2,500 SMEs in Germany to examine the impact of public R&D grants on private R&D investment. The study used difference-in-differences to compare subsidized SMEs with non-subsidized SMEs before and after receiving the grant. The study measured the outcomes of R&D expenditure and R&D intensity after three years of receiving or not receiving the grant. The study revealed that public research and development grants had a favorable and significant impact on private research and development investment, however, only for small and medium-sized enterprises that were financially constrained or had low profitability.

Musabayana et al. (2022) conducted a meta-analysis of 52 empirical studies on the impact of public subsidies on private R&D investment in different countries and sectors. The study used a meta-regression analysis to examine how different factors such as type of subsidy, type of firm, type of data, type of method, type of indicator, type of publication, and type of country affect the estimated effect size and direction of the impact. The study found that public subsidies had a positive and significant



impact on private R&D investment on average, but the impact varied depending on the factors mentioned above.

(Piza et al., 2016) conducted a systematic review of 40 empirical studies on the impact of business support services on SME performance in low- and middle-income countries. The study employed a narrative synthesis and a vote-counting analysis to examine the impact of diverse business support services, including but not limited to training, consulting, mentoring, networking, and information, on various SME performance indicators, including but not limited to sales, profits, employment, productivity, and innovation. The study found that business support services had a positive and significant impact on SME performance on average, but the impact varied depending on the type of service and the type of indicator.

In short, government programs can help small businesses grow and develop, but they don't always work the same way for different types of support, different sizes of small businesses, different ways of measuring how well they do their job, or different ways of getting information. Depending on the objectives, design, implementation, and evaluation of the programs, as well as the characteristics, behaviors, and environments of SMEs, government support programs can have direct or indirect effects on SME development and growth. Government programs can help small businesses grow and succeed by working with other things like their own resources, competition from outside, laws and rules, ways to innovate, and what people think and believe.

### **Discussion & Analysis**

In this study, a research hypothesis was used to examine the role of government support programs in fostering small business success. The survey respondents comprised of 68 small and medium-sized enterprises that were geographically unique and voluntarily provided responses.

According to the findings of this survey, most small businesses have benefited from government support programs in their development and growth. The majority of the respondents, 52 SMEs (76.5%) stated that government assistance programs have aided their growth, whereas 6 SMEs (8.8%) stated that they have not. The remaining respondents 10 SMEs (14.7%) were neutral, meaning that they did not have a clear opinion or experience on the impact of government support programs.

This indicates that government support programs are generally perceived as effective and helpful by small businesses, and that they may have positive effects on their performance, productivity, innovation, and resilience. However, the survey also reveals that there is room for improvement, as some small businesses may not be aware of, eligible for, or satisfied with the available programs. Therefore, it is important to understand the reasons behind the different responses, and to identify the gaps and challenges that small businesses face in accessing and benefiting from government support programs.

The findings of this survey are consistent with some of the existing research on the impact of government support programs on small business development and growth. For example, a study by the Sophiko Skhirtladze et al. (2022) found that public subsidies for micro and small businesses in Georgia had positive effects on their survival, job creation, capital investment, and revenues. Similarly, a report by Lin et al. (2022) highlighted the benefits of national champion programs that provide financial and non-financial support to SMEs with high growth potential in various countries. These

programs help SMEs build capabilities, access markets, and network with experts and peers, leading to improved performance and competitiveness.

However, the findings of this survey also indicate some of the limitations and challenges of government support programs for small businesses. For instance, some small businesses may not be aware of the available programs or how to apply for them, or they may face eligibility criteria or bureaucratic hurdles that prevent them from accessing them. Moreover, some small businesses may not be satisfied with the quality or relevance of the support they receive, or they may face difficulties in sustaining their growth after the support ends. Therefore, it is important to understand the needs and preferences of different groups of small businesses and tailor the solutions to their specific contexts and challenges. For example, a report by Global government Forum (2020) suggested that governments should do more to help small businesses with market access and management skills, as well as to address the barriers faced by women-owned and minority-owned businesses. Additionally, a report by the U.S. Small Business Administration (2021) emphasized the importance of making equity a priority in delivering support to small businesses, especially those owned by underserved communities such as women, people of color, veterans, and rural and low-income communities.

This study found that government programs help small businesses grow and develop, but there are still areas for improvement and more research needed. Government support programs should be designed and implemented in a way that meets the diverse and evolving needs of small businesses, leverages the potential of digitalization and innovation, and promotes social and environmental goals.

## **Conclusion**

This paper provides a comprehensive and critical review of the literature regarding the impact of government support programs on SME development and growth. The study encompasses both theoretical and empirical investigations that have scrutinized the rationale, design, implementation, evaluation, and outcomes of various forms of government support for small and medium-sized enterprises. It has also discussed the main challenges and limitations of the existing literature, as well as the implications and recommendations for future research and practice.

Government support programs have the potential to have a favorable impact on SME development and growth. However, the impact is not uniform or consistent across diverse types or levels of support, diverse types or sizes of SMEs, diverse types or measures of performance, and diverse sources of data.

Depending on the objectives, design, implementation, and evaluation of the programs, as well as the characteristics, behaviors, and environments of SMEs, government support programs can have direct or indirect effects on SME development and growth.

Government assistance programs can exhibit complementary or substitutive, additive or multiplicative, synergistic or antagonistic interactions with other factors that impact SME development and growth, such as internal resources and capabilities, external opportunities and threats, market conditions and competition, institutional frameworks and regulations, innovation systems and networks, or social norms and values.

There is a pressing need for more rigorous and robust empirical studies that can establish causal correlations between government support programs and SME outcomes, utilizing experimental

or quasi-experimental designs, longitudinal or panel data, multiple or composite indicators, and advanced or innovative methodologies.

We need more detailed studies that show how innovation works for small and medium-sized businesses and the economy as a whole. We can use different ways of looking at things, like looking at how things change over time, analyzing how things are connected, comparing different examples, or looking at how things compare.

Studies that are more relevant and contextualized are needed to address and incorporate the heterogeneity and diversity of SMEs and their environments, using sectoral or regional approaches.

### **Recommendations**

The design and implementation of government support programs for SMEs should be based on a careful assessment of the nature and extent of market failures, institutional failures, system failures, or dynamic challenges affecting SMEs in different sectors or regions.

Government support programs for small and medium enterprises ought to be assessed based on their impact on social welfare and efficiency, transaction costs and risks, innovation performance and potential, or learning and innovation processes and outcomes for SMEs and the economy as a whole, by employing cost-benefit analysis or other quantitative methods, qualitative or mixed methods, network analysis or other qualitative methods, or action research or other participatory methods.

In order to ensure coherence, consistency, and complementarity among different objectives, instruments, and actors, government support programs for SMEs should be coordinated and aligned with other policies and programs that influence SME development and growth.

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