The Nature and Effect of Government Policies and Financial Institutions' Structure on The Growth and Development of Startups: An Introduction

MUNASHE NAPHTALI MUPA[1], EBENEZER EKWO PAMFUL[2], JOHNPAUL CHUKWUDI NNAJI[3], JOANNA ADU-BOAHEN[4]

[1, 2, 3, 4] Hult International Business School- Boston, Cambridge, Massachusetts, USA

Abstract- This research examines and compares the government policies and the structure of financial institutions on the expansion and maturation of small, medium, and micro enterprises (SMMEs) and startups in both developed and developing economies. The purpose of this study is to compare the effects of these variables in a variety of economic settings. Data were collected and analyzed using a qualitative approach consisting of secondary research to shed light on the role that policies and financial institutions play in encouraging entrepreneurial growth. The outcomes emphasize the need for government policies that promote innovation, open access to capital and other resources, reduce red tape in the regulatory process and promote public-private partnerships. Financial ecosystems that provide a variety of financing choices and specialized services for startups and small, medium, and micro enterprises (SMMEs) are prevalent in developed economies like the United States, Australia, China, and Sweden (Hutschenreiter et al., 2019). Nigeria, Rwanda, South Africa, and Zimbabwe are just a few examples of developing economies that confront difficulties such as poor policy implementation, weak regulatory frameworks, and a lack of access to capital and enabling financial institutions (Wang, 2016). Furthermore, recommendations based on the objectives of the research include refining policies, developing specialized financial products and services, implementing initiatives for capacity-building, and enhancing collaboration between policymakers, financial institutions, and entrepreneurs. The purpose of these recommendations is to foster sustainable economic growth, innovation, and employment creation by fostering an environment conducive to startups and small, medium, and micro enterprises (SMMEs). While this study adds to the existing body of information, it is important to note the constraints it faces, such as its short duration and small sample size. Future research may look at a broader range of sectors and additional variables to better understand the complex interaction between government policies, financial institutions, and the expansion of startups and SMMEs.

I. INTRODUCTION

Most economies, especially those of emerging countries, rely heavily on the contributions of small and medium-sized businesses (SMEs) (Gamage et al., 2020). SMEs account for most of the world's businesses and make considerable contributions to global employment and economic growth (Pedraza, 2021). Around the world, they make up more than half of all workers and 90% of all businesses (United Nations, 2022). In developing countries, the official contribution of SMEs to GDP may approach 40% (Ndiaye et al., 2018). The development of small and medium-sized firms (SMEs) is a major goal for many governments throughout the world because, according to World Bank projections, 600 million jobs will be required by 2030 to absorb the rising global labor force (World Bank, 2021). Seven out of every ten new jobs created in developing economies are in SMEs (World Bank, 2021). Access to capital, however, is a major stumbling block for SMEs and is one of the reasons given for why SMEs in underdeveloped countries and emerging markets have not expanded more (Rao et al., 2023).

1.1 Background of study

SMEs account for the vast majority of the world's businesses and make considerable contributions to global employment and economic growth. They are responsible for more than half of all jobs and 90% of all businesses (World Bank, 2021). Startups and other small, medium, and micro enterprises (SMMEs) are vital to economic growth, technological advancement and job creation in both advanced and emerging nations. These business ventures broaden the economy's economic base, increase competitiveness, and foster an environment that encourages innovation and entrepreneurship (Endris & Kassegn, 2022).

However, the growth and development of startups and SMMEs are significantly influenced by governmental policies and the structure of financial institutions. Entrepreneurship can be encouraged, and new enterprises can be created through the implementation of government policies, including regulatory frameworks, tax incentives, access to finance, and support programs (Tende, 2014).

In order to foster an environment conducive to the development of startups and SMMEs, it is essential to understand the function of government policies and the structure of financial institutions. This research is a comparative analysis of the nature and impact of government policies and the structure of financial institutions on the development of SMMEs in developed and emerging economies.

1.2 Problem statement

According to Jin and Zhang (2019), small and medium-sized businesses often have a more difficult time obtaining loans and paying higher interest rates as a result of their lack of collateral. There is a world of difference between the financial issues faced by firms that are already established and those that are just starting out, as well as those that are experiencing slow or quick growth. Access to venture capital for startups and small and medium-sized firms (SMEs) has greatly improved as a result of the growth of private equity markets, including informal markets; nonetheless, there are still considerable disparities between countries (Blancher et al., 2019). Regulatory constraints are also a significant hurdle for small and medium-sized firms (SMEs), who are often not well-equipped to deal with issues that are caused by regulations (Organization for Economic Cooperation and Development [OECD], 2017).

This research aims to investigate the unequal effects of governmental policies and the institutional structures of financial institutions on the expansion and development of new businesses and SMMEs in developed and developing countries. In both developed and emerging economies, new businesses, particularly startups and SMMEs, play an essential part in driving economic development and employment (OECD, 2017). However, the paths of their growth and the rates at which they are successful can differ significantly (Surya et al., 2021).

1.3 Research aim

The purpose of this study is to compare the policies and structures of government and financial institutions' effect on the expansion and development of SMMEs in both developed and developing economies. This study examines how well-intentioned public policies and the support of financial institutions may encourage the development of new businesses. The research helps to improve the climate for startups and SMMEs by analyzing the equivalents, differences, and contextual variations between economies and providing insights and recommendations to policymakers and stakeholders. The study's ultimate goal was to foster long-term economic growth and new ideas by shedding light on the elements that affect entrepreneurial ecosystems.

1.4 Research objectives

1. To compare and assess the structure and effectiveness of government policies in promoting the growth and development of startups and SMMEs between developed and developing economies.
2. To analyze and compare the nature and influence of financial institutions' structure on startup and SMME growth in developed and developing economies.
3. To identify the key challenges and opportunities faced by startups and SMMEs in developed and developing economies, considering the influence of government policies and financial institutions' structure.
4. To provide insights and recommendations for policymakers, government agencies, and financial institutions in both developed and developing economies.

1.5 Significance of the study

This study's significance is in the comparative technique it employs, which helps close a knowledge gap, provides policymakers and financial institutions with ideas that can be put into action, and contributes to the development of entrepreneurial ecosystems. Its ultimate objective is to foster long-term, sustainable economic growth and prosperity by supporting the expansion and success of SMEs and startup businesses.

1.6 Scope

The scope of this research is to compare the impact of government policies and the structure of financial institutions on the growth and development of startups and SMMEs in developed and developing economies. The purpose of the study is to evaluate the impact of the specific policies, initiatives, and regulatory frameworks implemented in each context on the development of startups and SMMEs. It also entails analyzing the various structures, services, and support mechanisms offered by financial institutions in each context and evaluating their contribution to facilitating access to financing and financial resources.

1.7 Limitations of the study

While the study strives to provide useful insights and recommendations, it is essential to identify certain limitations that emerged during the course of the research. These include the following:

Generalizability: The results and interpretations of the study may not hold true for all developed and emerging economies. Government policies and the organization of financial institutions can be affected in many ways by economic conditions, cultural contexts, and institutional frameworks. As a result, the study's findings are evaluated within the contexts under investigation.

Data availability and reliability: It can be difficult to obtain exhaustive and credible information on government policies, financial institutions, and startup/SMME growth indicators from various nations. Availability, consistency, and quality of data may vary between regions, limiting the depth and scope of the comparative analysis.

Causality and interpretation: Although this study seeks to establish associations between government policies, the structure of financial institutions, and the growth of startups and SMEs, establishing causality can be difficult. Other factors beyond the scope of this study, including cultural factors, market conditions, and entrepreneurial abilities, may also influence the outcomes of startups and SMMEs.

Access to information: Due to legal or confidentiality restrictions, access to information on specific policies, financial structures, and startup/SMB data may be limited or restricted. It may be necessary to rely on publicly accessible data, self-reported surveys, or aggregated data, which may have limitations in terms of accuracy or completeness.

Time constraints: An extensive amount of time and resources is required to conduct a comparative analysis of multiple developed and developing economies. Given the scope of the research, it is necessary to allocate ample time for data acquisition, analysis, and interpretation.

Despite these limitations, the intent of this research is to offer useful insights into the ways in which the policies of governments and the organizational structures of financial institutions influence the growth of startup businesses and SMMEs.

1.8 Research questions

1. How do government policies in developed economies facilitate or hinder the growth and development of startups and SMMEs?
2. How do government policies in developing economies impact the growth and development of startups and SMMEs?
3. How does the structure of financial institutions in developed economies influence the access to financing, funding options and financial support available to startups and SMMEs?
4. How does the structure of financial institutions in developing economies affect the accessibility and availability of financial resources for startups and SMMEs?
5. What are the key challenges and opportunities faced by startups and SMMEs in developed and developing economies, considering the influence of government policies and financial institutions' structure?
6. What are the differences and similarities in the effectiveness of government policies and the influence of financial institutions on startup and SMME growth between developed and developing economies?
7. What are the best practices and successful approaches in government policies and financial

structures that contribute to the growth and development of startups and SMMEs in both developed and developing economies?

8. What are the practical recommendations for policymakers, government agencies, and financial institutions to foster an enabling environment for startups and SMMEs?

OVERVIEW OF STARTUPS AND SMMES

SMEs and innovative startups have a lot in common, including their informal structures and relationships, which make them highly adaptable to changing circumstances. As a result, many academics fail to differentiate between the two (Cavallo et al., 2021).

According to Raghu (2017), startups are new businesses that initiate with the intention of exploring the market with a novel product or service, frequently through the use of technology. These businesses are bolstered by innovative concepts and merchandize. Some startups fail because their founders are incapable of putting their concepts into action. SMEs, on the other hand, typically target their local communities with established businesses marketing established products and services.

In developing nations, SMEs are an integral part of the economy and play a crucial role in fostering development, innovation, and prosperity (Sagar et al., 2023). Nearly half of SMEs in developing countries identify access to finance as a significant constraint (Nyanzu & Quaidoo, 2018). Unfortunately, they are severely constrained in their ability to access the capital they need to grow and expand (Wang, 2016). Even more so, in the wake of the most recent financial crisis, they may be unable to obtain financing from local banks or experience extremely unfavorable lending terms (CorrederaCatalán et al., 2021). According to Risteska et al. (2014), the dearth of lender information and regulatory support hinders the ability of banks in developing countries to engage in SME lending. Overall, the lack of a well-functioning SME lending market hinders the development of SMEs, which has negative effects on innovation, economic growth, and macroeconomic resilience in developing nations (Ndiaye et al., 2018).

Nonetheless, SMEs play a crucial role in national economies across the globe, generating employment and value addition and contributing to innovation (OECD, 2017). The SME sector is essential to achieving environmental sustainability and inclusive growth. However, these contributions differ considerably across firms, countries, and industries (OECD, 2017). Better access to global markets and knowledge networks can bolster SME contributions, but trade and investment barriers undermine SME participation, and inadequate physical and ICT infrastructure prevents SMEs from operating efficiently and gaining competitive access to international markets (OECD, 2017).

2.1 The SME sector in the global economy

The significance of SMES to global economies is well-documented in the 2017 OECD report. SMEs (companies with 200 or fewer employees) constitute the largest sector of each global economy; consequently, governments around the world are increasing their efforts to promote and support SME expansion as part of their national development strategies (OECD, 2017). Micro and small businesses make up the majority of firms in most nations, accounting for around 90%, and similarly constitute the vast majority of employment (World Bank, 2021). Despite dominating the market in sheer quantity, SMEs play a significant role as pivotal contributors to employment, economic development, and innovation. (OECD, 2017). According to the World Trade Organization, SMEs account for more than 90% of the business population, 60% to 70% of employment (see Table 1 below), and 55% of the gross domestic product in developed economies (Murat & Algan, 2019), however, formal SMEs contribute up to 40% of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included (World Bank, 2021). Although the percentage contribution may be slightly lower, in emerging countries, the impact of SMEs is still significant, considering the stage of development and the size of the overall economy. SMEs often serve as the backbone of emerging economies, especially in sectors like agriculture, manufacturing, and services. The growth of SMEs in these economies is instrumental in poverty reduction, wealth distribution, and overall socioeconomic development (Orji et al., 2022).

Table 1: Medium, small and micro-sized enterprises as employment levels (EC)

Enterprise Category	Persons employed	Turnover or	Balance sheet total
Medium	<250	≤ €50 million	≤ €43 million
Small	<50	≤ €10 million	≤ €10 million
Micro	<10	≤ €2 million	≤ €2 million

Source: Murat & Algan, 2019

2.2 Review of relevant literature

According to the findings of Kulathunga et al. (2020), the level of techno-financial literacy is a significant factor in determining the level of success that small and medium-sized businesses experience. Dosumu et al. (2020) exploration of the influence of government policies on the development of SMEs in developing countries through the consideration of the case of Nigeria provided additional support for this opinion. They emphasized that Nigeria's SMEs have not profited from the policies that have been developed by the government. The study elucidates innovative, unique insights into their respective contexts, particularly pertaining to the many procedures and interactions involved in the decision-making process of lenders. The findings of the research are in line with those reported by other experts in the field, and they confirm that the policies and support of the Nigerian government in the areas of technology, infrastructure, and financing have a significant impact on the performance of SMEs in Nigeria.

However, the purpose of Najib et al. (2021) study was to evaluate the impact of government support on the continued operation of SME restaurants in Indonesia. In their study, the researchers investigated the effects of government assistance on the innovative practices of small and medium-sized eateries as well as the effects of entrepreneurial self-efficacy on innovative practices. The findings indicate that governmental assistance has a beneficial effect on the continued existence of businesses through fostering marketing and process innovation. However, they came to the conclusion that the existence of SMEs is dependent on innovations in marketing and processes, as well as on the confidence of entrepreneurs in their own abilities.

The research of Dosumu et al. (2020) was supported by Rao et al. (2023), who carried out a comprehensive literature evaluation to give a one-stop, cutting-edge understanding of the existing literature on SME finance. The review is comprehensive since it investigates the many different types of SME financing research. They went on to emphasize that limited access to funding is one of the most serious challenges that SMEs confront.

2.3 Positive government policies

In developed economies, the policies of the government play an essential part in promoting the creation and development of new businesses of all sizes, from startups to SMMEs (Surya et al., 2021). These policies strive to establish a climate that is conducive to entrepreneurship and innovation by removing barriers, providing targeted support, and providing assistance overall. Governments frequently establish specialized programs to assist startups and SMMEs by providing financial aid, mentoring, and access to resources. These programs may include grants, subsidies, incubation, and acceleration to foster early-stage businesses (Lamoureux et al., 2019).

Access to finance: Governments facilitate access to finance for startups and SMMEs through various initiatives. These include government-backed loan programs, guarantees, venture capital funds, angel investor networks, and crowdfunding platforms. Policies may focus on easing collateral requirements, reducing interest rates, and enhancing credit availability for entrepreneurial ventures (World Bank Group, 2021).

Regulatory framework: Developed economies typically have well-defined regulatory frameworks to streamline business establishment and operation processes. These policies aim to reduce bureaucratic hurdles, simplify licensing procedures, and provide legal protections. Governments may also introduce flexible labor regulations to encourage employment and reduce administrative burdens (Graafland & Bovenberg, 2020).

Innovation and technology initiatives: Governments emphasize the importance of innovation and technology-driven entrepreneurship. Policies may focus on supporting emerging technologies, promoting clusters and innovation hubs, fostering university-industry collaborations, and facilitating technology transfer and commercialization (Göksidan et al., 2018).

International trade and market access: Governments facilitate internationalization by promoting export opportunities for startups and SMMEs. This can involve trade missions, export assistance programs, and access to international networks and markets. Free trade agreements and preferential trade arrangements may also create favorable conditions for international business expansion (Singh et al., 2023).

Support for Social and Sustainable Enterprises: Policies often include measures to support social enterprises, environmentally friendly initiatives, and sustainable business practices. Governments may provide grants, tax incentives, and certifications for enterprises focused on social and environmental impact (Mukonza, 2020).

2.3.1 The effects of government policy on the performance of business organizations

Every nation's currently implemented policies have the ability to have an impact, both directly and indirectly, on the operations and results of every firm in that nation. These kinds of effects are able to be rationalized from a technical standpoint. Some of the government policies that can have direct or indirect effects on businesses include taxation, subsidies, interest rate differentials, and currency exchange rates.

Taxation

The approach that the government takes to the collection of taxes is a factor that can affect how well an enterprise does financially. By way of illustration, the introduction of high taxes on particular imported commodities will, in the end, stimulate domestic enterprises to create more of these goods. On the other hand, if the main resources that are necessary for local production are subject to high taxes, local business owners may be dissuaded from initiating or continuing production. Any rise in the tax rate paid by corporations will have the same effect as an increase in the overall cost of production. It is possible that in order for business owners to cover these costs, they will be required to boost the price of their final products (Tee et al., 2016). Value-added taxes and environmental levies are two examples of other types of taxes that have similar impacts. The administration of the VAT system may entail enormous costs for enterprises despite the fact that VATs are levied specifically for ultimate consumers (Alabi et al., 2019).

Interest rate

The financial policy of the government and the interest rates at banks can also have a substantial impact on the state of the economy and the general conditions for doing business. If the interest rate that the bank charges for loans is extremely high, for instance, companies are going to be discouraged from taking out loans from the financial institution. Unfortunately, as a result of this tendency, the rate of investments will significantly decrease, as enterprises will not have adequate finances to make additional investments (Kisseih, 2017). It is important to note that the government bears the primary responsibility for developing the rules and regulations that govern the operations of businesses within the country, such regulations are not always consistent and may be subject to change from time to time, which necessitates that business owners adapt the way in which they run their businesses (Ayalew & Xianzhi, 2019).

Subsidy

Government subsidies are one of the most direct tools used by the government to intervene in the economy of enterprises. Government subsidies can help enterprises alleviate financing constraints and send positive signals to the outside world to stimulate the development of enterprise innovation activities. Therefore, government subsidies have a significant positive impact on the innovation performance of enterprises (Fan, 2022).

Currency exchange rate

The exchange rate plays an increasingly important role in any economy, as it directly affects the domestic price level, the profitability of traded products and services, resource allocation, and investment decisions (Ahmed, 2016). The exchange rate is central to any meaningful economic stabilization program (Edokobi et al., 2020). SMEs engaged in international trade will be directly impacted by exchange rate fluctuations. A weaker domestic currency can raise the price of imported products and raw materials, thereby reducing profit margins. Inversely, a stronger domestic currency can increase the cost of exports, potentially affecting the international competitiveness of SMEs (Badshah & Borgersen, 2020).

Therefore, government policies can have a significant impact on the operations as well as the performance of commercial enterprises. In each and every nation, the contribution that the government makes to the economy of the country continues to be the single most important component of the economic policy.

2.3.2 Government policies affecting SMEs in the US

SMEs are extremely important to the economy of the United States. According to the OECD (2015), SMEs are responsible for over half of all jobs in the private sector, provide 43% of all private sector payroll, generate 64% of all net new jobs in the private sector, and produce 46% of all private sector output.

The United States Small Business Administration (SBA) is an autonomous agency of the federal government that was established in 1953 with the goals of assisting, counseling, and protecting the interests of small business concerns, preserving free and competitive enterprise, and maintaining and strengthening the general economy of the nation. In spite of the fact that the SBA has expanded and changed over the course of its history, the organization’s primary objective has remained the same (Grants.gov, 2020).

Despite the fact that financial markets for SMEs in the United States are reasonably well developed, market and regulatory hindrances still exist. According to the OECD (2015), a significant barrier to the development of market-based financing for SMEs is the absence of comparable and timely credit information. Through the utilization of its company credit score methodology, the SBA has demonstrated improvement in this particular domain. Through the so-called Lender Portal, which centralizes the data collected, the SBA will make the credit risk assessment that it employs to pre-screen loans that it guarantees available to all of its lending partners for loans of USD 350 000 or less (Galli-Debicella, 2020). In addition, regulatory initiatives such as the Wall Street Reform and Consumer Protection Act have been established, both of which require the supply of thorough and harmonized loan-level information (Grants.gov, 2020). Policies and structures in the US for small businesses include:

State small business credit initiative

The State Small Business Credit Initiative (SSBCI) was initially founded in 2010 in the United States and has since achieved a great deal of success in providing access to financing for small businesses and entrepreneurs who are usually underrepresented. It is anticipated that the new SSBCI will catalyze up to $10 of private investment for every $1 of SSBCI capital support, so magnifying the impacts of this funding and providing proprietors of small businesses with the tools they require to expand and thrive in a manner that is both sustainable and environmentally friendly. According to the U.S. Department of the Treasury (2023), SSBCI provides financial assistance to state programs, which in turn utilize the money to provide financial assistance in the form of loans and investments to small businesses and small manufacturers that are creditworthy but do not have access to the capital that they require in order to grow and generate jobs.

Small business lending fund

The Small Company Lending Fund (SBLF) is a specialized fund that was established by the Small Business Jobs Act of 2010 (the Act) in the United States in order to boost small company lending. The SBLF is designed to give money to qualifying community banks and community development loan funds (CDLFs) in order to fulfill its mission. The mission of the SBLF is to facilitate collaboration between small enterprises and Main Street banks, which will, in turn, lead to the creation of new jobs and increased economic activity in communities all around the United States. The purpose of the SBLF, which provided cash to qualified community banks and CDLFs, was to encourage these types of institutions and Main Street enterprises to collaborate on economic expansion and the creation of new jobs. (U.S. Department of the Treasury, 2023) The Treasury Department invested more than $4.0 billion in 332 different financial institutions as part of the SBLF program, which was designed to encourage increased lending to small businesses.

The Office of Small and Disadvantaged Business Utilization

The Office of Small and Disadvantaged Business Utilization provides assistance, counseling, and advice to small businesses in the United States (small businesses, small disadvantaged businesses, women-owned small businesses, economically disadvantaged women-owned small businesses, veteran-owned small businesses, service-disabled veteran-owned small businesses, and small businesses located in historically underutilized business zones) on the procedures for contracting with the Treasury (U.S. Department of the Treasury, 2023)

2.3.3 Government policies affecting SMEs in Australia

There are around 10.7 million individuals working in the private non-financial sector; of those persons, approximately 44%t are employed by small firms, and 23% are employed by medium businesses (Australian Chamber of Commerce and Industry, 2023).

In Australia, SME policies are a combined federal and regional responsibility and they are specified as part of a multi-annual action plan. The ministry that was responsible for small and medium-sized businesses was transferred to the Treasury in 2021 at federal level. This was done to guarantee that the interests of small businesses are considered comprehensively and represented through specific support in the federal budget (Bank & Lewis, 2021). The phrase "New South Wales Small Business Strategy" (2017) is an example of a regional SME strategy that includes hands-on support measures for small businesses. Regional SME strategies frequently come before national SME strategies. Since 2016, the Australian Small Business and Family Enterprise Ombudsman has served as an advocate for SMEs and has played an important role in the development of federal policies that are beneficial to SMEs (OECD, 2021).

2.3.4Government policies affecting SMEs in China

In an effort to stimulate the economy, province and municipal governments began enacting a variety of economic support policies for enterprises around the beginning of February (Chen et al., 2022). These policies included but were not limited to, direct subsidies, improved access to finance, postponement and exemption of payment of expenses, and employment protection.

In China, there were over 140 million SMEs and self-employed in 2020. Overall, SMEs contribute over 60% of the total GDP, 50% of tax income, 79% of job creation and 68% of exports. In 2020, there were about 2.52 million new companies and the number of newly registered enterprises reached 22 000 per day (Wang, 2022).

In 2020, interest rates for small and medium-sized businesses were 4.84% and rates for large businesses were 5.06%, both decreases of 0.02 and 0.05 percentage points from 2019. In 2019 and 2020, the interest rate spread between small and medium-sized businesses and large corporations decreased from 0.25 to 0.22 percentage points. The cost of SME loans in China, including interest rates and bank charges, has been decreasing considering government support. The People's Bank of China lowered refinancing rates and established low-cost refinancing funds many times in 2020 to help SMEs. There was a notable growth in inclusive finance loans for SMEs and the cost of loans that covered everything continuously went down (Chen et al., 2022).

In addition, the Chinese government suggested a set of emergency policies to finance SMEs in the early stages of the pandemic in the face of the enormous challenge posed by COVID-19. Immediate policy measures included things like decreasing the reserve requirement ratio, setting up special refinancing funds, and allowing SMEs to postpone payments on their delinquent bank loans (OECD, 2022).

2.3.5 Government policies affecting SMEs in Rwanda

More than 80% of working Rwandans are in the agriculture sector now. Although the formalized industry has great growth potential, with just 300,000 now employed, the SME sector makes up 98% of firms in Rwanda and 41% of all private sector employment. According to the Republic of Rwanda's Ministry of Trade and Industry (2020), most micro and small firms employ no more than four people, demonstrating that expansion in the sector would generate significant private sector non-agricultural employment prospects.

In addition, Rwanda's micro and small enterprises (MSMEs) have the ability to reduce the country's trade imbalance. Since 2005, Rwanda's trade imbalance has increased from $229 million to an estimated $770 million, when compared to its previous low point of $229 million in 2005 (Ngarambe et al., 2021). Despite this, there has not been a concerted policy to address the landscape of SMEs and unlock the inherent potential of SMEs in contributing to the national growth of the country (Republic of Rwanda, 2019). The government of Rwanda has to establish a policy that is consistent and well-coordinated in order to encourage the growth of the Rwandan SME sector. This would help contribute to an increase in off-farm employment as well as tax income.

The MSMEs in Rwanda encounter many of the same macro-level challenges as large corporations, such as limited transport and energy, lack of a robust insurance industry, limited financial outreach, difficulties in contract enforcement, and a weak education system. Given the cost/benefit ratio in terms of time and resources required to process comparatively smaller-sized SME loans, financial institutions deem it too risky to lend to SMEs. This is in addition to the challenges faced by the majority of SMEs in consolidating capital and developing business plans to qualify as viable lending candidates (Lutaaya, 2018). This creates a barrier to growth, as SMEs with the skills to scale up or shift into manufacturing and processing are unable to do so due to their limited access to capital (Gamba, 2019).

Nonetheless, on 30 November 2020, the government of Rwanda presented an Entrepreneurship Development Policy (EDP) to the public in an effort to improve the country's entrepreneurial sector (Lima, 2020). In the process of developing the EDP, consultations were held with representatives from central and local governments, the Private Sector Federation (PSF), and financial institutions. Additionally, discussions were held with business owners whose companies ranged from MSMEs to large enterprises (large businesses), as well as startup business owners and business owners who had been in operation for some time, as well as local and international investors, consultants, academics and development partners (Lima, 2020). The EDP envisions the development of an effective ecosystem for the support of entrepreneurship that will create the conditions and enabling factors that will allow Rwandan entrepreneurs to realize their full potential as entrepreneurs and grow dynamic and competitive businesses that will drive economic growth and job creation (Lima, 2020).

2.3.6Government policies affecting SMEs in Nigeria

Nigeria, like every other developing nation, continues to face institutional obstacles that have a negative impact on the country's business environment (United States Agency for International Development, 2017). SMEs in Nigeria have contributed about 48%, on average, to the national GDP in the last five years. Totaling about 17.4 million enterprises, they account for about 50% of industrial jobs and nearly 90% of activities in the manufacturing sector, in terms of number of enterprises (PwC, 2020). Despite the recognition of the significant roles played by SMEs in Nigeria, their development is hampered by a number of factors, such as the existence of laws, ordinances and regulations that impede the expansion of the sector (Eniola & Entebang, 2015).

According to Alabi et al. (2019), the primary obstacle African youths face when attempting to establish and grow their business is a lack of capital. In Nigeria, it has been observed that financial issues are the most prevalent obstacle for young Nigerians wishing to establish and expand their own enterprise (Umar et al., 2020). According to scholarly research conducted by Igwe et al. (2018), Nigeria's financial service landscape is characterized by the absence of secure, affordable, and dependable financial services. The Central Bank of Nigeria and the traditional banking system have denied less privileged and impoverished Nigerians access to formal financial services. This is because the loan requirements are beyond the means and capabilities of the average Nigerian (Igwe, 2016). Consequently, many upcoming entrepreneurs and common Nigerians are compelled to turn to informal credit lenders, the majority of whom charge extremely high interest rates. Igwe (2016) notes that the situation is exacerbated by the fact that informal lenders of credit typically offer only short-term loans.

2.3.7 Government policies affecting SMEs in South Africa

Despite significant studies on hindrances to global and international SME expansion, employment and economic growth numbers show that South Africa is still not leveraging SMEs for economic growth and employment (Sibiya & Kele, 2019). Some scholars blame the country's failure on the government's inefficient SME development institutions (Makhmadshoev et al., 2015). Regardless of White Paper policy programs to reduce tax burdens, market access, market information, funding, and an unfavorable regulatory environment, South African SMEs continue to struggle to expand their markets (Sibiya & Kele, 2019).

In 2003, the government released its 10-year Integrated Small Enterprise Development Strategy. This plan prioritized micro-enterprises, high-growth small firms, and black-owned and operated SMMEs. This targeted support was meant to increase economic growth, create jobs, and decrease poverty, however, SMMEs did not appear to have realized their full growth potential (Botha et al., 2021).

However, in 2004, the government passed the National Small Business Amendment Act to boost SMME funding (Maye, 2014). This Act created the Small Enterprise Development Agency (SEDA) as a division of the Department of Trade and Industry (DTI) from a merger between entities incorporated to help SMMEs develop and survive. SEDA provided non-financial support to SMMEs in business strategy, design, and implementation, as well as the integration of government-funded small business support agencies (Maye, 2014).

In addition, the Ministry of Small Business Development was established in 2014 to lead an integrated approach for the promotion and development of SMMEs and cooperatives by consolidating various public agencies, such as SEDA, Co-operatives Development Agency and Co-operatives Tribunal, and various state-owned entities (Botha et al., 2021).

Irrespective of these policies, SMMEs in South Africa face legal and regulatory issues, access to markets, finance, and business premises (at affordable rental rates), skills and managerial expertise, access to appropriate technology, quality of business infrastructure in poverty areas, and tax burdens (Botha et al., 2021). However, Cant Wiid (2013) identified macroeconomic problems (inflation, interest rates, regulation, unemployment, and crime), regional location, price challenges, and product uptake as the biggest barriers for SMMEs. Sibiya and Kele (2019) also found that SMME growth is affected by legal system perceptions, access to finance, utilities, and crime.

South Africa relies on SMMEs for economic stability, growth, and employment; however, regulations and changes have a significant impact on the survival and expansion of SMMEs. Compliance with regulatory requirements is one of the primary obstacles to growth for SMEs (Nieuwenhuizen, 2019).

2.3.8 Government policies affecting SMEs in Zimbabwe

In Zimbabwe, an SME is defined as a registered company with fewer than 100 employees and an annual sales volume of $830,000 USD. Zimbabwe has 10,000 SMEs that hold 65% of corporate purchasing power (Zindiye et al., 2012).

Zimbabwe's SMEs prefer the unregulated market because they do not have to pay taxes or other statutory dues. This hinders SMEs from doing business with registered operators and major enterprises. SMEs' lack of accounting records in the "informal" structure makes banks hesitant to lend companies money, making expansion difficult (Akpoviroro et al., 2021). However, the Zimbabwean government's sound policies to boost small and medium-sized firms' performance were hindered by poor communication, implementation, and support (Njanike, 2019). For example, Zimbabwe's Indigenization and Empowerment Policy (IEP) and Zimbabwe Industrial Development Policy (2012–2016) boosted the SME sector and the economy (Musabayana et al., 2022).

Consequently, Zimbabwe's SMEs confront challenges from the regulatory environment and bureaucracy. For instance, the expense of business registration, licensing, and compliance can inhibit small business entrepreneurs. (Zindiye et al., 2012).

However, the Zimbabwe government has taken significant measures to revise rules and regulations in an effort to make conducting business easier. As a legal instrument to encourage the growth of the SME sector in Zimbabwe, the Small Business Act has been adopted by the government to ensure the success of these solutions (Makanyeza et al., 2023)

Small enterprises in Zimbabwe are exempt from the maximum tax rate due to government tax relief. SMEs get a five-year tax break during startup. This tax incentive encourages small businesses to move from the informal to the formal sector and broadens the tax base (Nyamwanza et al., 2016).

2.4 Michael Porter's Diamond Model

According to Vlados (2019), Porter's diamond model emphasizes the significance of both internal and external sources in the process of developing a firm's competitive advantage (see Figure 1 below).

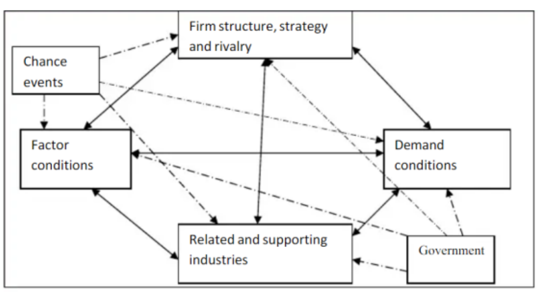

Fig. 1 Micheal Porter's Diamond Model (Tsai et al., 2021)

Factors condition: The availability and quality of critical resources are major factors in a company's ability to expand and remain competitive (Vlados, 2019). Among these include trained workers, facilities, financial resources, and advanced equipment (Xian, 2022). It assesses how much these resources are developed and made available by government programs and financial organizations for SMMES.

Demand condition: Demand conditions refer to the nature and sophistication of domestic demand, which can stimulate innovation and entrepreneurship. This model examines the government regulatory environment that removes obstacles and encourages the development of startups and SMMEs. Simplifying licensing procedures, reducing bureaucratic obstacles, and instituting supportive regulations can facilitate the market entry of new businesses and encourage their growth (Xian, 2022).

Related and supporting industries: Startup and SME-friendly ecosystems depend on supporting industries. These industries offer inputs, services, and partnership opportunities to help these businesses develop (Vlados, 2019). Government measures that promote startup-industry collaboration and networking can increase innovation, economic growth, and competitiveness.

Firm strategy, structure, and rivalry: Business strategy, structure, and competition determine industry competitiveness and vitality (Tsai et al., 2021). The government can promote company collaboration and knowledge sharing to boost industry innovation and growth. By encouraging cooperation, knowledge sharing, and idea exchange, the government may stimulate innovation and industry competitiveness (Li et al., 2019).

2.5 Theoretical models for startup and SMME growth

There are a number of theoretical models that attempt to account for the emergence and evolution of SMEs and startups. These models serve as guides for figuring out what elements and mechanisms are at play in an enterprise's expansion. Some prominent theoretical models are as follows:

The stages of growth model: Particularly for SMEs, the Growth Stage Model (GSM) is crucial for understanding their place in the market, determining their growth strategy, and projecting their future mobility (Bachtiar & Amin, 2019). According to this concept, startups and SMMEs experience numerous growth stages, each of which is characterized by unique difficulties and managerial demands. The model shows the need for organizational changes and management tactics at each level, including phases like creativity, direction, delegation, coordination, and collaboration.

The resource-based view (RBV) model: According to the RBV, the capacity of a company to keep a competitive edge depends on the organization's access to resources that are valued, uncommon, unique, and irreplaceable (Zhao & Morgan, 2017). The RBV model places a strong emphasis on the significance of an organization's existing assets and capacities in the process of encouraging corporate growth. It asserts that long-term competitive advantage and growth are determined by the availability and efficient use of strategic resources, which include tangible and intangible assets, competitive advantages, and management experience. Additionally, it states that these factors all contribute to a company's capacity to manage its resources effectively.

The entrepreneurial orientation (EO) model: The EO model places an emphasis on the role that an EO has in determining the growth of a company. According to Meekaewkunchorn et al.'s research from 2021, EO is distinguished by characteristics such as innovativeness, proactiveness, risk-taking, autonomy, and aggressiveness in the face of competition. The model shows that companies with a higher level of EO have a greater tendency to spot and seize opportunities, which, in turn, increases the likelihood that these companies will experience growth.

The resource dependence theory: This theory investigates the various external elements that have an effect on the expansion of a company, including the degree to which the company relies on outside resources (Biermann & Harsch, 2017). It argues that the availability and management of important resources, such as financial capital, knowledge, and relationships with stakeholders such as suppliers and consumers, have a substantial impact on the growth potential of startups and SMMEs.

The institutional theory: The institutional theory investigates how the behavior and growth of organizations are shaped by the institutional influences that come from the outside (Guy, 2022). It indicates that in order to achieve legitimacy and support, startups and SMMEs should comply with the institutional norms, laws, and practices that are widespread in their area. Maintaining that compliance with the standards and procedures of an institution can have a favorable impact on both growth and access to resources.

The network theory: According to Owen-Smith (2016), the network theory focuses on the ways in which social networks and relationships play a part in enabling growth. In terms of gaining access to resources, information, and opportunities, it sheds light on the significance of both strong ties (relationships that are very close) and weak ties (relationships that are not as close). The potential for expansion of a company can be profoundly influenced by the makeup and standard of its business network.

METHODOLOGY

3.1Research approach

The research made use of a quantitative approach in order to collect extensive data and obtain new insights. This enables a more comprehensive understanding of the various elements that influence the growth of startups and small and medium-sized businesses. Conducting analyses of trends and patterns is a possible outcome of quantitative research. This required the acquisition of secondary data from a variety of sources, such as reports generated by the government, databases maintained by certain industries, and statistical publications. The rates of growth of new startups and SMMEs, access to financial resources, policy indicators, and economic indicators were all potentially important factors to be taken into consideration.

3.2 Data collection methods

Considering the quantitative research approach, the following data collection methods would be appropriate:

Case studies: Case studies offer an in-depth analysis of selected startups and SMMEs in different countries/regions. They involve collecting qualitative data through interviews, observations, and document analysis (Jackson & Bazeley, 2019). Case studies provided detailed, context-specific insights into the impact of government policies and financial institutions' structure on the growth and development of SMMES. Multiple cases were analyzed to draw comparative conclusions.

Document analysis: Document analysis involves reviewing policy documents, financial reports, academic papers, and other relevant sources to extract quantitative and qualitative data. It can provide insights into the formal structures, initiatives, and strategies implemented by governments and financial institutions (Vaismoradi & Snelgrove, 2019). This method was particularly useful for gathering historical data and understanding the policy context.

3.3Sample selection

Non-probability sampling was used for this investigation instead of probability sampling. Methods of sampling that are not based on probability are utilized in situations in which probability sampling is not possible or practical. Even while the results of studies based on non-probability samples cannot be generalized to the entire population, they can nevertheless provide useful insights and an in-depth understanding of certain cases or contexts (Lamm & Lamm, 2019). Methods such as purposive sampling, convenience sampling, and snowball sampling are examples of common forms of non-probability sampling. Alternatively, purposive sampling was employed for this particular study. The selection of countries for this study include the US, Australia, China, Nigeria, Rwanda, South Africa and Zimbabwe, was based on specified criteria, i.e., developed and developing countries, which are pertinent to the research objectives.

3.4Data analysis techniques

This research conducted a regression analysis to investigate the links between the independent variables (government policies and the structure of financial institutions) and the dependent variable (the growth of startups and SMMEs). The combined influence of several independent variables on the one being studied (the dependent variable) can be determined through the use of multiple regression analysis. In addition to this, the research made use of comparative analysis to investigate the differences and similarities between the developed and developing economies with regard to the impact of government policies and the organizational structure of financial institutions on the expansion of startup businesses and SMMEs.

IMPLICATIONS AND RECOMMENDATIONS

4.1Implications

Policy insights: The findings of this study can provide valuable insights into the impact of government policies on startup and SMME growth in different economies. This can help policymakers in both developed and developing countries understand the effectiveness of their existing policies and identify areas for improvement or emulation.

Financial institution strategies: This research can shed light on the role of financial institutions in supporting startups and SMMEs. By examining the influence of financial institutions' structure on entrepreneurial growth, the study can highlight effective strategies and mechanisms that financial institutions can adopt to better facilitate access to finance and provide tailored support to these enterprises.

Comparative analysis: Conducting a comparative analysis between developed and developing economies can offer a nuanced understanding of the contextual factors that contribute to startup and SMME growth. The study can identify similarities and differences in the policy approaches and financial ecosystem between these economies, providing valuable lessons and insights for policymakers and stakeholders.

4.2Recommendations

Policy recommendations: In light of the findings of this research, specific suggestions are recommended to policymakers in both developed and developing economies regarding how they can improve the government policies and support mechanisms available to startup businesses and SMMEs. These proposals include aspects like enhancing regulatory frameworks, streamlining administrative processes, providing targeted funding and incentives, and increasing collaboration between the public sector and the corporate sector (Kraja et al., 2014).

Financial institution guidelines: This research will educate financial institutions on the most effective methods for assisting new businesses and SMMEs. The development of novel financial products and services that are adapted to the requirements of these businesses, the improvement of financial literacy programs, the promotion of mentorship and networking opportunities, and the strengthening of partnerships with government agencies and business support organizations (OECD, 2015a).

Capacity-building: In order to equip businesses with the necessary skills and knowledge to traverse the economic landscape, it is essential to place emphasis on the relevance of capacity-building efforts for business owners, particularly in developing economies. In order to encourage the expansion and growth of startup businesses and SMMEs, it is recommended that entrepreneurship training programs, mentoring schemes, and incubation support be put into place (Akpoviroro et al., 2021).

Collaboration and knowledge sharing: It is important to encourage collaboration and the exchange of knowledge between policymakers, financial institutions, and other stakeholders both within and between economies. It is suggested that platforms be established for the purpose of exchanging best practices, experiences, and lessons learned in order to encourage the growth of startups and SMMEs. Make it easier to form collaborations and initiatives that span across international borders in order to draw on the experience and resources of several economies (OECD, 2017).

ETHICAL CONSIDERATIONS

Confidentiality and anonymity: Protect the participants' right to privacy and maintain their anonymity with regard to their personal information and data. Protecting sensitive information requires the implementation of secure storage mechanisms and data management systems. During the analysis and reporting process, data should be anonymized to ensure that no individuals may be recognized (Goodwin et al., 2020).

Data integrity and accuracy: Data accuracy and completeness were maintained throughout the research procedure. Data collection, analysis, and reporting were conducted without bias and in a transparent manner. Appropriate research methodologies and instruments were used to guarantee the validity and dependability of the results (Chang, 2021).

Conflict of interest: All potential conflicts of interest that may arise during the course of the research, such as affiliations with particular government agencies, financial institutions, or organizations, were disclosed (Min, 2021).
Respect for cultural sensitivities: The different cultural norms, values, and practices were held in high esteem while conducting this research. The research was conducted in a culturally appropriate and respectful manner (Coeckelbergh, 2020).

Transparency in reporting: Results were accurately reported in the research results, including both positive and negative findings. All limitations or biases that affected the research results were disclosed (Goodwin et al., 2020).

RESEARCH GAP

The research gap refers to the extant knowledge or comprehension that the study intends to address and add to. It indicates the area where there is a lack of comprehensive or current research or where additional research is required. The following research lacuna can be identified in the context of this research:

Limited comparative studies: There is a limited number of comparative studies that particularly examine these issues in both developed and developing countries. While there is current research on the impact of government policies and financial institutions on the growth of startups and SMMEs, this research may not be as comprehensive as it could be (Alabi et al., 2019). By conducting a comparative analysis and offering insights into the parallels, variances, and contextual variations in the impact of these factors across different economies, the goal of this research is to bridge this gap.

Contextual differences: The economic, social, and political environments of each nation are distinct, and they play a role in determining how effective government policies are and how the structure of financial institutions is organized (Dosumu et al., 2020). Studies that already exist may not provide a comparative viewpoint because their primary focus may be on certain nations or regions. This research attempts to address this vacuum and provide a more comprehensive knowledge of the contextual differences and their implications by examining the impact of government policies and the structure of financial institutions in a comparative framework.

Updated knowledge: The realms of government policies, financial institutions, and entrepreneurial endeavors are all dynamic, with policies and practices continually developing to accommodate new circumstances. There may be a need for updated research that takes into account recent developments in legislation, shifts in the structure of financial institutions, and the impact these factors have on the expansion of startups and SMMEs (Endris & Kassegn, 2022). This research study can make a significant contribution to the current body of knowledge and provide timely insights on the effectiveness and relevance of government policies and the structure of financial institutions in supporting the growth of entrepreneurial activity as it was conducted as a comparative study.

Developing economy focus: Research on the impact of government policies and financial institutions on the growth of startups and SMMEs may be relatively abundant in developed economies; however, when it comes to examining the specific challenges and opportunities faced by startups and SMMEs in developing economies, there may be a research gap (Najib et al., 2021). By investigating the unique dynamics of these economies, the efficacy of their policies, and the role of financial institutions in fostering entrepreneurial enterprises, this research has the potential to solve this gap in knowledge.

CONCLUSION

In conclusion, this comparative study looked at the effect that government policies and the structure of financial institutions have on the growth of startups and SMMEs in developed nations as well as emerging economies. Our findings underscore the relevance of supportive legislation, access to funding, and customized financial services in the process of promoting the success of businesses. Among the recommendations are the modification of existing policies, the creation of specialized financial products, and the implementation of programs to strengthen organizational ability. By addressing these variables, governments and financial institutions may create an environment that is conducive to the establishment of new businesses and SMMEs, which in turn will promote economic growth and innovation.

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