



The Effects of Government Policies on SME Growth in Developing Economies: A Comprehensive Review

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ABSTRACT:

Background and Purpose: Small and Medium Enterprises (SMEs) are fundamental to economic development in developing economies, contributing significantly to employment generation, poverty reduction, and GDP growth. Despite their potential, SMEs face numerous constraints, including limited financial access, regulatory burdens, inadequate infrastructure, and challenges in trade integration. This study provides a comprehensive review of the effects of government policies on SME growth, assessing the effectiveness of various policy interventions while identifying the key challenges and sectoral variations that influence their impact.

Methods: A systematic literature review methodology was adopted, focusing on scholarly articles, policy reports, and empirical case studies from 2005 to 2025. The study utilized electronic databases such as Scopus, Web of Science, JSTOR, and Google Scholar. Boolean search techniques were applied to retrieve relevant literature, and thematic analysis was used to categorize the findings into distinct policy areas. The review applied comparative analysis to examine policy effectiveness across different regions and economic contexts. Inclusion criteria were set to ensure relevance, prioritizing studies that explicitly examined the intersection of government policies and SME development within developing economies.

Findings: Government policies have played a critical role in shaping the SME landscape through financial inclusion initiatives, regulatory reforms, infrastructure development, trade and export promotion, digitalization policies, and sustainability measures. Financial policies, including credit guarantee schemes, microfinance programs, and interest rate subsidies, have improved access to capital. However, challenges such as high collateral requirements, inefficiencies in fund allocation, and the exclusion of informal enterprises persist. Regulatory reforms aimed at simplifying business registration and tax compliance have facilitated SME formalization, yet bureaucratic inefficiencies and corruption continue to undermine their effectiveness. Investments in physical and digital infrastructure have enhanced SME operational capabilities, but regional disparities remain, particularly between urban and rural enterprises. Trade promotion policies have provided SMEs with access to international markets through export processing zones and trade facilitation programs; however, complex certification requirements and non-tariff barriers hinder participation. Digitalization policies have encouraged SME adoption of e-commerce and financial technology solutions, yet cybersecurity risks and digital skill gaps present ongoing challenges. Sustainability policies, including incentives for green technologies and eco-friendly financing, are gaining traction, though high implementation costs and limited financial support restrict their widespread adoption.

Theoretical Contributions: The study integrates multiple theoretical perspectives to analyze the effectiveness of government policies in SME development. Institutional theory highlights the role of regulatory stability and governance quality in shaping SME growth. The resource-based view (RBV) emphasizes the importance of financial and technological resource availability in determining SME competitiveness. Entrepreneurship theory illustrates the role of government incentives in fostering a conducive business environment. Market failure theory justifies state intervention in addressing financing gaps and structural barriers, while public choice theory explores the influence of political and interest-group dynamics on SME policymaking. These theoretical frameworks collectively provide a multidimensional understanding of how government policies impact SME growth and sustainability.

Conclusion and Policy Implications: The findings suggest that SME growth in developing economies requires a multifaceted policy approach that integrates financial accessibility, regulatory efficiency, infrastructure investment, and trade facilitation. Governments should enhance financial inclusion through alternative credit mechanisms, reduce regulatory bottlenecks to encourage SME formalization, and strengthen institutional capacity to combat corruption. Digital and physical infrastructure investments must be expanded to bridge regional disparities, particularly in underserved rural areas. Trade facilitation policies should address certification and logistical challenges to improve SME integration into global value chains. Sustainability policies should be reinforced with financial incentives and technical support to enable SMEs to transition toward environmentally sustainable practices. A holistic and sector-specific policy framework, aligned with regional economic contexts, is essential for maximizing SME contributions to economic growth and development.

Keywords: Small and Medium Enterprises (SMEs), Government Policies, Economic Growth, Financial Inclusion, Trade, Digitalization, Sustainability

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INTRODUCTION:

The World recognises Small and Medium Enterprises (SMEs) as essential components for economic advancement and employment creation and innovation development primarily in developing economy settings. Business activity stems heavily from SMEs while they play a large role in creating GDP and generating employment opportunities. Statistical data from the World Bank demonstrates that emerging markets receive 40% of their GDP from SMEs while they provide jobs to more than 60% of the global workforce (Beck, 2013). Developing economies show the most importance of SMEs because they represent more than 90% of registered businesses while actively fighting poverty and sustaining social development (Zulu-Chisanga et al., 2020). Developing economies face multiple fundamental obstacles which prevent their small and medium-sized enterprises from growing and attaining enduring business expansion.

SMEs face barriers to growth because of insufficient financing options together with poor infrastructure facilities and complex regulations and insufficient institutional backing (Ibrahim et al., 2017). Governments throughout developing economies have established diverse policy approaches to create favourable conditions for SME development since they understand the importance of these businesses to economic expansion. The policies target various aspects of challenges which encompass financial assistance and regulatory adjustments and trade promotion initiatives and infrastructure development and capacity development programmes (Yadewani, 2023). The implementation of policy measures for SME enhancement produced positive results but faced various barriers which resulted in unfulfilled objectives (A.N. & Kalim, 2022). The differences between policy success require evaluation of multiple policy strategies across locations together with an analysis of situational variables and success determinants (Alkahtani et al., 2020).

The variety of government policies for SMEs across developing economies reflects their distinctive regional priorities together with economic structures and political environments. The financial policies which use credit guarantees along with microfinance programmes have established themselves as prominent strategies for South Asia and Sub-Saharan Africa to resolve their acute challenges regarding credit accessibility (Jayeola et al., 2022). The East Asian countries prioritise export stimulation policies together with programmes to connect SMEs to international value chains according to Wen et al. (2023). The implementation of regulatory reforms designed to simplify business registration as well as reduce bureaucratic restrictions has produced positive results throughout Latin America because its high informality rate had previously impeded SME growth (Jitmaneeroj, 2016). These methods come with substantial difficulties to overcome. Political instability together with institutional capacity limitations and corruption enable these reforms to fail in providing SMEs with their intended benefits according to Owusu and Weir (2016).

Financial support emerges as the main focus of government action that helps small and medium-sized enterprises in developing economies. SMEs experience major difficulties in obtaining affordable credit especially when operating in underserved areas lacking proper formal banking institutions (Ye & Kulathunga, 2019). Governments have implemented various financial policies through interest rate subsidies and credit guarantee programmes together with development bank creation to support SMEs (Kornelius et al., 2020). The microfinance programmes in Bangladesh and Kenya have delivered financial assistance to excluded SMEs through banking systems ("Study on Some Issues of International SMEs Promotion Policy", 2021). These strategic initiatives experience limitations due to excessive defaults while their expansion struggles to scale up and they face problems maintaining accessible financing over various socioeconomic groups (Quaye & Mensah, 2019).

The focus of vital policy reform needs to direct efforts toward improving regulatory practices. Complicated regulations together with excessive administrative hurdles and high levels of dishonesty constrain small business development in numerous developing countries (Virglerová et al., 2020). Research indicates that policies which simplify business procedures and taxation systems through single-point assistance programmes for business owners show progress in eliminating startup obstacles (Hakizimana et al., 2023). Světelné zemi řadí se na seznam výborných zemí v obchodním hodnocení Světové banky díky jejímu prioritnímu_eof4204 v jedněznámé studii na téma o efektivním obchodování (Yadewani, 2023). Such reforms succeed only when local implementation bodies demonstrate their ability to execute and apply them in practice. Weak governance systems alongside uncaring political behaviour have restricted effective regulatory transformation because SMEs now need to operate within intricate and confusing business frameworks (Aloysius et al., 2017).



The competitiveness of developing economy SMEs benefits highly from the implementation of trade promotion policies and export development strategies. International market access benefits SMEs because they gain capabilities to enlarge their operations while improving efficiency and taking advantage of new methods (Cardoza et al., 2013). Governments across Southeast Asia actively back their SMEs joining global value chains through programmes that provide export promotion and trade fair opportunities combined with training initiatives (Wen et al., 2023). The integration policies of Vietnam which target small businesses in electronics and textiles production sectors have delivered major growth in export income (Zulu-Chisanga et al., 2020). Trade policies face obstacles from unbalanced access to resources together with infrastructure because these advantages favour larger companies and urban-based SMEs but they disadvantage rural enterprises (A.N. and Kalim, 2022).

The development of necessary infrastructure stands as a key government policy topic which supports transformation in SME growth prospects. Products and services from SMEs become priced competitively when they have reliable transportation along with electricity and internet connectivity in their business operations (Lkhagvasuren & Huo, 2014). Governments throughout Sub-Saharan Africa team up with international organisations while incorporating private investors to handle their critical infrastructure deficits as documented in Jayeola et al. (2022). The "Programme for Infrastructure Development in Africa" from the African Development Bank works with SMEs to enhance their access to transport and energy networks ("Study on Some Issues of International SMEs Promotion Policy", 2021). The implementation of infrastructure projects faces delays and cost challenges together with corruption issues and mismanagement according to Etuk et al. (2014).

Developing economies face equivalent obstacles as various policy strategies operate in separate regions. The effectiveness of governmental intervention programmes suffers from regular limitations in institutional capacity and inadequate funding and from frequent political unrest (Ibrahim et al., 2017). The wide differences among SMEs including microenterprises to medium-sized companies operating in varied industries creates difficulties in creating policies which effectively support every type of business (Alkahtani et al., 2020). Several policies either neglect the target SME population or primarily assist major established companies (Ye & Kulathunga, 2019).

The study presents an extensive examination of the multiple policies used across developing world regions alongside their implementation difficulties and their achieved outcomes. The paper analyses real-world examples and evidence gathered from different areas to determine effective strategies that policy makers can use practically. The research advances knowledge about sustainable economic development and government policies for SME development within developing nations.

METHODOLOGY:

This review paper conducts a systematic research of government policies to understand their effects on small and medium enterprise (SME) growth within developing economic regions. Its research framework ensures a complete examination of all relevant scholarship between academic scholarly papers and practical policy documents and empirical case studies.

Literature Search Strategy

The research evaluation relies on peer-reviewed articles as well as government reports and policy evaluations from 2005 to 2025. The research utilised multiple electronic information databases such as Scopus, Web of Science, JSTOR together with Google Scholar to locate suitable academic studies. The analysis incorporates both global perspectives through policy documents from World Bank along with International Monetary Fund (IMF) and United Nations Development Programme (UNDP).

Search terms included combinations of keywords such as:

- "SME growth"
- "government policies"
- "developing economies"
- "financial policies for SMEs"
- "regulatory frameworks"
- "trade policies and SMEs"
- "infrastructure support for SMEs"
- "public-private partnerships in SME development"



Boolean operators (AND, OR) were used to refine search results, and filters were applied to focus on studies relevant to developing economies.

Inclusion and Exclusion Criteria

To ensure relevance and quality, studies were selected based on the following criteria:

1 Inclusion Criteria:

- Studies addressing the impact of government policies on SMEs specifically within developing economies.
- Articles that examine financial, regulatory, trade, or innovation policies and their outcomes on SME growth.
- Empirical studies, meta-analyses, or case studies with clearly defined methodologies.
- Reports published in English.

2 Exclusion Criteria:

- Studies focused exclusively on SMEs in developed economies.
- Research lacking a direct focus on government policies or their measurable impacts.
- Articles with insufficient data or unclear methodologies.

Data Collection and Synthesis:

Research investigators examined selected studies to obtain data about various government policy types along with their performance ratings and encountered problems. A systematic process arranged the extracted study data into financial policies and regulatory frameworks and capacity building and innovation and trade and export promotion and infrastructure and institutional support. The authors systematically examined these themes to understand their impacts on SME growth both qualitatively and quantitatively. The thematic organisation system enabled researchers to collect comprehensive analysis of numerous policy interventions from varied contexts which delivered essential findings regarding effective policy methods along with existing challenges and SME market responses across various developing economies.

Analytical Approach

A thematic analysis approach provided both categorical organisation of results and the identification of new policy directions. The analysis compared policy effects between areas in Sub-Saharan Africa and South Asia and Latin America and the Middle East. To measure reliability of research findings in developing economies the researchers evaluated studies for methodological rigour. The statistical analysis focused on quantitative research whereas qualitative investigations delivered contextual findings of specific situations.

Limitations

The review considers two essential points of weakness. The process of excluding studies written in non-English languages resulted in missing out on important regional declarations especially from developing economies where special policy procedures could be documented in native languages. The present study's inability to obtain access to grey literature and unpublished studies created limitations that prohibited important data entry such as government reports and local policy evaluations which would deliver advanced context-specific information about SME policy effectiveness. The methodological framework demonstrates strong reliability by producing an extensive exploration of public policies' effect on small business development across developing economies.

Key Policy Areas and Their Impact on SME Growth

Government policies within developing economies serve to create an approach that leads to small and medium enterprise growth success. This section analyses seven essential policy areas that impact SME growth through a combined study of their results alongside corresponding obstacles.

Financial Policies

Small and medium enterprises in developing economic regions encounter finance accessibility as their most critical operational blocking point. SMEs face barriers to progress and innovation because they can neither find affordable credit nor accept high-interest rates nor fulfil collateral needs nor possess necessary financial literacy (Olaore et al., 2021; , Huong, 2024). Governments and development entities have deployed customised financial inclusion schemes through venture capital funds and microfinance programmes and subsidised loans as well as credit guarantee schemes which target SMEs to identify these barriers. Through the Nigerian SME Credit Guarantee Scheme financial institutions now provide more small business loans because default risks are jointly managed (Olaore et al., 2021). Via Grameen Bank's microfinance strategy Bangladesh has given millions of female small business owners

unrestricted loans to boost their business abilities (Huong, 2024). Governments in India and Indonesia sustained access to affordable financing through interest rate subvention programmes as described by Olaore et al. (2021). The expansion of financial access through these programmes still faces multiple ongoing difficulties. SMEs present two main issues with bank loans which include lengthy loan processes coupled with difficult administrative hurdles as well as confusing lending practises (Olaore et al., 2021). Financial inclusion gaps exist because several developing economy SMEs cannot participate in these programmes due to their informal status (Olaore et al., 2021; , Huong, 2024) as illustrated in figure 1.

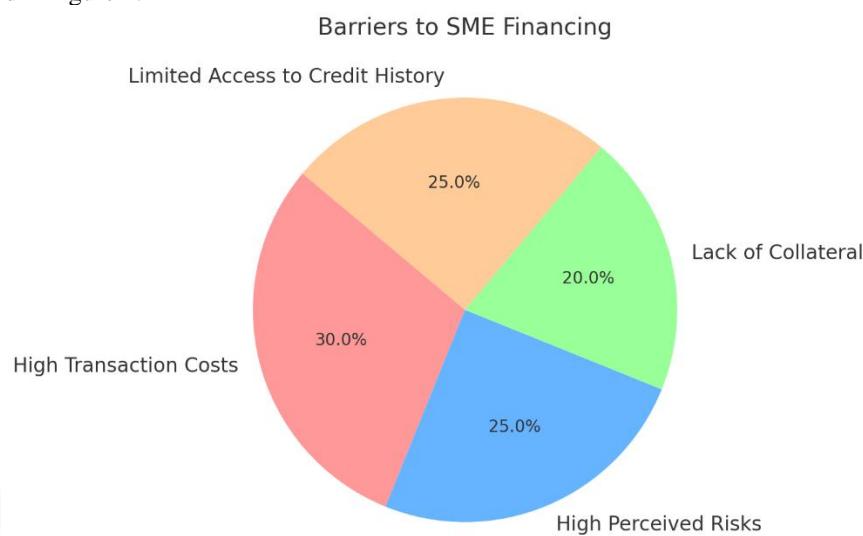


Figure 1: Barriers to SME Financing

Regulatory Frameworks

The foundation of a proper regulatory environment serves to inspire formalization among SMEs while lowering operational requirements and sustaining business startup activities. Developing economies witness SME discouragement and growth restriction when businesses face complex regulations and the presence of corruption and enforcement policy inconsistencies (Nuni, 2023; , Aloysius et al., 2017). The establishment of online business registration portals combined with one-stop service centers by Rwanda resulted in substantial business start-up simplification which earned the country top rankings in sub-Saharan Africa business environment (Aloysius et al., 2017). The Philippines achieved easier business practices through the implementation of the Ease of Doing Business Act (2018) which eliminated regulatory inefficiencies (Nuni, 2023). Small and medium enterprises continue to encounter difficulties with tax compliance along with cumbersome licensing rules and corruption affecting them particularly since they lack sufficient resources to clear these barriers (Aloysius et al., 2017).

The continuous existence of underground enterprises proves that current regulations remain insufficient for businesses. High tax burdens together with expensive registration costs drive SMEs in such countries toward informal operation which reduces their ability to receive government support while removing their eligibility for funding and shielding against the protection of legal systems (Nuni, 2023; , Aloysius et al., 2017).

Capacity Building and Innovation

Enhancing the sustainability and competitiveness of SMEs depends on effectively building their capabilities and capacities. The governments of developing economies have boosted their support toward entrepreneurial education and vocational training and research and development support to push SMEs toward innovation adoption (Budhi et al., 2020; , Sartono, 2024) because SMEs play a crucial role in boosting developing countries' GDP as figure 2 demonstrates.

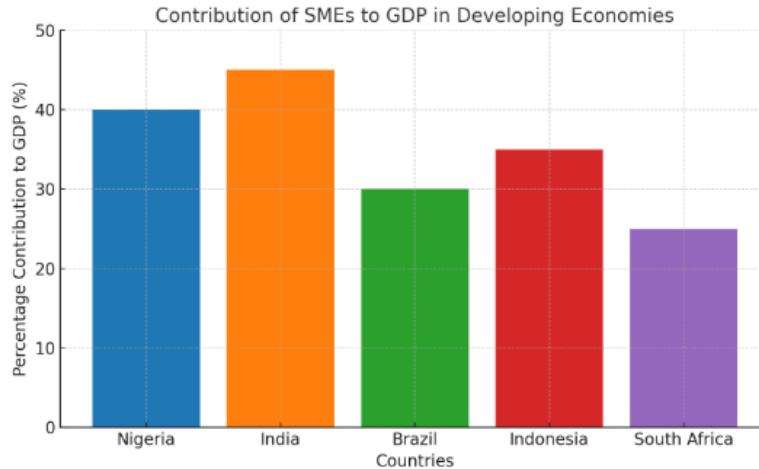


Figure 2: Contribution of SMEs to GDP in Developing Economies

The Ajira Digital Program of Kenya provides young entrepreneurs with digital qualifications so they can join global freelance platforms and discover new business opportunities (Budhi et al., 2020). The startup environment in South African and Vietnamese countries gives emerging businesses together with SMEs access to funding opportunities combined with mentorship assistance and teamwork areas for technology evolution (Sartono, 2024). Brazil alongside other Latin American governments supports R&D grants for SMEs operating in agriculture and technology which brings enhanced productivity alongside technological advancements (Budhi et al., 2020).

Most small and medium-sized enterprises face difficulties implementing new technologies efficiently because governments have inadequate education funding and faculty-sustainable industry collaboration alongside expensive technology implementation costs (Sartono, 2024). The absence of digital infrastructure together with insufficient connectivity prevents many SMEs in African and South Asian countries from engaging in the developing digital economic sector (Budhi et al., 2020; , Sartono, 2024).

Trade and Export Promotion

Trade policies function as essential tools which help SMEs tap into foreign markets and reach a broader client base and obtain greater efficiency from their scale levels. Developing economies operate export promotion strategies to raise SME competition levels in global markets through subsidy programs trade exposition events export processing zones (EPZs) together with capacity-building enterprises (Budhi et al., 2020; , Priyanath & Premaratne, 2015). The size distributions of developing country enterprises shown in figure 3 result from this development process.

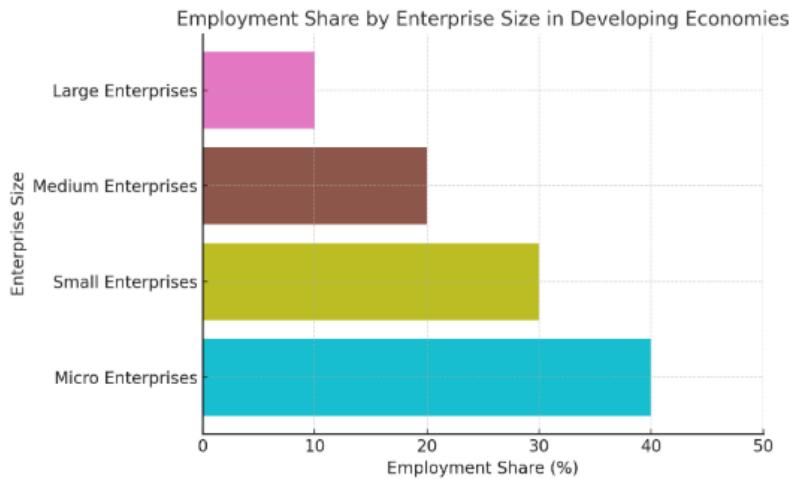


Figure 3: Employment share by enterprise size in developing economies

The Indian Export Promotion Councils support SMEs through services that include market intelligence as well as technical support and delegation participation (Budhi et al., 2020). Through the African Continental Free Trade Area (AfCFTA) program in Africa SMEs will gain new market opportunities through the elimination of tariff and non-tariff barriers (Budhi et al., 2020). The country of Vietnam has applied free trade agreements (FTAs) to boost manufacturing and agricultural sectors by integrating SMEs into global value chains (Budhi et al., 2020).

SMEs encounter obstacles in maximizing export potential due to their unknown aspects of international trade policies and insufficient quality standard expertise and industrial capacity limitations (Budhi et al., 2020). The export potential for SMEs stays limited because they struggle to obtain international certifications while working through complicated logistics chains (Budhi et al., 2020).

Infrastructure and Institutional Support

The growth of SMEs depends strongly on infrastructure and institutional support because these systems lower costs while offering better market entry possibilities as well as enabling business partnership opportunities. Developing economies have started major investments in industrial cluster development combined with transportation infrastructure improvement and digital platforms development along with public-private partnership initiatives as methods for improving their infrastructure deficits (Spahiu & Durguti, 2023). The Industrial Parks Development Corporation (IPDC) of Ethiopia operates industrial parks that offer SMEs access to affordable facilities and electricity and logistical services which promotes supply chain partnership and expansion opportunities. SMEs in Kenya have benefited from M-Pesa mobile payments which provide financial inclusion through efficient transactions in areas lacking formal banking infrastructure (Spahiu & Durguti, 2023).

Significant gaps in infrastructure development between urban and rural areas continue to be a major issue in numerous developing economies which intensifies national disparities according to the research presented in ("Impact of Infrastructure on Productivity of Small and Medium Enterprises in Nigeria", 2019). Rural businesses encounter unstable power supply and substandard transportation infrastructure and digital service constraints which lead to market restrictions for both national and global sales (Spahiu & Durguti, 2023).

Digitalization Policies

Small and Medium Enterprises require digital transformation as an essential element which modern technological innovation provides. Across different nations governments carry out digital promotion efforts by supporting funding programs together with educational initiatives and regulatory standards to provide SMEs better access to digital resources. The government provides programs with tax advantages and internet cost reductions that enable SMEs to connect e-commerce with artificial intelligence (AI) and cloud computing. These programs support national digitalization strategies.

The implementation of digitalization policies enables SMEs to improve market expansion capabilities and operational effectiveness to defeat large enterprises in performance. Inadequate digital skills and high implementation costs of digital systems together with security threats create essential obstacles for small businesses. Web-based entities and training programs need to work hand in hand with regulatory bodies to develop level playing field digital marketplace practices that assist in breaking down such obstacles.

Climate and Sustainability Policies

Governments worldwide have shifted their political strategies because of climate changes toward achieving sustainable business practices with decreased carbon outputs. Environmental authorities require small and medium enterprises to adopt multiple regulatory obligations including air emission standards and waste management and eco-friendly finance requirements. Regulation requirements affect SMEs financially but also provide them with openings to serve new businesses in green economy spheres.

The government promotes environmental implementation through programs that offer renewable energy funding with preferable financing and tax benefits for sustainable manufacturing. SMEs engaged in climate-friendly innovation projects can obtain financial backing from government sources in combination with sustainable funding programs supported by international entities. These policies require technical aid along with affordable green technologies to achieve operational success.

The Relationship Between Government Policies and SME Growth

This study evaluates governmental policy effects on Small and Medium Enterprises (SMEs) growth. Different theoretical frameworks explain the connections between government support and small and medium enterprises progression. Business success rates and competitive advantage growth are influenced by government policies as explained through various theories maintaining operational stability.

Institutional Theory

The institutional theory explains fundamental aspects regarding how administrative laws influence organizational decision-making processes and business market standards. Under this principle Small and Medium Enterprises must implement both rule systems that government institutions formally institute together with the unofficial guidelines these institutions establish. SME development remains under government institution oversight since they deploy policies which present business expansion possibilities yet create administrative boundaries. The implementation of government entrepreneurship policies happens through influencing institutional environments to improve funding access and ensure intellectual property protection and maintain stable regulatory standards (Guizarro et al., 2013; Fatoki, 2014; Chen et al., 2023). SME business operational requirements determine the success of these government policies when their goals align with SME needs. This theory demonstrates how governmental tax incentives together with regulatory changes and financial subsidies create direct influence on SME success (Hu & Kee, 2021; Freeman et al., 2012). Through institutional theory the research proves that different public policies influence SME development by displaying positive or negative regulatory factors (Chang & Yu, 2020; Kamukama et al., 2011).

Resource-Based View (RBV)

bakimindan Resource-Based View (RBV) correctly used resources result in competitive benefits to companies. SMEs can survive and expand through their success at obtaining essential resources which include financial capital because it combines with qualified personnel and technological assets. Through financial backing and training initiatives from the government SMEs can obtain essential resources that help build their internal capabilities for better growth potential (Kiyabo, 2019; Cook et al., 2011; Wang, 2024). According to RBV it is essential for SMEs to acquire resources along with policies that will optimize resource management for successful growth strategies. The resource base of SMEs requires access to finance along with skills development and technological innovations which government policies need to provide according to Joseph & Wilson (2017) and Presutti & Odorici (2018). The framework assists in studying the impact of policy measures which promote resource accessibility upon both sustainability and competitiveness levels of SMEs.

Entrepreneurship Theory

The theory of entrepreneurship studies how entrepreneurs execute their decisions while building and supervising fresh business initiatives. The growth of SMEs is significantly impacted by government policies that encourage entrepreneurship through the development of entrepreneurial ecosystems and barrier reduction as well as encouragement of innovation (Clercq & Ling, 2014; Scheers & Makhitha, 2016). Through incentives and supportive

policies as well as by reducing bureaucracy and promoting innovation the government takes a central role in developing the entrepreneurial climate (Darcy et al., 2014; Rosenbusch et al., 2011). Through entrepreneurship theory one can study the relationship between governmental prompts for entrepreneurial growth (such as business ease and tax benefits and innovation funding) in creating new businesses while expanding existing ones. The theoretical perspective shows how governmental policies develop both entrepreneurial conduct and new business ventures (Mankgele, 2024; Hongxiong & Ren, 2021).

Theoretical Perspective on Market Failure

According to market failure doctrine some market conditions fail to operate effectively so governments must intervene to rectify these problems. The operational challenges faced by SMEs include restricted financing options along with their inability to achieve large-scale production and unbalanced information flow patterns (Fatoki 2014; Martinez-Conesa et al. 2017). Government policies function as corrective instruments to solve the detected weaknesses of the market. According to Hosseini et al. (2018) and Allammar (2024) the government implements policies like credit guarantees and small business loans to help SMEs overcome problems from competing with larger firms. The theory shows governments what actionable steps they need to take in order to fix market failure problems. The research project evaluates how government policies regarding market access and credit provision alongside regulatory support enable SMEs to face market imperfections (Pergelova et al., 2018; Kim & Kim, 2018).

Public Choice Theory

According to the public choice theory, the government is a decision making body who is believed to conduct economic results in line of implementing policies that refine the position of the politicians along with other interest group. Government policies created hence could fall short of representing the requirements of the SMEs adequately because of their weak lobbying influence. It allows researchers to investigate the political production of government policies that pertain to the promotion of small and medium enterprises development. According to Chang & Yu (2020) and Kiyabo (2019), the research hypothesizes that political forces, along with interest-based influence, develop government decisions about SMEs policies. The associated analysis also looks into what forces between more ambitious economic and political objectives are predominant when it comes to formulating SME assistive policies. This model unifies many theoretical approaches to analyze to examine how the interactive relationship between policies and small and medium enterprise growth. This research integrates institutional elements, resource availability, entrepreneurship, market failure and political influence to conduct thorough evaluation on effects of government intervention in SME development. The framework enables the study to study variables that result in effective policy in SME growth and acknowledges the hindrances faced by SMEs as a result of wrong government policy measure. The analysis system is the framework developed based on the analysis of impacts of government interventions and provides the determination of the effects of public support and regulatory changes on private small and medium enterprises' strategic business choices. Along with these theories, the empirical investigation will ascertain in detail as to how government affects SME growth positively as well as negatively.

DISCUSSION:

Developing economies have observed differing effects from their SME growth policies where they show positive outcomes in some facets despite major deficits in other areas. The analysis demonstrates both the achievements and weaknesses behind essential policy measures together with potential enhancements for better results.

Successes in Policy Implementation

A number of developing nations successfully implemented programs to solve problems encountered by SMEs. Multiple financial inclusion policies through microfinance programs and credit guarantee schemes gave numerous small businesses the chance to obtain vital financing. Microfinance proves its worth in Bangladesh through Grameen Bank which enables marginalized individuals especially women to start and develop their business ventures (Santoso, 2020). The Rwandan government demonstrated through simplified business registration progress that streamlined paperwork principles unlock entrepreneurship activity and formal sector growth (Nuni, 2023). Ethiopia established industrial parks and Kenya implemented mobile money systems to create supportive conditions for SMEs which increased their operational abilities and market breadth (Dong & Men, 2014). Government policies created to address specific economic needs deliver maximum impact through proper accountability measures (Ilir Tomorri et al. 2024).

Persistent Challenges

The problems that obstruct large-scale SME growth continue to remain substantial despite existing achievements. Theoretical advantages of financial policies fail to materialize because implementation issues including delayed loan distribution and inadequate credit monitoring (Woldie et al., 2018). Many small and medium enterprises cannot secure affordable financing because they deal with high interest rates as well as strict collateral rules and their business operations remain informal (Arthur et al., 2021). The essential regulatory rules tend to face problems because of heavy bureaucratic burdens and corruption and enforcement irregularities (Nuni, 2023). Countries that impose excessive tax burdens find their SMEs choosing informal practices which cuts them off from public aid and big market opportunities (Chebii , R. K. (2020). A major problem exists within regulatory strategies because their policies towards informal businesses remain incomplete (Asare et al., 2012). Even though developing innovation and building capabilities remains a priority for many regions they face challenges from sparse R&D financing and weak academic-industry collaborations (Sulastri, 2023). The high expenses of advanced technologies coupled with inadequate training availability challenges numerous SMEs according to Khalil et al. (2022). Developing digital infrastructure at basic levels within specific regions presents a barrier that stops SMEs from using technology to grow their businesses (Edwin Omol et al., 2023).

In the context of trade and export promotion, SMEs in developing economies face several structural challenges, such as non-tariff barriers, lack of knowledge about international standards, and limited production capacities (Foghani et al., 2017). While programs such as export subsidies and trade fairs have shown potential, their benefits are often concentrated among a small number of enterprises, leaving many SMEs unable to participate in global value chains (Sarwar et al., 2021).

Regional and Sectoral Variations

The effects of government policies on small and medium enterprise expansion differ widely among different geographical areas and industrial sectors. Urban sections get an unfair advantage from infrastructure proposals together with government initiatives yet rural establishments face challenges with lacking connectivity requirements combined with unreliable services and minimal formal support structures (Ilir Tomorri et al. 2024). National economic priorities determine how the government allocates its support with technology and manufacturing obtaining specific targeted programs while agriculture and small-scale services receive less attention (Khan 2022). The trade agreements that brought manufacturing SMEs to global value chains in Vietnam exist independently of the market development and agricultural input accessibility problems rural farmers experience (Dong & Men, 2014). The specific difficulties faced by marginalized regions and sectors require all-inclusive policy solutions according to Amoah et al (2021).

Policy Interdependencies and Holistic Approaches

This research reveals that policy elements create a web of connected influences upon one another. The integration of financial inclusion with regulatory reform requires simplified registration procedures and incentives for formalization because these elements help thousands of SMEs gain access to formal finance systems (Nuni, 2023). The success of trade and export promotion relies on investments to build infrastructure together with innovation facilities and capacity development (Dong & Men, 2014). The implementation of comprehensive integrated policy measures helps developing economies produce lasting positive results for their small and medium-sized enterprises. SMEs in Rwanda thrive due to regulatory changes and digitized infrastructure investments coupled with capacity development activities as described in Santoso (2020). Current evidence shows the need for policymakers to develop integrated policies which reinforce each other across different sectors (Sulastri, 2023).

Recommendations for Policy Improvement

The following discussion presents crucial recommendations that governments should implement to achieve the best possible effects on SME growth. National governments need to develop distinct financial programs which adjust their support to specific requirements of small and medium enterprises both formally and informally operated versions. The government should adopt flexible loans with novel credit evaluation criteria along with technological financial solutions which combine to bridge capital restrictions and build wider SMME financing options (Arthur et al., 2021). Second, simplifying regulations is crucial. SMEs will achieve formalization and growth by simplifying regulations and minimizing compliance costs and reducing corruption practices through regulatory process streamlining (Nuni, 2023). The implementation of this measure produces clear paths for industrial development which allows small businesses to succeed beyond complicated bureaucratic requirements (Chebii , R. K. (2020).

The essential recommendation centers on delivering effort to rural locations and underprivileged communities. Sound investments in local infrastructure combined with digital connectivity and localized training solutions will help SMEs in non-privileged areas to participate with equality (Ilir Tomorri et al. 2024). The special needs of these regions require specific policy solutions because they must obtain equivalent business opportunities compared to developed areas according to Amoah et al. (2021). States should support innovation through R&D funding for businesses and advanced technology access for SMEs in addition to creating academic-industry collaboration programs (Sulastri, 2023). SMEs can improve their productivity while becoming more competitive by developing new products through this option according to Khalil et al. (2022). Trade policies need to be strengthened because this supports SMEs who want to enter international markets. The main objectives of trade promotion should include reducing all trade barriers and providing technical help for meeting international requirements while supporting SME market entry into international markets (Foghani et al., 2017). The expansion of markets will enable SMEs to maintain worldwide competitiveness which will result in improved long-term sustainability and growth potential. Through these recommendations governments will obtain a framework that enables them to establish policies which effectively support sustainable development of SMEs in developing economies.

CONCLUSION:

Developing economies need proper governmental policies to advance SME growth in their territories. The economic sphere heavily depends on SMEs since they produce jobs simultaneously with innovative solutions for poverty reduction. These potentials face multiple work and system-related obstacles in their deployment. The present system contains numerous deficiencies that obstruct proper support for various SME populations particularly those businesses in rural areas and informal sectors even though financial inclusion and regulatory policies and infrastructure development and trade promotion activities show promise.

The study proves that effective policies require well-developed measures which are executed properly along with strong organizational connections between sectors. Small and Medium-sized Enterprises demonstrate larger sustainability when entire approaches are deployed to support specific regions. The policy requirements must be specific because rural SMEs differ from urban SMEs in addition to formal and informal divergences between sectors that need recognition.

Research must extend the duration of its investigations to assess Sustainable Media Enterprise responses to government programs over time to help policymakers identify enduring effects of interventions. The consideration of digitalization and climate change trends during analysis would yield additional relevant data which shows the influence of external factors on SMEs and their supportive governmental policies. Future studies will acquire practical significance and make an in-depth assessment of SME growth by using these suggestions properly.

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