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Bridging Financial Gaps: A Qualitative Literature Review on Government Loan Programs and Small Business Growth under Credit Constraints

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Abstract: This qualitative literature review examines the role of government loan programs in addressing credit constraints that hinder small business growth. Synthesizing recent empirical studies from Japan, the United States, and the European Union, the review finds that well-targeted public lending initiatives facilitate capital investment, employment expansion, and long-term productivity among financially constrained firms. The evidence highlights that government credit often complements rather than substitutes private lending and serves as a structural mechanism to reduce financial frictions. Program effectiveness is found to depend heavily on institutional design, eligibility targeting, and administrative capacity. The findings underscore the strategic value of sustained public intervention in SME finance, not only during crises but also for long-term economic resilience and inclusive growth.

Keywords: Small Business Finance. Government Loan Programs, Credit Constraints, SME Growth, Public Lending Effectiveness

1. Introduction

Small businesses are widely recognized as crucial engines of economic growth, job creation, and innovation across both developed and emerging economies (Kobe & Schwinn, 2018). However, despite their significance, they often face systemic barriers to financing due to information asymmetries, lack of collateral, and perceived riskiness, leading to credit constraints that hinder their development and capacity to invest in long-term growth (Beck, Demirgüç-Kunt, & Maksimovic, 2005; Almeida & Campello, 2007). In this context, government-sponsored loan programs have emerged as policy instruments aimed at mitigating financial market imperfections and bridging the financing gap for small and medium-sized enterprises (SMEs).

One of the central hypotheses underlying the provision of public credit is that easing financing constraints can enable SMEs to optimize input use, invest in capital-intensive or lumpy projects, and scale operations more effectively (Bach, 2014; Guiso, Sapienza, & Zingales, 2004). Empirical evidence increasingly supports this rationale. For instance, Dore et al. (2025) examine the impact of Japan's Managerial Improvement Loan (MIL) program and demonstrate that firms receiving government-backed credit exhibit persistently higher employment, capital investment, and sales growth compared to similar non-recipient firms. These effects are not only immediate but also durable, indicating that public loans reach firms excluded by private capital markets and offer transformative value.

The persistence of credit constraints in private lending, despite firm growth, underscores a key motivation for government intervention. In theory, once firms establish track records and improve balance sheets, private credit should step in. However, as Dore et al. (2025) find, the debt structure of

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MIL loan recipients continues to differ substantially from their counterparts, suggesting that market frictions and lender conservatism endure, thus necessitating ongoing public credit intermediation.

This review aims to synthesize and interpret the qualitative insights emerging from a growing body of literature on the relationship between government loan programs and small business performance under credit constraints. We explore three interrelated themes: (1) the extent and nature of financial frictions affecting SMEs, (2) the mechanisms and efficacy of targeted loan interventions, and (3) the longer-term outcomes on firm behavior, investment, and growth. By qualitatively reviewing cross-national studies, institutional reports, and firm-level analyses, this paper seeks to clarify how public credit schemes function as developmental levers, particularly in financially segmented markets.

Credit Constraints and Firm Dynamics. Financial frictions—such as credit rationing, risk-based discrimination, or underdeveloped capital markets—distort firm behavior, especially among SMEs (Clementi & Hopenhayn, 2006; Cooley & Quadrini, 2001). Credit-constrained firms often underinvest in productive assets or delay strategic reorganization, leading to suboptimal growth paths (Denis & Sibilkov, 2009; Farre-Mensa & Ljungqvist, 2016). The classic work of Almeida and Campello (2007) illustrates that financially constrained firms display higher sensitivity of investment to internal cash flows, a dynamic that limits responsiveness to growth opportunities.

A range of methods has been employed to empirically capture these constraints. For instance, Hadlock and Pierce (2010) develop a firm-level index based on size and age, while Whited and Wu (2006) employ a structural model incorporating investment and cash flow metrics. These methodologies highlight the heterogeneity in constraint severity and the difficulty of generalizing across firms and contexts. In parallel, qualitative studies and survey-based assessments have revealed that many SMEs perceive access to finance as a primary obstacle to expansion (Bradshaw, 2002; Brown & Earle, 2017).

Importantly, constraints are not uniform across time or space. During downturns or crises, private lending contracts more acutely for smaller firms (Bonfim, Custódio, & Raposo, 2023; Arellano, Bai, & Kehoe, 2019), exacerbating existing frictions. This countercyclical effect justifies public financial interventions that can stabilize funding access and encourage investment continuity during economic shocks (Amamou, Gereben, & Wolski, 2023; Gereben et al., 2019).

Government Loan Programs: Mechanisms and Objectives. Government loan programs are typically justified as second-best solutions to correct market failures. These programs include direct loans, partial guarantees, or interest rate subsidies, all designed to de-risk lending to SMEs (Caselli et al., 2019; Lelarge, Sraer, & Thesmar, 2010). While the modalities vary by jurisdiction and institutional design, their shared goal is to catalyze private investment that would otherwise be unattainable due to credit rationing or adverse selection. A clear and supportive regulation from the government can serve as a driver for SMEs to utilize cloud computing technology in order to enhance their efficiency and competitiveness (Rizal, M., et al., 2022).

Several studies have explored the effectiveness of these schemes. For example, Bach (2014) assesses a French targeted credit program and finds significant gains in firm output and employment. Similarly, the U.S. Small Business Administration (SBA) loan guarantees have been linked to higher firm survival and job creation (Craig, Jackson, & Thomson, 2007; Brown & Earle, 2017). In Central and Eastern Europe, European Investment Bank (EIB) lending has supported SME resilience during funding shocks, particularly in the post-crisis era (Asdrubali & Signore, 2015; Bertoni et al., 2018, 2019).

The Japanese case offers a particularly rich lens for understanding these dynamics. The MIL program, administered by the Japan Finance Corporation (JFC), specifically targets managerial improvement and process optimization. As noted by Dore et al. (2025), firms benefiting from MIL support not only grow faster but also allocate capital more effectively—particularly toward long-term and strategic investments. This suggests that targeted public loans can enhance allocative efficiency and foster innovation. Digitalization plays a significant role in driving technological innovation in the micro, small, and medium enterprises sector (Chaidir, M., et al, 2024).

Long-Term Effects and Enduring Frictions. A recurring theme in the literature is the persistence of financial disparities even after public credit injection. According to Uesugi, Sakai, and Yamashiro (2010), public guarantees in Japan do not necessarily translate into easier access to market-based financing afterward. Dore et al. (2025) echo this finding, observing that differences in leverage and credit access between treated and untreated firms remain over extended periods. This indicates that while government programs may act as entry points into credit markets, they do not automatically integrate firms into broader financial ecosystems.

Such persistence has broader implications for financial inclusion and institutional design. If public credit crowds in private investment, it may create a virtuous cycle. But if private lenders continue to view previously excluded firms as risky, government dependency may become entrenched. Research by Wilcox and Yasuda (2019) suggests that such programs may alter bank risk preferences, but not sufficiently to fully displace the need for public intervention.

In light of the mixed but generally positive findings across diverse settings, this review aims to bring a qualitative lens to existing empirical insights. While many studies employ econometric strategies—such as difference-in-differences, regression discontinuity, or instrumental variables (Abadie, 2005; Callaway & Sant’Anna, 2021; Calonico, Cattaneo, & Titiunik, 2014)—the lived experiences of firms, the institutional nuances of program design, and the evolving nature of financial ecosystems are often underemphasized.

This review will therefore examine not only outcomes but also the mechanisms by which public loan programs interact with firm behavior, sectoral characteristics, and regional economic structures. In doing so, we aim to offer a richer understanding of how government lending can sustainably address financial market imperfections and support inclusive business growth..

2. Literature Review

Small and medium-sized enterprises (SMEs) are vital contributors to national economic development, yet they remain disproportionately affected by credit constraints due to market imperfections such as information asymmetries and limited collateral (Beck, Demirgüç-Kunt, & Maksimovic, 2005; Almeida & Campello, 2007). These constraints hamper their ability to grow, invest in innovation, and withstand financial shocks (Farre-Mensa & Ljungqvist, 2016). As a response, many governments have introduced loan programs aimed at alleviating these frictions and catalyzing firm growth. Technology readiness and organizational learning play a crucial role in the cloud computing adoption strategy among SMEs in Jakarta (Ruslaini, & Muhammad Rizal, 2022).

One of the most comprehensive recent studies in this area is by Dore, Okazaki, Onishi, and Uesugi (2025), who analyzed Japan’s Managerial Improvement Loan (MIL) program using firm-level data and loan-level microdata. Their findings reveal that firms receiving MIL loans experienced significantly higher growth, especially in employment and capital investment. Importantly, these effects persisted over time, suggesting that private credit did not substitute for the initial government financing. This finding aligns with earlier studies on financial constraint persistence (Whited & Wu, 2006; Hadlock & Pierce, 2010). The financial knowledge of micro small and medium enterprises in Jakarta had a partial influence on financial management behavior as well as personality variables showing an effect on financial management behavior (Amelia, Y. et al., 2023).

This evidence confirms the longstanding argument that public credit can effectively support firms that private lenders deem too risky. For instance, Lelarge, Sraer, and Thesmar (2010) analyzed a French loan guarantee program and found that subsidized credit improved firm outcomes even when traditional banks were reluctant to lend. Similarly, Brown and Earle (2017) documented how Small Business Administration (SBA) loans in the United States enhanced SME growth, particularly in underserved markets.

Beyond individual countries, regional programs such as those in the European Union have also demonstrated strong outcomes. Bertoni, Colombo, and Quas (2018) found that EU-funded guarantee

instruments significantly improved the profitability and employment outcomes of SMEs in France. Likewise, Asdrubali and Signore (2015) showed that EU guarantees boosted credit flows in Central and Eastern Europe during financial crises.

During periods of systemic risk, the role of public credit becomes even more pronounced. Amamou, Gereben, and Wolski (2023) assessed the European Investment Bank's (EIB) intermediated lending during funding shocks and confirmed that government support effectively stabilized credit supply to SMEs. This complements earlier macro-level research by Arellano, Bai, and Kehoe (2019), which found that financial frictions intensify volatility in firm-level growth and investment behavior during downturns.

The mechanisms by which credit constraints affect firm decisions are well documented. Almeida and Campello (2007) demonstrated that firms with higher financial constraints tend to depend heavily on internal funds for investment, which restricts their responsiveness to growth opportunities. Heitor and Weisbach (2004) added that firms under constraint exhibit higher cash flow sensitivity, making them more vulnerable to liquidity shocks. These patterns underscore the need for external financing solutions that can buffer such vulnerabilities.

Qualitative and policy-focused studies further emphasize the importance of structural support. Bradshaw (2002) found that U.S. small business loan guarantees significantly contributed to local economic development and employment growth. In the UK, Cowling (2010) observed that guarantee schemes helped address credit rationing by partially offsetting lender risk, thus expanding the pool of bankable firms.

Even in economies with sophisticated banking sectors, targeted government loans remain critical. Behr, Norden, and Noth (2013) found that privately held firms—especially smaller ones—faced persistent financing challenges due to conservative bank lending behavior, despite economic recovery. Similarly, Uchida and Udell (2019) noted that post-crisis banking in Japan continued to be risk-averse, justifying long-term government involvement in SME credit markets.

Importantly, empirical evaluations have employed advanced econometric strategies to control for selection bias and unobserved heterogeneity. Abadie (2005) and Callaway and Sant'Anna (2021) contributed to the methodological toolkit with robust difference-in-differences and multiple time period estimators, which have been widely used in recent impact evaluations (Calonico, Cattaneo, & Titiunik, 2014; Goodman-Bacon, 2021).

In addition to growth outcomes, public loans appear to influence firm-level production decisions. Garmaise (2008) found that constrained firms altered both labor and capital inputs in ways that undermined long-term efficiency. In contrast, Dore et al. (2025) found that MIL loan recipients optimized production processes post-loan, suggesting that public credit facilitated structural improvements.

Yet challenges remain. While loan programs boost access to finance, they do not always integrate firms into broader credit markets. Uesugi, Sakai, and Yamashiro (2010) highlighted that public credit guarantees in Japan did not necessarily improve subsequent private bank lending. Wilcox and Yasuda (2019) similarly showed that government loan guarantees reduced bank risk aversion in the short term but did not significantly increase non-guaranteed lending.

Overall, the literature indicates that well-targeted government loan programs are instrumental in reducing financing constraints and enabling small business growth. These programs are especially effective when private lenders withdraw during recessions, as noted by Bonfim, Custódio, and Raposo (2023), and are critical to supporting strategic investments and employment during uncertain times.

3. Proposed Method

This study adopts a qualitative literature review methodology to systematically explore and synthesize the body of knowledge on the role of government loan programs in fostering small business growth under credit constraints. Unlike meta-analyses or purely quantitative systematic reviews, a qualitative literature review emphasizes interpretive analysis, thematic pattern recognition, and conceptual integration across various studies (Snyder, 2019).

The review was guided by a problem-centered approach (Boell & Cecez-Kecmanovic, 2015), focusing on how credit constraints inhibit small business growth and how targeted government lending interventions alleviate these constraints. Given the multi-disciplinary nature of the topic—spanning finance, public policy, development economics, and entrepreneurship—the review encompasses empirical studies, policy evaluations, and theoretical frameworks from peer-reviewed journals, institutional reports, and working papers published up to 2025.

To ensure both breadth and rigor, the literature was identified using targeted keyword searches such as “government loan programs,” “SMEs,” “financial constraints,” “credit access,” and “loan guarantees” in major academic databases. Only articles written in English and published in scholarly outlets with peer review or institutional credibility (e.g., European Investment Fund, Japan Finance Corporation, U.S. Small Business Administration) were included.

The inclusion criteria followed the SPIDER framework (Sample, Phenomenon of Interest, Design, Evaluation, Research type), commonly used in qualitative evidence syntheses (Cooke, Smith, & Booth, 2012). Studies were included if they: Focused on small businesses or SMEs, Addressed government loan programs or credit guarantee schemes, Examined financial constraints as a limiting factor, Employed either empirical evaluation or conceptual analysis relevant to firm growth.

Following the literature gathering stage, an inductive thematic analysis was used to identify recurrent concepts, patterns, and tensions in the data (Braun & Clarke, 2006). Articles were coded according to themes such as: Credit constraints and SME performance, Government interventions in credit markets, Long-term investment and productivity, Comparative program outcomes across countries and time periods.

For instance, the findings of Dore, Okazaki, Onishi, and Uesugi (2025) on Japan’s MIL program were coded under both “employment impact” and “persistent credit gap,” while studies like those of Bertoni, Colombo, and Quas (2018) were grouped under “EU guarantee instruments and SME profitability.” This thematic categorization helped reveal both convergence and divergence across geographic, institutional, and methodological contexts.

To ensure the quality and reliability of included studies, the Critical Appraisal Skills Programme (CASP) checklist was used (Singh, 2013). Each study was evaluated for clarity of objectives, appropriateness of methods, data validity, transparency in analysis, and relevance to the research question.

The synthesis process followed the narrative integrative model as proposed by Whittemore and Knafl (2005), which allows for the combination of theoretical, empirical, and contextual insights. The approach supports the construction of a coherent understanding of how government loan programs influence firm-level outcomes under credit constraints, while acknowledging the diversity in research designs and national policy contexts.

While this qualitative review captures a wide range of influential studies, it is not exhaustive. The exclusion of non-English studies may introduce language bias, and publication bias is a possibility due to the focus on peer-reviewed and institutional sources. However, the inclusion of recent high-impact studies (e.g., Bonfim, Custódio, & Raposo, 2023; Amamou, Gereben, & Wolski, 2023) and comprehensive policy evaluations (e.g., Asdrubali & Signore, 2015) ensures that the most current and policy-relevant evidence has been integrated. By synthesizing the findings thematically, this review aims not only to map existing knowledge, but also to identify gaps where further empirical or policy-oriented

research is needed—particularly regarding long-term impacts and the role of private credit substitution after government loan interventions.

4. Results and Discussion

This qualitative literature review identifies four major thematic findings regarding the role of government loan programs in bridging financial gaps for small businesses facing credit constraints. Government Loan Programs Enhance Firm Growth and Investment under Credit Constraints. Government-sponsored loan programs have a significant positive impact on the growth trajectories of financially constrained firms, particularly in enhancing fixed investment and long-term capital allocation. For example, Dore et al. (2025), in a study of Japan's Small Business Managerial Improvement Loan (MIL) program, found that recipient firms experienced higher employment growth, capital investment, and sales performance compared to similar non-recipient firms. Importantly, the effect was persistent over time, indicating that government loans did not merely crowd out private credit but rather served as a complementary source of long-term capital.

This finding is reinforced by Almeida and Campello (2007), who show that firms facing tighter financial constraints exhibit more sensitive investment responses to credit access, especially when asset tangibility is low—common in SMEs. As a result, public loan programs function as investment enablers, particularly for firms that would otherwise not receive sufficient private credit.

Public Credit Interventions Fill Persistent Credit Gaps Left by Private Lenders. Credit constraints are not only cyclical but often structural, especially for small firms lacking collateral, credit history, or formal financial disclosures (Beck, Demirgüç-Kunt, & Maksimovic, 2005). Findings from Bonfim, Custódio, and Raposo (2023) demonstrate that even during economic recoveries, private lenders tend to restrict credit access to riskier SMEs, making government loan guarantees and subsidized programs essential for long-term financial stability in this segment.

Similarly, Wilcox and Yasuda (2019) highlight that government loan guarantees reduce the risk aversion of banks, especially during downturns, thereby improving the flow of funds to otherwise neglected borrowers. However, they caution that such guarantees must be carefully structured to avoid excessive risk-taking by financial institutions.

Government Credit Programs Lead to Production Optimization and Employment Gains. Multiple studies have found that government loans do more than just fill financing gaps—they enable reallocation of internal resources towards more productive, growth-oriented uses. In the case of the Japanese MIL program, Dore et al. (2025) document that loan recipients shifted toward more capital-intensive production and optimized labor allocation, resulting in sustained increases in labor productivity and employment.

Likewise, Brown and Earle (2017), analyzing SBA loans in the U.S., found that firms receiving government-backed loans increased their capital intensity and output per worker, suggesting that such interventions improve the efficiency of production factors. These results align with theories presented by Garmaise (2008), who shows that financial constraints suppress firms' optimal input choices and reduce productive efficiency.

Loan Guarantee Schemes Have Measurable Macroeconomic Spillovers. Public loan programs not only impact firm-level outcomes but also produce broader regional and macroeconomic benefits. For instance, Craig, Jackson III, and Thomson (2007) found that Small Business Administration (SBA)-guaranteed loans contributed to local economic development, increasing business formation, job creation, and per capita income.

In Europe, Asdrubali and Signore (2015) assessed EU-funded credit guarantees and found positive effects on SME growth, job creation, and resilience during financial crises, particularly in Central and Eastern European economies. Similarly, Bertoni et al. (2019) documented that the growth impact of

EU guarantee programs persisted for at least three years, with recipient firms outperforming their peers in both profitability and employment growth.

Summary of Key Empirical Evidence.

Study	Country/Region	Program	Key Findings
Dore et al. (2025)	Japan	MIL	Higher employment, capital investment, production efficiency
Bonfim et al. (2023)	Portugal (EU)	Various SME supports	Small firms supported through recessions and recoveries
Brown & Earle (2017)	United States	SBA loans	Capital deepening and productivity gains
Bertoni et al. (2019)	EU	EU Guarantee Instrument	Profitability and growth in SMEs
Craig et al. (2007)	United States	SBA guarantees	Regional job creation and income growth

These findings strongly suggest that government loan programs play a crucial, non-substitutable role in enhancing firm-level growth and macroeconomic resilience, especially where private market failures persist. Furthermore, evidence shows that such programs are most effective when designed to target constrained firms, paired with monitoring systems to prevent moral hazard and ensure that funds are used productively.

DISCUSSION

Government loan programs have long been central to strategies aiming to address persistent credit market failures, especially those affecting small and medium enterprises (SMEs). This literature review has synthesized a wide range of empirical and conceptual studies to better understand the mechanisms, effectiveness, and limitations of such interventions in facilitating small business growth under financial constraints. The following discussion unpacks the implications of these findings by comparing them with key contributions from previous studies and by assessing the policy relevance of emerging patterns.

Financial Constraints and Firm Growth: The Central Role of Government Lending. The literature consistently shows that financial constraints significantly limit firm investment and expansion, particularly for SMEs that lack collateral or financial track records (Beck, Demirgüç-Kunt, & Maksimovic, 2005). Studies like Almeida and Campello (2007) highlight that constrained firms exhibit high sensitivity to internal financing, making access to external funds—particularly government-backed loans—essential for growth.

This review's findings corroborate the central role of public credit, as evidenced in the study by Dore et al. (2025), which found that recipients of Japan's MIL program experienced significantly higher employment growth and capital investment compared to non-recipient counterparts. These findings align with Brown and Earle (2017), who demonstrated that SBA-

backed loans in the United States were associated with higher productivity and employment levels, confirming that government credit can enable firms to overcome growth-inhibiting liquidity bottlenecks.

Moreover, Garmaise (2008) reinforces this by showing that financially constrained firms make suboptimal input decisions, suppressing both labor and capital productivity. Government loans help rectify this by enabling more optimal production processes, as also seen in Dore et al. (2025), where MIL loan recipients transitioned toward capital-intensive and more efficient production models.

Persistent Market Failures and the Irreplaceability of Public Credit. One of the most striking insights across the reviewed literature is the persistent nature of credit gaps, particularly for firms deemed too risky by private lenders. Wilcox and Yasuda (2019) found that government guarantees influence banks' willingness to lend, especially during downturns, but these guarantees often do not substitute private credit in the long term—rather, they fill a structural gap.

This aligns with the evidence from the EU presented by Bertoni et al. (2019), where firms supported through public guarantees exhibited sustained employment and revenue growth over a three-year horizon. In both cases, private capital did not crowd out public support but was complementary, suggesting that public financing remains essential even in stable periods. The persistence of credit disparities was also observed by Bonfim, Custódio, and Raposo (2023), who analyzed how government interventions protected SMEs in Portugal during economic downturns. They concluded that government support was most effective when targeted toward firms with chronic financing barriers, not just during crises, emphasizing the need for sustained rather than episodic intervention.

Policy Effectiveness Varies by Design and Targeting. While public loan programs generally improve SME access to finance, the effectiveness of such interventions varies depending on policy design and targeting mechanisms. Lelarge, Sraer, and Thesmar (2010), studying a French credit guarantee scheme, found that programs with lax screening mechanisms tended to misallocate credit to less viable firms, diminishing overall economic impact.

In contrast, programs like the EU-funded guarantee schemes evaluated by Asdrubali and Signore (2015) and Amamou, Gereben, and Wolski (2023) were designed with structured intermediaries and performance-based metrics, which improved allocation efficiency and generated positive spillovers for job creation and regional growth.

The Japanese MIL program discussed by Dore et al. (2025) reflects an effectively targeted system, where loans were provided to firms with demonstrable constraints and growth potential. This supports the argument by Bach (2014) that “selectivity matters”: targeted support is more effective than broad subsidies, especially in constrained credit markets.

Long-Term Growth and Investment Outcomes. Another common theme across the studies is the long-term benefit of public loan programs on investment quality and firm resilience. According to Braguinsky et al. (2020), historical government interventions during Japan's early industrialization encouraged not just scale, but also product diversification and innovation, leading to durable economic transformation.

These patterns persist in modern data: Dore et al. (2025) and Brown and Earle (2017) both document that investment in long-term assets, such as capital infrastructure or R&D, becomes more viable with access to stable public financing. This is consistent with Arellano, Bai, and

Kehoe (2019), who theorize that financial frictions distort investment horizons, and public credit acts as a counterbalance by encouraging long-term planning.

Furthermore, Bonfim et al. (2023) confirm that firms receiving government loans tend to retain workers longer and invest through downturns, improving their post-crisis competitiveness. This reinforces the notion that government loans have an investment-stabilizing function, essential for SMEs whose survival is closely tied to liquidity cycles.

Spillover Effects and Regional Development. Government loan programs not only produce firm-level benefits but also have macroeconomic and regional implications. Craig, Jackson III, and Thomson (2007) found that SBA-guaranteed lending in the U.S. led to measurable improvements in regional employment, per capita income, and local entrepreneurship.

Similarly, Caselli et al. (2019) analyzed Italy’s public guarantee scheme and found it significantly improved SME profitability, indirectly contributing to tax revenues and employment stability. These externalities suggest that government loan programs function as regional development tools, not merely firm-level supports.

This is further supported by the study of Amamou et al. (2023), which revealed that EIB intermediated lending had significant spillover effects across regions in Europe during funding shocks, especially in Central and Eastern Europe. These findings emphasize the potential of well-structured public lending programs to address spatial inequalities in credit access.

Cross-National Comparisons: Institutional Context Matters. While the effects of government loan programs are broadly positive, institutional context significantly mediates program outcomes. In Japan, the strong coordination between the Small and Medium Enterprise Agency and the Japan Finance Corporation ensures that loan screening, distribution, and monitoring are well-integrated (Uchida & Udell, 2019). This institutional framework supports the effectiveness observed by Dore et al. (2025).

By contrast, the study by Lelarge et al. (2010) in France warns of program dilution when guarantees are overly politicized or poorly monitored. This highlights the importance of governance quality and transparency in determining program success.

Furthermore, Cowling (2010) found that UK loan guarantees helped SMEs, but their impact was muted by bank conservatism and administrative bottlenecks, underscoring the need for cooperation between public and private actors.

Comparative Synthesis Table: Eight Key Studies.

Study	Country	Program	Key Contribution	Relation to Current Findings
Dore et al. (2025)	Japan	MIL	Higher growth & capital investment	Central reference; supports long-term effects
Brown & Earle (2017)	U.S.	SBA Loans	Enhanced productivity & job growth	Strong empirical parallel
Bonfim et al. (2023)	Portugal	SME crisis support	Long-term firm resilience	Supports investment stabilization

Study	Country	Program	Key Contribution	Relation to Current Findings
Bertoni et al. (2019)	EU	EU Guarantees	Growth & employment over 3 years	Aligns with persistent effects
Wilcox & Yasuda (2019)	Japan	Loan guarantees	Risk redistribution in banking	Confirms structural credit gaps
Lelarge et al. (2010)	France	Loan guarantees	Misallocation risks if poorly targeted	Warns of policy design flaws
Caselli et al. (2019)	Italy	Public guarantees	Improved profitability	Illustrates spillovers
Craig et al. (2007)	U.S.	SBA Guarantees	Regional development	Highlights macroeconomic benefit

The evidence confirms the theoretical frameworks of financial constraints (Clementi & Hopenhayn, 2006; Cooley & Quadrini, 2001), which posit that firm growth is endogenously limited by liquidity access. Government credit programs act as external shocks to firms' financing constraints, enabling optimal input reallocation and increased investment (Heitor & Weisbach, 2004).

From a policy standpoint, this review supports sustained government intervention in SME credit markets, especially in economies with fragmented private lending sectors or weak financial inclusion. However, for these programs to be efficient, they must be well-targeted, performance-monitored, and institutionally coordinated.

The literature strongly supports the view that government loan programs are critical tools for addressing enduring credit frictions faced by small businesses. Their success depends not only on capital provision but also on strategic design, institutional alignment, and market timing. This review affirms that when well-executed, such programs not only boost individual firm outcomes but also contribute to broader economic resilience and inclusive development.

5. Conclusions

This qualitative literature review has explored the intersection between government loan programs and small business growth in the presence of persistent credit constraints. The accumulated evidence from global empirical studies confirms that public lending programs play a crucial role in addressing market failures that disproportionately affect SMEs. These programs not only alleviate financing bottlenecks but also enhance firms' ability to invest in long-term projects, re-optimize production inputs, and achieve higher employment and revenue growth.

Notably, government loan initiatives such as Japan's Managerial Improvement Loan (MIL) program (Dore et al., 2025) and the U.S. SBA loan schemes (Brown & Earle, 2017) demonstrate that well-targeted and effectively administered public credit mechanisms can significantly accelerate firm-level development. These findings are further reinforced by European evidence, such as the EU-funded guarantee programs (Bertoni et al., 2019; Amamou et al., 2023), which highlight the broader economic spillovers of credit facilitation in financially constrained environments.

The literature also underscores that such interventions are particularly impactful for firms lacking collateral or operating in risk-averse financial systems. Rather than crowding out private lending, public credit often fills a structural void that private institutions are unable or unwilling to address (Wilcox & Yasuda, 2019). Consequently, government loan programs not only correct short-term inefficiencies but also support inclusive and resilient economic development.

However, this review also reveals that program success is contingent upon several critical design factors, including targeted eligibility criteria, robust screening and monitoring systems, institutional coordination, and alignment with broader development strategies. Where these elements are lacking, the risk of credit misallocation and suboptimal impact increases, as shown in the studies of Lelarge et al. (2010) and Caselli et al. (2019).

Overall, the synthesis of findings suggests that when properly designed and managed, government loan programs are not merely reactive tools during financial crises, but proactive instruments of long-term economic strategy. They foster productivity, innovation, and stability within the small business sector—a cornerstone of employment and economic dynamism in most economies.

LIMITATION

Despite the breadth of this review, several limitations must be acknowledged. **Scope and Generalizability.** The review draws upon case studies from a limited set of countries—primarily Japan, the United States, and the European Union. While these cases provide valuable insights, the results may not fully generalize to low-income or institutionally fragile contexts where government capacity or financial system maturity differs significantly. **Temporal Constraints.** Many of the studies reviewed analyze programs implemented during or shortly after financial crises (e.g., Bonfim et al., 2023; Amamou et al., 2023). The performance of these programs in stable macroeconomic conditions remains less documented, which limits understanding of their long-term sustainability and counter-cyclical efficacy.

Lack of Uniform Evaluation Metrics. The reviewed literature employs diverse methodologies (e.g., difference-in-differences, regression discontinuity, matching estimators), which complicates direct comparison of outcomes across contexts. As noted by Callaway and Sant’Anna (2021), variations in estimation techniques can lead to inconsistent effect sizes or interpretations, especially when treatment timing varies. **Exclusion of Informal Sector.** Most studies focus on registered and formal SMEs, thereby omitting a significant segment of businesses—especially in developing economies—operating in the informal sector. The credit needs and responses of these enterprises may differ, suggesting a gap in current academic and policy discourse.

Qualitative Literature Bias. While this review aimed to synthesize findings qualitatively, it remains dependent on the published and accessible literature, potentially introducing publication bias. Studies showing null or negative results may be underrepresented, skewing the overall assessment of program efficacy. **Policy and Institutional Heterogeneity.** Differences in administrative capacity, banking sector development, and political will across countries mean that even similar programs may yield divergent outcomes. As such, the success of a program like the MIL in Japan cannot be assumed to translate directly to another context without adjustment.

This review affirms that government loan programs are instrumental in bridging financial gaps for SMEs, especially under credit constraints. However, to fully realize their potential, future research should broaden geographical coverage, assess long-term impacts under non-crisis conditions, and incorporate mixed-method approaches to evaluate both quantitative and qualitative outcomes. Policy makers should treat government credit initiatives not merely as crisis-response mechanisms, but as strategic pillars in promoting equitable economic development

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