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Leading Practices in MSME Financing: A Systematic Review

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Abstract: SMEs in developing countries encounter obstacles in securing funding and obtaining financial services. The objective of this study was to analyse international SME financing practices and formulate recommendations for SME financing in developing countries. There remains a lack of structured and cohesive publications on this topic. Consequently, it is essential to integrate the research and findings regarding the effectiveness of various financing practices for SMEs. To achieve the research objective, mixed research consisting of qualitative and quantitative approach was used. This paper conducted a systematic literature review on SME financing for the period 2004–2024. PRISMA 2020 approach was used in order to select relevant studies. Countries such as Israel, Singapore and South Korea were selected to analyse the best practices of international SME financing experiences. The analysis showed that the government support is essential for business development, but its direction depends on the political system and cultural characteristics of the country. For example, Israel effectively implements in practice such areas of SME financing as: military and intelligence requirements, immigration policy, the investment in human capital, public-private cooperation programs for financing. For Singapore, the following practices are characteristic and effective: bureaucratic burden reduction, infrastructure development, fiscal policy adjustment through tax rate reduction, and investment in human capital as well as research, innovation, business support through

public-private co-investment programs. For South Korea, the characteristic direction of SME financing is to create its own credit support independent of external investors. In addition, the economic situation in each country plays an important role in the decision-making process of SME support. However, by focusing on the best practices of SME financing and implementing them in an integrated manner, developing countries can achieve similar success in this process. This study is scientifically significant because it has systematised the views on SME financing.

Keywords: MSME; start-ups; financing; venture capital; public lending.

Introduction

Businesses are the leading powers in the national economy. Depending on the socio-cultural and historical essence of the country the economic system could be based on natural resources, monopolies, several big firms, traditional micro, small and medium enterprises (MSMEs), or even innovative start-ups. But the commonness of all these countries is that they couldn't survive long and reach sustainable economic growth without innovative businesses and cannot hold the unemployment rate at low levels without MSMEs (Acemoglu & Robinson, 2013). Indeed, how and through which channels should governments support MSMEs and get a high level of innovation? In other words, how do countries trigger society to think out of the box and apply this mind to the MSMEs? In order to find answers to these questions leading countries' experiences and their economic and social specification should be deeply examined. So, the main aim of this article was to analyse and generalise the overall situation of businesses in developed countries and derive practical recommendations for other countries.

Businesses, especially small and medium ones, are the main sources of employment and a vital part of new workplace creation. According to the OECD paper, 99% of all firms in the OECD countries are SMEs and they account for 60% of business workplaces. Given that the OECD includes major economies like the USA, Germany, Türkiye, South Korea, and others, it is easy to appreciate the significant role that SMEs play in these countries (OECD, 2023). But as the same paper suggests, it is impossible to develop and support MSMEs without digital transformation, economic and political stability, and applying innovative approaches. Countries like Israel, Singapore, South Korea, the USA, and China could implement successful strategies to support innovative businesses, and start-ups and create unicorns. However, there are countries where business-related policies are either unsuccessful or lead to short-term success. Sometimes businesses develop, while a lack of R&D and high-tech investments makes them decline in the future. Such kinds of problems arise from several factors, and one of these factors is wrong financing mechanisms and channels.

Research Problem

The innovative practices of leading countries in SME financing are important references in a solution of underfinancing. Many firms worldwide fail to find the necessary amount of investment to realize their ideas. Especially, innovative businesses suffer from underfinancing. The successful implementation of these concepts necessitates increased investment and reduced bureaucracy (Santos & Cincera, 2022). The experiences of leading economies may offer viable solutions to these challenges faced by developing countries. Innovative financing mechanisms utilized in developed countries promote the growth of innovative businesses, thereby driving economic expansion (Yao & Yang, 2022). Economic development on its behalf is effective in solving capital market problems that cause underinvestment (Bongini et al., 2021).

One of the consequences of underfunding is a rise in unemployment, as small and medium-sized enterprises (SMEs) are crucial providers of jobs. Therefore, addressing financing challenges could help resolve numerous macroeconomic issues in developing countries (Rao et al., 2023).

Many scientific works related to the different sources of financing problems already exist. Problems of loans, cash flows, collateral sufficiency, and practices of different countries have been

studied separately. It could seem that the above-mentioned problem is sufficiently studied (Nguyen et al., 2022; Serrasqueiro et al., 2021). However, still financing problems persist, even in developed countries. Few works focus on the general view of the practices of leading countries and their potential for developing countries. This research sought to address this gap and contribute to resolving issues related to underfinancing. It explored how the integration of various leading practices could effectively tackle SME financing challenges in developing countries.

Research Focus

The focus of the research was to generalise different leading practices of different developed countries all over the world and formulate recommendations for the countries that suffer from underfinancing of SMEs.

Research Aim and Research Questions

The purpose of this study was to analyse international SME financing practices and develop recommendations for SME financing in developing countries. Consequently, the study analysed three research questions:

- 1.What areas of SME financing is Israel developing?
- 2.What government support policies contribute to SME development in Singapore and what problems remain unresolved?
- 3.What are the key elements of government support and financing that contribute to the development of SMEs in South Korea?

Literature Review

Numerous studies address the challenges of financing new businesses, with many concentrating on traditional financing mechanisms, including their associated risks and issues. However, there is a noticeable lack of research that explores global best practices for financing innovative businesses, the impact of cryptocurrencies on MSME financing, and an analysis of initial coin offerings (ICOs). In this section, some of these articles and books are mentioned.

Starting from the 1980s Israel shows a big development in the area of innovative start-ups, cyber security and military technology. This increases the interest in the experience of this country. A famous book written on this topic is called “Start-up Nation”. The book introduces an interesting thesis about the driving powers of innovation, business financing, and national development. The authors assert that military experience, historical challenges, immigration policy, business environment, state support programs, transparency, and democracy have combined positive effect on the creation of new innovative and high-tech start-ups (Senor & Singer, 2009). Similar results are also reached in the book called “Israel and the Cyber Threat”. Additionally, one of the shown reasons for innovative business development in Israel is the investments by the state-sponsored fund in artificial intelligence, fintech, blockchain technology, and other contemporary directions (Freilich et al., 2023, p.238).

The articles of Avnimelech, Teubal, and Maune discuss the importance of venture capital (VC) in Israel’s start-up development. Avnimelech and Teubal (2006) research the life cycle of venture capital over 35 years in Israel and divide the development period into 5 phases. On the other hand, Maune (2017) explains how Israeli experience on startup-VC co-evolution could be applied in emerging economies. The article lists the Israeli policy targetings including the creation of a university system, state support, and the development of VC. In addition, Baram and Ben-Israel (2019) argue that the main reason for Israeli business development is the “Academic Reserve” program of Israel Defence Forces (IDF) which allows school graduates to receive academic degrees before mandatory military service. Another article related to technology transfer investigates the problems of climate start-ups in Israel entering emerging markets. The article concludes that Israeli climate start-ups encounter financial and informational challenges while operating in developing countries. Their reliance on government

support, which tends to provide only short-term assistance, exacerbates these issues (Belman Inbal & Tzachor, 2015).

There are many important works about Singapore's business environment and best practices. One of these articles employs both qualitative and quantitative methods to learn factors that affect innovation in Singaporean SMEs. The studied factors are management-based factors like top management team experience and equity-based compensation mechanisms will have a positive effect on innovation. Also, innovation has a positive effect on firm performance. In other words, correct corporate management and compensation mechanisms create innovation-based firms in Singapore. However, the top management team may fail to use innovations to create better firm performance (Das and Zheng, 2008). The paper of Hillner (2022) criticizes Singapore's startup financing system. As the paper mentions, the importance of government support, angel investors, academic incubators, and private venture capital in the start-up financing mechanism of Singapore. However, the author's concern is the equal and transparent access of SMEs to government funds because all private financing sources indirectly rely on the data and feedback from academic incubators and the government. The comprehensive analysis of Singapore's start-up ecosystem is conducted by the Asian Development Bank. According to the research, the government's support for general funding, research and development, high-quality infrastructure, better protection of property rights, ease of doing business, and correct fiscal policy lead to a better business environment and the creation of many successful start-ups. Also, talent attraction through effective immigration policy and funding for in-house talent development adds new game-changers to the Singaporean innovation environment (Pangarkar & Vandenberg, 2022).

Moreover, the practices of other Asian countries like South Korea and China are also important in building innovative business development models. The paper about the side effects of public support for SMEs emphasises the public funding of research and development, public procurement, and technical support in South Korea. However, the research paper shows that government support could lead to fraud cases by businesses and create reluctance to growth (Choi et al., 2022). On the other hand, the decision tree analysis of Yoo et al. (2018) confirms the importance of government support for SME research and development and the benefits of private-public cooperation. Public lending is one of the key support mechanisms for small and medium-sized enterprises (SMEs), playing a crucial role in their financing not only in South Korea but also in the United States (Niazi et al., 2021). Another pertinent study focuses on the venture capital financing scheme implemented by the Chinese government. However, this approach has its drawbacks, including issues related to overregulation. The stringent restrictions imposed on local investment directions make it challenging for private and public funds to effectively collaborate (Li, 2016).

Except for the studies listed above, there are studies related to the experience of Estonia, which is unique because of the shares that the venture capital funds accept. In some cases, venture capitalists accept less than 50% of equity in business equity to motivate owners by relying on their management (Sander & Kõomägi, 2007).

Initial coin offerings (ICO) and other block chain-related financing mechanisms are also studied as a method for SME financing. The papers about the importance of currency innovation (Bendell, 2017), the risks and regulation issues of ICO (Ivashchenko et al., 2018), and the benefits of ICO (Nassr, 2019) are interesting study materials that suggest new directions for SME financing.

The main gap in previous studies is that they focus on the specific country and carry a descriptive character. Some of the studies analyse only the limited forms of financing problems in SMEs, like financing problems of start-ups. So, additional analysis is needed to understand the general view of best practices and their possible application in developing countries.

Materials and Methods

Research Design

The main choice in determining the research design was to focus the study on the inductive method, which is appropriate for the work in progress. In order to analyse the current practices of public SME financing in Singapore, Israel and South Korea, a number of methods were applied. Analysing the previously published papers reveals some commonalities and patterns. The qualitative approach was applied in the analysis of previous studies in the form of content analysis of articles. The quantitative approach was applied in the process of analysing the macroeconomic indicators of the three countries under study. To analyse the situation in Israel, the following indicators were analysed in more detail: immigration flows for the period 1948–2023 by country of arrival, as well as the total number of immigrants who came to Israel from the former Soviet Union (Jewish Virtual Library, n.d.), the level of ease of doing business (World Bank Group, n.d.). To analyse the situation in Singapore, the indicators of the level of ease of doing business (World Bank Group, n.d.), the amount of investment in human capital development (Startup SG, n.d.) were analysed in more detail. To analyse the situation in South Korea, the following indicators were analysed in more detail: GDP per capita for the period 1960–2022, lending rate for the period 1996–2022 (International Monetary Fund, 2023).

Data Collection

For this study, a systematic literature review based on the PRISMA approach (Page et. al., 2021) was chosen as the main research method. To ensure that the results of the study were representative, criteria were defined to answer the research questions. Articles included in the subsequent analysis had to meet the following inclusion criteria:

1. be peer-reviewed with original results;
2. be written in English;
3. the results of the study should be relevant to emerging markets;
4. be relevant to SMEs only;
5. published within the last 20 years, i.e. between 2004 and 2024;
6. the analysis should address MSME financing, including access to finance, innovative financing mechanisms, policy influence and ecosystem support.

Consequently, if articles did not meet the inclusion criteria, they were not used in further analysis and were excluded from the list of selected articles. The literature search was conducted from March to June 2024. The search strategy was designed to include literature published in the searchable databases of Google Scholar, Springer Link, and EBSCO. An initial search of the databases yielded a total of 241 articles (EBSCO, n = 30; Google Scholar, n = 101; Springer Link, n = 84, MDPI, n = 26), each of which was screened for eligibility by comparing titles and abstracts only (Figure 1).

After analysing the data presented in Figure 1, the following conclusions can be drawn. After removing duplicates, a total of 173 articles were identified. Following a review of titles and abstracts, 17 articles deemed irrelevant were eliminated. Subsequently, full access to the analysis and results could not be secured for 25 of the remaining articles. Consequently, 25 articles were also excluded from the analysis. 131 articles were selected for the full text search. At this stage, an additional 109 articles were excluded for various reasons (e.g. the study was not randomised, the study was conducted before 2004, the study did not contain the necessary data), resulting in a final sample of 22 articles.

Data Analysis

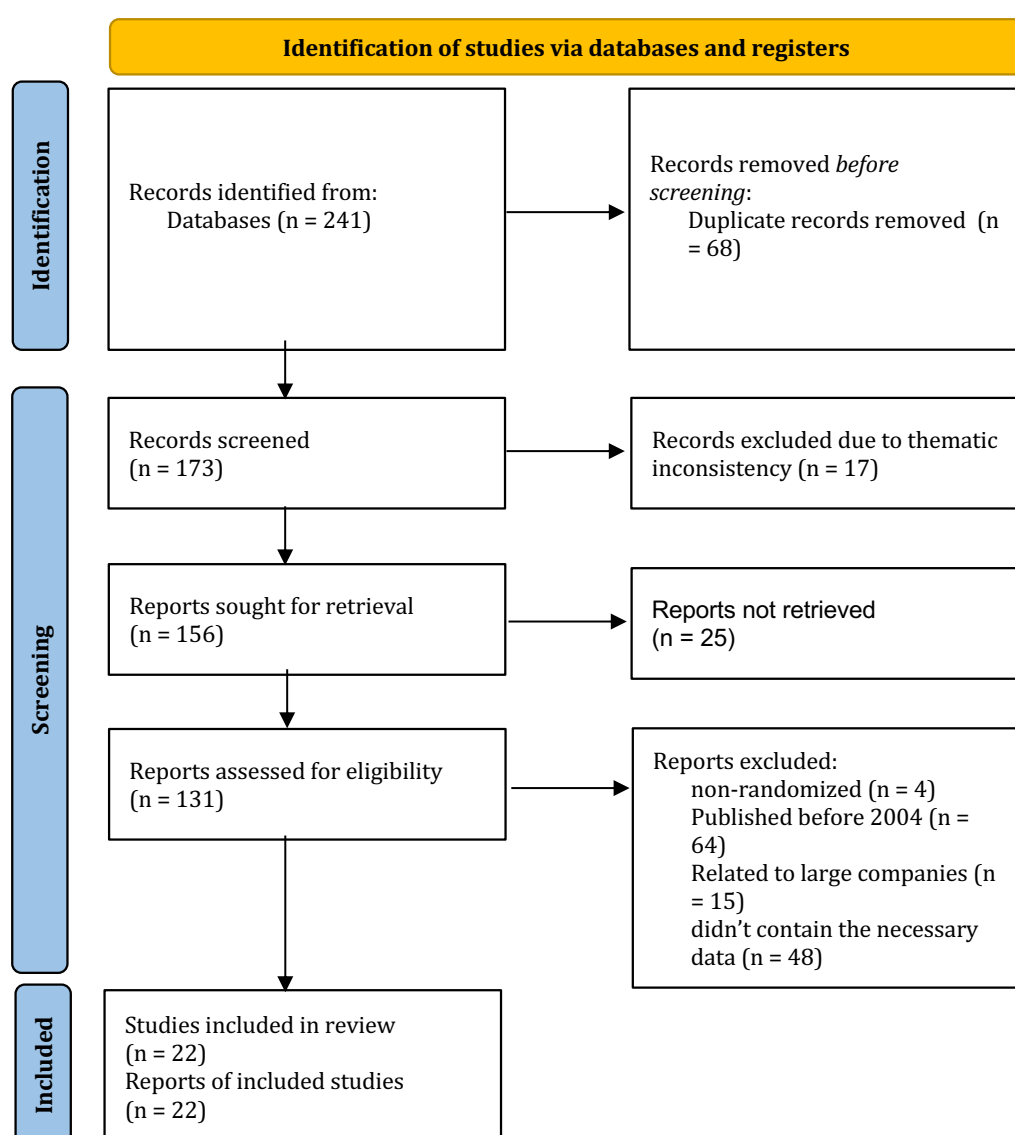
To comprehend the significance of government support for SME financing in certain countries, we gather and compare loan rates and pre-tax operating margins across various nations. The lending rate data for emerging economies such as China, Brazil, and Türkiye in 2023 is sourced from the

International Monetary Fund's (IMF) International Financial Statistics. The data shows lending rates in local currencies (International Monetary Fund, 2023). The data about average operating profit (earnings before interest and tax (EBIT)) margin in emerging economies, China, and Western Europe are taken from the web page of Aswath Damodaran, a professor of Finance at the Stern School of Business at New York University. The EBIT is calculated using the average operating profit of a certain number of firms from several business sectors as of January 2024 (Damodaran, 2024). The frequency of the quantitative information is annual.

To compare lending rates and GDP per capita of South Korea, data from the World Bank and IMF is used. GDP per capita data is annual covering the period from 1960 to 2022. The base year is 2015. Lending rates are also annual covering the period from 1996 to 2023.

Figure 1

PRISMA 2020 Flowchart of a Systematic Literature Review



Source: Compiled by the authors.

Results

SME Financing in Israel

It is important to begin with Israel's experience because it is full of unique cases. Developing well-functioning financing mechanisms requires understanding the specifications of the countries. One of these specifications in Israel is its geographical and political situation. This country is approximately 75 years old; however, it has already encountered two significant wars and various challenges, including enduring political tensions, ecological issues, and migration management. In light of this context, economic development has become a necessity rather than merely a choice for the Israeli government. Also, in order to equip its military and intelligence agency innovation was required. At the beginning of its statehood, Israel was dependent on help from other countries. However, today it is a country that exports a lot of high-tech products. Based on the evaluated previous studies, we can generalize the directions that Israel determined to finance SMEs:

- Demand of the army and intelligence service
- Immigration policy
- Human capital investments
- Public-private cooperation programs for financing
- Socio-cultural specifications of the nation

Demand of the Army and Intelligence Service

Given Israel's geopolitical circumstances, it is essential to cultivate a robust military. Additionally, with a population of only 10 million, achieving a strong military force necessitates significant technological advancements. Examining the impact of digital technologies on the Israeli army, Evron (2020) concludes that digital technologies and new developments have formed the basis of the Israeli army's build-up. They are now spread across all weapons, services and hierarchical levels of the army. However, funding is essential for their further development. So, Israeli officials held the policy to support the technological education of military personnel. Wondering how the small country of Israel can succeed in a competitive industry, Palavenis (2020) studied the Israeli defence industry. As a result of the study, the author concluded that one of the key aspects of success is the funding of the defence industry, which is reflected in the army. Over time, the Israeli defence industry has changed as internal and external circumstances forced it to change. Well-established links between the government, defence institutions, academia, investors and arms manufacturers have contributed to improved weapons quality, innovation and access to export markets. U.S. financial support remains a powerful tool to spur military development. Palavenis (2020) argues that investment in education; government efforts to encourage innovation and corporate spending on R&D, international collaboration in academia and industry, and the adaptability of defence firms remain critical factors in the successful development of the domestic defence industry. Despite the fact that U.S. financial aid represents only 1% of Israel's GDP, researcher Even (2020) also emphasizes the fact that funding contributes greatly to Israel's security and is essential for its continued development.

For example, a unit called Talpiot in the Army of Israel has a 41-month training course. The best performing high school graduates take special physics, mathematics, and computer sciences courses, then remain in the army for nine years. MAFAT, the Israeli Defence Force's (IDF) R&D unit, is responsible for the Talpiot program. Huge investment in the Talpiot program resulted in the development of the military industry. However, there was a technology spill over and those who finished mandatory military service joined the technology start-ups. Businesspeople start to seek those highly trained soldiers to add to their team. These programs not only enhance the military industry but also contribute to the development of human capital in the business environment (Senor & Singer, 2009, pp. 66–80).

Talpiot is not the only program. There is a program that was developed by the Mossad (intelligence agency of Israel) to develop innovative start-ups to meet their cyber security demands. They establish a fund that invests in high technology development, tech start-ups, and R&D in new technologies, including AI and Block chain technologies (Freilich et al., 2023).

These kinds of investments from military and security services to human capital and technology development decrease the financing gap for SMEs in the area of science and technology.

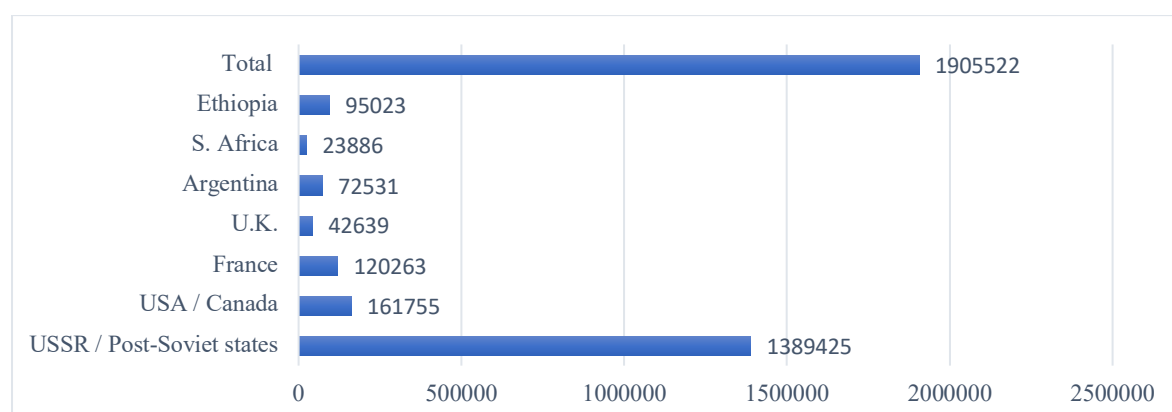
In the USA similar strategies are followed. It is not a secret that some important technological developments started in the military, like GPS and computer networking (internet). Nowadays, various programs in the USA promote the involvement of military veterans in small and medium-sized businesses, aiming not only to foster business development but also to help veterans transition into civilian life (Kerrick et al., 2014).

Immigration Policy

It is not a secret that Israel faced huge waves of immigrants and this process is continuous. The Jewish diaspora organized immigration that started at the end of the 19th century. As in the USA, immigration policy is the main driving power for the economic development in Israel. However, Israel mainly focuses on highly skilled immigrants. Figure 1 shows the sum of immigrated people by countries from 1948 to 2023.

Figure 1

Total Immigration to Israel by Countries in 1948–2023

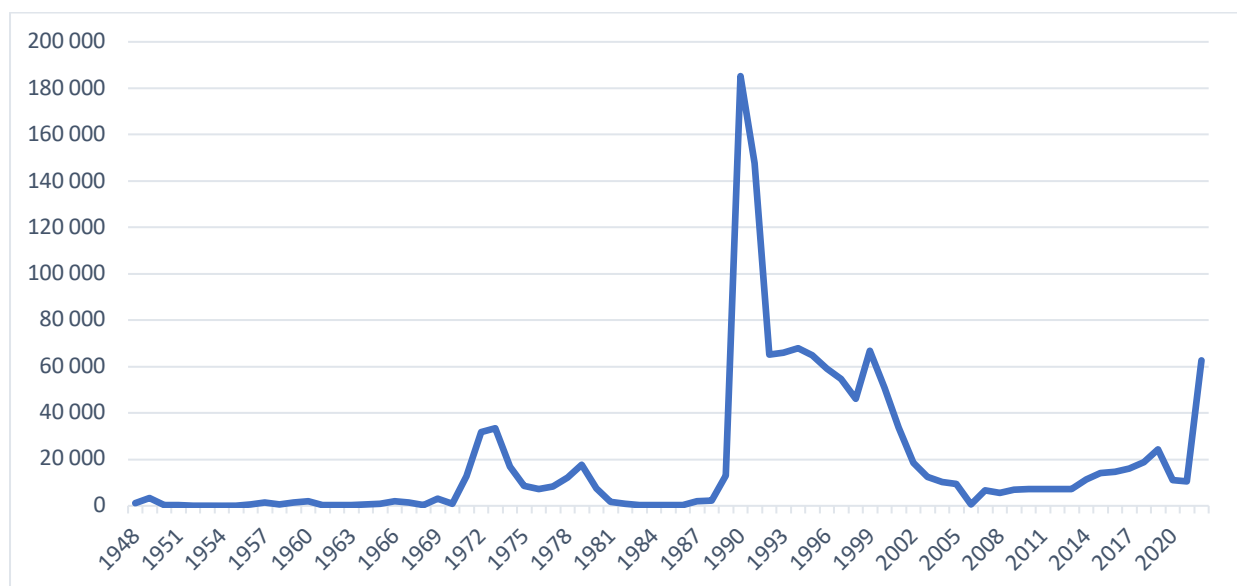


Source: Compiled by the authors using the information from Jewish Virtual Library (n.d.).

In the figure, we can see that between 1948 and 2023 about 2 million people immigrated to Israel. About 73 per cent of them or 1,389,425 immigrants are from the former Soviet Union. Figure 2 shows that the biggest part of those immigrants came to Israel just after the collapse of the Soviet Union.

Graph 2

Immigration to Israel from the Former Soviet Union



Source: Compiled by the authors using the information from Jewish Virtual Library (n.d.).

These people were highly skilled people including scientists, engineers, teachers, and doctors who decided to move from a collapsed country, the USSR. The economic and political turmoil in the USSR discourages highly skilled professionals from residing in the country. So, they moved to different countries all over the world, especially to the USA and Israel. Jewish roots of some of them made it easy for those people to relocate to Israel, while the Israeli government needed these professionals for economic and technological development. The government made huge investments to retrain immigrants and teach language to those who were not fluent in Hebrew. After the training, additional human capital flowed to the start-up projects, universities, and innovation labs (Geva-May, 2000). Despite skepticism regarding the benefits of a low-skilled workforce, immigrants significantly contribute to advancements in high-tech development (Paserman, 2013). Huge immigration also affected the US technology market. People with high level of education contributed to the development of technologies like artificial intelligence and machine learning (Zuckerman, 2019).

Host countries reap significant economic benefits from the use of skilled migrant labour. By attracting migrants with high levels of education and specialization, these countries save significant training costs for their own professionals. Host countries also actively promote skilled migration through recruitment mechanisms and selection systems that facilitate entry and attract the best talent from developing countries. This means that host countries seek to attract talent from abroad to strengthen their economies and meet their growing demand for skilled workers. Migrant workers with the right skills and qualifications can fill these positions and help meet the needs of businesses and enterprises. This contributes to the stability and development of the economy (Peterson, 2013). First, migrants contribute to the country's employment and unemployment rates. The importation of skilled and unskilled labour makes it possible to fill vacancies that, for various reasons, are usually not in demand by the local population. By analysing different case studies, it is possible to identify the positive impact of labour migration on inequality in society. From a positive perspective, labour migration enriches the labour market. Migration is a development factor for a country. This is manifested from both the social and economic side. For the purpose of the research question, we will focus on the economic side. Migration has helped in the past and will help in the future by compensating for the shortage of labour and skilled workers in destination countries. Migrant workers contribute to the economy in various ways, including entrepreneurship and increased consumption of goods and services. An increase in the number of migrants leads to an increase in the overall demand for labor,

which contributes to economic growth. In addition, if migrants have high skills and qualifications that foster innovation, this can lead to the creation of new jobs. Second, immigration affects the economic growth of the host country. Third, the impact is seen in the entrepreneurial aspects of immigrants. The United Nations (UN) argues that immigrant entrepreneurs expand the range of goods and services available and revitalize parts of a city, preventing or even reversing decay. Migrant entrepreneurs often possess skills that are no longer available in sufficient quantities in host countries, are willing to work long hours, and use their social capital to reduce production and transaction costs (International Labor Organisation, 2010). Together, they influence and set the pace for the level of inequality in society. So, it is important to finance migration and adaptation policies that attract high-skilled workforce.

Human Capital Investments

As mentioned above, the main direction of Israeli high-tech SME financing is human capital. This process requires heavy investments in educational infrastructure and R&D in the country and sponsoring local students for education abroad. That experience is not unique to Israel. State financing of education is broadly applied practice. Germany and South Korea exemplify effective practices in implementing the university-government-industry cooperation model, which emphasises government support for research and development related to industry. However, some countries fail to transfer educated people to driving powers for the economy. One of the examples is brain drain. If there is not a suitable business environment, then highly skilled people leave the country for better business environments (Aliyev et al., 2023). So, educational development should be followed by creating a better environment. In Israel, the initiative began with military education aimed at addressing the needs of the defence industry. The government facilitated the overseas training of numerous young soldiers, particularly leveraging support from the Jewish diaspora. Notably, in the United States, these soldiers received education focused on military and technological advancements. This also explains why foreign investors aren't afraid of investing in Israel, a country in the politically unstable zone. They know that the main capital is not infrastructure that could be damaged by the rockets, but humans working there that provide more value to investors than the risk of the armed conflict (Senor & Singer, 2009, pp.134–146). A “brain circulation” policy is not unique to Israel. It is also adopted by Azerbaijan. There is a State Oil Fund of Azerbaijan Republic (SOFAZ) which is a sovereign wealth fund. Based on SOFAZ's money, from the beginning of 2000 government program for education abroad have been applied. The government sets priority specialties and then selects the best students to send to high-ranked universities all over the world. Recently, those graduates have held high positions in the public and private sectors and have improved government management.

Public-Private Cooperation Programs and Socio-Cultural Specifications

Public-private partnership in SME financing is a broadly applied method of financing in countries where the private sector is unable to take high risks of innovation-based SME investments. The Israeli government also contributed to the business investment where SMEs suffered from underinvestment. This support was in the venture capital sector. Firstly, Israel cooperated with US venture investors and the US government to create a fund called Binational Industrial Research and Development (BIRD). The fund specialized in supporting Israeli start-ups by financing R&D. It played an important role in creating start-up culture in Israel by learning the US experience. However, some US companies were reluctant to invest huge amounts of money in high-risk Israeli start-ups. One of the problems was the former USSR immigrants who had little knowledge about business management but were highly involved in business R&D. BIRD directed money only to the R&D and the government was unable to show additional support for business management. Thus, a new project – Yozma was created. The fund aimed to finance technology start-ups. The government's share in the fund was 40% while 60% share belonged to local and American Venture Capital firms. But government offered firms cheap buying options for its equity in the fund if the Yozma fund would be successful in the future. This was a great deal for investors that would allow them to minimize their risks in venture investments (Senor & Singer, 2009, pp. 147–159). It is crucial to acknowledge that the socio-cultural characteristics of the Jewish community significantly

contributed to the success of government financing programs. Notably, there exists a robust Jewish diaspora across various countries. It makes it easy for Israel to get technological and financial support from countries, like the USA. Secondly, Israel itself as a country has a specific culture of army-civilian integration which resulted from geopolitical situations and the course of history. For example, Estonia has a good start-up environment too. Many foreign investors open offices in Tallinn. However, the army has a very small contribution to business development even if it has (Sander & Kõomägi, 2007).

SME Financing in Singapore

Singapore's experience is one of the leading practices in business development. Unlike Israel in Singapore starting a business is much easier. According to the Israel Innovation Authority in 2021 financing, capability to scale up, and regulation were the top 3 problems for Israeli start-ups. That is why in 2019 at the Ease of Doing Business Rankings index Israel was in 35th place, while Singapore was in the top 10 (in 2nd place) (World Bank Group, n.d.). So, while Israel tries to support businesses using the directions mentioned above, Singapore tries to use a "low entry barriers" policy. In examining alternative sources of finance for SMEs in Singapore, Ang (2021) concluded the following about the inefficiency of traditional finance with the emergence of high-tech firms, traditional sources of finance such as bank debt may not be appropriate because SMEs tend to have low levels of assets available for bank collateral. Bank debt without collateral (borrowing on a "pure" basis) may prove too costly. The advent of crowd funding and the emergence of private exchanges, coupled with the appropriate involvement of strategic investors, bodes well for the continued growth of Singapore's SMEs. Other researchers come to similar conclusions, arguing that SMEs have benefited from crowd funding by not only improving their cash flow but also stimulating bank financing. And the government has contributed with effective remedial measures (Tan et al., 2021). The driving forces behind Singapore's high rate of investment attraction are supportive government policies, effective legal system, strong intellectual property protection, and effective legal system, strong intellectual property protection (Yan, 2024). The government heavily invests in new technologies, logistics, and infrastructure to attract foreign investors. Investors select Singapore to locate their regional offices, because of its better logistics and network infrastructure that increases connectivity. Also, the lower tax rates, tax holidays, and low tax rates on personal income attract not only foreign businesses but also the talents who try to avoid higher tax rates. Talent attraction and investment in research and development are key priorities for Singapore. Avoiding overregulation and low tax rates are followed by financial support for R&D and venture investment by the government. Several programs are launched by the government to attract foreign investors and develop a start-up ecosystem. Initially, the Technology Incubation Scheme (TIS) was developed to solve the underinvestment problem of SMEs. The aim was to coinvest in local start-ups using public and private sectors' funds and give guidance in management (Pangarkar & Vandenberg, 2022). The Enterprise Singapore (ESG) established a start-up investment policy that combined several public support programs. The direction of the programs was to cover all aspects of the business environment development in Singapore. So, through the programs, more than 100 million US dollars were coinvested to attract foreign talents, develop local human capital, technology, and infrastructure, increase financing opportunities, and provide government-backed loans for SMEs. The support is directed using venture capital firms, accelerators, and business incubators (Startup SG, n.d.). Moreover, there is a program at the National University of Singapore (NUS) called the Graduate Research Innovation Programme (GRIP). The program aims to help national university's postgraduates and researchers to transfer their theoretical knowledge into innovation businesses. Through NUS GRIP, university postgraduates and researchers could get up to 250 thousand USD to launch innovation start-ups (National University of Singapore, 2024).

Therefore, we can outline all the areas encompassed by Singaporean practice as follows:

- Decrease bureaucratic burdens and strengthen the protection of the property rights,
- Develop better infrastructure,

- Adjust fiscal policy through lower tax rates,
- Invest in human capital and R&D,
- Support businesses through public-private co-investment schemes.

Although Singaporean practice is supposed to be one of the best practices in business development, there are problems too. Government support could be enough in the early stages of SMEs. However, there is still underinvestment for scale-up. In other words, SMEs couldn't attract enough investment to grow. The same problem exists in Israel too. As mentioned above, one of the top 3 problems of businesses in Israel is constraints for scaling up. This is the main obstacle on the way to transformation from innovation start-ups to unicorns. Another problem for SMEs in Singapore is possible bias in government financing mechanisms. There is criticism of government support organisations for not deciding transparently on start-up financing decisions. The performance tracking system may be ineffective because of the non-disclosure of some important information related to start-up performance by the government. So, private investors have no choice but to rely on data provided by the Singaporean government (Hillner, 2022). As venture capital investment is quite risky, transparency is vital. Otherwise, the investment decision is made with bias that leads to ineffective portfolio allocation. Moreover, another risk in financing is that results of R&D investments are difficult to predict. Because ineffective overinvestment in R&D may result adverse effect, as some innovations are difficult to commercialize (Akhmetshin et al., 2019). To mitigate the risks associated with SME financing schemes, it is essential to establish strong data collection and sharing systems between public and private stakeholders.

SME Financing Practice in South Korea

South Korea has its own way of financing SMEs. Techno-parks (TP), business incubators (BI), government lending schemes, and an effective education-industry relationship are the key characteristics of South Korean start-up financing. The beginning of a better business environment is better education. That is why the Korean government invests heavily in education, and especially in STEM (science, technology, engineering, and math) related education. Starting from 1996 the Korean government created 18 TPs. The plan was to establish TPs in every region of the country and create effective university-techno park interrelation. High-skilled students turn their academic knowledge into start-up ideas with the help of techno parks. In the subsequent stages, business incubators are created within the universities that give expensive equipment and office spaces for student entrepreneurs. There is a Tech Incubator Program for Start-ups (TIPS) in South Korea that is accelerator-driven. TIPS connect start-ups with experienced venture founders who act as angel investors and leaders in technology enterprises, providing support through mentorship and professional guidance. The program facilitates access to research and development funds. Moreover, TIPS prepares start-ups for the global marketplace (Cho et al., 2017). There is also a strong public lending mechanism in South Korea. The government via the Ministry of SMEs and Start-ups determines the business support strategy and executes them using the Industrial Bank of Korea (IBK), the Korea Credit Guarantee Fund, the Korea Technology Finance Corporation, and the Small and Medium Business Administration. The IBK government offers public lending to small and medium-sized enterprises (SMEs) that are considered too high-risk for private banks, which typically shy away from extending loans to these businesses. In addition to financial assistance, IBK also provides non-financial services, including management support and business advisory services (Niazi et al., 2021).

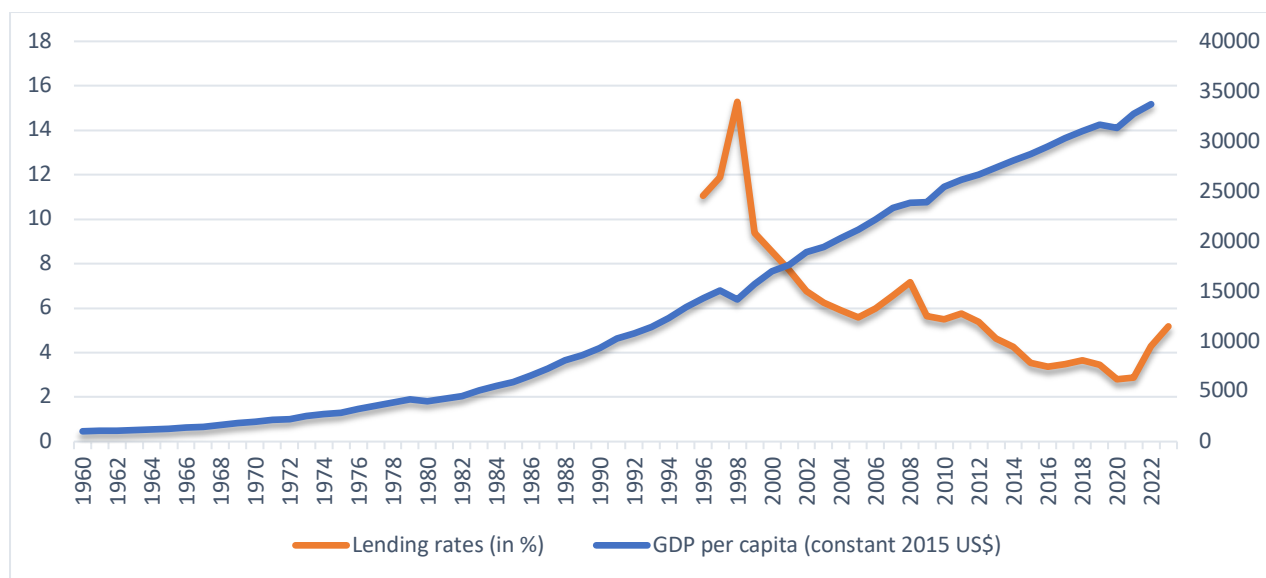
Need for Government Support in Business Lending

Businesses require higher returns and profits to be able to remain solvent and pay off their debts in time. Public lending schemes are one of the key policy instruments to improve access to credit for SMEs. Among the schemes aimed at channelling funds to SMEs, government lending schemes can be fast and accurate. Based on an analysis of such practices around the world, Niazi et. al (2021) found that

such practices are particularly successful in South Korea. Comparing government lending practices in different countries, Khoe and Kim (2015) concluded that government lending programs in Korea are quite effective and have had a positive impact on strengthening the competitiveness of SMEs. In South Korea, IBK was established in 1961, when the Korean economy wasn't well developed. Emerging economies always face different challenges like higher inflation, recession, and unemployment that affect the quality of business financing. As the high risk of SMEs is a general problem for both developed and developing countries, there is an additional problem in developing countries. This problem is a lower profit margin than the lending rates.

Figure 3

GDP per Capita and Lending Rates in South Korea Until 2022



Source: Compiled by the authors using the data from the World Bank Group (n.d.) and International Monetary Fund (2023).

Figure 3 illustrates the GDP per capita of South Korea from 1960 until 2022, and average lending rates from 1996 until 2023. It is evident that as the economy progresses, lending rates generally decline. In other words, as the economy achieves greater sustainability, lending rates tend to fall. So, it is possible that decreasing lending rates in the future would require less support from the government for SMEs. In the preliminary phases of business environment development, the provision of governmental support is essential for fostering growth. This assertion is illustrated clearly in Table 1.

Table 2

Lending Rates and Average EBIT in Selected Emerging Markets

Country	Lending Rate	Average operating profit (EBIT)	Difference
Argentina	87.68%	8.68%	-79.00%
China	4.35%	6.64%	2.29%
Turkey	41.00%	8.68%	-32.32%
Russian Federation	10.41%	8.68%	-1.73%
Qatar	6.45%	8.68%	2.23%
Brazil	43.60%	8.68%	-34.92%
Mexico	11.59%	8.68%	-2.91%
India	8.57%	8.68%	0.11%
Malaysia	5.27%	8.68%	3.41%

Indonesia	8.93%	8.68%	-0.25%
Pakistan	8.67%	8.68%	0.01%
Peru	12.60%	8.68%	-3.92%

Note. Because of the absence of data about lending rates, central bank rates are shown.
Source: Compiled by the authors using the data from the World Bank Group (n.d.) and International Monetary Fund (2023).

The average EBIT of the businesses in different sectors in emerging economies is approximately 8.68 per cent. In China, this number is 6.64 per cent (Damodaran, 2024). However, countries like Turkey, Brazil, and Argentina are suffering from high inflation rates. So, lending rates are above 40 per cent. Also, in Russia, Peru, and Mexico average lending rates are higher than the EBIT. Because of this, it is difficult for businesses to finance their activities without state-supported low-rate loans, grants, and subsidies. It shows that Korea's practice of state-backed lending and other financing mechanisms should be implemented in those emerging countries. Moreover, the Act on Registration of Credit Business and Protection of Finance Users (Private Lending Act) and the Interest Limitation Act implemented by the Korean government are good examples. The Acts limit lenders from charging interest rates above a specified maximum on business loans, safeguarding SMEs from potential financial losses (Korea Development Institute, 2022). By doing so, businesses will gain an opportunity to develop and contribute to the sustainability of the economy. After the stabilisation of the economic and financial system lending rates become adequate. For example, in Europe, the average EBIT was 12.03 per cent in 2023. However, lending rates in the EU in 2022 were between 3.3 and 6.1 per cent (Statista, 2022). In other words, the EU's sustainable economy creates a better financing environment.

Discussions

The objective of the study was to analyse international SME financing practices and develop recommendations for attracting SME financing in developing countries. The focus was on SME financing practices in countries such as Israel, Singapore and South Korea. The key takeaway from the analysis is that government intervention in SME financing is essential when significant financing challenges arise. Moreover, this intervention should extend beyond just fiscal policy measures. The findings on the importance of government intervention in SME financing are consistent with the findings of Rao et al. (2021). The findings of the study indicate that formal financial resources, which are subject to government regulation, play a more critical role in the financial stability and growth of small and medium-sized enterprises (SMEs) compared to informal financial resources. Meanwhile, innovative financial resources that have emerged or developed through the use of technology platforms are also important, referred to as innovation resources. While traditional sources of finance remain in use, SMEs are increasingly gravitating towards new and innovative financial resources due to their enhanced efficiency. Similar conclusions have been reached by researchers pointing to the fact that SMEs fail due to lack of availability and optimal mix of resources and capabilities, limited access to finance (Jayasekara et al., 2020).

As a result of the analysis, it was possible to determine that Israel has developed SME financing areas such as immigration policy and human resource development. However, historical factors were not analysed in depth in this study. As a result of the analysis, it was determined that the development of an effective immigration policy is important for development, which contributes to the further development of SMEs. However, the study only highlighted the positive aspects of immigration for the economy and consequently for SMEs. A major concern for host countries is the public expenditure on immigrants (social benefits), which is determined by the immigrant's age and qualifications. Those immigrants who arrive at working age are expected to make a significant contribution to public finances. For example, a German study found that immigrants aged 30 will contribute 110 thousand euros over their lifetime (International Labor Organisation, 2010). Considering the fact that labour migrants are labour-oriented, it can be assumed that they will contribute significantly to the development of the

country, while offsetting any negative effects on inequality in society. Thus, looking at the positive and negative effects of the impact of labour migration on inequality in Germany, it can be determined that the key factor is a proper and effective migration policy. The findings of this analysis suggest that military and intelligence advancements are crucially significant. Investments in areas such as military services, security operations, human capital, and technological development help to bridge the funding gap for SMEs in the fields of science and technology. The analysis found that many of the technologies that originated as innovations in the military industry are now actively used by companies. Such results of the study are consistent with the work of Guttieri (2014), where the author points to the fact that in the US, the Pentagon has shifted from developing technological innovations to implementing them in the civilian sector. Such a change has proven to be effective.

Singapore is trying to adopt a "low entry barrier" policy for SME development. This increases the number of investors in the country and thus the level of funding. The government is investing heavily in new technologies, logistics and infrastructure to attract foreign investors. In the case of Singapore, many studies highlight the government's innovative approach and the effectiveness of government support mechanisms. But despite these successes, some challenges remain. Government intervention lacks transparency. The experience of leading countries shows that government intervention should be followed by transparency and information efficiency. However, the results are not consistent with the findings of Bannò et al. (2014). Public support in the form of investment effectively increases firm performance in terms of internal sales and productivity growth, especially when it targets small and young firms. Moreover, the effect of incentives is stronger for firms with international experience. The researchers emphasise the importance of governments gaining a deeper understanding of the challenges faced by SMEs. They argue that while short-term financial aid may not yield significant results, more effective assistance should be directed towards comprehensive policies that foster the growth of SMEs' skills and capabilities.

The analysis revealed that South Korea is advancing SME financing through public and government lending programs. The analysis showed that this practice can be effective for other countries as well. Such findings of the study are consistent with the work of Lam and Liu (2020). These findings can help in formulating policies to support SME financing. Expanding access to financial services with guarantees can bring significant benefits. Measures to build a sound financial infrastructure will improve SME lending, including a unified credit registry and expansion of allowable collateral. Expanding sources of finance through the use of technology, subject to appropriate supervision, and eliminating implicit guarantees can support SME financing.

This study is not without its limitations. A primary limitation is the reliance on secondary data sources, which may not adequately capture the most recent advancements and trends in small and medium-sized enterprise (SME) finance. The temporal gap associated with secondary data can introduce biases and may obscure emerging patterns that are critical for a comprehensive understanding of the current landscape of SME financial dynamics. In addition, the scope of the study was limited to some countries, namely Israel, Singapore and South Korea, which could potentially affect the representativeness of the findings. It cannot be argued that the policies introduced in these countries may be useful and as effective in less developed economies. Another limitation is the selection of articles for the last twenty years. The measures applied in SME financing in the early 2000s may no longer be relevant today, and the measures proposed in this study may be less appropriate for the functioning of SMEs in today's environment.

Conclusions and Implications

This article systematically reviewed studies investigating SME financing from 2004 to 2024 using the PRISMA protocol. The Google Scholar, Springer Link, and EBSCO databases were searched for 241 publications, of which only 22 met the selection criteria for this review. The analysis revealed that practices in leading countries demonstrate the critical role of government support in fostering a better

business environment, nurturing innovative companies, and facilitating effective financing opportunities. Based on the socio-cultural characteristics, Israel in the current environment develops SME financing through the sources of army and intelligence, immigration policy, human capital investment, and public-private cooperation programs. In addition, foreign financial and managerial support could bring better results. In the case of Israel, this support is visible because of the strong Jewish diaspora. In particular, Jews in the US contributed to the Jewish-US cooperation that led to the transformation of US business practices in Israel.

Singapore is characterised by the following measures: reducing bureaucratic burdens and strengthening property rights protection, infrastructure development, and fiscal policy adjustment through lower tax rates, investment in human capital, research and development. However, Singapore also faces significant challenges in putting these measures into practice. The challenge lies in the barriers to expansion that are typical for Israeli SMEs. Issues such as a lack of transparency in the funding process, existing biases, and the complexities involved in assessing the outcomes of R&D investments further exacerbate the situation. In the case of Singapore, support is mainly financial. Foreign investment in Singapore plays an important role in business financing. In addition, Singapore is a good example of business development by transforming accumulated wealth into further development.

The Korean case is different from the other two. In Korea, public SME lending is gaining popularity and effectiveness, which can be applied as a good practice in other developed countries. In analysing the SME financing practices in the three countries analysed, it is important to note that a comprehensive approach is needed to establish a well-functioning SME financing and development program. If the management of public financing programs is not well-functioning and transparent, it can create serious reputational risks.

Suggestions for Future Research

Thus, based on the economic and socio-cultural characteristics of countries, there are different best practices in the direction of SME financing. The study of SME financing requires more in-depth research. Since this paper has focused on three developing countries, namely Israel, Singapore and South Korea, it is important to further increase the number of countries analysed. As a result of this study, it has been found that much depends specifically on the economic status of a country. Therefore, it is appropriate to group the countries into the most developed, emerging and least developed countries, depending on the macroeconomic indicators. Therefore, the analysis can compare the three groups of countries. This approach will yield more pertinent insights for each group. As a result, countries within each group can adopt the policies and strategies of the leading nations to enhance the performance of their SMEs.

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Conflict of Interest

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