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Evaluating the Effectiveness of Financial Inclusion Policies on Economic Growth and SME

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Abstract:

This academic paper is a behavioral and technological study focusing on the influence of financial inclusion policies on economic growth and on the development of small and medium-sized enterprises (SMEs) in emerging economies. The paper utilizes a qualitative case study approach to substantiate the claim, employing Prospect Theory to measure the effects of increased access to financial services on the rate of employment, poverty alleviation, and SME survival. The study notes that while the use of digital finance and the launch of initiatives for women can be a source of profit and job creation, there are still obstacles such as very low levels of financial literacy, the need for collateral, mistrust, and social biases. The results show that changes in procedures, regulatory changes and well-targeted educational programs are the main ways of closing financial gaps, particularly for vulnerable SMEs and female entrepreneurs. The conclusions of the paper are further supported by a re-examination of the literature on global research that points to the increasing role of digital financial inclusion and fintech that are the major drivers of SME-led economic progress.

Key words: SME, Financial Inclusion, Economic Growth, FinTech/ digital financial services, Access to finance.

I. Introduction

A significant worldwide concern is the connection between financial inclusion, which is defined as guaranteeing that all societal segments have access to adequate and reasonably priced financial goods and services, and economic growth. Developing policies that efficiently distribute money equitably and eliminate poverty on a larger social scale requires a thorough grasp of this connection. This emphasises how crucial financial inclusion is to long-term, steady economic growth. A vital basis is provided by the historical discussion among academics on the relationship between economic development and the financial sector, as Robinson (1952) demonstrates. Understanding this historical background is essential to understanding current programs such as financial inclusion, which is defined as guaranteeing that all societal segments have access to adequate and reasonably priced financial goods and services. It is believed that this kind of inclusiveness is crucial to promoting economic progress.(Erlando et al., 2020). A significant historical perspective is provided by Robinson's (1952) argument that financial expansion is a response to economic growth rather than its main force, with the financial sector essentially meeting the needs of the actual economy. This viewpoint is fundamental when assessing how financial inclusion policies—which are defined as making sure that all societal segments have access to appropriate and reasonably priced financial products and services—might interact with economic growth and the unique requirements of SMEs in a larger economic context. In line with Robinson (1952), the observations made by Lucas (1988) and Miller (1988) emphasise that the financial sector's growth frequently responds to robust economic expansion rather than serving as its main engine. This historical background is essential for understanding how financial inclusion, which is defined as ensuring that all social segments have access to suitable and affordable financial goods and services, may either actively promote economic growth or react to current activities. (Erlando et al., 2020b). According to researchers like Goldsmith (1969), Gurley and Shaw (1955), Schumpeter (1911), and McKinnon (1973), the financial industry actively fosters economic expansion by making money more accessible. This is further supported by Romer (1986), who connects endogenous growth to the beneficial effects of finance on capital accumulation, investment, and savings. This strong theoretical underpinning is essential to comprehending how financial inclusion, which is defined as guaranteeing that all societal segments have access to adequate and reasonably priced financial goods and services, can support SMEs and successfully stimulate economic growth by facilitating these vital processes (Erlando et al., 2020b).

The given study highlights how this has been a major area of study by going over the historical and changing relationship between the financial sector and economic growth. It highlights how crucial financial technology innovation is becoming as a catalyst for future economic growth. Additionally, the paragraph presents the idea of "financial inclusion" as a critical component of the growth of the financial sector, which is characterised by the availability of formal financial services to all members of an economy. Lastly, it links these financial advancements to the "trickle-down effect," implying that income distribution and economic growth via a healthy banking sector can reduce poverty (Erlando et al., 2020b). A primary goal in developing nations is financial inclusion, which is defined as guaranteeing that all societal segments, including low-income individuals and enterprises, have access to pertinent, reasonably priced, and suitable financial goods and services. According to a 2017 study by Morgan & Pontines, more bank lending to SMEs lowers nonperforming loans (NPLs) and default risk, which in turn enhances financial stability. Another multifaceted study also found a stronger positive correlation between financial inclusion and economic growth in low-income nations with lower initial levels of inclusion, highlighting the critical importance of guaranteeing full access to financial services.(Van et al., 2019)

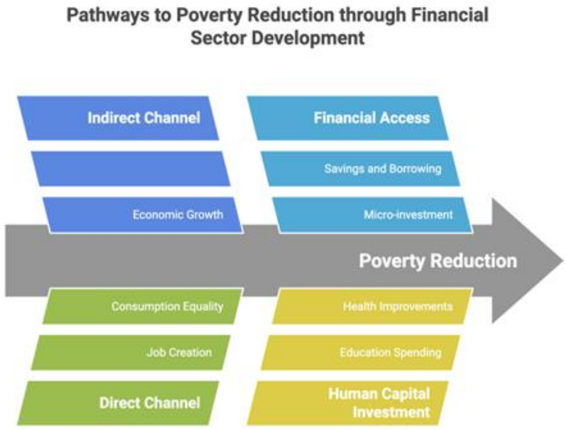

Figure 1. Financial inclusion drives inclusive growth.

Fig 1 explains that financial inclusion, which is defined as ensuring that all socioeconomic sectors have access to pertinent and affordable financial goods and services, is being advanced in large part by fintech. The promise of technologies like mobile banking, blockchain, and peer-to-peer lending to reduce financial obstacles and spur economic development is attracting more scientific interest. FinTech has a lot of promise to promote inclusive growth, but less is known about how it will affect financial stability in the long run and how it will specifically affect the needs of underserved communities. This demonstrates the urgent need for more targeted research in order to properly utilise FinTech's potential to promote inclusive growth (Del Sarto & Ozili, 2025). Despite several obstacles, financial inclusion—which offers everyone affordable financial access—is essential for economic growth. These are successfully addressed by data analytics, which enhances digital payments, identity, credit evaluation, and customised solutions. However, resolving regulatory, data privacy, and infrastructure obstacles is necessary to provide equal advantages. For a strong financial ecosystem that fosters growth and the eradication of poverty, policy proposals such as public-private partnerships, open data, and investments in digital infrastructure and literacy (often with AI and blockchain) are essential (Mukhopadhyay & Chatwin, 2021).

1. Importance of SMEs in Economic Growth

SMEs are essential for innovation, job development, economic diversity, and reducing poverty. Your current research fills a significant vacuum in developing nations by examining cluster-based methods for SME globalisation. Financial inclusion plays a critical role in providing the inexpensive financial access required for such growth, and our study will directly complement it by developing a model for cluster-based industrial SMEs towards globalisation (Foghani et al., 2017). SMEs' development and sustainability are hampered by their difficulty in obtaining financing. Although digital financial inclusion—through blockchain, AI, and mobile banking—offers answers, it still confronts obstacles, including financing shortages and knowledge gaps. This research assesses its effects empirically, offering guidance for the creation of more inclusive and successful policies(Jin & Liu, 2024).Finding reasonably priced loans for a fair amount of time is the main financial issue facing small and medium-sized businesses (SMEs). Their operational finance requirements and investor behavior, which is impacted by their sense of risk and the allure of other investment opportunities, are what propel this. Factors like as government borrowing, the overall state of the economy, collateral availability, the calibre of SME record-keeping, and their investor relations abilities all have an impact on managing this difficulty(Tagoe et al., 2005). Finding reasonably priced loans for a fair amount of time is the main financial obstacle facing small and medium-sized businesses (SMEs). Their operational finance requirements and investor behavior which is influenced by risk perception and the allure of alternative investments, have a significant impact on this dilemma. Factors like government borrowing, the overall state of the economy, collateral availability, the calibre of SME record-keeping, and their investor relations abilities all have an influence on how this scenario is managed(Li et al., 2022).Securing inexpensive finance for an acceptable duration is the primary financial difficulty facing small and medium-sized enterprises (SMEs). Their operational finance requirements and investor behaviour, which are impacted by their risk tolerance and the allure of alternative assets, essentially dictate this. Factors like government borrowing, the overall state of the economy, the availability of collateral, the standard of SME record-keeping, and their investor relations abilities all have a big impact on how this difficulty is handled (Putra, 2024). Small and medium-sized businesses' (SMEs') biggest financial obstacle is finding reasonably priced loans at an acceptable of time. Their operating requirements and investor behaviour, which are influenced by risk perception and the allure of alternative investments, are the source of this difficulty. How this difficulty is handled is greatly influenced by a number of factors, including government borrowing, economic conditions, collateral, record-keeping quality, and investor relations abilities (Rasheed et al., 2019). Small and medium-sized businesses' (SMEs') biggest financial obstacle is finding reasonably priced loans for a fair amount of time. Their operational funding requirements and investor behaviour, which are influenced by risk perception and the allure of alternative investments, are the main drivers of this. Factors including government borrowing, the state of the economy, the availability of collateral, the standard of SME record-keeping, and their investor relations abilities all have an impact on how well they manage this difficulty (Lu et al., 2025).

The effect of financial inclusion, which is the availability of reasonably priced financial services, on long-term economic growth, with an emphasis on SMEs. It draws attention to the fact that, in spite of their crucial function, SMEs encounter several obstacles when trying to receive financial services. These obstacles include high interest rates and strict collateral requirements, which are in line with the main financial difficulty of securing reasonably priced loans over an extended period of time. Your study, which is supported by the Financial Intermediation Theory, shows how better financial management, operational effectiveness, and strategic investments may greatly benefit SMEs through increased access to financial services. In the end, this increases their sustainability and competitiveness, fostering more equitable economic growth by easing market integration and job creation(Nwokike et al., 2024). Insights also highlight important barriers to successful financial inclusion for SMEs that go beyond capital availability. The debate emphasises how difficult it is to obtain inexpensive credit, which we previously addressed, because the expense of obtaining and maintaining financial services is frequently unaffordable. Additionally, it presents important qualitative elements like the challenge of using certain financial services and concerns about respect and dignity in dealings with financial providers. The proposals focus on raising public awareness of a variety of financial services, encouraging digital financial services due to their affordability and security, and lowering the total cost of capital to encourage borrowing and SME competitiveness in order to solve these issues (Eton et al., 2021). A critical issue, as previous studies have not always examined the complex link between financial inclusion policies and the expansion of SMEs in many economies, nor have they thoroughly examined the traits of entrepreneurs and contextual elements. Strengthening financial literacy, a critical 21st-century skill essential for resilience, is urgently needed in the face of growing global difficulties, including digitalisation and new problems like crypto-assets and financial scams. This emphasises the need for trustworthy, comparable data to guide successful interventions [conversation history] and emphasises the need to address earlier issues such as the insufficient education of SME owners and the challenge of using financial services(Kuada, 2021).Rapid technological advancements and the increasing complexity of global financial systems make a thorough assessment of the efficacy of policies imperative. The context in which financial inclusion policies for SMEs operate is directly impacted by new risks, including financial innovation, cybersecurity threats, and cryptocurrencies, which continue to undermine stability despite previous changes that have strengthened resilience [discussion history]. The need for policies that carefully strike a balance between innovation and stability is highlighted by this dynamic environment, especially as SMEs struggle to manage new digital hazards and obtain inexpensive loans [1, discussion history. Therefore, to guarantee flexibility and the ongoing efficacy of financial inclusion policies in promoting economic growth and SME resilience, a methodical review is necessary (Stanciu & Spulbăr, 2024).

II. Literature Review

Theoretical approaches, such as the exogenous growth model that links capital formation and technology to economic growth consider the development of financial technology to be one of the main sources of economic growth in the future. Financial exclusion is the main negative feature of the financial sector, which is the lack of availability and accessibility of formal financial services for economic actors of all kinds. Accessibility is a major goal of international policy in order to achieve properly distributed economic growth, create a strong financial system that facilitates the creation of wealth by the "trickle-down effect" for the purpose of alleviating poverty. The field of inclusive finance is at the early stages of development in both the US and the rest of the world, despite numerous contemporary studies (Khan et al., 2022).The main discussion around the impact of the financial sector on the economic development is whether it leads or merely reflects the actual output. Indeed, financial inclusion remains a vital driver of general economic growth, while the sector is performing poorly and the implementation is almost absent in the Sub-Saharan regions. The list of reasons that have led to this situation includes poor governance, low population density, high levels of informality, political and economic instability, and low institutional quality. Besides, financial integration is being presented as a practical option for the sector's expansion in countries with better institutional quality (Chima et al., 2021).The essential role that financial intermediaries play in driving the expansion of the economy. By converting financial assets from low-yield to higher-yield investments, intermediaries with developed financial institutions increase the future growth rates. Moreover, they also allow savers to develop their savings even if they face liquidity risk, and a profitable long-term investment program is implemented. Besides that, a developed financial system elevates economic innovation through the mentioned activities of resource mobilization, risk alleviation, and the identification of the right entrepreneur (Abramova et al., 2022). Details indicate that structures of inclusive finance for small and medium-sized enterprises are a universal tool to promote economic development that is sustainable, inclusive growth, and the reduction of poverty in various types of economies. SMEs are crucial because they generate jobs, make a significant contribution to the economic activities, and provide an idea of creativity and pace. Since it fosters a positive "trickle-down effect" in the distribution of income, financial inclusion—defined as availability and ease of access to formal financial services for all economic participants—is thus regarded as a prerequisite for obtaining both poverty alleviation and sustainable economic growth. The mission of sustainable economic growth is to satisfy the financial needs of the current generation without limiting the possibilities of future generations to do the same. The potential of SMEs to acquire financial and infrastructure resources determines their turnout to this sustainable growth; these resources ought to be utilized in a manner that guarantees both their availability and their impact in the future. It further demonstrates the importance of financial inclusion in providing economic growth and a "trickle-down effect" for the alleviation of poverty. Financial inclusion is the availability and ease of access to formal financial services for all economic participants. This economic development is further reinforced by the technological innovations in finance. This link is not working, no citation

Fig.2 Foundations of Sustainable Development

Financial inclusion (FI) is identified in the text as a main tool to bring about economic growth, especially in third-world countries, through the provision of access to a range of financial services like savings, loans, and insurance. Fl is also pointed out as an instrument for upgrading the living standards of the people and the economic environment in general. The article further reflects on different definitions of Small and Medium Enterprises (SMEs) and states that the criteria for classifying a business as a small or medium enterprise vary from one country to another and they depend on things such as capital, the number of employees, and sales turnover. In conclusion, the text makes the connection of directly linking financial inclusion as a key factor leading to economic progress since it allows wider engagement in different economic activities through the multiplication of SMEs. Financial inclusion (FI) is seen as a change in the attitude of an economic agent towards money and profit, with the intention of removing all the barriers that exist in accessing and using financial services, even if it is through the existing infrastructure. It is very important because more than half of the world's poor adults do not have bank accounts. They are therefore exposed to being taken advantage of, robbery, and very large financial losses. By advancing FI worldwide, we can open up the economy beyond the financial borders, raise the financial conditions of the population, and thereby the living standards of those small and medium-sized businesses (SMEs) that have been left out of the financial market. Eventually, the good Fl will make the SME more efficient and also contribute to the establishment of a better financial system by making the process of intermediation between savings and investments more efficient, which deals with the problem of underutilized capital that is the major growth constraint for these vital enterprises in rural development.SMEs face considerable financial limitations. Relieving these credit restrictions or facilitating better financial access, particularly for smaller firms, is probably going to have a positive impact on the job market and labor productivity that will, in turn, become the main source of economic growth and development. The expansion of SMEs by means of formal financing results in job creation and higher labor productivity in the whole country. In addition, the measures taken by the government to support the development of SMEs, for instance, the setting up of credit bureaus, are recognized to have an impact on the financial inclusiveness of people (Eton et al., 2021b).

Small and Medium Enterprises (SMEs) are known as the main pillar of the rise of the economy and its progress, being the primary source of employment in society and exposing a rise in household incomes. Nevertheless, these businesses are often doubly hit by the multitude of problems they face, such as the lack of resources and the high rate of business failure, and in addition to this, there is also the problem of insufficient research on the impact of networking on their competitiveness. But on account of these issues, it is possible that networking among SMEs can notably enhance competitiveness and at the same time facilitate the saving of costs in many operational areas such as employee training, consulting, research and development, production, export, human resources, and financial management. In addition, there is a meaningful association between the human capital network of a company and its international performance. Being such significant contributors to the economy, governmental support for SMEs is considered indispensable for revitalizing national economies and opening up more opportunities for the people(Eton et al., 2021c). Financial inclusion should be a top priority in the socioeconomic development system. It is a tool to make sure that the less economically powerful and vulnerable sectors of society, who do not have enough money, can access financial services that are essential parts of their lives in a sustainable and affordable way. Nevertheless, the road to absolute financial inclusion is riddled with various difficulties, such as a large number of people without bank accounts, financial illiteracy (especially in very distant and disconnected places), and procedural barriers like very strict verification processes and too complex paperwork. Besides that, a lack of reliable credit history for most people, combined with very high risks set by bankers, also makes it difficult for many to enjoy the mainstream financial system. More so, socio-cultural biases, which are exemplified in the case of gender discrimination and also the existence of traditional cultural characteristics that oppress women, are now the major impediments to their active participation in the financial sector. E-financial services are the future in handling financial matters, as they offer an approach that is more open to financial access for a wide range of people. However, they are still far from reaching their full capacity because of the lack of acceptance and trust in digital platforms. The rise of e-finance has been touted as a silver lining in the changing financial landscape; nevertheless, more ground has to be covered before these barriers can be entirely overcome (Sikka & Bhayana, 2024).

Employment is one of the most important ways by which economic growth leads to a reduction in poverty. Decision makers and the scientific community acknowledge financial inclusion as both a main feature and a strong link to inclusive growth. Having access to financial services can make individuals employable, and women can be part of the labor market if they are given the opportunity to invest in education and training. Researches show that constraint removal in finance has a good impact on the growth of employment in the small and medium-sized enterprises (SMEs) sector, the effect being more visible in the case of smaller, labor-intensive firms with a large amount of working capital. Nevertheless, for several reasons, new firms often struggle to get access to credit. These reasons are weak property rights, a lack of financial auditing, and a deficiency in financial skills among entrepreneurs. Small firms are facing higher growth obstacles regularly, and they are often financially more constrained and less likely to have access to formal financing as compared to large enterprises (Brixiová et al., 2020). Small and medium enterprises (SMEs) are the basic pillars of a country's development, the main source of new ideas, and the main employers. Still, constrained by numerous market failures, they often face significant financial limitations. Small and Medium Enterprises are less transparent compared to large corporations, which is why they are much more susceptible to financial constraints that have a negative impact on them, their growth, and their business activities. It is widely accepted that economic development is deeply impacted by finance, which also causes income inequality and poverty alleviation. Therefore, access to formal finance is crucial as it induces efficiency, expansion, and innovation; in particular, the most notable effect would be that removing credit constraints for SMEs could create the conditions for the economy to have a rise in employment and productivity, which are the main drivers of economic growth. It is worth mentioning that most of the large enterprises have started as small firms. Formal finance is when the capital comes from institutions that are well-established in the financial market.

Small and medium-sized enterprises (SMEs) are the mainstay of a country's economic system and play a significant role in the creation of new jobs, encouraging new business activities, infusing new ideas into the economy, and the wider distribution of socio-economic wealth and growth. Studies have always shown a positive relation between obtaining a loan from the outside and business performance. First of all, the availability of finance for the creation of start-up small and medium enterprises (SMEs) not only provides these small businesses with opportunities to grow but also to become large companies that are capable of changing and transforming the environment. Besides that, access to finance from outside sources will enable businesses that are small to invest more in the future and carry out projects that will give returns, thus being one of the sources of economic growth, creating jobs and innovating. Small and Medium-sized Enterprises (SMEs) play a crucial role in generating new jobs and thus providing the economy with a positive feedback loop, resulting in a growing prosperity. Having available external sources of finance leads to a great improvement in the investment opportunities for SMEs and gives the go-ahead for the start of projects which promise the highest returns, thus being one of the main factors for economic growth, employment, and innovation. SMEs usually depend on external funding, mainly on formal credit granted by financial institutions, if the money that they have inside is not enough for their projects. One of the major problems facing SMEs worldwide is the lack of money for the development of their businesses, a problem that is often worsened in economies with underdeveloped capital markets where getting money is usually based on the historical data of the company and the people you know (Mahmood, n.d.).

Table I. Extensive Literature Review Table for Financial Inclusion Policies on Economic Growth

REF	Key Findings	Research Gap	Limitations
(Shah, S. A. A., et al.,2025)	According to the research, China is at the forefront of financial technology innovation worldwide, and the country is transitioning to a cashless society, whereas other countries show considerable development in the	This paper outlined a comparative analysis with in-depth coverage of various regions' financial technology ecosystems, inclusion aspects, and regulatory frameworks in different areas to minimize the gap.	The main restriction has been the reliance on already existing data. These data may not reflect cutting-edge, detailed views or the viewpoints of a large variety of stakeholders.

	accessibility of financial services and the flexibility of regulations.		
(Ali, M., Hashmi, et al.,2021)	Research shows that financial inclusion has a significant positive impact on economic development. The study found that most of the relationships between the individual indicators and economic growth are causal, both ways and, only for the overall financial inclusion index, a unidirectional causality was observed.	This paper takes a different stand by providing cross-country comparative analysis, which is basically the role of financial inclusion in the development of a specific group of countries. The main difference from prior research is that this paper dealt with single-economy studies.	Among the limitations of the study are the focus on only financial institutions and a certain group of countries, which limits the extent to which the findings can be applied to the general economic or institutional contexts.
(Vo, A. T., et.al., 2019)	It was found that the inclusion of finance would contribute to the stability of finance and the growth of output with regulated inflation, but only up to an optimum threshold of the inclusion process. After the specified level, the positive connection with financial stability was reversed	This study fills a void in the present literature by extensively examining the relationships between financial inclusion and macroeconomic stability. It concentrates on the potential optimal level and its influence on inflation and output volatility, which are new areas of investigation	The main drawback of this work is the dependency on secondary data only and the use of a single-side proxy for financial inclusion. These factors limited the authors to only performing their analysis over a few time periods
(Brahim, B.,2024)	Research has found that cash machines and online trading have a major positive effect on the GDP in the countries of the Gulf region, whereas mobile POS payments and digital remittances have a negative association with GDP.	This paper fills a gap by providing a focused and thorough comparative study of the effect of digital financial inclusion on economic growth in the peculiar context of Gulf countries, considering new aspects such as mobile POS payments that have not been significantly studied in this region.	Main sources of constraint for this study are the first being that the study is limited to secondary data, which might hinder the granularity of the insights, and the second being the occurrence of significant multicollinearity among some independent variables, particularly digital commerce.
(Hadiza, A. D., et al., 2017)	Small and medium-scale enterprises (SMEs) are a major positive force for inclusive growth. The influence of different financial inclusion indicators is also diverse, with some pushing for growth, while others having negative effects, both separately and in combination with SMEs.	The article questions fold understanding of how financial inclusion as a mediator of the relationship between SMEs and inclusive growth in Nigeria has an impact, particularly by categorizing the financial inclusion.	The main drawback of the study was that it depended solely on secondary data, as authentic primary data for multidimensional inclusive growth were not available or were expensive to collect.

Research Objectives

The main emphasis will be on the multimodal problems of vulnerable groups and the possibility of novel technologies changing the finance accessibility in developing countries. This research work is sincerely dealing with the main problem of small and medium enterprises (SMEs) financial needs, which is the provision of affordable credit over a reasonable period. Your research, through examining the macroeconomic and micro-behavioral aspects, will analyze how such variables as government debt, overall economic situation, and the amount of security affect the growth of SMEs, job creation, and the widening of the middle class in the situations of financial constraint, technological change, and institutional diversity.

Research Question

- How do financial inclusion policies influence economic growth and SME development across diverse emerging economies, considering behavioral and technological factors?

- What are the main barriers procedural, socio-cultural, and technological—that limit the impact of these policies on vulnerable populations and SME access to formal finance?

Hypotheses

H1 Financial inclusion policies have a significant positive effect on the growth and performance of SMEs, thereby contributing to overall economic growth and employment generation in emerging economies.

H2 Behavioral factors such as trust in digital platforms and financial literacy mediate the effectiveness of financial inclusion policies, affecting the adoption and impact among marginalized groups.

III. Research Methodology

This study will employ a case study analysis using a qualitative approach, mapping real-world financial inclusion interventions and their outcomes to the research questions. The methodology will be theoretically underpinned by the Prospect Theory from behavioral finance, which posits that individuals' financial decisions are influenced by perceived gains and losses rather than absolute outcomes, providing insight into stakeholder behavior under conditions of uncertainty and rapid change in digital financial services.

A. Case Study 1

Businesses with fewer than 50 workers (MSMEs) in Nigeria have been scrutinized as part of a study. The investigation compared data from such enterprises related to their interaction with traditional banks, and results coming from alternative sources of finance like microfinance, crowdfunding, and angel investment. While it was revealed that more flexible and innovative financing models would SME leavening and following their sustainability, on the other hand, a classic banking system was seen as having restrictions imposed on the access of SMEs through requirements of collateral, credit checks, and long approvals. A research conducted in Lagos with 204 small and medium enterprises' owners showed, among other things, that traditional services such as savings and e-payments were largely available. However, obstacles in formal lending as well as in venture capital caused by high-interest rates, and collateral requirements, and low-income issues persist. Although financial inclusion had a positive impact on SME profitability and sales growth. Fintech utilization that is limited to trust and has low literacy rates is still a challenging issue. This research advocates that several policies must be made to unlock alternative finance for the populace, raise financial literacy, lower lending rates, and simplify procedures as a way of achieving inclusive finance and empowering SMEs (Nanziri & Wamalwa, 2021). Just as well a study in South Africa examined the issues related to the SMEs' development and financing. Between 2007 and 2015, the number of SMEs increased by 100%, while their GDP contribution per enterprise grew eight times. At the same time, SMEs became the largest employment creators in the main sectors, with 60% of job concentration in services, mining, wholesale, and retail industries. Nevertheless, South Africa's SMEs still have a comparative disadvantage than South Africa's SMEs in other developing countries, mainly due to the limited access to bank finance. The report ends with a statement that adequate credit availability is the primary driving factor behind more SME production and higher returns on factor inputs (Nanziri & Wamalwa, 2021b).

South African small- and medium-sized enterprises (SMEs) continue to face major restrictions in their access to financial resources. SMEs are given a mere 20% of the total credit provided by the private sector. On the other hand, large companies enjoy financial access that is backed up by solid institutional support. The geographical pattern of financial access is also biased, where rich urban areas are favored, whereas entrepreneurs in rural areas are excluded. These individuals are usually black South Africans from low-income households. Due to lack of both collateral and credit histories, about 40% of South African SMEs were turned down for loans in 2016. Education-related structural inequalities further exacerbate this problem, as most small and medium enterprise (SME) owners as well as employees have only graduated from high school, hence lacking the required skills for managing finances, following regulations and keeping the business going. Consequently, even with the intervention such as the launch of the Sector Education and Training Authority (SETA), the discrepancy in skills between SMEs and large corporations has not narrowed. Financial exclusion coupled with low managerial capacity has resulted in the slow development of SMEs, which in turn has led to fewer jobs being created and less alleviation of poverty. Therefore, it is very important to make more credit available and solve the problem of shortage of skills if we want to improve SME productivity, have sustainable growth, and reduce the level of inequality in South Africa.

The idea of financial relief is somewhat paradoxical in nature. For instance, it allows experienced but underfunded entrepreneurs to carry out investments that will increase productivity than they would have been able if they had proper finances. At the same time, it is possible that it may intensify inequality in case that by far most of the wealthier entrepreneurs who are in a better position to have collateral continue to have easier access to the credit. The necessity for collateral is still the main obstacle to affordable credit, which in turn excludes low-income entrepreneurs disproportionately. Some practitioners argue that taking steps to relieve these constraints can act as a catalyst of the SME growth that in turn would contribute to reducing inequality. Others, however, warn that the existing imperfections in the market may strengthen the divide already existing between the rich and the poor. However, finance that is free from strict collateral conditions has the power to open up new markets for entrepreneurs with limited access to credit and for low-income families. They may use such money to increase and diversify their income, to manage a high-return but risky investment, or to introduce new technologies. This is a direct way of solving the main financial problem of SMEs: the availability of cheap loans for a reasonable period of time. Initially, financial inclusion may look as if it benefits mostly the rich groups and in an unequal manner and that is why it is a long way to promote income convergence where the use of financial services by the poor would increase and they would accumulate productive resources. The view is supported by empirical studies that show the provision of financial services is followed by increased output growth, wage increases, and a decline in both poverty and inequality (Nanziri & Wamalwa, 2021b).On the other hand, the problem of affordable credit to be solved is this: one has to go beyond the existing static models of reality that do not take into account institutional factors like the investor's perception of risk, the accessibility of the collateral, and the non-linear dynamics of finance across firms. Hence, it is appropriate to develop a general equilibrium model for capturing the complex interactions of financial inclusion measures, particularly in economies where there are so many differences among SMEs in terms of size, capacity, and resource access (Nanziri & Wamalwa, 2021b).

B. Case Study 2

India's women-led micro, small, and medium enterprises (MSMEs) account for 35 percent of formal enterprises and contribute significantly to generating employment. However, they suffer a 32 percent gap in financing compared to male-owned firms. Several obstacles, such as limited access to credit, lack of adequate collateral, and the predominance of the informal sector, limit their interactions with formal lenders. Digital financial services-micropayments and microloans-are beneficial for the inclusion of the unbanked by simplifying the procedures. Still, their use is blocked by trust deficits, technological difficulties, and the prejudices of the socio-cultural community.The proof of RBL Bank's Saksham program is that well-planned formal loans ($10,000–$2M) made it easier to create jobs, yielding an average of 10–15 jobs per $1M disbursed. While SMEs traditionally depended on their personal networks and obtained credits from informal sources, the availability of structured loans allowed them to increase their investment capacity, negotiate better interest rates, and establish a credit history. However, the majority of the money was utilized for the purpose of working capital rather than for expansion, which reflects the risk aversion and capital constraints of SME owners.To sum up, these findings reveal how formal finance can lead to the growth of businesses and the creation of jobs, yet they still point out the existence of structural and behavioral barriers that continue to hold back emerging economies(Nursansiwi, D. A., & Armiani. 2024).

In the context of the data analysis from the East Java Regional Financial Services Authority (OJK) in 2023, for your paper titled "Evaluating the Effectiveness of Financial Inclusion Policies on Economic Growth and SME," I have prepared a summary for you:The data from 2020 to 2022 shows that although credit to Micro, Small and Medium Enterprises (MSMEs) in East Java has been raised in nominal terms every year without interruption, its share of the total credit disbursed by the financial institutions has remained almost unchanged. To be more exact, the credit to MSMEs was increased from 362 trillion rupiah (20.41% of the total credit) in 2020 to 398 trillion rupiah (20.83%) in 2021, and then to 442 trillion rupiah (21.07%) in 2022.While these yearly increases are made in absolute terms, the percentage of total credit directed towards MSMEs shows only marginal growth, which implies that the access to financing for MSMEs is not increasing proportionally to the overall credit market. This signifies that the measures to improve financial inclusion for MSMEs in East Java have, to some extent, facilitated the provision of higher nominal credit amounts to them, but these efforts have not led to a significant relative improvement in their share of total credit. This fact may be interlinked with your paper, which states that the difficulty in accessing funds by SMEs is a probable issue that still persists, hence the finding here is consistent with the general view that the main financial problem for SMEs is that of affordable credit over a reasonable timeframe.Though Surabaya has seen an extraordinary rise in the number of MSMEs, and the financial inclusion index of MSMEs in East Java has gone up, the area still reports a glaring discrepancy in credit allocation to MSMEs. The amount of credit provided to MSMEs has been increasing annually, but it is the percentage of total credit that has almost been stagnant over the last three years. The findings mean that even after an MSME sector expansion and financial inclusion activities, their proportion of total financing is not growing in line with it. In this way, the primary financial problem faced by SMEs of obtaining cheap credit for a reasonable period of time is pointed out.In this case, Fintech-the likes of mobile money, peer-to-peer (P2P) lending, and crowdfunding- is creating a big impact as a smooth facilitator. Technology is vital in helping SMEs to raise the needed capital, break the financial barrier, secure financing even more, and enhance the financial literacy of them, which leads to their becoming of big size and going on for a long time. P2P lending and crowdfunding are especially identified as the most viable ways through which SMEs can satisfy their financial needs.However, the successful application of fintech to foster financial inclusion is still at a distance from overcoming all the difficulties. Some of the main issues that fintech has to deal with are the regulatory matters which require setting out the rules and ensuring the provision of the proper operational model for the fintech companies to be able to work and customers to be protected, the lack of financial literacy and so on.cybersecurity concerns. These issues may slow down the capacity of fintech to overcome the credit stagnation problem, and to solve the underlying problem of affordable credit access for SMEs by which the credit stagnation is caused.The issue of financial literacy is on the forefront of the list of challenges. The majority of the underbanked and unbanked populations do not have adequate knowledge. That is why they are not able to properly utilize the services of financial technology (fintech). Besides that, cybersecurity worries are also of great importance as well, since fintech enterprises have to be very thorough in their data and transaction security to win [Karangara, 2023]. Besides that, the problem of scaling services, especially to rural or remote areas, is another issue for fintech companies [Karangara, 2023].

Fintech, on the bright side, is a huge plus for SMEs. Utilization of fintech can not just lead to better inventory management but can also create a ripple effect of financing that would be accessible to SMEs. On top of that, fintech companies make it easier for digital payments, and as a result, more clients are drawn not only the payments part but also the SME players' business is benefited [Winarsih et al., 2020]. Significantly, the digital technology that fintech firms adopt allows the unbanked individuals, low-income households as well as SMEs to perform the different financial transactions that they usually would have done in the bank but through online channels and hence lessening the financial exclusion [Temelkov & Miteva, 2022]. Thus, it automatically links with the "main financial challenge facing SMEs", which is "their access to affordable credit over a reasonable period". If tech in fintech can foster better inventory management, and at the same time is able to make digital payments, the result of this phrase will be that it will create a positive but yet visible effect on the risk of perception by the investors and on the attractiveness of alternative investments thereby giving an incentive to their readiness to providing capital to the SMEs.Fintech got a louder and clearer voice during the COVID-19 crisis when it was identified as one of the ways to support SMEs and help people in need in the difficult times of the economy, especially within the parameters of the Islamic framework.The paragraph main idea is that collaborations between fintech firms, NBFCs, and traditional banks are the lifeblood of reducing the financial gap for SMEs and to the jumpstarting of the economy [Mahesh et al., 2023]. In general, the paragraphs refer to fintech as a technology that facilitates the process of accessing finance for SMEs, helps to bring the financially excluded into the fold, and promotes the use of green practices in the business world [Nurohman et al., 2021; Pizzi et al., 2021]. SMEs could overcome their financial issues in a much better way, by using these resources, and thereby they could directly become growth vehicles of the economy. This is a case of actually solving "the main financial challenge facing SMEs," which is their "access to affordable credit over a reasonable period". On the contrary, "the effectiveness of fintech to bring about these dreams is depending on the extent of the various adoption factors.The recent studies show that perceived usefulness (PU), trust, user interface (UI), perceived value, perceived risk, social influence, data security, customer service, and privacy all have important impacts on whether SMEs accept fintech services [Zhong-qing et al., 2019; Xie et al., 2021; Das & Das, 2022; Stewart & Jürjens, 2018; Meyliana et al., 2019]. These points become even clearer when we consider "investors' risk perception" and the general problems of cybersecurity and financial literacy mentioned earlier.Moreover, some specific points in the business area like The credit ratings, the sophistication of information systems for data analysis, and the ability to predict risks also significantly influence SMEs' inclination to implement fintech [Li et al., 2023]. The COVID-19 crisis has similarly escalated the role of data security, privacy, trust, and the availability of high-technology tools as prime consumers' fintech adoption drivers (and, therefore, SME) [Le, 2021; Wiyono & Kirana, 2021].Delving into these diverse stimulants and impediments to fintech adoption is pivotal in assessing the real impact of financial inclusion policies on economic growth and the part they play in alleviating SMEs' funding constraints.Delving into the web of factors, the latest document explains how these social, economic, and perceptual aspects lead to the response of the Small and Medium Enterprises (SMEs) to fintech services. This insight is valuable as the main financial problem facing SMEs is the lack of access to affordable credit for a reasonable period.The

- Behavioral and Perceptual Factors: Along with performance expectancy, effort expectancy, social influence, and customer trust being common features of the examined studies, many more influencing factors were disclosed, such as anxiety, habit, and experience [Urus et al., 2022; Kurniasari et al., 2023; Vandana & Mathur, 2022].
- Economic and Practical Considerations: Apart from economic benefits, convenience, privacy awareness, financial risk, and legal risk are equally important factors that significantly affect user trust and, subsequently, adoption rates [Suzianti et al., 2021].
- User Experience and Knowledge: Opinion leaders, perceived ease of use, and trust generally lead to positive consumer attitudes towards choosing fintech services. Moreover, for example, knowledge, safety perception, performance expectation, social influence, facilitation condition, and price value are the main predictors for technology-based financial services usage intention in small business owners [Najib et al., 2021].

To put it shortly, the narrative of the Small and Medium Enterprises (SMEs) to fintech is a multilayered process that depicts the influence of a mixture of factors ranging from trust and perceived value to the use of data security, privacy, and economic benefits. For instance, both the providers of the fintech services and decision-makers would find it beneficial to realize and then efficiently operate fintech-road users' feeling of trust and excitement towards adoption in the SME segment.Furthermore, this detailed examination of adoption factors has a strong link to the financial literacy dilemma, cybersecurity apprehensions, and regulatory matters that have been discussed in our previous sessions. These new aspects lead to the notion that if fintech is readily available, the real question of its implementation into the SME financial gap would still be there and will revolve around how well these perceived and practical elements will be handled. This is because when SMEs embrace fintech, it brings about a direct effect on the perception of risk by investors and the allure of other investments, thus making their readiness to provide capital to SMEs better. At the end of the day, the use of financial technologies (fintech) by small and medium businesses (SMEs) is depicted as a main factor for improving the company's viability and competitiveness in the digital age, which is the current trend, thus widening the scope of economic growth and facilitating the handling of the problems faced by SMEs.Fintech fundamentally changes the way small and medium enterprises (SMEs) operate by providing access to a wide range of financial services which are the revolution of the SMEs' operations. Their main financial problem is to get cheap credit, and that is exactly what fintech can solve directly. In fact, the process of fintech adoption is intricate and entrepreneurs' perceptions play a significant role in deciding which way it will go. Among others, a very important factor is the Perceived Usefulness (PU), which means that SMEs have to figure out whether fintech is just a way to simplify the work or just an empty goal; and secondly, the Trust which is all about the confidence in the security, reliability, integrity of the fintech service providers that influence the adoption of fintech. These aspects are pivotal for the improvement of business efficiency and competitiveness.Trust is one of the main things that are carefully established with the help of factors such as data security measures, transactional transparency, and the reputation of fintech providers [Purwantini et al, 2021; Zhong et al, 2019; Chan et al, 2022]. SMEs Entrepreneur's behavior of directly adopting this trust feature, which is the essence of our previous point, i.e., trust is an element comprising security, reliability, and credibility of fintech services. On top of that, financial risk manifests as yet another key issue which covers the possibilities of monetary losses and such that costs may include transaction fees, operational expenses, cybersecurity threats, etc. [Chan et al, 2023]. SMEs cautiously balance the perceived financial risks with the planned benefits, where affordability, return on investment, and risk mitigation strategies have a great deal of influence on their intentions of adoption. The interaction of perceived usefulness, trust, and financial risk is very decisive in determining the willingness of SMEs to choose fintech. The knowledge is significant for the decision-makers, financial institutions, and fintech providers to craft the environment that promotes the adoption of fintech and, thereby, be a factor for regional economic growth, innovation, and competitiveness. These issues are directly pertinent to the main financial challenge facing SMEs, which is access to affordable credit over a reasonable period because they affect financing requirements of SMEs and risk perception of investors.Trust is one of the main things that are carefully established with the help of factors such as data security measures, transactional transparency, and the reputation of fintech providers [Purwantini et al, 2021; Zhong et al, 2019; Chan et al, 2022]. SMEs Entrepreneur's behavior of directly adopting this trust feature, which is the essence of our previous point, i.e., trust is an element comprising security, reliability, and credibility of fintech services. On top of that, financial risk manifests as yet another key issue which covers the possibilities of monetary losses and such that costs may include transaction fees, operational expenses, cybersecurity threats, etc. [Chan et al, 2023]. 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C. Prospect Theory Definition

According to Kahneman and Tversky, prospect theory (PT) is the term used to describe a phenomenon where decisions involving risk, even those with the least perceived risk and made in a very short time, are mediated by systems 1 and 2. System 1 is the one that caters to automatic cognitive processes, while System 2 is the one that deals with those that require concentration. PT was a new idea back in 1979; nevertheless, it was only with the paper of Meyerowitz and Chaiken that it was considered a field of psychological study. The theory can be used to explain the various forms of addiction.

Table II. Theoretical Underpinning Table: Mapping to Prospect Theory

Behavioral Principle	SME Financial Inclusion Mechanism	Prospect Theory Element	Example Decision Bias	Expected Impact on SME Growth
Loss aversion	Reluctance to adopt fintech/invest in expansion	Risk aversion	Avoiding digital services due to fear of loss	Missed innovation, slow growth

Overconfidence	Overestimating potential from new financial products	Overweighting outcomes	Excessive optimism about loan returns	Poor financial planning, volatility
Herding behavior	Following peer SMEs into alternative financing	Reference dependence	Copying rivals' funding strategies	Can foster bubbles, also innovation
Anchoring bias	Sticking to well-known lending channels	Anchoring on past results	Preferring traditional banks over digital lenders	Slow transition, trust issues
Emotional decision-making	Hesitation due to lack of trust in e-platforms	Value function asymmetry	Emotional reluctance overrides rational choice	Low digital adoption, persistent gap

IV. Discussion

The literature establishes that financial inclusion (Fl) accelerates economic development by empowering SMEs-recognized as principal contributors to GDP growth, innovation, and job creation in emerging markets. However, approximately 40% of formal SMEs in these regions face an annual financing deficit nearing USD 5.2 trillion, revealing that access to credit remains a cardinal constraint despite policy interventions. Studies by Beck et al. (2007), Demirguc-Kunt & Klapper (2013), and Claessens & Perotti (2007) underline the critical linkage between broader access to financial products and reductions in poverty and inequality. Shah and Zaidi (2025) studied the fintech ecosystems in Pakistan, China, and Turkey focusing on their impact on financial inclusion. According to them, Pakistan's fintech sector has evolved by means of mobile banking, branchless banking, and regulatory frameworks like Raast and sandboxes, thus increasing access for SMEs and rural communities. On the other hand, China is a global leader with Alipay, WeChat Pay, and its Central Bank Digital Currency (DCEP) being the examples through which a regulatory balance fosters a benchmark cashless society (Shah et al., 2025).Hadiza and Philip (2017) investigated the linkage between financial inclusion, SMEs, and inclusive growth in Nigeria employing FMOLS and OLS methods. Their findings indicated that SMEs make a positive and substantial contribution to inclusive growth, whereas domestic credit, savings, and insurance services only brought positive effects if all variables were considered together. Most importantly, the conjunction of financial inclusion variables, such as agricultural loans and insurance, with SMEs resulted in the growth of inclusive outcomes (Hadiza & Philip, 2017).Firstly,Technological advancements like digital finance and fintech solutions are at the core of the most effective ways that SME access to credit can be increased by removing geographical and procedural barriers. The examples from Indonesia and China show how fintech-driven regulatory models and peer-to-peer lending platforms can narrow the gap in financing; the digital payments can help to have a positive cash flow and the payments can get done on a larger scale of business. The transition from traditional to digital finance depends on some conditions like financial knowledge, trust, and support from institutions and infrastructure, thus, the importance of having policy outlines that can adjust [Conversation History].Secondly,Women-led SMEs face severe compounded barriers that are responsible for a 32% financing gap as compared to male-owned firms. These are due to socio-cultural prejudices, very little collateral, and the high number of enterprises in the informal sector. Women-centered formal loans such as India's Saksham program are proven to raise employment levels, although the extent of their influence can be limited by factors like risk aversion, trust issues, and lack of funds, which usually causes the money to be moved from expansion to working capital. Factors and evidence from Nigeria not only substantiate these restrictions but also unveil the circumstances of the opportunities by innovation, digital inclusion, and education for the empowerment of SMEs [Conversation History].Finally, the research depicts SME decision-making using uncertainty and risk as the main features of the case according to the perspective of Prospect Theory (Kahneman & Tversky, 1979), and, thus, the main influencers of that behavior are stated as loss aversion, herding, overconfidence, and anchoring. The research on behavior shows that loss aversion is one of the reasons that fintech is adopted slowly and only a small amount of risk-taking is done consequently that SME growth and innovation are slow while the case of overconfidence might end up with the overstated exposure of SMEs to volatile financial products

[Conversation History].The paragraph you shared examines how behavioral biases, technology factors, and policy recommendations interact to open financial inclusion gates, particularly for SMEs [Conversation History].Firstly, it conveys that herding and anchoring biases may cause the individuals to select familiar financial services (products) (options) thus, the digital transition will be forestalled and a systemic gap in formal financial access for the unbanked will be maintained [Conversation History].Secondly, technological factors are referred to as key factors that interrelate deeply with the behavioral dimension [Conversation History]. The authors underlined digital literacy, trust in e-platforms, and familiarity with risk management tools to be the main factors influencing either the decision of SMEs to participate in formal finance or not [Conversation History]. The paragraph continues with the message that as digital ecosystems get more and more AI, blockchain, and cybersecurity threat - riddled, financial education at all levels and user-centered regulatory reforms are the key to keep up [Conversation History].These ideas are supported by wider studies which show that although flexible digital finance models may be helpful, the impact is severely limited by the persistent barriers such as low financial literacy and lack of trust. These factors, which the new paragraph uncovers, determine SME sustainability and may be therefore instrumental in closing the financial gap [1, Conversation History].multi-dimensional and context-specific policy frameworks [Conversation History].Main recommendations from the discussion include:The use adaptive regulatory sandboxes tomanage the balance between the fintech maverick, and the systemic stability, while at the same time, alleviating risks such as opportunistic lending and digital fraud.The boosting of formal lender–fintech partnerships with the aid of alternative credit scoring methods for procedurally unblocking resources which can be accessed by low-collateral SME groups.These suggestions are imperative to close the financial divide, notably that of the most vulnerable SME groups and women entrepreneurs. Secondly, they are consistent with the source's mention of the necessity for regulatory innovation and procedural reforms.The paragraph concerning policy recommendations that was focused on:One of the key points that the paragraph was referring to is that authorities should think about expanding financial education and literacy programs. The campaign has to be carefully designed with a clear focus on women-led businesses in rural areas. Trust and responsible financial behavior are the main objectives of such an undertaking. It derives from the fact that a low level of financial literacy is one of the main obstacles to the underutilization of the financial sector's positive impact on people in general.Another point includes the launching of sector-targeted incentive ideas as such partial credit guarantees and asset valuation reforms for promoting industrialization and mobilization of the finance sector of the SME working area.Referring to the importance of data-driven activities, this is about supporting data monitoring initiatives and utilizing panel and longitudinal survey information for upgrading the policy's reactivity and efficiency.Being of utmost importance, the paragraph points out that behavioral finance insights should be an integral part of policymaking. Accordingly, it means to develop behavior interventions that cancel the impact of psychological biases that have been mentioned before, implement nudges and education not only to make the SME rational decision but also to speed up the process of it. At this point, the research's underpinning by Prospect Theory and its focus on behavioral dynamics are being emphasized [1]. Nevertheless, this research is an acknowledgment of its limitation in that it is largely dependent on the existing literature with no primary empirical data and is qualitative in nature with case studies.The paragraph ends with a note that existing datasets may not be sufficiently descriptive, as they may be lacking contemporaneous changes, sector-specific nuances, or even stakeholder perspectives in emerging economies. The paragraph recommends that future research might benefit from including:Methods for panel data, microfinance, and institutional analyses as well as longitudinal tracking could all be helpful in correctly evaluating the dynamic effects of financial inclusion on income distribution, business resilience, and household welfare.The incorporation of micro-level behavioral experiments into a study would be a great benefit.The research on the possible application of blockchain technology, AI, and other fintech solutions in the area of SME inclusion, security, and growth should be thorough and in-depth.This is consistent with the general move to digital financial inclusion and the use of fintech, which is the focus of much of the world literature.

V. Conclusion & Future Scope

Financial inclusion policies remain essential enablers of economic growth and SME development, particularly in emergent economies characterized by diverse behavioral, technological, and socio-cultural challenges. The review demonstrates that regulatory innovation, fintech adoption, and targeted education have transformed SME access to finance, albeit with substantial gaps persisting for vulnerable populations and women entrepreneurs. Prospect Theory provides a robust framework to understand and address behavioral barriers that influence SME decision-making, risk tolerance, and adoption of formal financial products. To sustain and enhance the efficacy of financial inclusion initiatives, future policies must integrate advanced technology, behavioral science, and longitudinal empirical research.

Expanding the reach of microfinance institutions, promoting cross-sectoral partnerships, and prioritizing data-driven evaluation frameworks will be crucial in fostering SME resilience, ensuring inclusive growth, and building equitable financial systems. Only through holistic, dynamic, and evidence-based policy interventions can the full growth potential of SMEs be realized in the global digital economy.

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