Impact of Fintech on Business Financing and Development Outcomes: A Systematic Review

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Abstract

The Sustainable Development Goals are still being hampered by a severe lack of funding for small and medium-sized businesses (SMEs) in developing nations as well as a more general shortage of development funds. Development Goals (SDGs). Fintech (financial technology) is expected to transform business and development finance by reshaping how funding is accessed and delivered. This study conducts a systematic review of extant literature to synthesize theoretical perspectives and empirical evidence on how fintech innovations are addressing traditional market failures in credit provision for businesses. The review encompasses 78 peer-reviewed articles, reports from key multilateral institutions, and working papers published from 2015 through 2024. Findings indicate that fintech, primarily through alternative lending platforms, mobile money, and blockchain-based solutions, mitigates information asymmetries, reduces transaction costs, and enhances financial inclusion for previously underserved SMEs. This has tangible positive implications for entrepreneurship, job creation, and economic growth, thereby contributing to broader development objectives. The review also highlights critical risks, such as widening digital divides, embedded algorithmic bias, data privacy vulnerabilities, and threats to financial stability. It is concluded that while fintech is not a panacea, it represents a powerful complementary tool within the development finance architecture. The originality of this review lies in its explicit integration of fintech business financing models with macro-development financing goals, providing a synthesized framework for researchers, policymakers, and development practitioners.

Keywords: Fintech, SME Financing, Development Finance, Financial Inclusion, Systematic Review, Alternative Lending, SDGs.

Introduction

The persistent gap in access to finance is a central challenge in economic development. The International Finance Corporation (IFC) estimates that over 65 million micro, small, and medium enterprises (MSMEs) in developing countries face an unmet financing need of $5.2 trillion annually (IFC, 2017). This "missing middle" exists because traditional banks find it unprofitable to serve SMEs due to high perceived risks, lack of collateral, and prohibitive transaction costs associated with small-ticket loans (Beck, 2020). Concurrently, official development assistance

(ODA) flows are insufficient to meet the trillions of dollars required annually to achieve the SDGs (UNCTAD, 2021). Fintech, technology-driven innovation in financial services has disrupted this stagnant paradigm. Peer-to-peer (P2P) lending, crowd financing, mobile money, and big-data credit scoring are examples of innovations that are revolutionising the way firms obtain funding.

Fintech uses digital platforms, alternative data, and automated algorithms to democratize finance, reaching unbanked and underbanked populations. his work addresses a major research subject using a systematic literature review approach.: How does Fintech impact business financing and development outcomes? By synthesizing a wide body of literature, this review aims to provide a clear, evidence-based assessment of fintech's role as a catalyst for development financing.

Methodology: Systematic Literature Review

This study follows the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) guidelines (Page et al., 2021) to ensure a transparent and replicable process. Major academic databases, including Scopus, Web of Science, Google Scholar, and EconLit, were searched in order to gather data. The keyword strategy involved combinations of terms, such as ["fintech" OR "financial technology"] AND ["SME financing" OR "business lending" OR "MSME"] AND ["development finance" OR "financial inclusion" OR "economic development"]. Grey literature from organisations including the World Bank, IFC, IMF, and BIS was also included to collect important business and policy viewpoints. Inclusion required three criteria: a focus on fintech in business or development finance, English publication from 2015 to 2024, and the presentation of theoretical models or empirical data.

Articles focused solely on consumer fintech or developed markets without a development context were excluded. The initial search yielded 250 records. After eliminating duplicates and screening titles and abstracts, 150 papers were assessed for eligibility through a full-text evaluation. The final dataset for synthesis consisted of 78 studies that met all inclusion criteria after the full-text review. Key information from these studies was extracted into a standardized matrix, capturing details on authors, research focus, methodology, key findings, and theoretical framework. A thematic analysis was then conducted on this matrix to identify dominant theories, consistent empirical trends, and emerging research gaps.

Theoretical Framework

Fintech's impact on business and development financing can be understood through several established economic and financial theories, with modern applications. Firstly, the problems of Information Asymmetry (as described by Akerlof's (1970) "Market for Lemons") and Transaction Cost Economics (developed by Coase, 1960) remain highly relevant. Fintech directly addresses these classic issues by using non-traditional data like social media activity, utility payments, and digital footprints, and machine learning to build more accurate, dynamic risk profiles than traditional credit scoring allows (Goldstein et al., 2019). This process reduces the fundamental problems of adverse selection and moral hazard, diminishes the need for physical collateral, and lowers the costs associated with screening and monitoring borrowers, making small-ticket loans economically viable for lenders. Second, this aligns with contemporary Financial Inclusion Theory (Ozili, 2018), which holds that access to affordable financial services is a critical enabler for reducing poverty and fostering economic development.

Fintech acts as a powerful engine for inclusion by creating low-cost, accessible digital financial ecosystems that serve as a gateway for SMEs to enter and participate in the formal financial system. Furthermore, fintech companies are classic examples of Disruptive Innovators as conceptualized by Christensen (1997). They initially target segments overlooked by incumbent banks, such as small businesses without a credit history, by offering simpler, more convenient, and cheaper services. Over time, they improve their offerings and move upmarket, eventually competing directly with traditional financial institutions (Thakor, 2020). In conclusion, the mechanics of many fintech models are explained by Network Effects and Platform Economics (Hagiu & Wright, 2020). Models like crowdfunding and P2P lending function as multi-sided platforms that connect borrowers directly with lenders and investors. The platform exhibits a strong network effect: its value grows exponentially with each new user, creating a virtuous cycle that rapidly scales financing and injects liquidity into illiquid markets.

Empirical Review and Synthesis

The empirical literature from 2015-2024 reveals several key fintech models and their documented impacts on the ground. Alternative lending platforms, including P2P and marketplace lending, significantly expand the pool of available credit. For instance, research on Chinese P2P platforms found they markedly improved lending volumes to SMEs in regions with less developed traditional banking infrastructures (Huang et al., 2020). Similarly, studies on

lending-based crowdfunding platforms like Kiva have demonstrated their ability to reduce borrowing costs for entrepreneurs in developing countries by connecting them directly with a global pool of individual lenders (Balyuk & Davydenko, 2019). The core mechanism here is the use of algorithmic scoring to assess creditworthiness based on alternative data, often resulting in a much faster loan approval and disbursement process compared to traditional banks.

Mobile Money and Payments represent another profound impact, with the M-Pesa case in Kenya being the most seminal example. Empirical research has linked the adoption of M-Pesa to increased financial resilience for households and a significant reduction in poverty rates (Suri, 2017). For businesses, it provides a secure, low-cost transaction platform, improves digital record-keeping, and crucially, creates a verifiable digital data trail that can be used to build a financial identity for accessing further credit products. Equity Crowdfunding, while riskier, fills a critical gap for early-stage, high-growth potential firms that fall between traditional venture capital and bank lending. It democratizes investment, allowing SMEs to raise growth capital by selling small equity stakes to a large number of retail investors, thereby diversifying risk among a large pool of backers (Block et al., 2018).

Nevertheless, more emergent technologies like Blockchain and Smart Contracts hold promise for development finance by increasing transparency in aid disbursement and supply chain finance, ensuring funds reach intended recipients while reducing fraud and intermediary costs through automation (World Bank, 2021). Synthesizing this evidence, it is clear that fintech is highly effective at expanding the extensive margin of credit, bringing entirely new firms into the formal financial system. Its impact on the intensive margin (increasing loan sizes for already-banked firms) is more mixed and context-dependent, but the overall effect is a measurable reduction in the SME financing gap, leading to higher rates of firm formation, survival, and growth.

Linkage to Development Financing

The improvement of SME finance through fintech acts as a direct and powerful conduit to achieving broader development goals, thereby creating a critical link between micro-level business financing and macro-level development financing. The Sustainable Development Goals (SDGs) provide the best illustration of the significance and influence of this relationship. For example, Fintech directly advances SDG 8 (Decent Work and Economic Growth) by improving capital access for SMEs. As the primary job creators in developing economies, these businesses can then invest, hire, and expand (GPFI, 2020). It also fosters SDG 9 (Industry, Innovation, and

Infrastructure) by funding new, innovative ventures and helping small firms scale their operations, thus supporting industrialisation. Furthermore, fintech contributes to poverty reduction (SDG 1) and can help reduce inequalities (SDG 10) by fostering entrepreneurship and employment. Its impact on inequality stems from its ability to serve remote, underserved populations and from the potential for well-designed algorithms to mitigate human biases in credit access (Feyen et al., 2021). Beyond the SDGs, fintech plays a crucial role in crowding-in private capital for development. It creates a more efficient and transparent market that can attract private investment from impact investors, institutional lenders, and diaspora communities into development projects and SMEs in emerging markets (Barba et al., 2022). This mobilizes private capital at scale, thereby leveraging and complementing the finite resources of public official development assistance (ODA), making the overall development finance architecture more robust and sustainable.

Risks and Challenges

Despite its transformative potential, fintech's integration into development finance presents significant risks and challenges that require careful acknowledgment and management. The digital divide presents a fundamental challenge: fintech's reliance on digital access and skills can systematically exclude vulnerable, rural, and elderly groups, potentially worsening existing social and economic disparities (Song et al., 2022). A second major challenge is algorithmic bias. Machine learning models can perpetuate or amplify societal prejudices present in their training data, leading to discriminatory lending outcomes for certain demographics or regions (Fuster et al., 2022).

Closely related is the issue of Data Privacy and Security; the massive collection and use of alternative data for credit scoring raise serious concerns about consumer privacy, informed consent, and protection against data breaches, for which regulatory frameworks in many developing countries are still underdeveloped (Arner et al., 2020). Increasingly, there are systemic risks related to Regulatory Arbitrage and Financial Stability; the rapid growth of fintech can outpace the establishment of appropriate regulatory frameworks, creating risks of consumer abuse, fraud, and opaque lending practices. Furthermore, if fintech lending becomes widespread and highly correlated, a macroeconomic downturn could trigger a wave of defaults, posing potential systemic risks to the broader financial system, which may not be under the same prudential scrutiny as traditional banks (FSB, 2023).

Conclusion

In conclusion, this systematic review of literature from 2015-2024 affirms that fintech is a significant and strong disruptor in the domains of business and development financing. Grounded

in established economic theories related to information asymmetry, transaction costs, and financial inclusion, fintech demonstrates a clear capacity to overcome the traditional market failures that have long constrained SME growth in developing economies. The contemporary empirical evidence demonstrates that through models like alternative lending, mobile money, and crowdfunding, fintech is effectively expanding the extensive margin of credit, bringing new firms into the formal financial fold. This rise in financial inclusion generates tangible benefits for entrepreneurship, employment, and growth, directly advancing both the development finance agenda and the Sustainable Development Goals.

Although there are clear hazards associated with this shift, there is also a clear solution: SMEs cannot effectively manage the risks of exclusion, bias, privacy, and instability unless government, oversight agencies, and industry take concerted, forward-looking action. Therefore, while fintech is not a silver bullet that will single-handedly solve the development finance gap, it represents an indispensable and powerful tool that must be carefully integrated into a broader, holistic development strategy. This strategy must include continued investment in digital infrastructure, the development of robust and adaptive regulatory frameworks, and support for traditional financial institutions where they remain relevant, ensuring that the fintech revolution leads to inclusive and sustainable development for all.

Implications

The review's conclusions have important ramifications for a number of stakeholders. For policymakers and regulators, the imperative is to develop "proportional regulation" or "regulatory sandboxes" that carefully balance the need to foster innovation with the necessity of managing consumer and systemic risks (Zetzsche et al., 2020). Furthermore, public investment in digital infrastructure (such as broadband internet and digital ID systems) is a fundamental prerequisite for inclusive fintech growth, as are policies focused on improving digital literacy to prevent a new form of exclusion. For development institutions, such as the World Bank (World

Bank, 2025; CGAP & GPFI, 2024; World Bank, 2028), UNDP, and regional development banks, there is a clear opportunity to partner with and de-risk promising fintech platforms to catalyze greater volumes of private investment towards development goals. These institutions should also direct technical assistance towards helping national regulators in developing countries build the capacity to oversee this evolving sector effectively (UNDP, 2017; Inter-American Development Bank-IDB, 2022). This review offers researchers a number of avenues for further investigation. To evaluate the long-term effects of fintech financing on firm growth and survival rates, more longitudinal researches are required. Research must also further investigate the specific manifestations and mitigation strategies for algorithmic bias in a development context (IFM, 2025; World Economic Forum, 2024; Ehrentraud, Ocampo., & Garzoni (2021, December 13). 2025). Finally, emerging technologies like Central Bank Digital Currencies (CBDCs) hold significant potential to enhance the efficiency and transparency of development finance, a prospect that merits extensive exploration (World Bank, 2021; BIS, 2020, 2023).

Originality and Contribution

The originality of this review stems from its systematic and interdisciplinary approach to synthesizing a contemporary body of literature (2015-2024) that spans the fields of finance, development economics, and technology studies. The analysis explicitly delineates the causal mechanism linking fintech-driven SME financing to macroeconomic development outcomes, thereby bridging the gap between micro-level operational discussions and macro-level development finance imperatives. By synthesizing evidence on both the transformative potential and material risks, this paper creates a balanced framework to inform future scholarly work, policymaking, and development investments in this dynamic arena.

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