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Overcoming the funding dilemma for Small and Medium-Sized Enterprises [SMEs] in Africa to unlock their unrealized potential

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Abstract
One of the main causes of failure for African SMEs is their funding dilemma triggered by their failure to access capital, particularly from the formal credit market. While alternative financing solutions have been considered in the past few years, African SMEs are still faced with challenges when it comes to funding, highlighting the importance of this study. The study uses a systematic review approach to synthesize and analyze available literature in an attempt to investigate the involuntary financial exclusion experienced by SMEs in various regions within the African continent. The findings reveal that SMEs suffer from various factors, including those internal to their businesses relating mainly to their lack of financial and management skills and external factors such as the financing requirements of credit history, collateral, etc., as well as other macroeconomic factors hindering their access to finance. The study also highlights that while alternative financing solutions, which rely on digital platforms such as fintech, have the potential to resolve the SMEs' funding dilemma, they are constrained by regulatory, digital infrastructural, and socio-cultural challenges in Africa. The study proposes a conceptual model to address the funding dilemma of SMEs in Africa, integrating various financing options, government support, providing strategic mentorship, and embedding capacity-building into the operations, all geared towards promoting sustainable business growth.

Keywords: Small and Medium-Sized Enterprises [SMEs], Africa, sub-Saharan Africa, financing, Skills Development, Government Interventions, Barriers to funding.

1. Introduction

This systematic review aims to synthesize existing literature on the funding challenges faced by SMEs in Africa and to examine the effectiveness of various interventions designed to alleviate their funding dilemmas and constraints. The study will further recommend alternative solutions that can be implemented to address the African SMEs' funding dilemma. This study is motivated by the realization of the lost potential of SMEs in Africa, exacerbated by their financing challenges among others, which they have been facing for decades, resulting in their premature closures. There is a general agreement among scholars and experts that at the heart of the SMEs' potential is economic growth and employment for global economies as confirmed in various studies such as Amir 2020, Manzoor 2021, Rasheed 2019, Boadi 2017, Moin 2022, Krubally 2019, William 2020, and others. SMEs in sub-Saharan Africa face significant challenges in accessing affordable financing, with only 20-33% having bank loans or credit lines (Runde et al., 2021). Traditional collateral-based lending often excludes SMEs due to a lack of valuable assets, leading to high rejection rates (Amoako-Adu & Eshun, 2018). Alternative financing mechanisms have emerged to address these barriers. Cash flow lending, which focuses on projected corporate cash flows and risk-sharing principles, offers a promising alternative to asset-backed lending (Amoako-Adu & Eshun, 2018). Informal financial services, such as family and friends, can provide accessible funding for SMEs meeting specific criteria like trust and reputation (Forkuoh et al., 2015). Angel investment and venture capital are preferred external sources for SMEs in the service sector (Attrams, 2022). Some financial institutions are adapting by tying financing to receivables, using soft grants, and forming start-up clubs to mitigate risks in SME lending

(Attrams, 2022). It has also been suggested by many studies that the economic growth and employment potential of SMEs in Africa are likely to enhance the economic emancipation of countries in their location. Therefore, government interventions to address their funding challenges become undoubtedly critical. Studies that have provided valuable insights into the effectiveness of government interventions in addressing funding challenges faced by SMEs across African contexts have concluded that their implementation has been dismal. For example, a comparative study by Ndayizigamiye (2021) between Lesotho and South Africa on the impact of public sector interventions regarding SMEs' access to funding lamented that in both countries, despite existing interventions, SMEs continue to face challenges when it comes to access to funding. Tailored interventions necessary to address the unique nature of SME enterprises must be put in place (Ndayizigamiye, 2021).

This study's contribution will be based on reviewing the nature of African SMEs' funding challenges, available funding alternatives including government interventions, and suggesting a tailored model that can address the funding dilemma faced by SMEs in Africa to unlock their lost potential. The next section addresses the literature review with a specific focus on how adequate finance relates to the growth of African SMEs, as well as how the lack of finance affects SMEs. It will also explore the challenges faced by African SMEs related to access to finance, available alternative models for African SMEs' funding and their effectiveness, and the available government interventions to address African SMEs' access to funding and their effectiveness.

2. Literature Review

This section provides a review of the key themes in the literature regarding African SME funding. It begins by outlining the importance of financing for the failure or success of African SME's and their related challenges. Next, an examination of the consensus on the funding conundrum in African SMEs, particularly referring to the impediments to SME funding in Africa. It also explores the approaches to solve the funding challenge that African SMEs face, including alternative sources of innovative funding, government intervention, and digital financial solutions, and assesses the effectiveness of such interventions.

2.1 The Importance of Funding on the Success or Failure of African SMEs

Small and Medium Enterprises (SMEs) are integral to most African economies, accounting for a significant share of jobs and economic growth (Saah, 2023; Edeh, 2024; F. Meyer and M. Meyer, 2020; Mensah, 2021; Mile et al., 2022; Aterido et al., 2011 et al.). About 90% of enterprises in sub-Saharan Africa fall within the SMEs segment, and they account for as much as 40% of GDP in developing economies (World Bank, 2020). However, access to the necessary funding remains a key success or failure determinant for these enterprises (Runde et al, 2021; Beck and Cull, 2012; Quartey et al, 2017). Poor or lack of access to funding is a significant constraint on the growth, success and competitiveness of African SMEs. Inadequate or lack of access to funding significantly constrains African SMEs' ability to grow, succeed, and be competitive. Conversely, adequate and timely funding can empower SMEs to scale, innovate, and contribute to sustainable economic growth (CSIS, 2023; AUDA-NEPAD, 2023). It remains to be seen though if providing adequate finance alone to SMEs, without, for example, financial management skills, is likely to empower African SMEs for growth. The general observation has been that providing adequate funding to SMEs where there are no financial management skills could result in financial mismanagement, resulting in dire consequences for the business. While there is a general agreement that adequate funding results in African SME growth, a number of studies have shown that inadequate funding or lack thereof has been the main reason for SME failures in Africa. According to the World Bank (2019), this financial constraint is recognized as a key obstacle to SME growth in emerging markets and developing countries. Ogujiuba et al. (2023) highlight in their study on finance in South African SME businesses that finance continues to be a significant obstacle hindering their success. A number of other studies have discovered that limited access to finance is a key factor contributing to the failure of SMEs in Africa. Some of these studies include Beck and Cull (2014), Abor and Quartey (2010), and Fatoki and Asah (2011). For example, Osano and Languitone (2016) conducted a study on Mozambique's SMEs, emphasizing the importance of access to funding for SME growth and identifying various factors influencing their access to funding, such as the structure of the financial sector and collateral requirements. Quartey et al. (2017) conducted a study with the Economic Community of West African States (ECOWAS) Region to investigate constraints for SME funding across

sub-Saharan African countries. Similarly, Beck and Cull (2014) conducted a cross-country survey of SME firms to examine the challenges they faced in accessing funding and stressed the importance of addressing these challenges. Fowowe's (2017) study investigating the effects of access to finance on the growth of African SMEs discovered that inadequate access to finance has a significant negative effect on the firm's growth, while participating in financial markets promotes SME growth. However, the author warns that providing adequate finance must be combined with providing the relevant management skills, given that experience has shown that providing funding where there is a lack of skills can lead to mismanagement, thereby hampering the intended growth of African SMEs further.
There is no doubt, however, that in addition to those cited in this paper, a number of other studies related to the African SME context have also lamented the lack of funding as a major blow to the SME development project on the continent. Runde et al. (2017) in their study found that African SME firms that identified access to finance as a severe impediment experienced slower growth rates. Conversely, they found through the objective measure that firms unconstrained by credit exhibited faster growth compared to those facing credit limitations. This raises serious questions about the ability of African policymakers to implement proper interventions for Africa to achieve the emancipation of its people in terms of employment and socio-economic development, which potentially relies on SME successes. It is clear from the literature available, including policies by various governments on the continent, that there is no lack of information regarding the reasons for SME failure due to finance. The major challenge is whether African policymakers are effectively leveraging available research and information to enhance the funding interventions for their SMEs. The author laments the potential economic contribution lost by Africa due to poor SME funding support, including skills development. Future research may need to quantify this loss. For instance, the MIT Sloan School of Management (2022) highlights that African SMEs crucial for economic growth and job creation, face a financing gap of USD331 billion leaving them in challenging position as they are too large for microfinance and too small for traditional banks. Additionally, Africa (2020) points out that agri-SMEs in sub-Saharan Africa face a USD65 billion financing gap due to being too large for microfinance but unable to access loans from commercial banks. These gaps undoubtedly highlight that commercial banks are not a viable platform for African SME funding at this stage unless major restructuring of their credit processing policies is put in place, which requires cooperation between the banks and African policymakers. It must be noted that inadequate or lack of African SME funding does not only impede their growth but has also resulted in an exodus of premature closures of these enterprises, as highlighted in studies among others such as Quartey et al. (2017), Beck and Cull (2014) and Berg and Fuchs (2013). This further exacerbates what the author refers to as "Africa's loss of SME potential" effect.

2.2 The Funding Dilemma of SMEs in Africa

Barriers to Accessing Finance and Limited Access to Credit

Failure to secure funding remains one of the main challenges that African SMEs have to contend with (Mazanai & Fatoki, 2012; Brixiová et al., 2020; Beck, 2007; Mutula & Brakel, 2006;). This funding challenge for SMEs continues to occur, despite their key contribution to economic growth and job creation as noted in Ayyagari et al., 2012.

The lack of access to finance for African SMEs is directly related to their challenges in obtaining credit from commercial banks and other financial services institutions. Research into this issue attributes the obstacle to the informal nature of many African SMEs, which results in a lack of proper financial documentation needed for funding institutions to assess their creditworthiness. As a result, as noted in Beck and Cull (2014), financial institutions often consider SMEs as high-risk, thereby discouraging lending. Therefore, the informal nature of African SMEs versus the financial institutions' expectation of formal enterprises with proper documentation results in a clash of interests between the two parties. This has made it impossible for SMEs to access funding over the years, resulting in significant stagnation or failure in Africa's SME growth project. The "credit rationing theory" by Stiglitz and Weiss (1981) argues that this conflict of interest between banks (agents) and the owners of SME businesses driven by informational problems and transactional costs, is one of the significant causes of the lack of funding access for SMEs. While this theory has contributed to explaining the credit rationing behaviour as it relates to SME business funding with banks at the time it originated, it must be considered that there are other contextual factors beyond those considered by this theory that have a pertinent impact on the issue of funding access for SMEs.

For instance, key issues affecting access to traditional finance these days, among others, could include business support services and collateral requirements that may result in the exclusion of potential credit customers in even competitive credit markets. Several studies have examined various factors that hinder African SMEs' access to traditional credit finance, including European Union (2013), Makhetha and Sebolelo (2015), Mokoatleng (2015), Amadasun and Mutezo (2022), Théogène (2024), Saldaña (2024), Mandiringana (2021), Bolarinwa (2024), etc. These studies have highlighted different factors that limit African SMEs' access to traditional funding. Some of these studies have suggested that previous research did not address all relevant factors in this regard. For examples, in the context of Lesotho, Amadasun and Mutezo (2022) point out that other studies in their setting, such as Makhetha and Sebolelo (2015) and Mokoatleng (2015), overlooked critical constructs applicable to Lesotho SMEs. It is sufficient to note that various studies might emphasize certain aspects of these factors based on their research objectives. The main issue is that these factors must be addressed to save the African SME development project; otherwise, traditional funding should be removed as an option for African SME financing.

The effect of failed African SME funding by traditional commercial banks has undoubtedly had a devastating effect on SME businesses resulting in many of these operations not surviving for African countries to realize the anticipated economic growth, as highlighted in various previous studies. For instance, Singer et al. (2018) observe that, according to GEM data in the South African context, more SMEs fail and close annually than the new ones that open up operations in the country, meaning that this country loses more SME businesses than it creates annually. This exodus of premature SME closures in Africa has become a norm, exposing poor implementation of SME support interventions by policymakers. Quartey et al. (2017) argue that a lack of access by African SMEs to formal credit limits their ability to invest in growth opportunities and improve operational efficiency. This becomes the catalyst for failed ventures by African SMEs. Beck and Cull (2014) assert that in the absence of reliable credit sources, African SMEs end up relying on informal lending channels, which are generally expensive and not sustainable. Some African SMEs, however, might be so vulnerable or lack information that they may not have access even to informal lending, making it imperative for the government to intervene in enabling them to be sustainable.

In the subsequent section, this paper addresses an exhaustive list of factors affecting African SMEs' access to formal credit, such as information asymmetry, high-interest rates, stringent collateral requirements, financial institution bias, limited availability of tailored financial solutions, regulatory and policy constraints, lack of alternative financing options, macroeconomic instability, as well as skills and capacity gaps. These factors are briefly highlighted below as identified by various previous studies:

(i) Information Asymmetry

Information asymmetry generally refers to the gap between what SMEs know about their businesses and what financial institutions require for credit evaluation. Shittu et al. (2022) indicate that asymmetrical information, also known as information failure, occurs when the seller (financial institution) possesses more knowledge than the buyer (borrower). They argue that this situation occurs in scenarios where SMEs, for example, are not willing to disclose full information about their financial position to the financial institution. The key consideration in this scenario is that banks typically require financial information to evaluate borrower's ability to repay the loan. In many instances, informal SMEs in Africa may lack reliable and formal records of such information leading to the rejection of the credit applications by the financial institutions. It may not be that the SMEs are not willing to disclose financial information, as asserted in Shittu et al. (2022), but rather that they do not maintain the required formal financial records due to the informal nature of their operations. These inadequate financial records and lack of transparency result in challenges for financial institutions when assessing the credit worthiness of SMEs (Berger & Udell, 2006). It is clear, though, from experience over the years that informal SMEs are far from keeping formal financial records required by commercial banks. Without tailor-made funding solutions, this funding dilemma remains unresolved, thus negatively affecting the plight of African SME businesses. Many African SMEs lack formal financial records and audited statements, complicating their creditworthiness evaluation by lenders, as highlighted in studies such as Beck & Cull (2014), LSEG (2022), Shittu et al. (2022), Coetzee (2017), Asah (2020), among others. This gap exacerbates the perceived risk of African SMEs by banks, resulting in limited credit availability for them and even excessive credit rejection rates (Beck & Cull, 2014).

The study on the state of bank lending for SMEs in the Middle East and North Africa by Rocha et al. (2011) highlights that among the key constraints for SME bank lending emanate from the lack of transparency, inadequate credit data in the credit registries and bureaus, and weak credit rights. They further call for the improvement of financial infrastructure, including broad coverage and in-depth credit bureau databases. This finding is true for the rest of the African continent where fewer efforts have been put forth by credit bureaus to design tools to navigate and analyze SME data and possibly create a dedicated credit scorecard tailored to the SME context.

(ii) High-Interest Rates

The bank's pricing systems are generally designed to charge high interest rates where the funding offered is subject to higher credit risk leading banks to charge a high premium on financing costs for African SMEs, as noted in Quartey et al. (2017). This undoubtedly becomes a major deterrent in relation to SME financing in Africa, given that high interest rates can make credit unaffordable for them. According to Shikumo and Mirie (2020), increased finance charges result in a financial burden that negatively impacts business expansion and operational stability for African SMEs. This makes secured funding unsustainable, thus not providing the intended benefits for African SMEs. It eliminates the incentive for African SMEs to seek financing from formal financial institutions, resulting in the inability to scale up their operations and experience growth (Shikumo & Mirie, 2020). Several studies have also explored this challenge as one of the factors impeding African SME funding such as Dwamena and Yussoff (2024), Kaimenyi (2024), Msomi (2023), etc.

(iii) Stringent Collateral Requirements

Most African banks require significant collateral for SME loan approvals, typically including assets such as real estate, vehicles, equipment, and stock. They may also require personal guarantees from the SME shareholders or directors. However, with dire poverty characterizing African economies, their SMEs often lack the tangible assets required to meet the collateral requirements set by banks, as noted in Festo (2024) and Kira and He (2012). This further emphasizes the author's view that formal credit, in its current form, is not structured for the African SME context. The challenge of a lack of collateral is particularly acute in rural areas and among women-led enterprises, where formal property ownership is limited (LSEG, 2022).

Previous studies have identified the impact of a lack of collateral among African SMEs as one of the reasons for their exclusion from the formal financing ecosystem, hindering their ability to grow. Among the many studies related to this challenge, this paper has identified studies such as Festo (2024), Msuya (2018), Djidjik (2024), Fatoki and Smit (2011), Fatoki and Rungani (2015), Hanedar et al. (2014), Abor and Quartey (2010), Bigsten et al. (2003), Moro et al. (2014), Menkhoff et al. (2012) as well as Beck and Cull (2013).

(iv) Financial Institution Bias

Given the perception that African SMEs exhibit higher credit risk, banks tend to consciously or unconsciously prioritize offering credit to large and established businesses. This is stimulated by the fact that large corporations tend to have lower credit risk profiles and ease of evaluation as they have all the formal financial documentation necessary for ease of credit evaluation (Shikumo & Mirie, 2020). Conversely, African SMEs are often perceived as costly to serve as a result of their small loan sizes and complicated credit assessments (MIT Sloan, 2022). The example of blatant bias by banks towards SMEs is indicated in the study by Haselip et al. (2013) which investigated Energy SMEs in sub-Saharan Africa covering Ghana, Senegal, Tanzania, and Zambia. The study discovered that the financial sector in Zambia is mostly foreign-owned, with low levels of trust in lending to local SMEs. This raises the question of what the incentive was for these foreign financing institutions to establish their operations in Zambia if they have trust issues when it comes to the local market. Furthermore, the author argues that this lack of foresight by African banks could lead to losing a huge potential financing market by avoiding SMEs and failing to create innovative funding solutions for them. This would alleviate the challenge of complications in processing credit while balancing the risk, including promoting financial education of SMEs in collaboration with policymakers. Ironically, a study by Calice et al. (2012) involving SME financing in Kenya, Tanzania, Uganda, and Zambia, revealed that banks consider the SME financing market as large with promising prospects and outlook. Furthermore, this study highlights that, despite the obstacles faced by the banks in funding SMEs in these African countries, such as SME-related factors, bank-specific factors, macroeconomic factors, regulatory issues, and a lack of proactive government attitude towards this segment, the banks are nonetheless developing models to adapt to the SME context through innovation and differentiation. Should this attitude be replicated among many banks on the continent, it can bring hope in alleviating financial exclusion and failures of SMEs for Africa's socio-economic development.

In addressing the exclusion of SMEs in the context of South Africa, the study outcomes by Owoseni and Ahwireng-Obeng (2024) promote the realization and understanding that SMEs need continuous, needs-based, responsive, and adaptive institutional support. In light of this study's findings, it is clear that without proper research by the banks and innovating on SME tailored solutions, the potential for the banking sector of the SME market will be lost, in the same way that poor support interventions by policymakers have resulted in the wasted and lost potential which SMEs could contribute to economic growth and GDP.
Research has found that female SME owners in Africa face additional difficulties in accessing finance compared to their male counterparts due to gender bias and sociocultural factors (Muravyev et al., 2009). These enterprises often receive smaller loans, are subjected to higher finance charges, and have limited or no access to formal credit (Mastercard, 2021). Shikumo & Mirie, 2020, argue that the impact of this institutional bias against SMEs undoubtedly limits their access to credit, stifling their innovation and business growth.

(v) Limited Availability of Tailored Financial Products

It is clear that there has been a lagging response in terms of innovating funding solutions that are sensitive to the African SME context, as there are still recent studies lamenting difficulties faced by African SMEs related to accessing funding through the traditional financing ecosystem such as Fowowe (2021), Kusi et al. (2023), Ncube et al. (2022), Evou (2020), Mbatha (2024), Sasia (2024), and Dahi (2024). Therefore, African financial markets seem to lack specialized financial products that cater to the diverse needs of SMEs. If these solutions are in place, they have undoubtedly not made in roads to change the funding dilemma of African SMEs. Traditional loan structures are rigid, unresponsive and may not align with the cash flow cycles or investment timelines of SMEs (Quartey et al., 2017; MIT Sloan, 2022). This calls for effective collaboration between policymakers and financial institutions to jointly design and implement SME-responsive financing solutions to unlock the African dream of socio-economic emancipation, at the heart of which are the masses of struggling SME businesses. The absence of flexible and innovative SME-tailored financial offerings restricts SMEs from acquiring the much-needed capital necessary to leverage growth opportunities (MIT Sloan, 2022).

(vi) Regulatory and Policy Constraints

Several studies have called on governments in the African continent to create SME growth-friendly regulatory frameworks. Despite various calls by researchers, there is still a lot of work required from policymakers to simplify their complex regulatory environments and inconsistent policy frameworks in many African countries, given their impact on the barriers faced by SMEs. According to The World Bank (2017), Africa's rigid and strict regulatory frameworks and underdeveloped financial markets constrain the innovative financing mechanisms. Bureaucratic obstacles, unclear property rights, and weak legal systems exacerbate the challenges for SMEs to meet lending requirements (Beck & Cull, 2014; LSEG, 2022). Furthermore, Beck & Cull (2014) argue that these regulatory inefficiencies discourage banks from offering funding to SMEs, which increases the cost of doing business for them. However, banks also stand to benefit from the potential financing SME market if they engage with SMEs. Therefore, they could also engage policymakers on aspects of the regulatory framework that will enable them to innovatively create financing solutions that are likely to work for the SME context.

(vii) Lack of Alternative Financing Options

Several alternative financing options have been considered in the past few years to mitigate the challenges faced by SMEs with formal credit. These include financial products such as venture capital, angel investors, crowdfunding, and others. MIT Sloan (2022) asserts though that these alternatives financial solutions are still underdeveloped in Africa. This put SMEs in a position where they still rely on traditional lending mechanisms that often reject them. This lack of diverse financing options hinders entrepreneurial innovation in Africa and limits SMEs' ability to expand their operations and drive economic growth (MIT Sloan, 2022). Africa therefore needs to embrace entities, bringing these innovative funding alternatives like Fintech and accelerating their development to enhance their SMEs.

(viii) Macroeconomic Instability

The macroeconomic instability related to economic volatility, such as inflation, exchange rate fluctuations, and political instability, increases the risk of SME lending (Beck & Cull, 2014). A number of studies highlight the impact of the macroeconomic environment on SMEs including Rao (2024), Din (2024), Meraj (2024), Ozata (2020), Shevchuk (2021), Bolarinwa (2024), and Shah (2025). These conditions make banks cautious and less willing to provide long-term credit (LSEG, 2022). According to Beck & Cull (2014) SMEs operating in economically volatile environments naturally face difficulties in securing funding and are therefore vulnerable to external shocks.

(ix) Skills and Capacity Gaps

Lack of financial literacy and management skills, along with a lack of funding, have been identified in previous studies as some of the key causes for the exodus of SME failures in Africa. Changwesha and Mutezo (2023), in their study of SMEs in the South African context, found that the sample of SMEs investigated lacked basic financial skills and consequently were significantly struggling to access funding. This study further established that there was a positive relationship between financial literacy and financial access. Another study by Buchdadi (2020) also confirmed a positive relationship between financial literacy and access to finance, including the attitude towards risk on SME performance. Another study in the Zambian context by Mwanaumo et al. (2025) discovered a significant positive relationship between financial literacy and access to finance by SMEs. Other studies that found similar correlations between SMEs' financial literacy and access to finance include Bakashaba (2024), Addo (2023), and Akhtar (2023). These studies partly confirm the assertions of the author earlier in the literature review that providing funding requires the relevant financial management skills for it to be sustained. These studies seem to suggest that the ability to secure funding relies on financial literacy skills in the first place, which should also enable sustainability once the funds have been secured in terms of their effective management to achieve SME growth. Therefore, support efforts to enhance African SMEs' access to funding will have to be accompanied by financial literacy skills development to ensure that funds are effectively managed once secured, as these two variables must not be mutually exclusive to achieve the intended results. This poses the urgency of effective government interventions, given that most studies, including, for instance, Changwesha and Mutezo (2023), have found that African SME owners lack the financial literacy and managerial skills required to effectively navigate the financing process. This includes preparing comprehensive business plans and managing credit effectively (Quartey et al., 2017; LSEG, 2022). Thus, this skills gap reduces the likelihood of loan approval and increases the risk of business failure when funds are mismanaged (Quartey et al., 2017).

2.3 Strategies to Overcome the African SME Funding Dilemma

As noted above, research has adequately unpacked that despite their significant contribution to economic growth, African SMEs face consistent difficulties in accessing traditional credit from banks and other institutions in the formal credit market, as highlighted in various studies such as Demirgüç-Kunt and Maksimovic (2008), Allen (2011), and IFC (2022), among others. Various factors have been discussed above which constitute significant barriers to access the much-needed funding for African SMEs to thrive and grow, as also noted in Cole et al. 2024. In response to these challenges, a number of innovative funding solutions have been created including government interventions, microfinance, and emerging digital financial services, intended to mitigate these challenges and enable SME survival and growth. These solutions and the related policy measures must be designed with an understanding of the context of SMEs and the complex correlation between funding availability and SME outcomes.

2.3.1 Innovative Financing Models

The development of innovative funding models, seen as alternatives to traditional formal bank financing, has shown promise in resolving the funding dilemma that has been a challenge for African SMEs for a number of years. This dilemma has resulted in devastating outcomes for the growth of SMEs in African countries, hindering economic growth, GDP, and employment. Moreover, Turyahikayo (2015) contends that little attention has been given to the challenges faced by SMEs related to access to finance, citing evidence in the literature that attention has also not been paid to discussing alternative ways of raising finance for SMEs, particularly in Uganda. The key alternative solutions are described below:

- **Microfinance and Peer-to-Peer (P2P) Lending:** Microfinance providers are generally institutions that offer micro loans without requesting sophisticated documentation and collateral, which are normally required by formal lenders, fostering financial inclusion for African SMEs. Wang et al. (2021) define Microfinance institutions (MFIs) as institutions that an important part of informal lending whose primary aim is to make loans without taking deposits or collateral. P2P lending enables SMEs to secure funding directly from the owners of funds without the stringent requirements of any intermediary. P2P is changing the informal financing landscape by leveraging digital transformation to integrate traditional MFIs and information technology using the internet as the emergent intermediary (Wang et al., 2021). While the P2P model can seamlessly connect borrowers and lenders in a digital platform, enhancing efficiencies and reducing transaction costs, as noted in Liu et al. (2019), it is still subject to the typical challenges that some scholars have attributed to fintech solutions. It stands to reason that the rigid regulations and infrastructural challenges prevalent in Africa are likely to impede its optimal adoption, despite its advantages and potential for African SMEs. Rajkumar (2017), while acknowledging the potential for growth of the P2P market in the African continent, points out that there is no tailored regulatory response in Africa to these emerging financing solutions compared to the more established economies elsewhere in the world. This makes Africa in its infancy stages of developing these solutions.

- **Venture Capital and Angel Investment:** Most studies have highlighted the value of leveraging these alternative funding solutions, even though they are still underdeveloped in Africa. Kaplan and Strömberg (2003) indicate that these models could benefit high-growth SMEs in Africa, despite being underdeveloped on the continent. INSEAD Knowledge (2024) suggests that education, local perspectives, and strong networks are critical to unlocking the investment potential for African SMEs, further recommending that governments develop funds with venture capital carve-outs to support emerging SME with funding. TechCabal (2022) contends that despite an increased interest to African emerging SMEs from local and international investors, African SME owners often struggle to secure funding for early-stage start-ups, resulting into bootstrapping. This tendency tends to be unsustainable and drastically retard the growth of SMEs in Africa, resulting in them staying within the SME segment in terms of size and revenue for years, if they survive to see the light of day. It has also been observed in various studies that the skills level of SMEs becomes critical to unlock this alternative, especially in cases of start-ups where success in securing the support from investors relies mainly on the SMEs' ability to eloquently articulate the potential and benefits of the proposed venture. However, for certain levels of SMEs and growth sectors, this can be a useful alternative to the formal credit funding option.

- **Crowdfunding:** Digital platforms enable SMEs to connect to a diverse pool of investors in their quest to access funding, eliminating their reliance on traditional formal lending intermediaries (Mollick, 2014). Crowdfunding and initial coin offerings (Bruton et al., 2015; Block et al., 2021) are some of the cutting-edge forms of financing used by entrepreneurs, which typically use an online platform to leverage funding through collective contributions from several individuals. This cutting-edge model enables entrepreneurs, artists, NPOs, and other project owners to invite financial support from the public rather than relying on the formal financing market (Belleflamme et al., 2014). It is questionable, though, if this alternative can be effectively leveraged by most SMEs in Africa given various issues of access to technology platforms as well as financial and digital literacy, among others. Mamaro and Sibindi (2022), in emphasizing the negative impact of the lack of funding from traditional sources for African SMEs, suggest that crowdfunding could potentially overcome the constraints faced by SMEs due to inadequate access to funding. Arguably, it appears that canvassing for funding through this method can be viable for a different breed of entrepreneurs who are confident, skilled, and convincing, which might be a challenge for most African SMEs, especially in the informal setting. They are also facing a lack of skills challenges, as suggested in various studies.

2.3.2 Digital Financial Solutions

Digital financial services (DFS) have changed the way credit is processed, leading to an overall transformation of SME financing in Africa (Beck, 2020). Mobile banking and digital lending platforms are bridging the traditional SME inclusion gap in Africa (Jack & Suri, 2011). At the heart of these digital financial solutions are Fintech companies. Laourou (2024) hails the tenacity after the traditional funding sources had been affected by unstable economic conditions resulting in investors becoming cautious and concentrating on protecting their current holdings. Through digital enablement platforms, Fintech companies have been able to bypass the conventional constraints of institutional finance and establish connections with numerous investors (Laourou, 2024). Furthermore, their innovation has not only attracted investors but has also positioned Fintech companies as major players in shaping the future of finance (Laourou, 2024). This is undoubtedly a space that could have been occupied by traditional banks if they were willing to leverage the potential opportunities presented by SMEs in Africa. Fintech is generally considered to have bridged the funding gap for African SMEs through innovative and easily accessible financial services such as digital credit platforms, mobile banking, and alternative funding platforms. It addresses the weaknesses of rigid traditional banking models and empowers SMEs with limited credit history to access finance without collateral, high transaction costs, credit history, time-consuming credit application processing, etc. The fintech revolution has been at the forefront of developing entrepreneurship through new financial options enabled by digital technology (Block et al., 2018; Bellavitis et al., 2017). According to Muindi (2024) fintech platforms are at the forefront of empowering African SMEs by providing access to credit, payment solutions, and digital marketplaces. This includes enabling SMEs in remote rural areas to access financial services. While fintech alternatives have been hailed for bridging the exclusion of African SMEs, their development has been slow and has not made major inroads in terms of largely changing the funding dilemma of the majority of SMEs in Africa. The irony lies in the fact that recent studies still report that African SMEs' funding challenges in the traditional financing market, despite the availability of alternatives such as Fintech. It is essential for this study to examine the reasons why SMEs are not aggressively using fintech alternatives, considering that traditional banks have failed to provide financing solutions for their needs.

It seems that traditional banks may be feeling the impact of fintech. Cele and Mlitwa (2023) concluded in their study of the South African context that fintech has increased competition for traditional financial institutions, reduced their profits, and exposed their incapability to be agile. Furthermore, this study argues that fintech could introduce new regulatory risks in the financial services sector, as they are less regulated compared to traditional incumbents, suggesting that the playing field between the two may not be equal. It remains to be seen how fintech will evolve in the African context, given that it has been aggressively marketed through the news media as the key alternative to closing the African SME inclusion gap in financial services. However, at this stage, it may seem that most African SMEs are not aware of the presence and offerings of Fintech in their nations and hence are not yet leveraging the benefits. This leaves the SMEs still grappling with the traditional formal credit challenges, despite the potential of fintech solutions promoted mostly through the media.

Several studies have been conducted to determine the effectiveness of the development of fintech solutions given their expected benefits for African SMEs. The challenges identified by these studies include mainly infrastructural and regulatory concerns, as well as socio-economic factors. The study by Writer (2023) identified a number of barriers limiting the adoption of fintech in sub-Saharan Africa, such as: lack of infrastructure and access to reliable internet; electricity outages that impact internet connectivity; unaffordable internet connectivity; lack of trust and awareness; and regulatory constraints. Rodima-Taylor et al. (n.d.) indicate that contrary to news media reports, scholarly critiques continue to emphasize the constant challenges and systematic vulnerabilities of Fintech in Africa. They cite case studies in Nigeria, Ghana, Zimbabwe, and Uganda that have revealed issues with Fintech platforms related to fraud and exploitative practices, as well as regulatory gaps. The IMF (2019) study highlighted fintech adoption in sub-Saharan Africa as subject to challenges such as regulatory issues, infrastructure deficits, and the need for financial literacy among users. The challenges highlighted in these studies seem to indicate that Africa could still be a long way from optimally leveraging the benefits of fintech. It will need the cooperation of policymakers especially in addressing regulatory and infrastructural challenges. This is also confirmed in Hornuf et al. (2025), who assert that policymakers in sub-Saharan Africa will need to enhance digital and financial literacy and align the regulatory environment for a wider adoption of fintech platforms on the continent.

2.3.3 Policy Interventions

Several studies have emphasized the important role of policymakers in addressing the challenges faced by African SMEs when it comes to their funding dilemma. This expectation is not only limited to government-led initiatives aimed at enhancing access to funding for African SMEs such as government guarantees and funding agencies, among others, but also in terms of enabling the seamless development of alternative non-traditional funding models. For example, Fatoki (2014) suggests that crowdfunding is one of the creative solutions to enhancing access to funding for SMEs in the context of South Africa but argues that policymakers need to create a regulatory environment that will enable this model. Similarly, Abusomwan and Arodoye (2015) recommend the government develop and implement policies that will channel lower-cost funds to SMEs and create the enabling infrastructural and regulatory environments to support and develop African SMEs. Additionally, Falkena et al. (n.d.) lament the South African Usury and Bank Acts, which stimulate small, short-term loans for SMEs while preventing the provision of larger long-term investment finance. This undoubtedly calls for government intervention. Oyegbade et al. (2022) emphasise Public-Private partnership and its potential to establish an inclusive financing model that encourages financial inclusion for entrepreneurs by expanding low-cost lending and improving access and transparency through the integration of digital platforms. There is no doubt that at the heart of mitigating of African SME funding challenges is the critical contribution by the government, as agreed upon by various studies. This influence cuts across both traditional and emerging informal financing markets. For instance, formal lenders are likely to be willing to finance SMEs where government guarantees are in place; however, without such intervention, they are not willing to lend to the SMEs. The credit guarantee, as noted in Honohan (2010), reduces lender risk, thereby opening the prospects for the SMEs to be successful with the funding applications even in the traditional banking environment. It goes without saying that the main player in enabling access to finance for African SMEs is government. However, the dismal track record of African governments' SME support interventions leaves a lot to be desired, risking the unlocking of the economic growth potential of SMEs. According to the LSEG (2018) report on the challenges and opportunities of SME financing in Africa, there is an absence of a government-led SME strategy to develop financing ecosystems. Several other studies have lamented the ineffectiveness of African governments' funding support for SMEs, such as Sibiya and Kele (2019), Ogujiuba (2023), Rankhumise (2018), and Ramasimu (2023), among others.

Other government interventions related to African SME funding include development finance institutions with a critical role in providing long-term funding and support to underserved segments like SMEs, as highlighted by Smallbone and Welter (2001), and financial literacy programs aimed at enhancing financial skills for SMEs to assist them in exploring financing options, as noted in Bruhn and Zia (2013).

3. Research Design and Methodology

This systematic review study relies on available literature covering various issues and developments related to the funding dilemma experienced by SMEs in Africa, which has been identified by various studies as one of the major causes of SME failure on the continent. The systematic literature review (SLR) approach adopted in this study is generally considered appropriate for synthesizing available knowledge to identify gaps in the literature, as noted by Snyder (2019). According to Tranfield et al. (2003), this approach is regarded as structured and replicable, enabling transparency and thoroughness in the selection and analysis of studies. In terms of this study, this design enables the exhaustive interrogation of research on SME financing and alternative solutions across Africa. The data collection for this study was based on a detailed search of various research databases such as Research Gate, Google Scholar, AOSIS Academic Journals, Scopus, AJOL, and other international databases showing reports related to African SMEs funding including the World Bank. Various search terms, complementation, conjunctions, and disjunctions were used to identify a broad range of relevant sources, with key terms including "African SME formal credit access", Barriers to SME funding in Africa", "Emerging financing alternatives for SMEs in Africa", and "Government interventions to mitigate SME access to funding challenges in Africa". The search encompassed research published between 2000 and 2025 to identify recent improvements in this subject while keeping the historical context. In terms of the inclusion and exclusion criteria, the study included peer-reviewed journal articles, policy reports and conference proceedings. Additionally, it included research focused on SMEs in Africa addressing funding challenges and alternative solutions, and publications in English. The study excluded articles not focused on Africa, non-academic resources not based on empirical data, redundant studies, and publications not related to the SME sector, as well as publications not based on the English language. The data were screened and selected for this study based on a structured and transparent method aligned with the Preferred Reporting Items for Systematic Reviews and Meta-Analysis (PRISMA) guidelines as noted in Page et al. (2021). The main aim of this process was the identification, evaluation, and synthesis of relevant sources encompassing funding challenges for African SMEs, as well as various alternatives and strategies to mitigate their funding challenges and unlock growth. Once the relevant data were identified, duplicates were removed using reference management software (Zotero), and the full texts of the remaining articles were evaluated for eligibility based on predefined criteria. The study involved two independent reviewers who screened the texts against the predefined inclusion and exclusion criteria (Higgins et al., 2022). This resulted in the final selected sources being reduced from the original 150 to 70 for final review. The data were then extracted from the finally selected literature and analyzed thematically. As noted in Braun and Clarke (2006), this analysis included the identification of recurring patterns and themes from the data text. The themes were then grouped into barriers, emerging funding innovations, government initiatives, and stakeholder collaborations.

4. Findings

This section presents the outcomes that emanated from the systematic review of literature related to various issues pertaining to the funding dilemma faced by African SMEs as well as alternative solutions in place to mitigate against the related challenges. The review mainly focused on identifying issues pertaining to funding constraints faced by SMEs in Africa, strategies and solutions in place to mitigate these as well as the effectiveness of alternative solutions. The findings were determined from the thematic analysis of 60 studies located across various regions within Africa focusing on the landscape of SME financing.

4.1 SMEs in Africa face a funding dilemma and challenges

Various local and international studies consistently point out that African SMEs struggle to acquire credit due to a number of barriers. These barriers are multifaceted, including internal factors specific to the SME firms and external factors related to the credit market as well as inadequate government support as highlighted in various studies such as Molefe (2006), Beck and Cull (2014), LSEG (2021), among others.

4.1.1 Internal Factors

The literature review shows that African SMEs generally lack various skills necessary for them to effectively manage their businesses, including financial literacy and business management, among others. For instance, the study by Adomako et al. (2015) found that a lack of management skills by African SMEs is a major limitation to business success. Mashizha et al. (2019) in his study of SMEs in Zimbabwe established a relationship between financial literacy and financial decisions, meaning that SMEs who are financially illiterate are unable to secure proper funding and be sustainable. This finding is also confirmed in the study of Kenyan SMEs by Chepngetich (2016). Most African SMEs are lacking in proper financial planning, maintaining financial records, and budgeting processes, which diminishes their credibility in the eyes of lenders. Their poor financial management not only impedes their financial stability but also increases their risk of defaulting on loan repayment obligations (Asah, 2020). Furthermore, the financial illiteracy of African SMEs results in poor financial decision-making, reducing their ability to access credit and equity funding (Coetzee, 2017). Due to their lack of management and financial skills, a large number of SME businesses on the continent operate informally without the necessary procedures and processes expected from a sustainable business, resulting in information asymmetry. Asongu et al. (2016) in their study of SMEs in 53 African countries highlight that limited information sharing during credit application impedes SMEs' access to funding, limiting their growth and formalization. Other studies supporting this position include Bergh et al. (2019) and IMF (2023), etc. Larbani et al. (2017) examined SME access to finance in the West African sub-region and found that this access was affected by factors such as size of the SME firm, ownership, credit information availability, legal rights, export orientation, and managerial skills and experience. African SMEs often lack in these factors, exacerbating their challenge when it comes to accessing credit in the formal lending market and hindering their growth.

4.1.2 External Factors

This study's literature review identifies a number of factors that are external and beyond the control of African SMEs, which nevertheless negatively affect their access to funding. These factors include high interest rates, collateral requirements, financial institution bias, limited availability of tailored financial products, regulatory and policy constraints, lack of alternative financing options, and macroeconomic instability. Various studies have unpacked a number of these external barriers that constrains SMEs from accessing financing, emphasizing some of them based on their study focus. For instance, some studies have highlighted issues with SME funding-related challenges such as high interest rates, excessive transaction charges resulting in the general lack of funding, particularly for African SMEs in rural and underbanked areas, for example, in Beck (2007) and Fatoki and Asah (2011). These challenges are complicated by the setting of the financial markets characterized by limited competition and the perceived high risk of SMEs by formal lenders (Brixiová et al., 2020).

The other external main barrier to African SME access to funding highlighted by most studies relates to collateral requirements imposed by traditional financial institutions. Amha and Woldehanna (2016) in their study of the correlation between SME lending and collateral in Ethiopia found that lenders often require collateral when lending to SMEs due to their perceived risk. However, African SMEs often don't have the assets required for collateral, resulting in their loans not being approved (CSIS, 2021; Fatoki & Rungani, 2015; Osei-Assibey, 2015).

The macroeconomic volatility, generally characterized by rising inflation, exchange rate volatility, and political instability, is a main challenge to SME funding. These factors stimulate risk aversion in the credit market and create uncertainty about the business environment. Unstable economic conditions in many African economies deter lending institutions from offering credit to SMEs due to the perceived high risk associated with a volatile economic landscape (Din, 2024). A study by Dahi (2024) in a West African setting revealed that political instability and unstable macroeconomic indicators make it more complex and difficult for SMEs to access credit in the formal lending market.

The external factors highlighted above that constrain African SMEs from accessing credit have been examined in most studies. However, the available literature also identifies additional external factors that inhibit African SMEs from accessing funding, including financial institution bias, limited availability of tailored financial products, regulatory and policy constraints, and a lack of alternative financing options. These factors have been, discussed in studies such as MIT Sloan (2022), Beck and Cull (2014), Fowowe (2021), Ncube et al. (2022), Sasia (2024), Shikumo and Mirie (2022), and Haselip et al. (2013), among others.

4.2 Involuntary Financial Exclusion Syndrome

The literature review has revealed that due to difficulties for African SMEs in accessing funding over the years, as discussed above, this has resulted in the concept of involuntary financial exclusion among them. Involuntary financial exclusion of African SMEs is generally defined as a situation where SMEs are constantly unable to access credit due to various factors imposed on them by the external financial system (as discussed above), despite having a need for funding. Simba et al. (2024) point out that empirical observations on 13,783 SMEs in 41 African countries reveal the extent of involuntary financial exclusion occurring across the continent. Furthermore, Simba et al. (2024) call for the African financial sector to reconsider its rigid credit evaluation processes and pay close attention to the localized African credit assessment systems embedded in culture, social norms, and values. Most studies addressing issues of involuntary financial exclusions for African SMEs have recommended government interventions to address the related challenges for example, Triki and Faye (2013) and the African Development Bank (2013).

4.3 Alternative Solutions and Policy Interventions addressing African SME Funding Dilemma

To alleviate the devastating state of African SMEs' funding dilemma, a range of alternative solutions and government interventions are either in their infancy stages or proposed, according to the literature.

4.3.1 Emerging Funding Solutions

In response to the constraints empirically proven in the traditional formal credit regime, alternative solutions such as crowdfunding, equity funding (venture capital & angel investments), peer-to-peer (P2P) lending, microfinance, and cash-flow based lending are increasingly being considered. For instance, Amoako-Adu and Eshun (2018) indicate that lending where the cash flow is primary criterion and does not require collateral, could be a more viable option for African SMEs. On the other hand, Attrams (2022) highlight that the venture capital could be a potential option for SMEs, especially those in the growth sector, providing them with funding and strategic support. Several studies have hailed crowdfunding as the alternative that could potentially alleviate the challenges faced by African SMEs with traditional financing options. These studies include, among others, Mollick (2024), Mamaro and Sibindi (2022), and Belleflamme et al. (2014). Wang et al. (2021) also propose microlending as a possible solution to the problems faced by African SMEs in terms of access to funding. Furthermore, Liu et al. (2019) assert that, due to its efficiency and low financing costs, P2P lending is a suitable option for SMEs compared to traditional financing.

The other aggressively growing emerging financing platform relates to fintech which has been regarded as the main solution for addressing the financing gap among African SMEs. This model leverages digital and mobile platforms to enable seamless access to funding for SMEs using an alternative credit scoring solution. The fintech platforms efficiently enable prompt access to funding at affordable transaction cost, including in remote areas where traditional banking infrastructure is underdeveloped (Beck, 2020; Gakuru, 2023). Additionally, Cele and Mlitwa (2023) assert that South African SMEs are able to mitigate traditional financing barriers by their growing adoption of fintech mobile lending platforms, thus increasing their access to funding.

There is a growing interest among scholars in these emerging financing solutions as viable alternatives to the traditional lending products that have failed African SMEs, as noted in studies such as Puja (2022), the African Development Bank (2024), Runde (2021), Financial Times (2024), and MIT Sloan (n.d.), among others.

4.3.2 Government and Development Partner Interventions

The literature reveals that various studies have suggested the intervention of government and other development partners to alleviate the financing dilemma faced by African SMEs. These comprises of interventions such as credit guarantees, alignment of the regulatory environment and improving the availability of credit databases. AUDA-NEPAD (2023) calls for the enhancement of public-private partnerships, development of regulatory reforms to enhance funding access by African SMEs, and creating the environment supportive of SME growth. Calice et al. (2012) in their study of Eastern Africa SME funding access, emphasize the credit guarantee schemes as a critical option to mitigate credit risk and enhance access to finance.

4.3.3 Financial Literacy and Management Skills Development critical

Research shows that enhancing financial literacy and management skills for African SMEs has a positive impact on their ability to secure funding, make sound financial decisions, and attain financial stability. Bruhn and Zia (2013) argue that business and financial management skills development enhances the capacity of African SMEs to access funding and improve their performance. Fatoki (2014) suggests that addressing financial illiteracy among SMEs could be a useful strategy to eliminate their credit access challenges, making them transparent and attractive to lenders. There are a number of other studies advocating for the development of skills, especially financial literacy, as critical in improving access to capital for SMEs in Africa, including CSIS (2020), the African Development Bank Group (2019), Fowowe (2017), Molefe and Mazanai (2021), etc.

4.4 Effectiveness of African SMEs Financial Dilemma Solutions and Interventions still facing challenges

The effectiveness of various interventions and solutions aimed at mitigating the funding dilemma of African SMEs has been assessed in several studies. However, the outcomes of this assessment tend to vary depending on the solution and regional context.
In terms of alternative financing solutions, while they are promising in eliminating the financial exclusion experienced by African SMEs, a number of obstacles are highlighted in the literature which negatively impact their effective development. For instance, the microfinance option suffers from the “missing middle” syndrome. MIT Sloan (2023) in their study identified the financing gap for sub-Saharan SMEs to be $331 billion, due to the “missing middle” syndrome, meaning that the SMEs are too large for microfinance while being too small for traditional formal financing. This makes microfinance, while not subject to restrictions posed by traditional banks, ineffective for African SME financing due to the available loan size. Emerging solutions which embrace digital platforms such as crowdfunding, P2P, and fintech are also subject to limitations particularly related to the absence of or inadequate tailored regulatory alignment to enable them as noted in Rajkumar (2017), making them not optimally developed to the extent of unlocking significant benefits for SMEs. The literature reveals that fintech faces a number of challenges which make it develop at a slow pace in Africa compared to its potential benefit. These issues include lack of infrastructure and access to reliable internet; electricity outages that impact internet connectivity; unaffordable internet connectivity; lack of trust and awareness; and regulatory constraints as highlighted in studies such as Writer (2023), Rodima-Taylor et al. (n.d.), IMF (2019), and others. In addition, Rodima-Taylor et al. (n.d.) highlight limitations related to fintech of fraud and exploitative practices based on case studies involving SMEs in Nigeria, Ghana, Zimbabwe, and Uganda. Hornuf et al. (2025) argue that policymakers in sub-Saharan Africa will have to enhance digital and financial literacy and align the regulatory environment for a wider adoption of fintech platforms on the continent. It will therefore not be possible for fintech to evolve and be adopted optimally for the benefit of African SMEs without addressing these constraints, suggesting the key role of policymakers to make these solutions a reality on the continent. Despite the findings from various studies suggesting a critical role of governments in enabling the alternative financing solutions for the optimal benefit of African SMEs, several studies have found weaknesses in the effectiveness of government interventions to support SMEs in Africa. Examples include Sibiya and Kele (2019), Ogujiuba (2023), Rankhumise (2018), and Ramasimu (2023), among others. LSEG (2018) points out that there is an absence of a government-led SME strategy to develop financing ecosystems. AUDA-NEPAD (2023) reported mixed results regarding the effectiveness of government interventions, suggesting that while some policy interventions have enhanced access to funding for African SMEs, their inconsistent implementations and bureaucratic challenges have hindered their effectiveness.
Regarding equity funding,TechCabal (2022) discovered in their study that despite increased interest in African emerging SMEs from local and international investors, African SME owners often struggle to secure funding for early-stage start-ups, resulting in bootstrapping. Most studies have attributed this failure to secure equity funding to a lack of skills on the part of African SMEs.

5. Discussion and Conclusion

5.1 Discussion

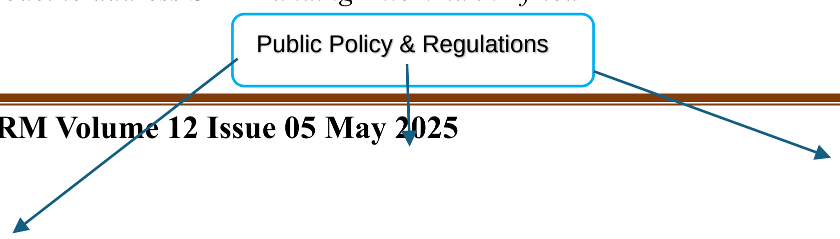
This systematic review study has shown the prominent funding barriers experienced by African SMEs, the factors that lead to these challenges, and the alternative financing strategies that have been considered. The results give a holistic overview of the constraints to financing access by SMEs, from internal drivers like financial illiteracy and mismanagement, to external drivers like high-interest rates, collateral requirements, cost of doing business, strict regulation, macroeconomic instability, etc. Furthermore, the study has analyzed the potential of different alternative solutions and policy interventions that seek to mitigate the SME funding dilemma.
One of the major conclusions is that financial literacy and business management skills have a role to play in improving SME access to finance. Research highlights that most African SMEs have limited capability to prepare financial plans, budgets and maintain financial and operational records, creating information asymmetry and a perceived lower credibility from lenders. It is further compounded by limited access to funding in a context where funding is usually considered to be for high-risk borrowers, a category that SMEs typically fall under. SME owners who lack the appropriate financial skills are unable to adequately communicate with formal lenders and other alternative financiers, such as equity and venture capital investors.

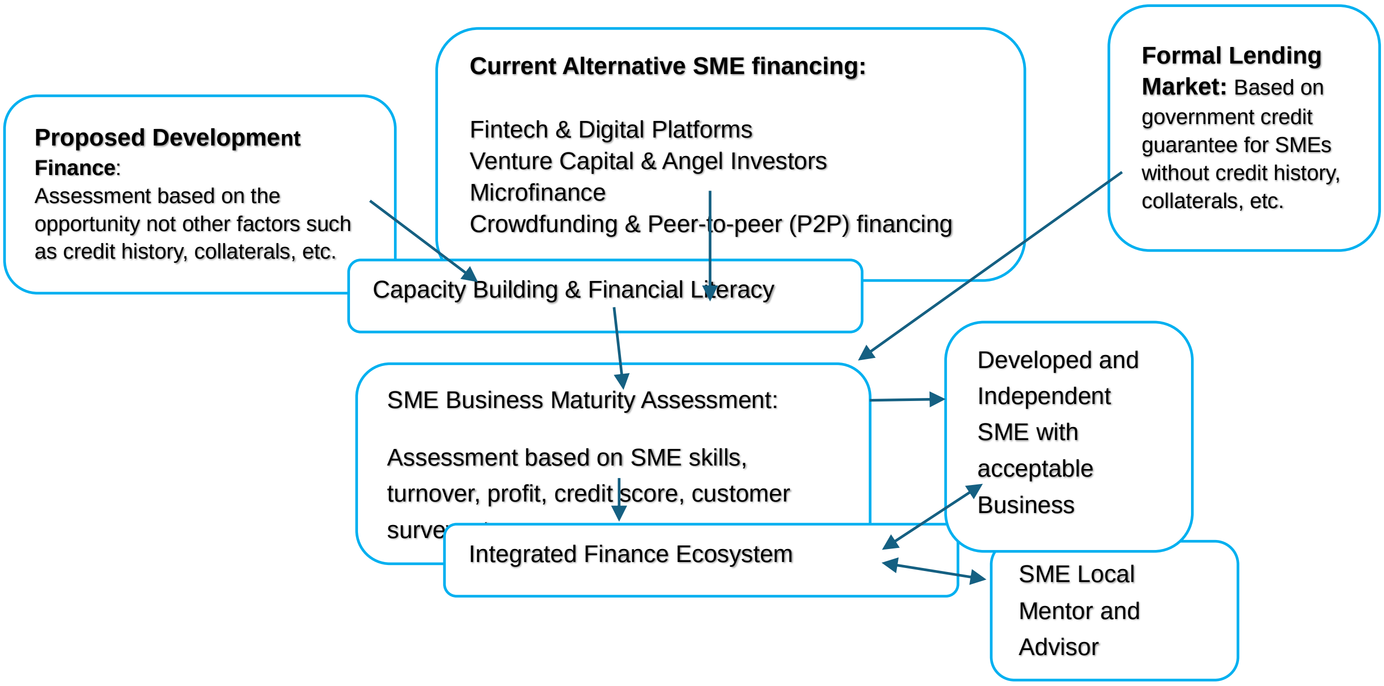
Externally, they are held back by some of the limitations discovered by the financial system. Traditional bank loans are unattainable for many SMEs, owing to high-interest rates, exorbitant transaction fees, and strict collateral requirements. Similarly, macroeconomic instability such as inflation, exchange rates and political unrest causes uncertainty which leads lenders to not lend to SME. This involuntary exclusion from credit availability creates a sizable funding gap that hinders business growth and impedes economic progress.

To address these issues, a number of alternative financing mechanisms have been suggested and implemented in certain instances. They are microfinance, crowdfunding, peer-to-peer lending, fintech solutions, and cash-flow-based lending. Although these alternatives hold promise, they are not without limitations. Microfinance institutions tend to offer loans that are too small to support growing SMEs, leaving them stuck in a "missing middle" where they are too big for microfinance, but too small for conventional financing. While offering the potential to drive overall financial inclusion, fintech solutions also encounter impediments in terms of insufficient digital infrastructure, absence of regulatory frameworks, while the pulse of fraud and data security concerns continue to haunt the industry. To overcome these challenges, several attempts at government intervention have been proposed, including the introduction of credit guarantee schemes, regulatory reforms, and the establishment of public-private partnerships as critical measures. The effectiveness of these interventions vary greatly. Although certain measures have shown promise, patchy enforcement and a litany of bureaucratic bottlenecks have hindered their effectiveness. This indicates the need for more focused and well-executed, and consistent government policies and support to create a financing-friendly ecosystem for SMEs.
Another viable new source of funding for African SMEs identified in this study is equity funding through venture capital and angel investment which has finally garnered interest. Regrettably, despite the growing interest in these sectors, many SMEs fail to raise investment primarily due to a lack of readiness, poor business models and unconvincing investor confidence. It emphasizes the need for capacity-building initiatives that will enable SME owners to not only attract but also design and manage investment funding.

5.2 Conclusion
While the funding conundrum faced by African SMEs is a multifaceted problem shaped by endogenous and exogenous factors, it is concluded based on the findings of this systematic review that SME financing is weakened by financial illiteracy, management inefficiencies, macroeconomic uncertainties, and a dearth of alternate sources of funding. Although a number of innovative solutions such as fintech have been considered over the years, they continue to be limited by regulatory gaps, bottlenecks, and the unprepared state of SMEs to effectively utilize those opportunities. These challenges require a multi-pronged approach to address them. Enhancing the financial literacy and business management skills of SME owners is critical in enabling them to obtain credit and manage funds effectively when they acquire financing.
There is a need for coordination between governments and financial institutions to formulate policies for templates that endorse financing innovation models such as Fintech, P2P, and equity funding. Additionally, policies aimed specifically at addressing SME risk, such as credit guarantees or an SME-centric approach to banking rules, are vital in reducing the perceived risk of lending to SMEs. Although alternative financing mechanisms present potential solutions, their success will ultimately hinge upon the appropriate regulatory structure, more informed SMEs, and infrastructure development. What policymakers can do, however, is create an enabling environment that encourages SME growth, reduces financial exclusion, which is an exercise in the creative, alleventh-century, and promotes economic development. To sum up, the funding constraints encountered by African SMEs are substantial, albeit surmountable. The solution lies in focusing on both barriers within the firm as well as those affecting access to financial markets.
This study suggests the conceptual model below to effectively address the challenge of African SME funding dilemma:

5.2.1 Figure 1
Proposed Conceptual Model to address SME Funding Dilemma in Africa





Explaining the Proposed Model of SME Financing in Africa

Our model is designed to address the financing issues of SMEs in Africa by integrating various financing options, providing strategic mentorship, and embedding capacity-building into the operations, all geared towards promoting sustainable business growth. Such an integrated approach can be beneficial by shaping new ideas and introducing new financial products (for example, digital platforms, crowdfunding, venture capital) that help monetize the new ideas. The model further instills the importance of mentoring, honing financial literacy skills, which are vital as the SME emerges into the required growth and sustainability. Key Components of the Model:

1. **Government Policies & Regulations:**
   Financial institutions are reluctant to provide financial support for African SMEs for lack of adequate policies and regulations by the Government. This may involve tax relief, lower interest rates, credit guarantees, infrastructure and policy enhancements for digital financial platforms.

2. **Financial Institutions:**
   Banks & Digital Financial Platforms: Such platforms make accessible loans, credit lines, and digital payment solutions to SMEs, helping them explore new and scalable financing opportunities.
   Micro Finance Institutions: These institutions provide smaller loans or financial support for SMEs, especially those in the informal sector or with less access to traditional financial systems.
   Crowdfunding & Peer-to-peer Platforms: These platforms allow SMEs to collateralize capital provider from a wide range of investors, democratizing access to financing while reducing reliance on traditional banking systems
   Venture Capital & Angel Investors: These are financial experts that invest money into startups in exchange for ownership equity in the business, also known as venture capital.

3. **Building Capacity & Financial Literacy:**
   Enhancing skills development programs for SME owners and managers in areas such as financial management, marketing and operational efficiency are critical for business growth. Financial literacy initiatives ensure that SME entrepreneurs comprehend essential principles such as budgeting, financial statements, and loan repayment.

4. **Guide for SME Business Maturity Evaluation:**
   This tool assesses the SME business's advancement in many aspects of features, such as:
   - **Skills Development:** Assesses quantitative and financial literacy capacity.

- **Level of Financial Literacy:** Measures of financial management and ability to pay back the loans.
- **Business Growth Level:** Measures of nimbleness in revenue growth, market expansion, and profitability.
- **Creditworthiness:** Monitors the firm's capacity for obtaining credit and managing it responsibly. This will also include the credit score of the SME business sourced from the formal credit bureaus.

The assessment is a score matrix that will be derived through a statistical model that shows the growth of the business and measures whether the SME is ready to move out on its own and run without a mentor.

5. **SME Mentorship & Advisor:**
Each SME will be assigned a local mentor or business advisor who will assist them through the startup and growth phases. The mentor is also with them throughout, assisting them with financial management, business-management, marketing, and loan repayment. The mentoring process continues until defined business maturity is reached, marking the SME as financially ready for independence.

6. **Integrated Finance Ecosystem:**

The different sources of financing (banks, microfinance institutions, crowdfunding, venture capital) and the capacity-building tools come together to create a full suppurating ecosystem. As SMEs evolve, they progress through this ecosystem, moving from entry-level support to independent functioning and economic development.

Key Features of the Model:

Holistic Support: SMEs get funding, but also mentorship and guidance to navigate key stages of development.
Sustainability: The model embeds financial literacy and business skills into the mentorship program to ensure that the micro-entrepreneurs are able to continue to grow without becoming dependent on continued external funding.
Scalable: The growth of SMEs translates into increased production, job creation, and economic growth, tackling Africa's developmental issues.
Expanded Financial Inclusion: The model opens the doors for greater access to capital amongst a more extensive number of SMEs through multiple financing sources and digital platforms thus leading to growth for SMEs, including those in underserved areas.

Taking into account challenges such as funding and limited skills, this model provides a holistic solution to not just leverage these factors, but also to unlock the potential of SMEs through education and structured growth. And the slower, but steady, maturity of enterprises will help SMEs evolve from dependent start-ups into economically viable businesses that can contribute substantially to economic growth and employment.

5.2.2 Study Limitations and Future Research

The systematic review method is generally considered to provide detailed insights. However, this study is limited to the sources identified and could be subject to publication bias. Moreover, it excluded non-English studies. Additionally, the study focused on existing literature, meaning that it may not have captured the latest unpublished developments in African SME funding.

Future studies should address the implementation and impact of innovative financing mechanisms and policies to identify best practices to be scaled across the continent. These studies should also quantify the economic growth potential lost by Africa as a result of delayed and ineffective government responses to these challenges. Future work may need to enhance the statistical elements of the conceptual model for African SME funding suggested in this study.

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