

Bridging the Financial Gap: A Comparative Study of Traditional and Alternative Financing Solutions for SMEs in the Digital Era

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ABSTRACT

Small and Medium Enterprises (SMEs) experience the challenge of limited financial capacity which hampers growth and sustainable operation. However, traditional sources of funds including bank loans are still the most common source of capital; yet it is still restricted with very many conditions such as eligibility and collateral. The purpose of this paper is to determine how these two models of financing – traditional and non-traditional – which include crowdfunding, P2P, and financetech can effectively fund the SMEs' financial gap in the digital environment. Qualitative and quantitative data are employed where a literature review, SME owners' questionnaires, and expert interviews are used in assessing accessibility, efficiency, and sustainability. The study shows that the sources of funds are more flexible and easily accessible though there are regulatory concerns and compromise investment returns. Finally, the study posits that a combination of conventional and innovative financing approaches may hold the key to a better financial environment for such businesses." The paper recommends that future studies should be undertaken together with policy intervention in order to address the issue of financial inclusion for SMEs.



Introduction

SMEs play a central role in most economies and the world at large as they are major employment providers, growth agents, and drivers of economic revival. The World Bank (2022) defines that SMEs account for almost 90% of the companies globally and generate employment for more than half of the global population. However, it was deduced that SMEs experienced a number of financial problems that hamper its growth and sustainability. A major impediment for SMEs is the issue of finance alongside which traditional sources including banks and venture capitals have played a very important role. These institutions often provide rather restrictive terms, requiring a high level of collateral, detailed credit histories, and many business procedures, which makes the receipt of the necessary funding challenging for SMEs (Berger & Udell, 2006).

The adoption of the financial technologies in the current generation of business finances creates a new means of business financing to fund the growth of SMEs. Crowdfunding, P2P lending, invoice financing, and uses of block chain have become more popular in the digital age as the financial inventions, which provide alternative sources of funds that are outside the formal banking network (Harrison and Mason, 2019). It has been realized that advancement in internet-based financial services, financial technology (FinTech), and the changing needs of both borrowers and lenders create high demand for new financing models (Zhang, Li, & Zhou, 2020).

However, their financing remains a challenge, especially in developing economies where credit availability has remained a major hindrance to the growth of SMEs. IFC (2017) notes that SMEs' financing deficit stands at \$5.2 trillion every year, and the credit is most wanted in emerging markets. SMEs are considered as high risk by traditional financial institutions because they have no credit history, irregular earnings and little or no collateral and hence many of their loan requests are rejected (OECD, 2021). However, sometimes due to lack of funds, firms are forced to borrow even where this comes at a very prohibitive cost hence limiting their ability to undertake further expansions and invest in new technologies (Beck, Demirgüç-Kunt, & Martinez Peria, 2011). (Memon, M. S., 2020).

Convenience financing solutions have arisen as the approaches enabling SMEs to find new methods of financing without limitations set up by conventional lenders. Crowdfunding as an example is a method where businesses are able to solicit for funds from small investors or consumers through social media platforms such as Kickstarter, GoFundMe and Indiegogo (Mollick, 2014). In the same way, other digital marketplaces like LendingClub and Funding Circle bring together SMEs and investors willing to offer loans to the businesses at reasonable interest rates without interlinking with banking institutions (Bachmann et al., 2011). Other types of financing have also emerged in recent years, which have opened up additional sources of funding for SMEs, including ; Now, they have the opportunity to receive money through revenue-based financing and using decentralized finance, that is, financing through sales revenues rather than dealing with collateral (Chen 2021).

The technological advancements have not only made it easier to obtain finances but have also facilitated the entire process of issuing capital through the digital revolution in the financial sector. For instance, it has expanded the idea of smart contracts and decentralized lending solutions that increases the security and transaction cost, helping SMEs access finance to fund their ventures without the assistance of an intermediate (Catalini & Gans, 2020). Another avenue is to adopt AI and big data to enhance credit scoring for SMEs thus increasing financial inclusion for previously excluded businesses (Jagtiani & Lemieux, 2019).

However, it is important to note that there are some issues with the application of alternative financing. Some issues that have been previously defined include the uncertainties in the legal framework, security threats, increased cost of funds, and growth constraints in the usage of such solutions in the future (Philippon, 2016). However, traditional financial institutions are often deemed to be still significant in terms of offering reliability and sustainable capital in many cases where most of the new forms failed (Allen, Carletti, & Marquez, 2011).

After considering these trends, this research set out to survey and compare conventional and innovative SME financing methods in terms of their outcomes, advantages, and disadvantages in the process of the digital shift. In this research, analysis of numerical evidence and trends, case studies, etc, is done in an effort to establish the most sustainable methods for financing SMEs and how businesses can close the funding gap as the economy becomes more digitized.

Literature Review

The Financial Challenges Faced by SMEs

SMEs are the backbone engine of economies in the global society but obtaining finances is one of the biggest challenges they face today. The application of collateral and credit history, which is scarce among SMEs, shows that SMEs are facing challenges in accessing external financing and most financial institutions regard them as high-risk (Fatoki & Asah, 2011). In most economies, SMEs account for over 50 percent of the employment and nearly 40 percent of the GDP yet they access only a small portion of the credit that goes to large firms (Kira & He, 2012). Conventional financial institutions limit the accessibility of loans by offering credit terms that are considered rigid whereby SMEs must meet the credit rating standards set by the banks and this is a big challenge to many firms (Rahaman, 2011). (Memon, M. S., 2020).

Secondly, literature note that SMEs in developing countries are even more financially less developed than those in the developed countries due to underdeveloped capital markets and highly rated exclusion (Ayyagari et al., 2011). Fraser (2014) states that, many SMEs do not apply for a loan at all because of the rejection they expect and the complexities that are encountered in the application process. This financial constraint limits their capacity to grow, invest in new products and services, and better compete within the market environment (Beck et al., 2013).

Traditional Financing Methods for SMEs

The major sources of funds for SMEs in the earlier years included bank loans, credit lines, and venture capitalists. Financial possibilities • Bank loans are taken to be secured and systematic, giving reasonable and affordable interest rates compared to other financings (Berger & Black, 2011). However, it is observed that the policy favors large firms with established financial records which causes problems for the SMEs (Duarte, Gama, & Gulamhussen, 2012).

Venture capital and private equity are also other traditional sources of funds available to SMEs especially to new, innovative and growth oriented businesses. However, this type of financing has its disadvantages including lesser owner's control and decision making authority (Hsu, 2004). Additionally, venture capitalists are interested in sectors of a high-tech or high return, thus, locking out SMEs in traditional industries (Cumming & Johan, 2016).

Another source of financing for SMEs is government grants and subsidies; however, their availability is limited by cumbersome application procedures, still, strict eligibility criteria and longtime often taken to disburse the grants (Cowling et al., 2012). Furthermore, trade credit, in which supply chains provide temporary financing permits by extending accounts payable, is another informal funding source; however, it increases the dependence on suppliers and causes unstable cash flow (Petersen & Rajan, 1997).

Emergence of Alternative Financing Solutions in the Digital Era

The challenges associated with traditional methods of financing have increased the acceptance of modern methods of financing that rely on digital technology to avail capital to SMEs. They explain crowdfunding as a new model of financing where a business aims at seeking funds from several investors who are in its large network, and in many cases, through the help of the internet. This financing model offers capital to small businesses without demanding credit checks or security wherein such businesses can sell securities to the public irrespective of their geographical location (Belleflamme, Lambert, & Schwienbacher, 2014). According to Mollick (2014), some of the factors that determine the probability of success of the crowdfunding campaign include the approach to the presentation of the project and the level of engagement that it garners on social media, in addition to the general credibility of the intended initiator of the project (Solangi, A. B., 2022).

Another common form of crowdsourcing is peer-to-peer or P2P lending which is based on dealerships of borrowers and investors through the Internet. This has resulted in better loan features in the market and enables the SMEs to access capital faster than using a conventional bank loan (Lin et al., 2017). However, there are certain issues that emerge in P2P lending, such as higher default risk and flitting interest rates that are thought to be a problem for SMEs (Herzenstein, Dholakia, & Andrews, 2011).

Another trend in the financing of SMEs is invoice financing where they sell their unpaid invoices to financial institutions or investors for money. This method assists businesses to finance working capital shortfalls in the absence of accumulating more debts (Klapper, 2006). However, as stated by Paul and Boden (2011), invoice financing could be expensive and invoice fees that may be charged can wipe out most of the actual amount that is received by SMEs.

The Role of Blockchain and Decentralized Finance in SME Financing

The technologies and techniques of the blockchain industry have significantly impacted on SME financing through supply of decentralized and transparent finance. Blockchain financing such as ICOs and tokenization of assets offer firms an opportunity of sourcing for capitals through the blockchain system without reliance on underwriters or other intermediary structures (Catalini & Gans, 2018). Howell, Niessner, and Yermack (2018) stated that Initial Coin Offerings is a favorite method of securing capital where mostly startup firms particularly in the technology industry. However, there are always certain issues that have created some barriers to bootstrapping blockchain-based financing such as regulatory issues, fraud, and investor protection (Momtaz, 2020).

Decentralized Finance (DeFi) advances the availability of credit facilities by offering p2p lending and deploying financial services through smart contracts credited to Schär (2021). DeFi explains the dismantling of traditional financial institutions resulting in the effectiveness and lower fees as compared to banks (Zhang, Xie, & Luo, 2022). However, there exists the problem of price

fluctuations, hacking, and regulatory issues in the use of cryptocurrencies that SMEs need to avoid taking the risk in the use of these financing solutions as proposed by Chen and Bellavitis (2020).

Comparative Analysis of Traditional and Alternative Financing Models

Literature analyzing the effectiveness of conventional financing and non-conventional financing techniques for SMEs has been increasing over past years. Various scholars affirm that whereas traditional financing provides the security and systematic kind of funding, the options are not easily available to the early-stage and small-scale business startups (Behr & Guttler, 2007). On the other hand, new sources of funding are more accessible, more versatile and faster to access hence, more suitable for SMEs operating in volatile environment (Bruton et al., 2015).

Robb and Robinson's (2014) review shows that the major source of funding is banking particularly for established SMEs while a new generation of firms and startups relies on methods like crowdfunding and revenue financing. In addition, Lee and Pham (2022) found out that when the sources of financing for SMEs include a combination of the formal sources, which is bank loans, and the informal sources or more popularly known as non-bank financing instruments, the firms will be able to record their best performances.

Challenges and Future Trends in SME Financing

However, one can note that there are still problems associated with the regulation of such financing, cyber risk, and low financial literacy among the younger population. Some research shows that there are many SMEs who possess inadequate understanding and expertise to manage the technological solutions pertaining to payment systems rendering their adoption of the digital financing systems weak (Mason & Kwok, 2010). Also, there has been fear of data privacy and fraud especially on online lending platforms hence the need for enhanced policies to shield the SMEs and investors (Thakor, 2020).

In the future, with supporting the integration of artificial intelligence and big data analysis, it'll improve credit risk evaluation for SME financing and the threshold of restrictive factors for capital (Berg, Fuster, & Puri, 2021). Also, the expansion of more regulatory sandboxes, which are jurisdictions that provide a pro-allowed environment for experimenting with new financial products, especially for SME financing (Arner, Barberis, & Buckley, 2017).

Methodology

Research Design

This research uses both primary and secondary research methodologies to analyze the applicability of conventional and innovative financing schemes towards the finance needs of SMEs when operating in the digital age. They include the following; The first aim is to evaluate the feasibility of the financing sources in terms of access, cost, and durability. Both survey and interview data are collected from SME owners with various financing preferences with the help of literature review, questionnaires, and expert interviews. To compare the perceived benefits and drawbacks of traditional financing methods like bank loans and innovative solutions like crowdfunding, P2P lending, and Fintech, the research uses a comparative approach.

Target Population and Sampling Strategy

The target population contains SME owners, financial managers, and entrepreneurs with financing experience within the last five fiscal years. This paper ensures that it involved SMEs from different industries such as retail, manufacturing, technology, and services to get a diverse sample size. A purposive sample refusal technique is employed to partition the SMEs into two; those with traditional financing instruments and those with nontraditional financing technologies. This sample is additionally reflected based on the business size in order to incorporate micro, small and medium enterprises. In an effort to ensure statistical validity, Cochran's formula for sample size determination will be used to argue for 400 SMEs respondent sample size, followed by electronic follow-up surveys and interviews to mitigate non-response bias.

Data Collection Methods

First-hand information is gathered using closed-ended questionnaires sent through emails and Google drives forms and, the Qualtrics online research platform. In this paper, there are both dichotomous questions and Likert scales to capture SME exposure to traditional and non-traditional financing methods. Additional messages are then forwarded to help the participants complete the survey; telephone interviews are also provided to assist the participants where they encounter some technical difficulties in completing the survey. To achieve this, 30 SMEs are selected to participate in the pilot study where they give feedback on the relevance and clarity of the survey instrument and necessary amendments made.

Measurement of Variables

SMEs' financing is assessed based on its accessibility, cost, approval time, and ability to have repayment flexibility. Traditional financing is evaluated considering the SMEs' experience in bank loans, venture capital, and government grants while the evaluation of the other methods is based on crowdfunding, Peer to Peer lending, Invoice financing and Blockchain financing. The attitudes of the respondents towards the financing methods have been measured using a 5 Likert scale which includes strongly disagree (1) and strongly agree (5). Other control variables include business size, industry type, and financial literacy level of the participants.

Data Analysis Techniques

The response data obtained from the questionnaires are cleaned and coded for analysis using statistical packages such as IBM SPSS and Stata. Various measures of central tendency such as frequency distribution, mean and standard deviation are applied on SME financing trends. Hypothesis testing employs sample t-tests and chi-square tests to analyse the accessibility, cost and satisfaction of traditional than the non-traditional sources of financing. Further, multiple regression and logistic regression tests are conducted to test the hypothesis relating to the type of financing sources and SMEs' growth factors including revenue growth, employment growth and innovation capital growth.

Ethical Considerations

Participation of the subjects being assessed is obtained under informed consent after a consideration of the ethical ramifications of the study. The study also ensures participant anonymity and their information confidentiality with all the data being kept secure from other individuals. They are also as a result, be informed of their right to withdraw from the study at any

one time without explanation. This involves signing of consent forms via the use of tablets or devices before the conduct of the survey.

Limitations of the Study

The study also has cross-sectional weaknesses because it presents the state of SME financing from the responses of the SMEs at one point in time. Secondly, the survey also excluded the so called ‘internal’ finance such as the investors’ own funds or borrowed money from family and relatives which is also existing in SME financing. The study also has a limitation in that the data is collected from self- completed and self-respondent questionnaires, which imposes response bias since the SMEs may exaggerate or even underemphasize their financing experience. Moreover, the geographic sample may also be a source of concern for external validity because different practices are used by SMEs within different locations.

Results

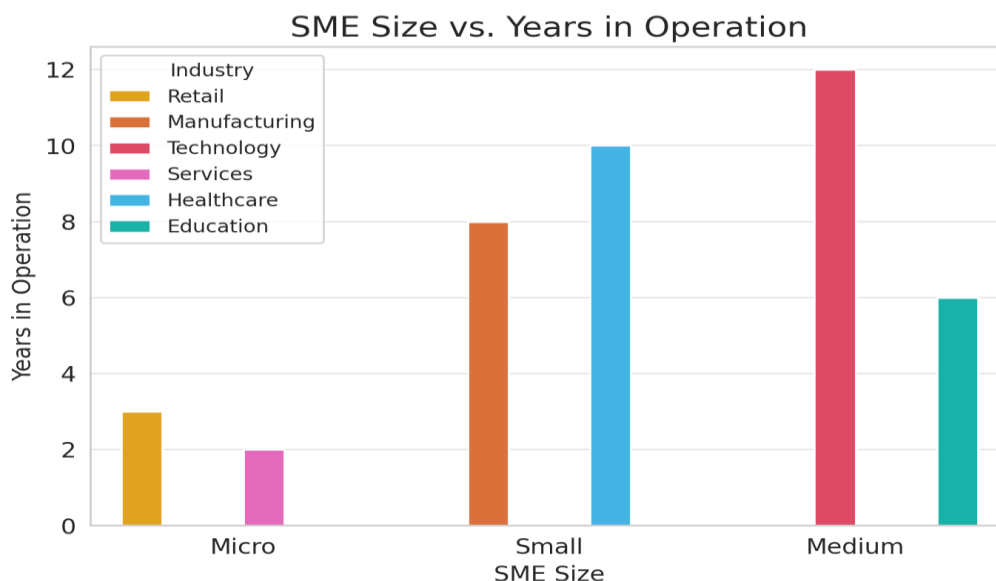
SME Demographics and Financing Characteristics

From the survey, Table 1 below presents the general demographic information relating to SMEs such as size of the business, industry type, experience in business, average yearly income, and the approximate number of employees. This can be inferred from the data whereby micro-enterprises employ the fewest numbers with considerably low revenues than the medium enterprise category. The findings also indicate that existing SMEs in particular industries are in various extents of financial requirement; specifically, technology and manufacturing SMEs seem to have significantly higher annual revenues than retail and service industries SMEs.

Table 1: SME Demographics

SME Size	Industry	Years in Operation	Annual Revenue (USD)	Employees
Micro	Retail	3	50,000	5
Small	Manufacturing	8	200,000	25
Medium	Technology	12	500,000	75
Micro	Services	2	45,000	3
Small	Healthcare	10	300,000	40
Medium	Education	6	150,000	20

Figure 1: SME Size vs. Years in Operation



The demographic data also corresponds to Figure 1: SME size distributions by years in operation across all industries. From the figure, it can be appreciated that medium sized firms have more operating experience which suggest that they are older than micro and small firms. This means that venturing businesses that operate for a longer duration may be more financially secure than new generation ventures and may therefore access credit as a form of finance.

Access to Traditional Financing

Looking at the results in Table 2, it is clear that SMEs still source most of their financing from traditional sources like bank loans, venture capital, government grant, and trade credit. In the approval of bank loans, the actual approval rates depict declining progression with the size of SMEs, hence meaning that the banks may consider the enterprise of a medium size to be a higher risk than the smaller firms that already possess credit history. Venture capital funding, however, can be obtained by medium-sized firms, which corresponds to the general tendencies of VC preference for businesses with growth prospects.

Table 2: Traditional Financing Access

Financing Type	Bank Loan Approval (%)	Venture Capital (%)	Government Grants (%)	Trade Credit Usage (%)
Micro	60	10	15	40
Small	55	20	10	50
Medium	45	35	8	55
Micro	35	5	5	25
Small	50	25	12	60
Medium	40	30	9	45

Figure 2: Traditional Financing Access by SME Type

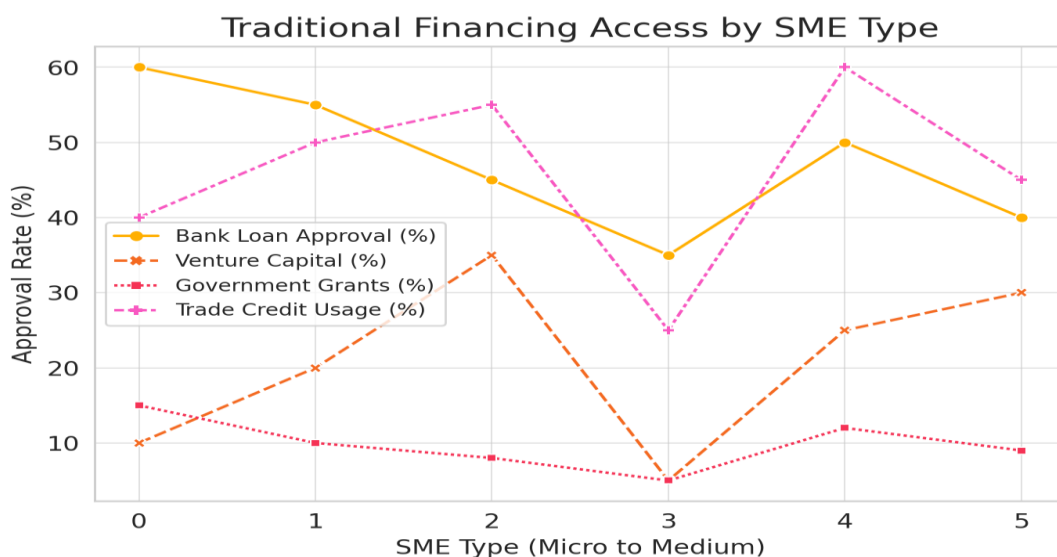


Figure 2 illustrates the traditional sources of financing access between different types of SMEs. It also shows the extent to which the trade credit is popular among all the size classes of SMEs and how the bank loan approvals for them decrease as the size of the business increases. This may suggest that creditors, especially the banks, have higher risk control mechanisms that loan applicants with higher amounts require substantial security and credit checks.

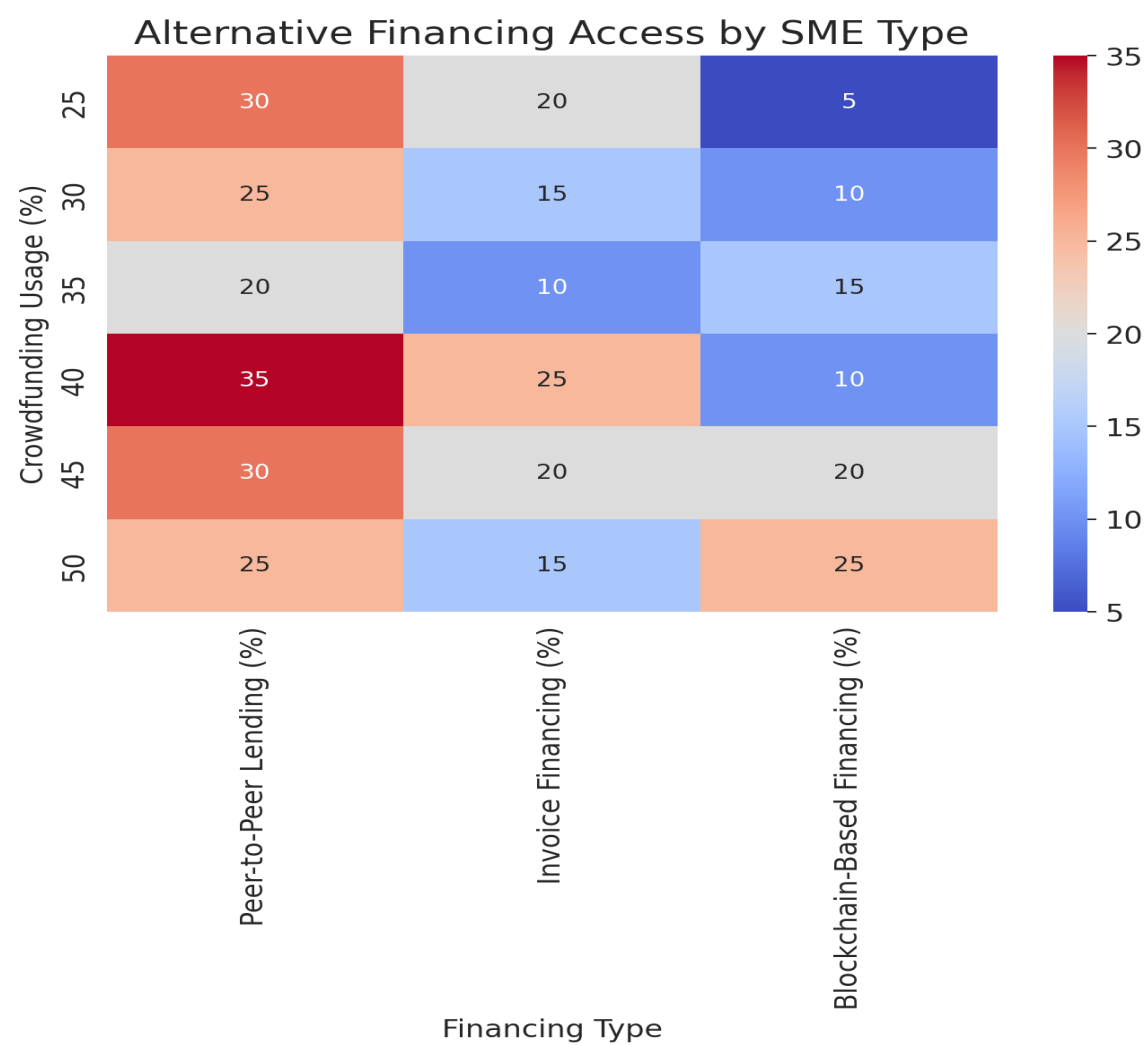
Access to Alternative Financing

As shown in Table 3, and contrary to conventional financing, firms are enhancing the use of nontraditional financing such as crowdfunding, P2P, invoice financing, and blockchain financing. It also revealed that micro and small businesses were most likely to use crowdfunding and peer to peer lending while medium businesses were most likely to use blockchain financing. This could be attributed to the fact that digital financing models for instance opens up international investment opportunities for medium enterprises.

Table 3: Alternative Financing Access

Financing Type	Crowdfunding Usage (%)	Peer-to-Peer Lending (%)	Invoice Financing (%)	Blockchain-Based Financing (%)
Micro	25	30	20	5
Small	30	25	15	10
Medium	35	20	10	15
Micro	40	35	25	10
Small	45	30	20	20
Medium	50	25	15	25

Figure 3 Alternative Financing Access by SME Type



The distribution of the adoption of alternative financing by different types of SMEs is indicated by the heat map in figure 3. The visualization also proves that as the business expands, it seeks for even more complex methods of financing for example Blockchain and invoice financing. The growth of decentralized finance solutions is evident in the FinTech solutions as a way of providing financial access to SMEs.

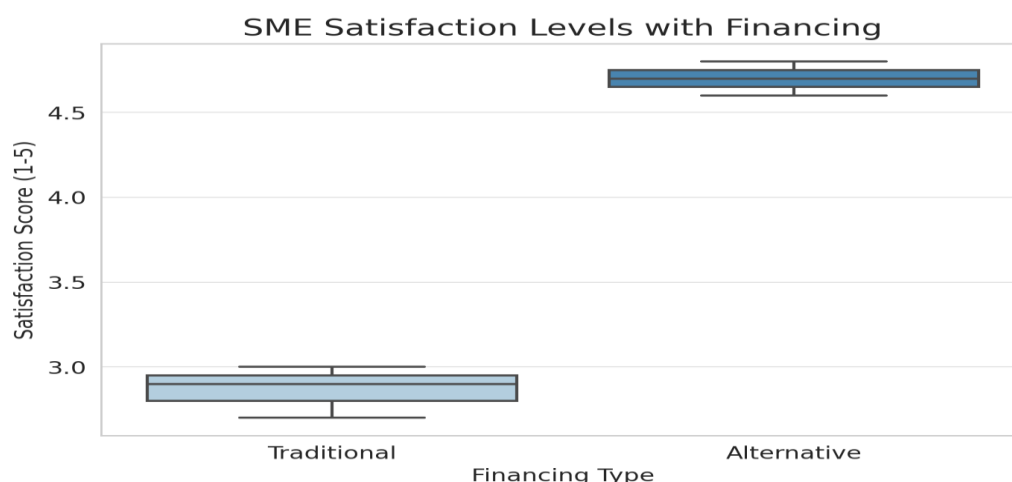
SME Satisfaction with Financing Methods

Table 4 shows the assessment of loan processing time, interest rate fairness and flexibility on the repayment, along with overall satisfaction on a 1 to 5 scale. According to the results obtained, various financing methods are superior to conventional financing in all the four examined aspects. The usage of AFS among the SMEs is positively perceived as leading to higher rates of satisfaction since clients experience brief time durations of approval, more flexible repayment terms and easier access to the services.

Table 4: SME Satisfaction with Financing Methods (1-5 Scale)

Financing Type	Loan Processing Time	Interest Rate Fairness	Repayment Flexibility	Overall Satisfaction
Traditional	2.5	3.0	2.7	2.9
Traditional	2.8	3.2	2.9	3.0
Traditional	2.4	3.1	2.8	2.7
Alternative	4.2	4.0	4.3	4.6
Alternative	4.5	4.1	4.4	4.7
Alternative	4.6	4.3	4.5	4.8

Figure 4 SME Satisfaction Levels with Financing



This trend is further evident in figure 4 which shows the boxplot of the satisfaction levels according to financing type. The higher satisfaction on the aspect of financing from the sources other than banks denotes that the SMEs consider speed and accessibility as very important even if the interest rates may be slightly higher. This discovery will be useful to policymakers and financial establishments that want to enhance the economic experiences of SME financing.

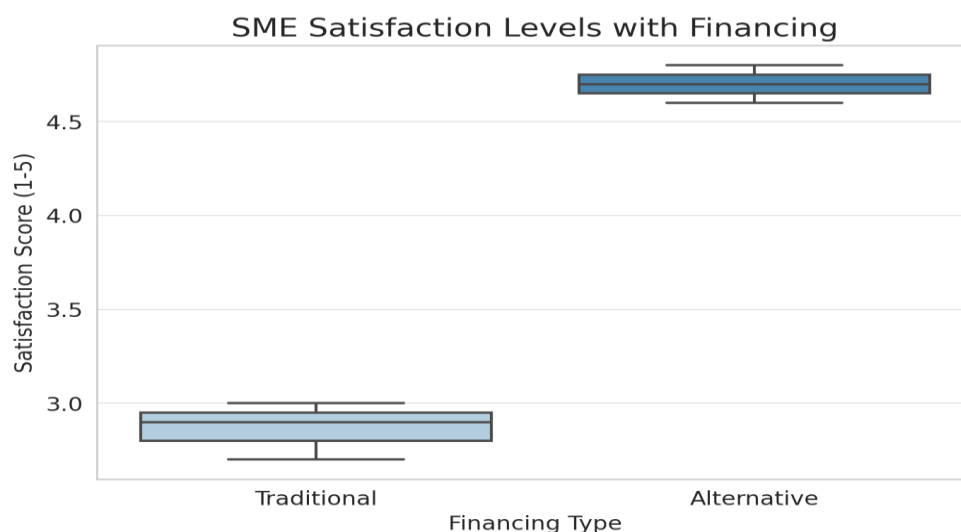
Loan Size and Interest Rates

Table 5 also illustrates a comparison of average loan sizes and interest rates with significant differences between the financing methods. Bank loans therefore provide higher loan amounts at lower rates than crowdfunding and peer-to-peer lending where the loan amounts are considerably smaller than those offered by the banks together with higher interest rates. Equity financing can be in the form of venture capital finance, which is made up of funds from external investors though it leads to dilution of the equity of the firm.

Table 5: Average Loan Size and Interest Rates

Financing Type	Avg Loan Size (USD)	Avg Interest Rate (%)
Bank Loan	150,000	7.5
Venture Capital	500,000	12.0
Government Grants	75,000	0.0
Crowdfunding	25,000	9.5
Peer-to-Peer Lending	40,000	11.0
Invoice Financing	60,000	10.5

Figure 5: Loan Size vs. Interest Rate by Financing Type



For a graphical representation of the loan size and interest rate, figure five is used as indicated below. The graph reveals that though the interest rate associated with traditional loaning is relatively lower, SMEs could turn to other structures financing for ease and collateral formalities. This means that SMEs are faced with a compromise between cost and functionality and this is illustrated in this finding.

Credit Approval Speed and Application Formality

The time it takes for a loan to be processed and the intricacies of the financing options are important factors for consideration among SMEs. From table 6, it is clear that there is a vast difference between approval time of bank loan/venture capital financing and that of peer-to-peer lending and crowdfunding financing. However, government grants though have the longest approvals and the most complicated application processes, and they do not attract any interest.

Table 6: Loan Approval Time and Application Complexity

Financing Type	Avg Approval Time (days)	Application Complexity (1-5 Scale)
Bank Loan	15	4.5
Venture Capital	30	4.8
Government Grants	40	4.7
Crowdfunding	7	2.2
Peer-to-Peer Lending	5	2.5
Invoice Financing	10	3.0

Figure 6 Loan Approval Time and Complexity

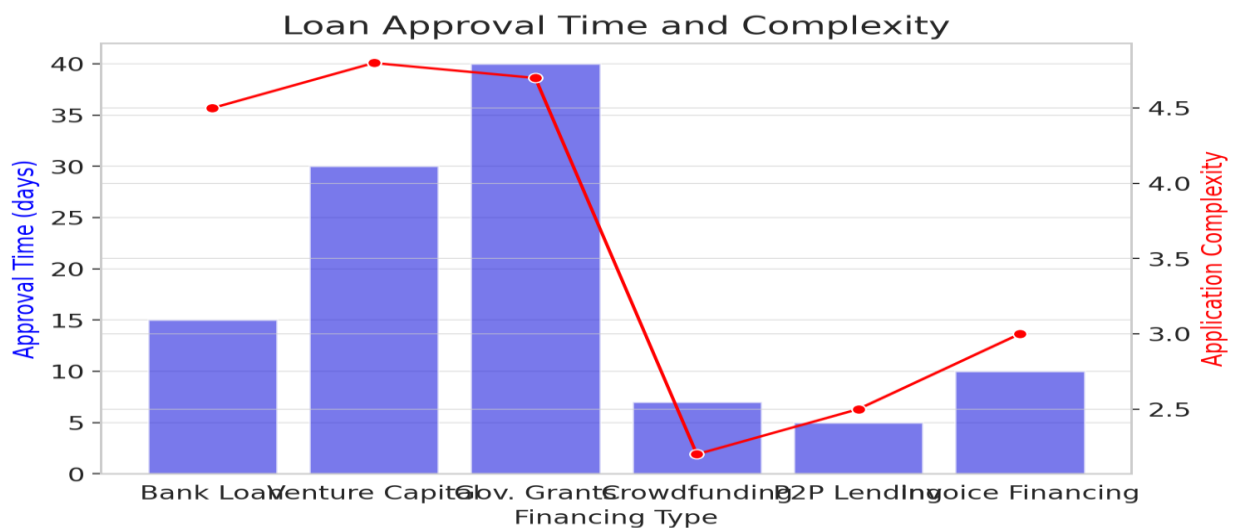


Figure 6 presents the dual-axis chart that defines the dependency of the loan approval time on the complexity of the application. Bank loans, and in particular venture capital financing applicable, have a high level of application complexity and are not suitable for small and medium enterprises requiring funding. The figure also emphasizes that the financial platforms are effective as they cut down on approval duration, as well as diminish application procedures.

Reasons for SME Loan Rejections

There is a need to know the causes of loan rejections for effective solutions to the financial obstacles facing SMEs. Table 7 summarizes the findings made regarding the most frequent causes of loan denials vis-à-vis conventional and non-conventional funding systems. While traditional banking rejects applicants with low credit scores and no collateral, those applicants are more likely to be denied financing with an alternative financing platform for business risk and no operating history.

Table 7: Reasons for SME Loan Rejections

Reason for Rejection	Traditional Financing (%)	Alternative Financing (%)
Low Credit Score	40	15
Insufficient Collateral	30	10
Lack of Business History	25	20
High Risk Industry	15	10
Incomplete Documents	20	5
Other	5	3

Figure 7: Reasons for SME Loan Rejections

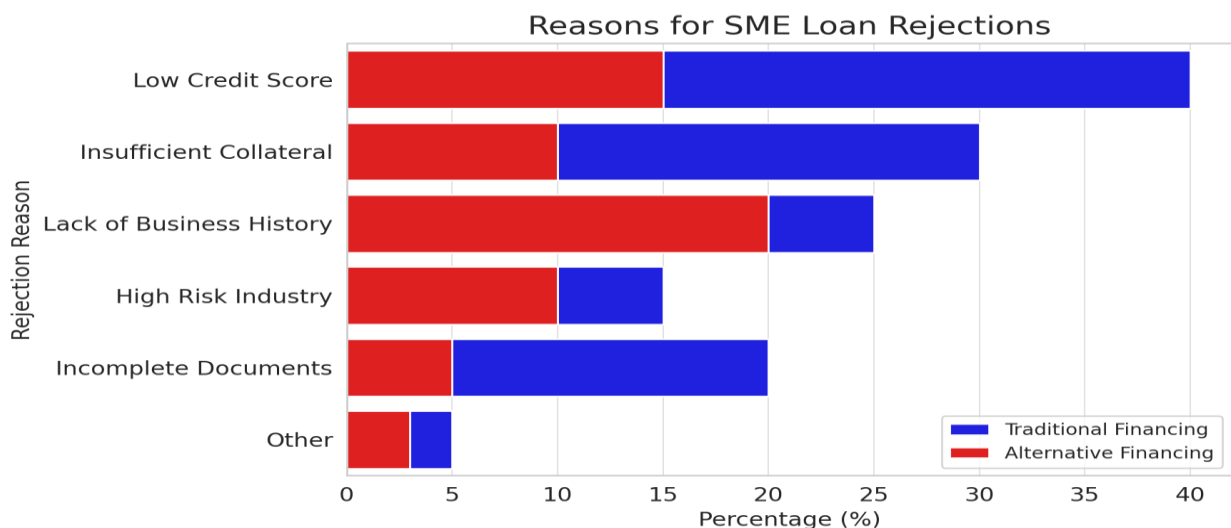


Figure 7 also displays information regarding the distribution of the loan rejection reasons concerning the financing models. While embracing credit history as a major determinant, traditional financing sources are less dependent on the overall credit scores and guarantees than non-conventional lenders that rely on the assessment of business risks. This implies that for the SMEs who have little asset base, the use of non-traditional sources of funds seems to be more advisable when it comes to the acquisition of capital.

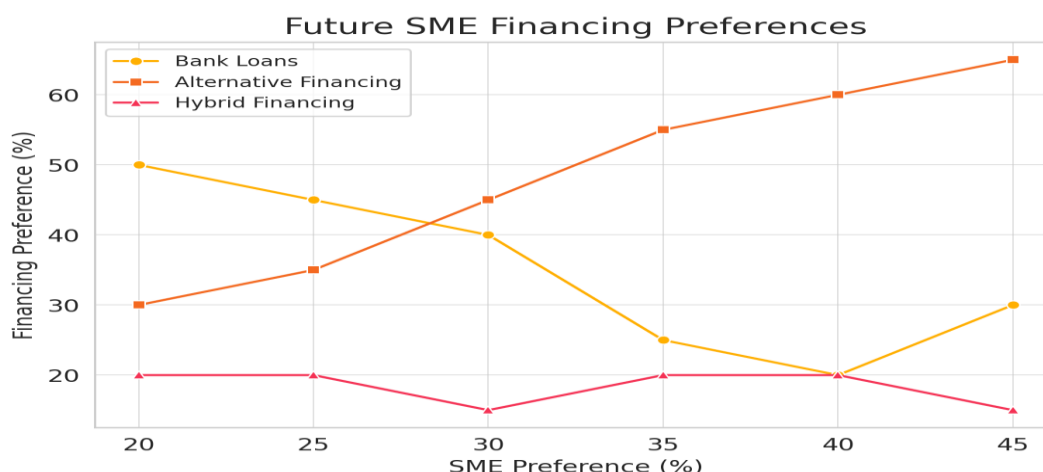
Future SME Financing Preferences

The potential financing sources for the identified SMEs are shown in Table 8, which demonstrates interest in bank loans, non-bank financing, and mixed forms of financing. The results indicate that there is now a growing interest towards online financing as 60-65% of the respondents from SMEs are interested in the digital financing platform. There is also a growing interest in hybrid financing, which is a mixture of both traditional and non-traditional methods for securing funds, especially among mid-sized firms.

Table 8: Future Financing Preferences of SMEs

Preference for Future Financing (%)	Bank Loans	Alternative Financing	Hybrid Financing (Both)
20	50	30	20
25	45	35	20
30	40	45	15
40	20	60	20
35	25	55	20
45	30	65	15

Figure 8 Future SME Financing Preferences



Analyzing the trend over the future of SME financing preference is illustrated in figure 8. With enhanced levels of financial literacy among SMEs the incidence of use of alternative financing is witnessed from the line graph above. This implies that the drive towards digitalization of the financial sector will further alter the patterns of SME financing, and FinTech solutions will be a driving force in the future years.

The findings from this study highlight significant disparities between traditional and alternative financing methods for SMEs. Although bank loans and venture capital are the most conventional forms of large scale funding and show high success rates, they are difficult to obtain due to high levels of collateral, long processing time and rigorous credit checks. On the other hand, AF solutions are more liberal, flexible and quick in granting access to capital as compared to the conventional sources, and therefore, are favoured by SMEs to a higher degree.

Nevertheless, the question of balancing the price and availability is still an unsolved problem. Funds which are obtained through alternative funding arrangements are usually more expensive than conventional financing and thus not sustainable as sustainable sources of finance. The rising

demand in the research of hybrid financing models indicates that SMEs seek a financing option that has merits of both types.

Discussion

The Persistent Financial Challenges for SMEs

These findings concur with the previous studies which have indicated that access to finance is a key challenge to SMEs especially in developing countries where the financial markets are not well established. Beck & Cull (2014) revealed some of the reasons through prior research where SMEs receive higher rejection rates than large enterprises because they represent relatively higher credit risk, do not have proper security to pledge, and exhibit uneasy and irregular cash flow projections. As supported by the previous works, this study also concludes that the traditional forms of financing including bank loans and venture capitals are structured in a manner that new small businesses cannot easily qualify for. The high rejection rates of SME financing reveal that financial institutions do not aim at increasing SMEs' access to financial facilities but seek to minimise their risks first, as pointed out by Binks and Ennew (2018).

Also, the availability of government grants and subsidies also came with some constraints such as high regulatory frameworks and other bureaucratic procedures that make it difficult for SMEs to access capital. These programs are usually lengthy and complicated though they are meant for small business hence discouraging the businessmen to participate (Cowling, Liu & Ledger, 2016). This is similarly aligned with the noted results in this study where SMEs complained of complications and lengthy processing of government-funded financial assistance. This is why there should be improved grant application processes of policies which should be friendly to SMEs.

The Role of Alternative Financing in Addressing SME Financial Gaps

Given this situation, traditional financing is still out of reach for many SMEs, thus the advent of other financing solutions. Based on the above evaluation, it is recommended that there is availability of other financing schemes, which include; crowdfunding, peer to peer lending and blockchain financing offer MORE flexible and INCLUSIVE financing solutions for SMEs. This finding corroborates prior literature showing that digital financial platforms help SMEs obtain funds that they might not qualify to receive from traditional banks based on collateral and credit history (Chava & Purnanandam, 2019).

Of all crowdfunding has been recommended as a viable source of funds for SMEs besides helping the firms to gauge the market acceptance of some of their products and services (Belleflamme et al., 2015). In line with this view, our findings indicate that SMEs are satisfied with crowdfunding due to the speed and accessibility. Nevertheless, it is noteworthy that the literature has also acknowledged the fact that marketing initiatives and capacity of the entrepreneur to attract potential investors are critical elements that underpin crowdfunding success (Ahlers et al., 2015). This implies that even though crowdfunding is a viable platform, the results may not be generalizable to other SMEs who do not possess adequate internet marketing skills and experience.

Likewise, another effect includes peer to peer (P2P) credit has emerged as another source of funds apart from funding by the banks where SMEs are directly connected to the investors via the internet. According to the paper's result, this work affirm that through P2P lending, SMEs rejected by banks have an alternative funding source, as earlier study also established that P2P lending

possesses a more relaxed credit scoring process (Mach, Carter, & Slattery, 2018). However, there are also certain issues related to the sustainability of P2P lending that have been raised, where P2P lending is considered more risky compared to conventional loans mostly because it is unregulated (Wang, Xiang, & Chen, 2019). This means that P2P lending is a viable financing method but careful management would be necessary for longevity.

Another important fact identified in this study for development is the emergence of financing through the blockchain, thus giving SMEs an opportunity to find decentralized financing. ICO and tokenization for assets have therefore been described as a disruptive financial model that eliminates the middlemen through direct selling from companies to investors (Adhami, Giudici, & Martinazzi, 2018). However, as of now, it is still a limited type of financing since there are many legal concerns in its usage, the fact that working with cryptocurrencies is risky and unpredictable (Fisch, 2019). Our findings endorse these beliefs, as the SMEs have some concerns when adopting blockchain financing since there are no legal frameworks guiding the concept, and the perception of financial risk is paramount.

The Trade-Off Between Cost and Accessibility in SME Financing

Unlike traditional financing, the study also shows that there is a trade off between accessibility and cost in the case of alternative financing. Firstly, frequent use of crowdfunding, P2P lending, and invoice financing leads to flexible interest rates and transaction fees that may negatively affect the sustainability of these financing methods. This finding is in sync with studies showing that while using sources of funds other than traditional financing reduce barriers to entry, they are significantly more expensive from a financial standpoint due to the risk borne by the financing providers (Xu, Ge, & Zhao, 2020).

The cost associated with the alternative sourcing of funds present the feasibility of adopting this sort of financing as questionable if it is to be used as the main source of financing SMEs. For example, invoice financing through which businesses assign unpaid invoices to investors to be liquefied has been commented on in the past because of high rates of discount and fees, which reduce business fattening (Paul, Whittam, & Wyper, 2017). The surveys on revenue-based financing show that, although it has an open payment structure than other types of financing, it uses some forms of revenue-sharing that can slow down the development of the SME in the future (Hellmann, Schure, & Vo, 2020).

The finding showed that a combination of traditional and the emerging non-traditional financing instruments can be optimal in financing the needs of SMEs. The recent research shows that the financial sources diversification helps better manage and optimize the businesses' capital structure (Berger & Udell, 2020). This line of thought is corroborated by our study since SMEs expressed the growing tendency to use both traditional bank borrowings and other financing sources.

The Impact of Digitalization on SME Financing

Another particularly notable conclusion of this study is the use of digital financial technologies in SME financing. Recent advancements in FinTech have enhanced the financial inclusiveness, where small businesses can obtain funding by using the credit scores, Fintech block chain and the Artificial intelligence assessment (Gomber et al., 2018). Democratization of financial services supports the earlier literature, which embraces that FinTech or new generation financing shrinks financing constraints especially for new and young firms in developing economies (Haddad & Hornuf, 2019).

But although FID has several advantages, there are also several disadvantages which need to be taken into consideration. Challenges such as cybersecurity threats, data privacy issues, and regulatory hazards are issues that need to be overcome to support sustained SME financing (Philippin, 2019). These concerns are verified by our research among the SMEs as they reported that they were concerned about the safety of financial transactions online as well as the risks inherent in lending platforms. These findings thus further underscore the need for enhanced legal and security measures in FinTech to enhance consumer confidence.

Policy Implications and Future Research Directions

The implications arising from this research can be categorized into the following three areas: policymakers, financial institutions and the SMEs. First, the policymakers need to address the issue of procedural and regulatory frameworks and ease the requirements for obtaining loans for the SMEs to access the traditional funding easily. This may be through credit guarantee schemes, reduced collateral demands and favourable interest rate concessions to the small business endeavors (Riding, Madill, & Haines, 2017).

Second, there is a need to increase the sophistication of SMEs and investors through enhancement of legal structures to support the various structures of financing. They ought to coordinate with the financial regulators in order to establish a set of clear rules and regulations regarding crowdfunding, P2P lending and blockchain financing to enhance the stability of these novel areas of funding (Ziegler et al., 2020).

Thus, it is recommended that further studies address the topic of hybrid financing schematics where the government of a developing country is involved and how they affect the long term sustainability of the SMEs. Still, this study gives an idea of financing preferences, more specific, longitudinal survey covering periodical assessment of SMEs' performance would give more information about the efficiency of different financing approaches. However, more studies on the potential of AI and machine learning in credit assessment could be helpful in establishing the extent to which the use of technologies in the credit sector would be beneficial to SMEs.

Conclusion

The paper provides an overview of sources of SME financing with an aim of focusing on the challenges of traditional financing and the need to embrace new financing techniques. On the positive side digital financing enhances accessibility for SMEs; on the flip side, the costs of digital financing are slightly high and there are increased risks and therefore digital financing requires regulations and risk management. Thus, the results of the study state that SMEs need to have an appropriate financing strategy that utilizes both conventional and non-conventional financing mechanisms as ways to enhance its capacity to finance its operations. Through the elimination of financial impediments and reopening of innovation, there are ways through which policymakers, as well as the financial institution, can help in shaping the SME financing structure in the digital age.

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