EXPLORING DEBT FINANCING OPTION FOR SME'S : A SYSTEMATIC LITERATURE REVIEW

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ABSTRACT

The development and success of small and medium-sized enterprises (SMEs) are highly dependent on accessible and suitable financing options. This article provides an in-depth review of various SME financing sources, examining the benefits, drawbacks, and impacts of each option, including fintech lending, traditional bank financing, and venture capital. The findings offer a systematic understanding of SME finance dynamics. Results indicate that while venture capital can accelerate growth, it often raises challenges related to sustainability and governance. In contrast, bank financing provides stability but is hindered by high interest rates and complex bureaucratic processes. Fintech financing offers rapid access and ease but comes with heightened security and risk assessment concerns. The study suggests that SMEs should align funding choices with their unique needs and characteristics. Additionally, regulators and stakeholders are encouraged to increase their knowledge and safeguards in response to the expanding fintech lending market. Future research could explore innovative, eco-friendly financing solutions to meet SMEs' evolving needs. This article contributes valuable insights to stakeholders, supporting the sustainable growth of SMEs.

Keywords: *SME Financing; Debt Financing; Fintech Lending; Bank Financing; Venture Capital*

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INTRODUCTION

Small and medium enterprises (SMEs) are widely acknowledged for their substantial contributions to economic development, employment generation, and fostering innovation in emerging and advanced economies (Manzoor et al., 2021; Polishchuk et al., 2020). According to data from the Ministry of Cooperatives and Small and Medium Enterprises, there are currently 64.2 million SMEs in Indonesia, accounting for 61.07% of the country's GDP, or 8,573.89 trillion rupiah. SMEs have a significant impact on the Indonesian economy because they can employ up to 97% of the labor force and draw in up to 60.4% of all investments. SMEs play a crucial role in society, yet they frequently struggle to get the funding they need to maintain their operations and growth. Debt finance, which comes in a variety of forms, including bonds, bank loans, venture capital financing, and FinTech lending, is a vital source of funding for SMEs in order to enable them to carry out their expansion plans.

SME financing continues to pose a significant obstacle in numerous nations, particularly those in the developing world (Manyanga et al., 2023). Small and Medium Enterprises (SMEs) operations require capital, which can be raised using various methods (International Monetery Fund, 2019). One way to increase the capital of small and medium-sized businesses (SMEs) is through debt financing (Brown & Lee, 2019). Debt finance, which includes bank loans, bonds, venture capital funding, and FinTech lending, is an essential means by which small and medium-sized enterprises (SMEs) can obtain the capital required to pursue their expansion goals (Afonso et al., 2021; Iota & Gert, 2014; Marcelo & Joseph A, 2019). Small and Medium Enterprises (SMEs) frequently select debt financing as a means of funding their business expansion (Manyanga et al., 2023). While debt financing can give you access to the money you need for development and expansion, making the wrong debt financing decision might put you in danger of running into major financial problems (Zhang et al., 2022). The primary concern that has to be addressed is how SMEs may choose the debt financing solution that best suits their needs and how to manage the risks that come with having debt financing (Kar et al. 2023).

Previous studies have been conducted to explore various debt financing options available to SMEs, including bank loans, equity loans, and loans from investors. These studies often focus on aspects such as interest rates, financing terms, and the impact of debt financing on company performance (Sunardi et al., 2020; Xu & Li, 2020). Fadil and St-Pierre (2021) emphasizes the importance of understanding the most effective and appropriate debt financing options for SMEs. In addition, it is also important to analyze the impact of debt financing on SME growth, showing that choosing the right debt financing option can have a significant impact (Nazir et al., 2021). In another study, Legesse & Guo (2020) conducted a multinational study to assess the effectiveness of debt financing for SMEs, showing that a good understanding of debt financing options can improve company performance. Dong & Men (2014) conducted a study that emphasized the prevalence of bank loans as the primary source of financing for SMEs in emerging economies, highlighting the crucial role played by traditional financial institutions in facilitating the growth of these enterprises. Furthermore, Ngo et al., (2021) explored the potential of venture capital financing in driving innovation and expansion among SMEs, underscoring the significance of equity-based financing in mitigating the risks associated with debt financing. While individual studies have examined specific types of debt financing in isolation, a comprehensive understanding of the relative advantages and disadvantages of various financing mechanisms is lacking.

The research gap that has been found highlights the need for a systematic literature review that compares and contrasts the various forms of debt financing that are

accessible to small and medium-sized enterprises (SMEs) in Indonesia (Suyono et al., 2021). This study intends to give SME's, policymakers, and financial institutions in Indonesia with valuable insights to educate decision-making processes and support sustainable economic growth by synthesizing current literature and examining the pros and cons of each funding choice. What has been done occasionally to address current issues (state of the arts).

LITERATURE REVIEW

Myers (1984) argue that companies tend to favor internal funding rather than seeking external sources, and when they do seek external funding, they tend to prioritize debt over equity. This perspective suggests that small and medium-sized enterprises (SMEs) may choose debt financing as their main external capital source because of reduced information asymmetry and agency costs when compared to equity financing. Additionally, the Agency Theory, developed by Jensen & Meckling (2019), sheds light on the relationship between principals (owners) and agents (managers) within organizations. In term of debt financing for SME's, agency theory emphasizes the monitoring and disciplining role of debt holders in mitigating agency conflicts between owners and managers (Lopez-gracia & Mestre-barberá, 2015). Debt contracts, with their covenants and monitoring mechanisms, align the interests of stakeholders and reduce the agency costs associated with managerial discretion (Eisenhardt, 1989).

Modigliani & Miller (1958) in trade-off theory argue that companies find their best mix of debt and equity by considering the advantages of tax deductions from debt and the drawbacks of financial difficulties. Empirical studies of debt financing for SMEs have examined the trade-off between the tax benefits and financial risks of debt financing, providing insight into optimal debt-equity ratios and capital structure decisions (Spence, 1978; Titman & Wessels, 1988), firms employ financing decisions as a means to communicate their quality and future prospects to external stakeholders. In the case of debt financing, small and medium-sized enterprises (SMEs) may employ debt issuance as a signal of their creditworthiness and potential for growth. By fulfilling their debt repayment obligations and sustaining a sound financial performance, SMEs demonstrate their capacity to generate future cash flows and allure external capital (Myers, 1984).

METHOD

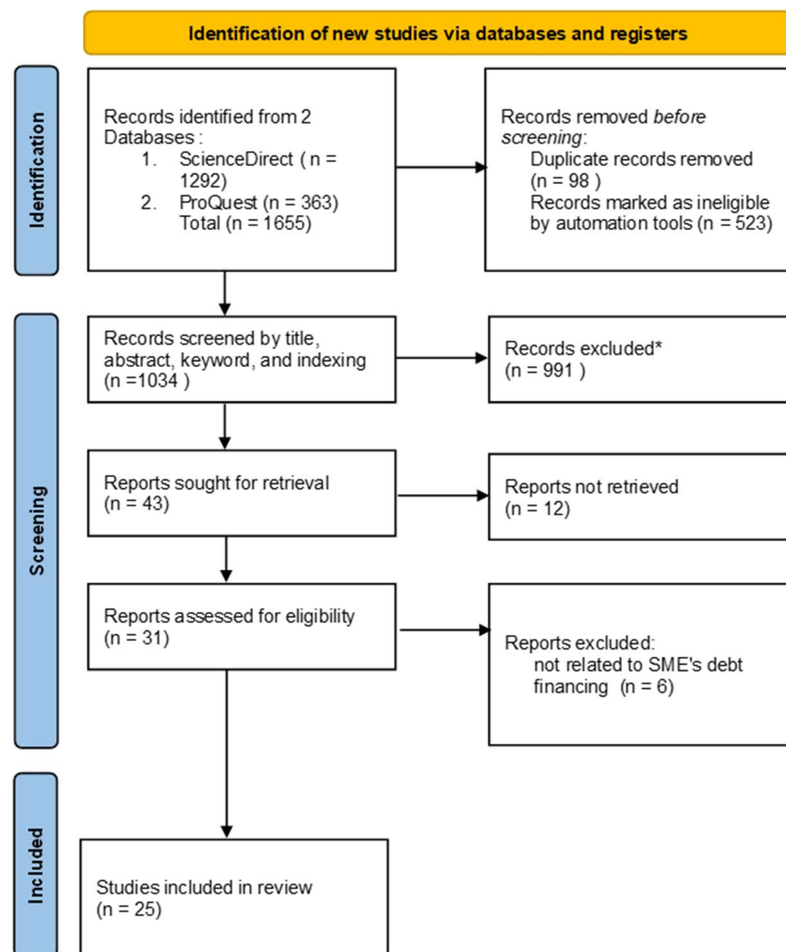
This study examines prior research on the comparison of debt financing options for small and medium-sized enterprises (SMEs). The literature review was conducted using online databases ScienceDirect and ProQuest. The selection of previous studies adhered to the criteria outlined in Table 1.

Table 1
Inclusion and Exclusion Criteria

No	Inclusion Criterias	Exclusion Criterias
1.	Focused on debt financing options for SMEs	Did not focus on debt financing for SMEs
2.	Published within the last five years to ensure their recency and relevance	Was published before the specified time period
3.	Articles had international accreditation and were written in English	Articles were not internationally accredited and not written in English
4.	Available in full text format	Were not available in full text

The search involved the utilization of various English keywords, specifically (1) debt financing; (2) SMEs; (3) small and medium enterprises; and (4) bank loans; (5) bonds; (6) venture capital funding; (7) fintech loans. A total of 1,654 articles were obtained as a result of the search. The selection of articles was based on the consideration of their title, abstract, and full text, in accordance with the criteria outlined in Table 1. To streamline the selection process, researchers employed the EndNote X9 application, which facilitated a more structured approach to the selection stages. Subsequently, the coding, extraction, and analysis of the required information were conducted manually, with the data being entered into a spreadsheet. Ultimately, 1,556 out of the total 1,654 articles sourced from the ScienceDirect and ProQuest databases were excluded based on the criteria specified in Table 1. A comprehensive overview of the article selection process is depicted in the accompanying Figure 1.

Figure 1
Article Selection Flow Diagram



Source : Page et al (2021)

According to the selection process outlined in Figure 1, a total of 25 data articles were acquired for further analysis. The researcher employed thematic analysis techniques to examine and uncover themes within the data (Braun & Clarke, 2006). This

analysis encompassed six stages, namely comprehending the data, organizing data codes, exploring themes related to debt financing options for SME's (as per the focus of this research), reviewing identified themes, defining and labeling the themes, and finally generating the research report (Braun & Clarke, 2006).

RESULTS AND DISCUSSION

This research includes 25 articles for further analysis based on the results of the selection process. There are 21 articles discussing the advantages of debt financing options. A summary of the findings of the article analysis regarding the advantages of debt financing for SMEs is outlined in Table 2.

Table 2
Advantages of SMEs Debt Financing

Author and Years	Result
Liu et al (2023)	Venture capital can help standardize and develop the company's long term. Provide funding, oversight, and additional non-financial services. Pay attention to the compatibility between the two parties, especially in the field of venture capital investment.
Kato (2021)	Venture capital funding can help companies grow by increasing sales, creating jobs, and boosting their return on investment.
Kato & Tsoka (2020)	VC-backed companies tend to outperform those that are not VC-backed, both before and after receiving VC funding. VC financing can increase the total productivity of sales revenue. VC can help companies to achieve significant market growth.
Manyanga et al (2023)	Bank loans can reduce the cost of borrowing, make it easier to manage debt, lower financial risks, and allow small and medium-sized businesses to invest in their own funds.
Whang & Koo (2022)	Policy-based loans offer benefits such as reducing market failures, providing financial support for SMEs to cover export costs and expanding overseas sales, lowering production costs, increasing competitiveness, increasing export volumes for SMEs, and playing an important role in increasing exports for companies which relies heavily on external funding
Elgammal et al (2023)	That diversity and access to new and innovative funding sources influence small enterprise business performance.
Sofia et al (2022)	Venture capital financing is great for small businesses in Indonesia because it helps them get past financial obstacles and gives them a chance to expand. It's seen as a smart choice for funding since there's a lot of room for small businesses to thrive in the market.
Zheng et al (2021)	Venture capital financing is extremely beneficial because it serves as a crucial pillar of support for budding businesses that have the potential to experience significant growth.
Pang & Liu (2021)	FinTech lending decisions are influenced by consumer behavior, as they tend to favor borrowers who are married, have dependents, and/or are above the age of 30.
Gao et al (2023)	From P2P platforms, borrowers can obtain funding from their social networks as well as from the general public. Strong relationships between lenders and borrowers can help reduce credit constraints for small and unpredictable companies
Galema (2020)	P2P lending is a great choice for getting financing quickly instead of going through the traditional funding process. These platforms offer different payment options like sharia-based loans and profit sharing plans, which can be beneficial for small and medium businesses looking to borrow money.

Suryono et al (2021)	Digital inclusive finance encompasses a wide range of services that are easily accessible, diverse, affordable, and incredibly convenient. It signifies the complete digital revolution of the financial system.
Zubair et al (2020)	Bank loans remained a critical factor in determining investment from private SMEs during the 2008-2009 financial crisis. During a crisis, SMEs have difficulty getting funding, an easily accessible source of funding is bank financing.
Babaei et al (2023)	Fintech lending platforms offer investors good returns and help more people access credit who usually don't get loans from regular banks, which is pretty cool.
Stefanelli et al (2022)	Small and medium-sized businesses (SMEs) can gain from end-of-business crowdfunding (LBC) platforms since they offer them a convenient and flexible way to obtain funds without taking on debt or depleting assets.
Wang et al (2023)	Financial markets and institutions play a key role in reducing information gaps between banks and small businesses, making it easier for small businesses to access funding. This also helps in cutting down on transaction costs and promoting the flow of capital to small businesses. Moreover, banks are more effective in providing funding compared to non-bank financial entities such as credit unions and microfinance institutions.
Cornelli et al (2023)	Fintech and big tech credit provide advantages like more digital creativity, faster approval, and easier access.
Sanga & Aziakpono (2023)	FinTech loans are finding their way into traditionally underserved areas, which makes it harder for SMEs to get credit. Social networks, economic characteristics, and risk perceptions all have a big role in SMEs' ability to obtain FinTech loans.
D'Apolito et al (2024)	There is a strong correlation between bank credit availability for SMEs and sustainability. Relationships between banks and SMEs are strengthened as a result, and banks benefit from increased net interest margins and lower default risk.

Based on the research findings in Table 2, we can explain each financing option in more detail, including venture capital, bank debt financing, and financing from fintech and P2P lending;

Venture capital financing

The study on venture capital financing showed that the special investment contract model and extra services like human resources, management expertise, and market insights offered by venture capital can address the limitations of regular investments (Liu et al., 2023). This promotes the conversion of technological advancements into a competitive edge for Small and Medium Enterprises (SME's) backed by venture capital, all while ensuring the company's long-term growth. Venture capital financing has been proven to provide benefits for the growth of the companies it supports, with results including increased sales, job creation, and increased returns on investment (Kato, 2021; Kato & Tsoka, 2020; Liu et al., 2023). Companies that receive support from venture capital tend to outperform those that do not receive similar support, both before and after receiving funding. In addition, venture capital financing can increase the productivity of total sales revenue and help companies achieve significant market growth.

The advantage of venture capital financing is its ability to overcome the financing gap faced by MSMEs in Indonesia, as well as providing opportunities for them to grow and develop (Sofia et al., 2022). Venture capital is seen as a lucrative option when it comes to funding because there is still a lot of room in the market for small and medium-sized enterprises (MSMEs) to grow. This makes venture capital a crucial source of assistance

for budding businesses that have the potential for significant expansion. Venture capital financing has proven to be an important instrument in encouraging growth and innovation for Small and Medium Enterprises (SME's). The unique staged investment contract model, often accompanied by additional value-added services, provides funded companies with support that goes beyond cash. These factors create an environment conducive to technological development and competitive advantage, which are key elements in addressing the challenges faced by SMEs.

One of the important findings from this analysis is that companies supported by venture capital have significant advantages compared to those that do not receive similar support (Zheng et al., 2021). Before receiving funding, they tend to outperform in terms of financial performance and growth, while after receiving funding, they can achieve significant market growth and increase total sales revenue productivity. This shows that venture capital not only provides capital but also brings added value in the form of knowledge, connections, and in-depth managerial support.

Apart from that, venture capital financing also has important implications for overcoming the financing gap experienced by MSMEs in Indonesia. With limited access to traditional financing, MSMEs often find it difficult to obtain sufficient funds to support the growth and development of their businesses (Sofia et al., 2022; Zheng et al., 2021). In this context, venture capital provides innovative and growth-oriented solutions for MSMEs, helping them overcome financial obstacles and exploit existing market opportunities. To optimize the benefits of venture capital financing, it is important for the government, financial institutions and industry players to work together to create a conducive environment for the development of venture capital in Indonesia. This includes providing supporting infrastructure, developing adequate regulations, and training and mentoring programs for aspiring entrepreneurs and business owners.

The findings of this study reveal that venture capital funding plays a crucial role in promoting growth and innovation for small and medium-sized enterprises (SMEs), while also making a valuable contribution to the sustainable development of the economy. Hence, venture capital financing holds immense potential to act as a driving force for economic growth and innovation in Indonesia, by offering the necessary boost for sustainable business expansion among SMEs.

Bank Debt Financing

Financing from banking institutions has proven to be one of the key aspects in supporting growth and sustainability for Small and Medium Enterprises (SME's) (Moscalu et al., 2020). Analysis of the findings shows that bank financing has a number of significant advantages, which contribute to strengthening the financial position and business growth of small and medium enterprises (Kärnä & Stephan, 2022).

One important finding is that bank financing can help reduce borrowing costs for SMEs (Elgammal et al., 2023; Manyanga et al., 2023; Whang & Koo, 2022). Compared to other sources of financing, such as loans from non-bank institutions or external financing, bank loans often offer more competitive interest rates and more flexible loan terms, which in turn can help reduce the financial burden for SME's. In addition, the findings show that bank loans also enable SME's to invest in their own internal funding sources. By having easier and faster access to capital, SME's can allocate their resources more efficiently and accelerate the rate of growth of their business.

The important role of banks in supporting economic growth in Indonesia is also reflected in the findings regarding policy-based loans (Agustina et al., 2022). These loans, administered by the government with the aim of reducing market failures and

encouraging business expansion, have proven to make a significant contribution to increasing export volumes for SMEs (Adebayo & Salaudeen, 2021). By providing financial support that can help cover export costs and expand international markets, policy-based loans play an important role in increasing global competitiveness and growth for SMEs in Indonesia (Whang & Koo, 2022).

Furthermore, the findings highlight the high dependence of SME's on financing from banks (Zubair et al., 2020). Small fluctuations in a bank's funding supply can have a significant impact on their investments and business operations (Zubair et al., 2020). Especially during periods of financial crisis, bank loans remain a critical factor in determining investment and growth for SMEs, providing the necessary support to get through these difficult times. The main advantage of bank financing is its ability to develop financial markets and financial institutions, which can help reduce information asymmetry between financial institutions and SMEs (Yang et al., 2019). By providing access to broader and more efficient financial resources, banks can become strategic partners for SMEs in supporting the growth and sustainability of their businesses.

Based on the findings and evidence provided, bank credit is considered a good option for financing SME's because it provides significant benefits for both parties. For banks, providing credit to sustainable companies will create added value in terms of higher net interest margins and reduced risk of default. Meanwhile for SME's, greater access to bank credit can strengthen their financial position, increase loan availability, and strengthen business relationships with banks. Bank financing has proven to be an important instrument in supporting growth and sustainability for SME's in Indonesia, with great potential to continue to strengthen their contribution to sustainable economic development (Huda, 2012).

FinTech Financing and Digital Financing based on P2P Lending

FinTech financing or digital financing based on P2P lending has become a popular alternative for Small and Medium Enterprises (SME's) to obtain loan funds (Galema, 2020). The analysis of the findings highlights several important aspects in the relationship between FinTech financing and consumer behavior, as well as its impact on business growth and financial inclusion (Pang & Liu, 2021).

One of the standout findings is the close relationship between consumer behavior and credit supply in the context of FinTech lenders in Australia (Gao et al., 2023). The study found that factors such as gambling costs, cash usage, and the marital status and age of the borrower can influence a lender's decision to fulfill a loan request (Gao et al., 2023). This shows the importance of understanding consumer behavior in shaping lending practices in the FinTech industry.

P2P lending has emerged as an effective alternative for obtaining funding, especially for small and medium-sized companies (Galema, 2020). Through P2P platforms, borrowers can obtain funds from their social networks as well as from the general public (Gao et al., 2023). The existence of strong relationships between lenders and borrowers can help overcome credit constraints and increase trust in the system (Galema, 2020). P2P platforms can make the most of both formal and informal lending methods. This allows them to take advantage of the information benefits of informal lending, while also benefiting from pooling and risk sharing through financial intermediation. Additionally, FinTech financing offers alternative payment options like sharia-based loans and profit sharing plans, which are helpful in meeting the various financial requirements of small and medium-sized enterprises (SMEs) (Suryono et al.,

2021). This expands access to loan funds for those who may not be able to qualify for traditional loans.

Digital inclusive finance, as represented by P2P lending platforms, offers broad coverage, low costs and a high level of convenience (Bu et al., 2024). The financial system as a whole is undergoing a digital transformation, which has the potential to make financial services more efficient and increase financial inclusion. However, it's crucial to keep in mind that regulators need to quickly assess potential risks and find a stable balance between technology and financial services to ensure the sustainability of the system.

Additionally, loans from FinTech platforms, such as Lending Club, have increased financial inclusion by providing access to credit to borrowers who would not normally be funded by traditional banks (Babaei et al., 2023). The system carefully examines borrower information to enhance the approval procedure and promote more financial inclusivity. A study in Indonesia discovered that small and medium-sized enterprises (SMEs) that took loans from FinTech companies had higher growth prospects than those who borrowed from regular banks (Cornelli et al., 2023; Sanga & Aziakpono, 2023). This shows the important role of FinTech financing in supporting economic and business growth at the local level. Factors such as social networks, economic attributes and risk perception play an important role in SMEs' access to digital financing services. Overall, FinTech financing or digital financing based on P2P lending has had a positive impact in increasing financial access for SMEs and supporting inclusive economic growth in various countries, including Indonesia.

Separately, there are 19 articles that discuss the shortcomings of venture capital financing options, bank debt financing, and fintech financing and P2P lending. The conclusions of each research finding are outlined in Table 3.

Table 3
Disadvantages of SME's Debt Financing

Author and Years	Result
(Kato, 2021)	Entrepreneurs may not be familiar with the existence of venture capital.
(Nguyen et al., 2023)	Bank debt can cause agency and free-rider issues, which can lower business efficiency. SMEs should consider a number of factors before deciding on a debt source, including how much debt is suitable, where money is coming from, and what debt ratio best fits their company.
(Manyanga et al., 2023)	Small and medium-sized enterprises face challenges with bank debt financing such as expensive interest rates, the need for collateral, difficulty in getting loans, inconvenient repayment terms, and the dangers of not being able to pay back the loan.
(Whang & Koo, 2022)	Limitations of policy-based financing include the potential for market failure due to credit rationing, which could result in a lack of funding supply for SMEs
(Fruet-Cardozo et al., 2022)	Limitations of credit financing for SMEs include obstacles such as lack of information, lack of legal status, failure of the creditor protection system, informality, and bankruptcies of commercial banks over the last 30 years.
(Elgammal et al., 2023)	SEBs that have poor internal business performance and marketing efficiency tend to actively look for government assistance and crowdsourcing since they may not qualify for other funding options.
(Pang & Liu, 2021)	Venture capital financing can lead to higher agency expenses, conflicts between investors and business owners, and differing goals that can harm family businesses.
(Gao et al., 2023)	Limitations of fintech lending include being unable to establish a causal relationship between consumer behavior of loan applicants and fintech lending due to limited data. Fintech lenders may face challenges in tracking

	cash payments, which are easier to manipulate and harder to trace compared to cashless payments
(Galema, 2020)	Fintech relies on the platform's reputation in credit risk assessment, relies on a network of informal relationships to obtain funding, may not be suitable for all types of businesses or borrowers
(Suryono et al., 2021)	There are multiple issues associated with P2P lending platforms in Indonesia. These include lack of public knowledge about P2P lending, instances of data breaches and limited data accessibility, scams involving personal information, unlawful fintech loans, and questionable marketing practices of financial products.
(Babaei et al., 2023)	Because borrowers on fintech platforms are typically low-income individuals with extensive networks or small and medium-sized firms (SMEs), the platforms provide significant risks to investors. because evaluating credit risk and identifying the variables that contribute to it will become increasingly important in the future for this fintech platform.
(Stefanelli et al., 2022)	The administrative and accounting difficulties, idea theft risk, ineffective information flow between investors and borrowers, lack of information openness, excessive interest rates, and many fees imposed on large borrowers are among the LBC platform's drawbacks.
(Wang et al., 2023)	Because of their limited access to financial resources, unsupportive rules, intense competition, interest rate policies, and lack of knowledge about available funding sources and how to access them, SMEs do not choose external sources of financing like banks.
(D'Apolito et al., 2024)	Bank credit limitations in financing SMEs include potential barriers to size growth, such as the effort required to pay loan interest and the need for additional regulations due to larger size. Additionally, small firms may face obstacles in external communication and reporting regarding CSR-related practices, which may impact their access to bank credit.
(Bu et al., 2024)	Risks associated with financing Fintech companies include internal mechanisms such as high debt, high liquidity, vulnerability, information asymmetry, and shortcomings of emerging technologies
(Modina et al., 2023)	Disadvantages of financing options for SMEs include the complexity of cash flow in current accounts, dependence on bank loans for funding, and limited availability of alternative funding sources compared to large companies.
(Nigmonov et al., 2024)	Fintech lending has its drawbacks such as the fact that risk assessment is not fully developed yet, and it relies on many complicated factors. There are also risks like default rates, loan recovery issues, platform failures, fraud, and cybercrimes. Moreover, it's hard to evaluate the borrower's credit since they meet online anonymously.

Venture capital financing

Although financing from venture capital can provide a number of benefits for companies, there are also a number of limitations and weaknesses that need to be considered (Kato, 2021). Analysis of the findings highlights several aspects that need to be considered in using venture capital as a funding source (Pang & Liu, 2021).

First, there are limitations in research on venture capital financing in developing countries. This can lead to a lack of understanding or awareness among entrepreneurs regarding the existence of venture capital as a funding option (Kato & Tsoka, 2020). In this context, further efforts are needed to increase understanding and accessibility of venture capital among entrepreneurs in developing countries.

Moreover, the research reveals the adverse effects of government assistance and the utilization of crowdfunding on the internal progress and growth of businesses (Elgammal et al., 2023). Less efficient small enterprise businesses (SEBs) are more likely to actively seek government support and crowdfunding as alternative funding sources.

This is because they may not meet the requirements for other funding sources. These negative effects need to be taken into account when developing support and regulatory policies for SEBs.

Venture capital financing can have a detrimental effect on family firms, which is a significant worry (Pang & Liu, 2021). Studies indicate various factors that contribute to this negative influence (Pang & Liu, 2021). These include higher agency costs resulting from alterations in governance structures, limited involvement of venture capital firms in the governance of family firms, and conflicts between venture capital investors and business owners (Pang & Liu, 2021). This emphasizes the importance of managing relationships between business owners and venture capital investors as well as developing governance structures that suit the needs and characteristics of family companies.

By paying attention to these various limitations and weaknesses, it is important for entrepreneurs and business owners to carry out careful evaluations and consider the long-term consequences before deciding to take funding from venture capital. Apart from that, there needs to be cooperation between the government, financial institutions and business people to create an environment that supports sustainable business growth.

Bank Debt Financing

Financing from traditional financial institutions, such as banks, has a number of weaknesses and limitations that must be seriously considered in the context of financing for small and medium enterprises (SMEs) (Manyanga et al., 2023). The findings from the studies analyzed show that SMEs often rely on debt from various sources, including banks, to obtain the funds needed to operate and grow (Nguyen et al., 2023). However, the existence of these limitations can have a significant impact on the performance and growth of SMEs (Manyanga et al., 2023).

One significant finding is that SMEs that use bank financing can face several challenges, especially related to costs and accessibility (Manyanga et al., 2023; Nguyen et al., 2023). Although banks are often considered a stable and reliable source of financing, the interest rates charged by banks can be high, especially for SMEs that have a higher credit risk or do not yet have a strong credit record (Whang & Koo, 2022). This can increase the financial burden on SMEs and limit their ability to use these funds effectively for investment and growth.

Additionally, the process of getting a loan from a bank can be very complicated and time consuming. SMEs often have to deal with complicated bureaucracy, strict collateral requirements, and time-consuming paperwork requirements to qualify for loans (Wang et al., 2023). This can be a significant barrier, especially for SMEs that are new or have limited resources to manage these requirements.

There are also findings indicating that SMEs may experience difficulties in obtaining sufficient loan amounts from banks (D'Apolito et al., 2024). Although banks often offer a variety of financing products, including short-term and long-term loans, the loan amounts approved are often inadequate to meet the capital needs of growing SMEs. This can limit the ability of SMEs to make the investments necessary for long-term growth.

In addition, there are several limitations in SMEs' access to bank financing, especially in developing countries (Modina et al., 2023). Limited financial infrastructure, lack of financial education, and difficulties in meeting bank requirements are some of the factors that can limit SMEs' access to bank financing (Modina et al., 2023). This may cause SMEs to rely on other sources of financing which may have higher risks and costs.

In terms of financial performance, SMEs that depend on bank financing may also face liquidity and solvency risks (Manyanga et al., 2023; Modina et al., 2023; Nguyen et al., 2023). Loans from banks often have to be repaid within a certain period of time, and an inability to meet these repayment obligations can result in serious financial problems for SMEs. In addition, large loans can also increase SMEs debt levels, which can affect their ability to obtain additional financing in the future.

Considering all the restrictions and difficulties that come with bank financing, it is crucial for small and medium-sized enterprises (SMEs) to adopt a cautious and varied financial approach. This might involve exploring other options for funding, like venture financing, peer-to-peer lending, or seeking support from private investors. Moreover, enhancing financial stability, improving financial accessibility, and establishing solid connections with financial institutions can play a significant role in minimizing risks and enhancing the long-term financial prosperity of SMEs.

FinTech Financing and Digital Financing based on P2P Lending

Even though it offers various conveniences and speeds, financing through fintech lending platforms also faces a number of challenges and weaknesses that need to be taken seriously (Suryono et al., 2021).The findings from the studies analyzed show that financing through fintech lending has limited data that may be available (Fruet-Cardozo et al., 2022). This means that the relationships between variables are often associative rather than causal, which can affect the accuracy of credit risk assessments. Additionally, fintech lenders may face difficulties in tracking cash payments, which tend to be difficult to trace and susceptible to manipulation (Gao et al., 2023).

The research also found that peer-to-peer (P2P) lending platforms need careful consideration for use by small and medium enterprises (SMEs) for a number of reasons (Suryono et al., 2021). Choosing a fintech financing platform depends on the platform's reputation for assessing credit risk, relying on a network of informal relationships to obtain funding, and incompatibility with any type of business or borrower are some of the factors that can hinder SMEs' access to funding through P2P lending platforms (Babaei et al., 2023).

In Indonesia, the use of P2P lending services also raises a number of problems that need serious attention (Suryono et al., 2021). Public awareness about P2P lending, data leaks and data access restrictions, personal data fraud, illegal fintech loans, and product marketing ethics are some of them (Suryono et al. 2021). This shows the need for serious attention to personal data protection and ethics in the fintech lending industry.

A study analyzing lending club platforms found that although these platforms offer easy access to financing for SMEs and individuals with low incomes, the risks for investors are also high (Stefanelli et al., 2022). Borrowers who are often SMEs or individuals with poor credit can pose a significant risk burden for investors, who must rely on accurate credit risk assessments to manage their portfolios (Babaei et al., 2023).

The LBC platform also has a number of disadvantages, including administrative and accounting challenges, risk of idea theft, lack of information transparency, high interest rates, and additional fees charged to borrowers (Stefanelli et al., 2022). Nonetheless, the advantages of the LBC platform include timely service and the ability for SMEs to raise capital without taking on debt. Risks associated with financing fintech companies include internal mechanisms such as high debt and high liquidity, as well as external mechanisms such as long-term effects that increase the risk of negative externalities and risk herding (Bu et al., 2024). It's crucial to have strong supervision and rules in place for fintech lending to make sure consumers and investors are safe.

Other disadvantages of fintech lending include risk evaluation that is still in its infancy, reliance on complex and interrelated factors, as well as potential risks arising from variations in default, loan recovery, platform failure, fraud, or cybercrime (Nigmonov et al., 2024; Stefanelli et al., 2022; Suryono et al., 2021). Difficulty in assessing the credit of the borrower is also a big challenge because both parties meet anonymously over the internet (Nigmonov et al., 2024). Therefore, it is important for the government and relevant stakeholders to address these weaknesses through strict regulations and a sustainable approach to ensure the sustainability and integrity of the fintech lending industry.

CONCLUSION AND SUGGESTION

This study highlights the distinct advantages and challenges associated with various financing options for SMEs, including venture capital, bank loans, and fintech lending. Venture capital can accelerate growth but presents governance challenges, particularly for family-owned businesses. Bank financing offers stability and sustainability but is often limited by bureaucracy, high interest rates, and a lack of awareness about accessible funding sources. Fintech lending provides rapid access and convenience but poses unique risks, such as limited data transparency, security issues, and complex risk assessment.

These findings underscore the importance for SMEs to carefully assess financing options that align with their specific needs and characteristics. Furthermore, regulators and stakeholders should enhance efforts to raise awareness and implement safeguards, especially within the rapidly expanding fintech lending sector. Future research can focus on uncovering more innovative and sustainable financing solutions tailored to SMEs. Ultimately, these insights serve as valuable guidance for stakeholders aiming to support the growth and resilience of SMEs, thus contributing to broader economic development.

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