

Regulatory and Policy Challenges of Embedded Finance Adoption in SME Digital Platforms across Emerging Economies

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Abstract

This study investigated regulatory and policy challenges to the implementation of embedded finance on SME digital platforms in emerging economies. A Systematic Literature Review (SLR) approach was used to integrate academic literature available on the topic of embedded finance, fintech regulation, and SME digital platforms. Major academic databases such as Scopus, Web of Science, Google Scholar, Emerald Insight, and Taylor and Francis Online were used to identify the relevant studies published in the period of 2020-2026. The selection procedure adhered to pre-established inclusion and exclusion criteria that centred on peer-reviewed studies in English language dealing with regulatory and policy aspects of embedded finance adoption. The review indicates that regulatory uncertainty, fragmented governance structure, data protection requirements, and cross-border compliance problems are significant factors that affect the adoption of embedded finance. Furthermore, policy-specific obstacles to effective integration of financial services into SME platforms are the lack of digital infrastructure, low financial literacy, and poor fintech ecosystem coordination. The paper identifies the necessity of consistent regulation frameworks, dynamic and versatile policy options, and excellent institutional coordination to assist embedded finance innovation.

Keywords

Regulations, Policy Challenges, Embedded Finance, SME, Digital Platforms, Emerging Economies

1. Introduction

Small and medium-sized enterprises (SMEs) are significant factors for the economic growth, job creation and innovation in the developed and emerging econ-

omies (Petrunenko et al., 2021). Akinrinde et al. (2025) and Mugano (2024) report that SMEs take up over 90% of the business and more than 50% of the employment worldwide, and around 40% of the gross domestic product (GDP) and almost 60% of the total employment in the emerging markets. On the other hand, Chhabra (2025) and Jain (2025) also suggest that over the past years, embedded finance has been growing by blistering innovation in financial technology (FinTech), providing financial services through payment, lending, insurance, and banking directly as part of non-financial digital technology.

According to Dresner et al. (2022), embedded finance is the embedding of financial services like payments, credit, insurance, and loans in non-financial digital platforms to access financial services through transactional ecosystems, rather than through separate banking platforms. SME digital platforms are digital ecosystems that assist small and medium enterprises to engage in business transactions such as trade, payments and financing through e-commerce platforms, marketplace platforms and fintech platforms (Jain, 2025). Emerging markets, according to Song et al. (2021), are countries that are rapidly undergoing digital transformation, have emerging financial systems and suffer from infrastructural and institutional bottlenecks. As suggested by Ozili (2022), embedded finance differs from fintech because fintech refers to all financial innovations enabled by technology, while embedded finance embeds finance into non-financial platforms, and renders finance invisible within user experiences. Likewise, platform finance refers to financial intermediation within digital platforms but may not necessarily embed financial services into non-financial platforms, as per Saifurrahman and Kassim (2024). Thus, embedded finance is more sophisticated in terms of the integration of finance and digital ecosystems, and presents new challenges for regulators and policy makers to include SMEs.

Embedded finance can help SMEs to gain access to financial services via digital platforms and depends on built-in financial solutions, including digital wallets, platform-based lending, and integrated payment gateways, where e-commerce, logistics, and supply chain management (Balboa et al., 2024; Zhang & Liu, 2025). This integration is especially significant in the emerging economies, where the digital platforms are becoming the focus of SME activities. Nevertheless, regardless of such opportunities, Chibueze (2025) and Enaifoghe (2024) opined that SMEs have been facing enduring challenges of finances and institutions that restrain their potential to leverage the full benefits of embedded finance solutions. Another problem is that the financing gap in developing economies has been very big among SMEs. The total unmet financing requirement of SMEs in the world is estimated to be above US\$5.7 trillion, where nearly 40% of formal SMEs demonstrate unmet credit requirements (World Bank, 2025).

The usual financial institutions tend to view SMEs as risky customers because of their lack of collateral, lack of financial documentation and information asymmetry, which result in access to limited credit and increased cost of borrowing (Chibueze, 2024; Chibueze et al., 2025). To address this, Saifurrahman and Kassim

(2024) unveiled that although embedded finance has the potential to overcome these obstacles by using the data on digital transactions and lowering the cost of financial intermediation, the implementation of embedded finance is too often forced by regulatory uncertainty and disjointed policy structures. Financial regulations in most emerging economies have been unable to keep up with fintech developments like platform-based lending and Banking-as-a-Service and leave a grey area over licencing, consumer protection, and data control (Francisca, 2025).

Such regulatory complexities indicate a major gap in the knowledge of the policy environment that influences embedded finance adoption in the digital ecosystem of SMEs. Even though current literature, such as Palmieri and Ferilli (2024), discusses about the adoption of fintech and SME financial inclusion, most researchers concentrate on technological adoption or the overall financing limitations instead of the individual regulatory and policy obstacles that impact embedded finance platforms. Moreover, there is still an uneven distribution of evidence on emerging economies and the synthesis of regulatory challenges and policy responses has been done systematically with only some evidence.

Thus, this study applies a systematic literature review (SLR) to analyse regulatory and policy issues related to the adoption of embedded finance in SME digital platforms in the context of emerging economies. The research makes its contribution to the theory by incorporating the knowledge of fintech governance and SME finance literature. It also provides substantial evidence associated with regulatory barriers and institutional constraints. In practical terms, the findings provide policy advice to policymakers, regulators, fintech companies, and providers of platforms to build supportive regulatory frameworks that facilitate responsible embedded finance innovation and increase SME financial inclusion.

Research Question:

What are the key regulatory and policy challenges that impact the adoption of embedded finance in SME digital platforms across developing economies?

2. Methods

2.1. Research Strategy

This research conducted a systematic literature review (SLR) from five databases, which are comprised of Scopus, Web of Science, Google Scholar, Emerald Insight and Taylor & Francis Online. For reproducibility, streamlined and database-specific Boolean search strings are used with grouping and parentheses to prevent confusion. The final Scopus/Web of Science search was: TITLE-ABS-KEY (“embedded finance” OR “embedded financial services”) AND TITLE-ABS-KEY (“SMEs” OR “small and medium enterprises”) AND TITLE-ABS-KEY (“platform finance” OR “digital platforms”) AND TITLE-ABS-KEY (“regulation” OR “policy” OR “governance” OR “regulatory challenges”) AND TITLE-ABS-KEY (“emerging economies” OR “developing countries”). Google Scholar used the same keywords, without field restrictions due to its indexing quirks.

The searches on Emerald Insight and Taylor & Francis Online used advanced keyword searches in abstracts and titles. This approach enhances transparency, reproducibility, and minimises retrieval bias in identifying relevant scientific literature.

2.2. Inclusion and Exclusion Criteria

The inclusion and exclusion criteria for selection of the studies are illustrated in **Table 1**.

Table 1. Inclusion and exclusion criteria.

Criteria	Inclusion Criteria	Exclusion Criteria
Study Type	Empirical and conceptual studies including qualitative, quantitative, as well as relevant primary or secondary studies.	Editorials, opinion pieces, blog posts, and non-scholarly articles without academic research design.
Language and Date	Studies published in English between 2020 and 2026 to capture recent developments in embedded finance and fintech regulation.	Studies published before 2020 or in languages other than English.
Focus	Studies addressing embedded finance, fintech integration, digital platforms, SME financing, and regulatory or policy challenges, particularly within emerging or developing economies.	Studies focusing solely on traditional banking, unrelated fintech applications, or large corporate finance without relevance to SMEs or embedded finance.
Text Availability	Articles with full-text access and an available abstract to enable comprehensive screening and analysis.	Studies with only titles, incomplete abstracts, or restricted full-text access.
Quality	Peer-reviewed journal articles and conference papers published in reputable academic outlets.	Non-peer-reviewed sources, magazines, reports, or unpublished manuscripts lacking academic validation.

2.3. Data Sources and Search Results

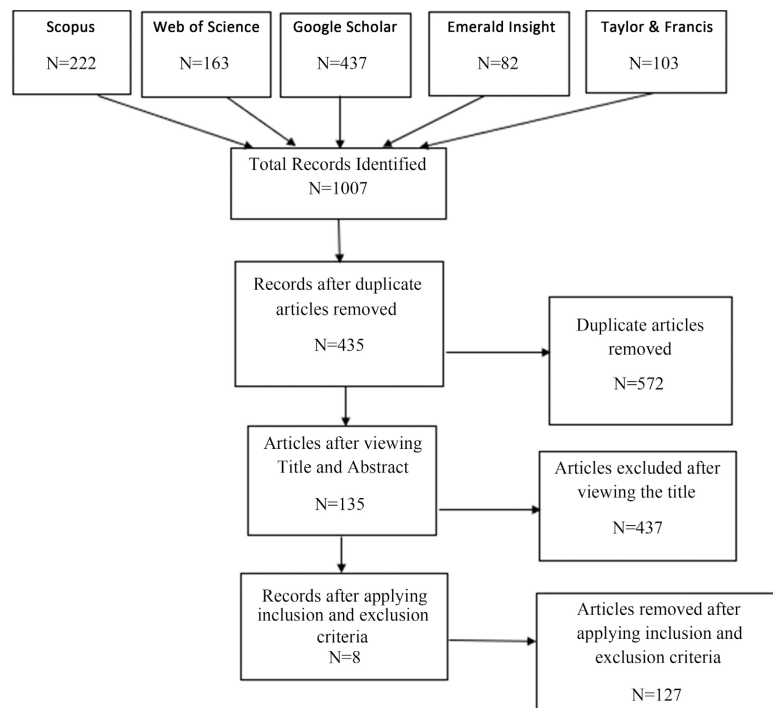
In this research, Scopus, Web of Science, Google Scholar, Emerald Insight, and Taylor and Francis Online were used to extract relevant studies. These databases are chosen because they are credible and cover a wide range of peer-reviewed studies suggested by [Rajkumar and Sitwala \(2025\)](#). According to [Dube et al. \(2024\)](#), systematic literature reviews involve a thorough search of databases to guarantee rigour and reduce the possibility of omitting other studies that are relevant. In this respect, both Scopus and Web of Science are known to index the high-quality journals and citation-tracked publications, especially in the multidisciplinary research fields indicated in the findings of [Gerasimov et al. \(2024\)](#) as well. The addition of Google Scholar was covered to expand the search perspective because [Gusenbauer \(2024\)](#) suggests that Google Scholar covers a broader range of scholarly content and up-to-date research findings. Also, Emerald Insight and Taylor and Francis online focus on business, finance, and policy research and a relevant option in the research involving fintech regulation and SME digital platforms. The search results are provided in **Table 2**.

Table 2. Search results.

Search Terms/Search Strings	Scopus	Web of Science	Google Scholar	Emerald Insight	Taylor & Francis	Total
“Embedded finance” AND SMEs	58	42	110	21	27	258
“Embedded financial services” AND “digital platforms”	46	34	95	18	22	215
“Platform finance” AND SMEs AND regulation	39	29	82	14	19	183
“Fintech platforms” AND SMEs AND policy	51	37	104	20	23	235
“Embedded finance” AND “emerging economies” AND regulation	28	21	46	9	12	116
Total Results	222	163	437	82	103	1007

The search for literature was carried out from January to February 2026 in five databases. Following study retrieval, manual check for duplicates based on title, author and year was conducted. Two independent reviewers screened the studies according to pre-determined inclusion and exclusion criteria. Conflicts between reviewers were discussed and resolved and when needed, a third reviewer was consulted to ensure impartiality and minimise the risk of selection bias. This process ensured rigour, transparency and replicability of the study selection process. Verification of the studies in line with the inclusion and exclusion criteria is provided in Appendix, sample description.

2.4. Study Selection Process-PRISMA

**Figure 1.** PRISMA for article selection.

The total number of articles received from the search based on the research strategy was 1007, which were selected while applying the inclusion and exclusion criteria. In the first step, out of 1007 total records, 572 were omitted, leaving 435 records, which were screened for title and abstract, where 437 records were omitted, leaving 135 records. The remaining 135 records were screened for eligibility based on specified inclusion and exclusion criteria, leaving a final 8 studies to be included in the analysis and 127 studies were omitted in this stage. The PRISMA flow diagram is specified in **Figure 1**. Only eight studies were included because they met the strict inclusion criteria: peer-reviewed, English-language, 2020-2026 publications focusing on regulatory and policy challenges of embedded finance in SME digital platforms.

3. Results and Analysis

In the framework of systematic screening and selection, eight pertinent studies were found that investigate the regulatory and policy issues that influence the implementation of embedded finance on the digital platform of SMEs in the context of new economies. Out of all these, four studies were mainly concerned with regulatory issues, and four studies were concerned with policy issues in relation to digital financial ecosystems and SME financial inclusion. Overall, the chosen research works indicate the changing nature of the regulatory environment in the area of fintech innovation, embedded finance ecosystems, and SME digitalization. In general, the analysis indicates that despite the prominent opportunities to improve the access of the SMEs to finance and financial inclusion, the regulatory and policy frameworks in the emerging economies are disjointed and not well-developed.

When sorted by the thematic focus of regulatory and policy issues, the data governance and regulatory compliance (2 studies) and financial inclusion and digital infrastructure (2 studies) look the most common, with regulatory innovation and institutional adaptation (2 studies) and ecosystem governance and interoperability (2 studies) coming next. **Table 4** shows the classification of the articles according to the linkages of the themes and authors.

3.1. Quality Appraisal of the Selected Studies

The quality of the eight studies was evaluated using an adapted Joanna Briggs Institute (JBI) critical appraisal tool for embedded financing and policy-oriented studies, as suggested by **Abogunrin et al. (2026)**, also, **Table 3**. The studies were assessed on six criteria, which comprised clarity of purpose of research, suitability of research design, transparency of data, consideration of bias and/or confounding factors, validity of results, and regulatory and policy relevance. A scoring system (1 = yes/adequate, 0 = no/unclear) was used, resulting in a total score of 0 to 6. Total scores determined high- or moderate-quality studies. It is important to note that quality assessment was not applied to exclude studies but to inform understanding and subsequently, more weight in the analyses was given to higher-quality evidence in the synthesis of regulatory and policy issues.

Table 3. Quality appraisal.

Study	Clear Aim	Appropriate Design	Data Transparency	Bias/ Confounders Addressed	Valid Findings	Policy/ Regulatory Relevance	Total Score (out of 6)	Quality Level
Ogunjobi & Aboaba (2025)	1	1	1	1	1	1	6	High
Innocent & Olugbenga (2026)	1	1	0	1	1	1	5	High
Alsobai & Aassouli (2026)	1	1	1	0	1	1	5	High
Griffiths et al. (2025)	1	1	0	0	1	1	4	Moderate
Fowowe et al. (2025)	1	1	1	1	1	1	6	High
Harichandana (2025)	1	1	0	0	1	1	4	Moderate
Okafor et al. (2023)	1	1	1	1	1	1	6	High
Bises (2025)	1	1	0	1	1	1	5	High

Table 4. Grouping of articles based on thematic relationships.

Relationship between Variables (Themes)	Authors	No. of Articles (out of 8)
Data governance and regulatory compliance	Ogunjobi & Aboaba (2025); Okafor et al. (2023)	2
Regulatory innovation and institutional adaptation	Innocent & Olugbenga (2026); Alsobai & Aassouli (2026)	2
Financial inclusion and digital infrastructure	Fowowe et al. (2025); Harichandana (2025)	2
Ecosystem governance and interoperability	Griffiths et al. (2025); Bises (2025)	2

3.2. Regulatory Challenges of Embedded Finance Adoption

3.2.1. Data Governance and Regulatory Compliance

Two studies particularly focus on the significance of data governance, regulatory provisions, and regulatory supervision as some of the barriers to adoption of embedded finance. Ogunjobi and Aboaba (2025) emphasise the fact that in emerging markets, the financial ecosystems of SMEs are changing with the support of technologically advanced financial solutions, such as AI-driven credit analytics, blockchain-based transactions, or cloud banking platforms. The study, however, reveals that some of the regulatory issues are strict data privacy compliance requirements, biased algorithms in AI lending models, cross-border regulatory inconsistency, and stringent anti-money laundering (AML) and know-your-customer (KYC) regulations. These compliance requirements raise the level of security in the fi-

nancial system and consumer protection; however, at the cost of compliance costs and complexity of operation among SMEs and fintech providers, as suggested in the study of Galib and Rijal (2025) and Murati et al. (2024) as well. It was also revealed that by Ogunjobi and Aboaba (2025) states that algorithmic bias in AI-based credit scoring systems may inadvertently cause underserved SMEs to be overlooked, which is why a clear and responsible regulatory control system is needed.

In a similar vein, Okafor, Dako, and Osuji (2023) discuss embedded finance ecosystems by converting payment, credit and data services on digital platforms. Their findings indicate that despite the fact that embedded finance contributes to improved access of SMEs to credit services by providing alternative data analytics and digital records of transactions, there are essential regulatory issues connected with data governance, data protection, and the interoperability of financial systems. In similar findings, Aggarwal (2025) and Jagdale (2025) also stated that in the absence of effective regulatory structures to control data sharing and platform interoperability, embedded finance ecosystems can pose the threat of establishing fragmented financial infrastructures, which can restrict the involvement of SMEs and confidence in digital financial services.

3.2.2. Regulatory Innovation through Fintech Sandboxes

The other significant regulatory challenge unveiled is regulatory innovation and institutional adaptation mechanisms meant to support fintech development. Innocent and Olugbenga (2026) discussed the purpose of fintech regulatory sandboxes by referring to the case of Central Bank of Nigeria sandbox framework. The results signified that regulatory challenges enable fintech innovators to pilot digital lending and embedded finance solutions under regulated environments. This strategy helps the regulators to discover new potential risks along the way and responsible innovation, which was also revealed by Nag (2025). The findings of Innocent and Olugbenga (2026), however, also bring to the fact that the policy challenges that regulators have to contend with, especially the issue of striking a balance between financial innovation and consumer protection and systemic stability. Overly restrictive regulatory environments can slow innovation in the field of fintech, and inadequate regulation can leave financial systems vulnerable to cybercrime and financial fraud.

3.2.3. Regulatory Clarity and Institutional Governance

Alsobai and Aassouli (2026) provide an overview of the digital transformation in the banking sector by comparing Qatar and the international banking institutions in terms of legal frameworks. They found that regulatory clarity and coherence have a major effect on the digital maturity of financial institutions, such as their capacity to integrate embedded finance solutions. The research paper suggests that regulatory uncertainty surrounding the open banking standards, data protection regulations, and licencing regulations on fintech partnerships usually slow the innovation of Fintech products and integration of digital platforms. Specifi-

cally, the length of the regulatory approvals and the discontinuous supervisory policies deter fintech collaboration with the SME digital platforms to embed digital finance.

3.3. Policy Challenges of Embedded Finance Adoption

3.3.1. Financial Inclusion and Digital Infrastructure Gaps

Besides regulatory obstacles, the literature also mentions a variety of challenges regarding policies that impact the implementation and scaling of embedded finance ecosystems in emerging markets. One of the themes of this category is financial inclusion and limitations of digital infrastructure. [Fowowe, Nnajofofor, and Phyllis \(2025\)](#) show how digital financial services, which are made possible through fintech and include mobile money, digital lending, blockchain-based financial infrastructure, and similar services, can greatly improve financial inclusion among underserved communities and small and medium enterprises. According to their findings, the mobile money systems can increase the financial accessibility by 34-58 percent, and the digital credit systems can decrease the loan processing time by up to 87% when compared to the conventional banking procedures. In this perspective, [Agbeve et al. \(2025\)](#) and [Mallekoote and Balraadjsing \(2025\)](#) also revealed that although these advantages exist, the authors state that a number of policy obstacles are limiting their adoption, such as a lack of digital infrastructure, cybersecurity, regulatory fragmentation, and financial illiteracy of both SMEs and rural communities.

3.3.2. Digital Payment Ecosystems and Adoption Barriers

[Harichandana \(2025\)](#) also emphasises the contribution of the digital payment ecosystem and super-apps platforms to the growth of digital financial services in the emerging markets. The Global Findex 2025 estimates that 58% of adults in low- and middle-income economies have digital financial accounts and 42% of them actively use digital payment services. [Harichandana \(2025\)](#), however, indicates that there are policy impediments that have remained constant to curtail the efficacy of digital financial services. For instance, inadequate internet access in rural settings, expensive data plans, poor cybersecurity knowledge, and a disjointed regulatory system across borders. These policy issues bring an uneven adoption where urban SMEs have the benefits of digital financial ecosystems, but rural businesses do not.

3.3.3. Ecosystem Governance and Interoperability

There is also the other policy aspect that deals with ecosystem control and cross-functionality in embedded finance systems. In their study, [Griffiths et al. \(2025\)](#) consider how fintech is being diffused in Vietnam in the framework of the service ecosystem and conclude that regulation by the government is essential in creating trust in the digital financial ecosystem. Effective regulatory frameworks around digital payments have seen a tremendous growth in the volumes of transactions and financial inclusion. The research also concludes that regulatory attention is unevenly directed at payment services, leading to uneven growth in other areas of

fintech Poor data protection systems and regulatory inadequacies surrounding alternative finance services still limit the use of embedded finance solutions by SMEs.

In addition, Bises (2025) explores the emergence of Inclusive Instant Payment Systems (IIPS) in the North African economies and emphasises the role of open finance and interoperable digital infrastructure in the facilitation of embedded financial systems. The paper highlights that real-time payment platforms and open finance systems have the potential to greatly enhance access to digital financial services by SMEs by lowering the transaction cost and augmenting financial transparency. Nonetheless, the existence of policy constraints to the ecosystem development, including the absence of technological infrastructure, irregularities in regulations across borders, and insufficient cooperation of financial institutions and fintech providers, still hampers the development of the ecosystem suggested by Chibueze et al. (2025); Mpofu (2024) as well. Though Bises (2025) also emphasises that harmonised policy frameworks and public-private collaborations are needed to develop interoperable digital financial systems that enable SMEs to access embedded finance systems.

Hence, the results suggest that regulatory and policy contexts are decisive factors influencing the process of adopting embedded finance solutions in SME digital platforms in emerging economies. Regulatory issues are mainly associated with regulatory requirements, regulatory frameworks, and institutional regulatory capacity. Policy issues, in turn, have a stronger connection with the development of the digital infrastructure, financial inclusion, and governance mechanisms of the ecosystems. The list of the studies and their synthesis are given in Table 5.

Table 5. List and synthesis of articles.

Author and Year	Research Focus	Research Approach	Findings and Significance
Ogunjobi & Aboaba (2025)	Role of advanced financial technologies in strengthening SMB finance	Conceptual and analytical study	AI, blockchain, and cloud banking improve SME finance, but data privacy rules, AI bias, and cross-border compliance create regulatory challenges.
Innocent & Olugbenga (2026)	Impact of fintech regulatory sandboxes on SME financing	Qualitative policy case study	Regulatory sandboxes support fintech experimentation and SME finance while addressing innovation-risk trade-offs and regulatory challenges.
Alsobai & Aassouli (2026)	Legal frameworks and digital transformation in banking	Mixed methods comparative study	Regulatory clarity improves digital banking maturity, but approval delays and governance gaps remain regulatory challenges.
Griffiths et al. (2025)	Determinants of fintech diffusion in Vietnam	Qualitative ecosystem analysis	Regulations enhance payment trust, yet uneven rules across fintech domains create diffusion gaps and regulatory challenges.
Fowowe et al. (2025)	Fintech-enabled financial inclusion	Mixed methods study	Digital finance expands access to credit for SMEs, but infrastructure gaps and fragmented governance create policy challenges.

Continued

Harichandana (2025)	Digital payment adoption in emerging markets	Secondary data and policy analysis	Growth in digital payments is strong, yet connectivity gaps, literacy issues, and fragmented rules generate policy challenges.
Okafor et al. (2023)	Embedded finance ecosystem architecture	Conceptual framework study	Convergence of payments, credit, and data improves SME inclusion but raises governance and data protection regulatory challenges.
Bises (2025)	Inclusive instant payment systems and open finance	Comparative policy analysis	Open finance and instant payment systems enhance inclusion, but interoperability gaps and coordination issues create policy challenges.

4. Discussion

4.1. Regulatory Challenges of Embedded Finance Adoption

According to the results of Ogunjobi and Aboaba (2025) and Okafor et al. (2023), embedded finance ecosystems heavily depend on the combination of digital data, analytics based on AI, and other credit scoring. Although these technologies make the SMEs more accessible to embedded finance, they also create regulatory issues regarding data protection, algorithmic discrimination, and financial transparency. Specifically, Ogunjobi and Aboaba (2025) observe that the cost of operation of SMEs and fintech providers is escalated by the relatively high compliance rates demanded by the regulations on data protection. These results are in line with Putrevu and Mertzanis (2024), who believe that fintech innovation progresses more rapidly than regulators can keep pace and leave gaps in governance in the digital financial ecosystem. The implications are, however, not the same in developed economies and emerging economies. In more advanced regions like the European Union, stringent regulatory frameworks like GDPR provide a systematic management of online finance, with several upcoming economies having a deficiency of adequate organisations to apply comparable data control laws in a uniform way, as suggested by Lee (2024) as well. As a result, regulatory uncertainty and slack implementation structures confuse fintech companies and SME platforms that operate in developing markets further.

The other important regulatory learning point relates to the adaptive regulatory frameworks, specifically fintech regulatory challenges. The findings of this study unveiled that regulatory challenges provide a controlled setting in which fintech can be experimented with and in which regulators can observe the emerging risks. This result confirms Mpofu (2024), who views regulatory sandboxes as policy instruments that aim to balance innovation and financial stability. Nevertheless, the results and findings of the study also depicted a different argument by highlighting that regulatory clarity, as opposed to experimentation, alone is the best predictor of digital financial transformation, as suggested by Galib and Rijal (2025). The comparison of their banking institutions shows that consistent legal frameworks are a strong catalyst for the integration of the fintech sector and digital maturity. This comparison is that although regulatory experimentation can be supportive

of innovation in developing economies, embedded finance adoption in the long-term can be facilitated by predictable and stable regulatory institutions.

Theoretically, these results can be related to the field of institutional theory, where much focus is on the importance of the regulatory framework in determining organisational innovation and acceptance of technology. Aggarwal (2025) also argues that the quality of an institution affects the efficiency and predictability of economic transactions, especially in the case of fintech ecosystems that involve digital trust and information regulations. The problem of institutional fragmentation in emerging economies usually results in the creation of regulatory inconsistencies that impede the progression of embedded finance ecosystems.

These findings have great implications on policy makers and regulators. Effective regulation should be able to strike a balance between innovation and financial stability, as well as consumer protection. Emerging economy regulators should focus on developing consistent fintech policies, enhancing data protection systems, and promoting responsible innovation with the help of sandboxing. In the absence of such regulatory reform, embedded finance adoption can be limited even though it can enhance the financial inclusion of SMEs and their digital economic involvement.

4.2. Policy Challenges of Embedded Finance Adoption

In addition to regulatory limitations, the review also shows that there are a number of structural policy issues that influence the implementation of embedded finance ecosystems among SME digital platforms. These issues mainly concern financial inclusion policies, the development of the digital infrastructure, and the governance of the ecosystem. Results have shown that although fintech innovations can increase financial access among SMEs, policy environments across most emerging economies are not well coordinated to promote their widespread adoption.

Fowowe et al. (2025) revealed that fintech-driven digital finance services substantially increase financial inclusion related to the outcomes they achieve in terms of providing credit and digital payment and savings tools to the underserved communities. Similarly, Harichandana (2025) emphasises that the proliferation of digital financial accounts and payment systems in the emerging markets has increased the role of digital finance among SMEs and consumers. Nevertheless, the findings highlight that policy impediments like poor digital infrastructure, financial illiteracy, and cybersecurity are still limiting the efficacy of such innovations. These are not isolated results, and Jagdale (2025) state that the financial inclusion efforts in developing economies are frequently not resulting in sustainable economic engagement as the digital inequalities remain persistent.

The comparative results also indicate some significant contextual variations between the developing and the developed economies. Digital infrastructure and regulatory coordination are more developed in developed markets; thus, fintech innovations are able to scale across financial ecosystems faster, which was also

unveiled by Nag (2025) as well. In comparison, often, emerging economies are characterised by structural limitations, in the form of low broadband connectivity, disconnected digital payment systems, and institutional mistrust. Regulatory support of digital payments has accelerated financial inclusion, as shown by Griffiths et al. (2025) with the example of Vietnam, but the COVID-19-driven focus and creation of ecosystems have led to the concentration of innovation in a small number of fintech areas.

The other significant policy aspect is associated with interoperability and ecosystem management in embedded finance systems. Bises (2025) specifies that the involvement of SMEs in the digital financial system can be expanded by an inclusive system of instant payments and open finance. However, the issue of policy coordination is still a significant problem. Okafor et al. (2023) make similar observations and state that an embedded finance ecosystem relies on the integration of the payments, credit, and data services of various institutional participants. The risk of fintech ecosystems becoming fragmented and inefficient without harmonised policy frameworks is that interoperability and data sharing will lack the proper regulations.

These results are viewed from the perspectives of the innovation ecosystem theory, which proposes that technological innovation is not just affected by individual companies but also by wider networks of institutions, policies, and infrastructure. Similarly, Chibueze et al. (2025) also claimed that failures in ecosystem coordination make potentially successful innovations difficult to implement on a widespread basis. This means that in the case of embedded finance, a lack of proper policy coordination between regulators, fintech companies, and digital providers of platforms can constrain the ability of fintech ecosystems to scale.

The implication of the findings underlines the need to have combined policy responses that would, at the same time, deal with the development of digital infrastructure, financial literacy, and ecosystem governance. The emerging economies' governments should invest in digital connectivity, enhance cybersecurity, and support open fintech standards to allow the interoperability of fintech platforms and traditional financial institutions. These types of policy reforms would contribute to building resilient embedded finance ecosystems that would create opportunities to scale the financial inclusion of SMEs and enable sustainable growth of the digital economy.

5. Conclusion

This study examined the regulatory and policy issues that influence the implementation of embedded finance in SME online platforms in emerging economies through the systematic literature review methodology. The results reveal that although embedded finance has great potential to increase the financial inclusion of SMEs, improve credit access and enable the digitalization of the economy, regulatory fragmentation, poor institutional governance and lack of policy coordination limit its adoption. The regulatory issues mainly involve the requirements of

data protection, inconsistencies in cross-border regulations, costs of compliance, and the necessity to provide transparent regulation of AI-based financial services. Simultaneously, policy challenges like digital infrastructure inequalities, and financial literacy constraints and disjointed fintech ecosystems inhibit the greater proliferation of embedded financial solutions. These results suggest that successful embedded finance systems demand both technological innovation and consistent regulatory systems and policy environments that find the necessary balance between financial stability and innovation.

The study has certain limitations as well, even though it has made contributions. First, the review is presented on a relatively limited number of studies, which can be explained by the fact that embedded finance is a novel field of research. Second, the study mainly concentrates on developing economies, thereby restricting extrapolation of the research findings to the developed markets. Third, the use of secondary literature limits the possibility of obtaining firm-level or regulation-level empirical evidence. Further studies are recommended to increase the empirical evidence base by performing cross-country comparative research and quantitative studies of the effectiveness of regulations and the results of fintech adoption. Moreover, longitudinal studies on the development of embedded finance regulation and ecosystem governance would allow for a better understanding of sustainable digital financial development.

6. Policy Implications

The results indicate that there are a number of policy implications that can be applied to enhance embedded finance adoption in SME digital platforms in emerging economies. The development of clear, harmonised regulatory frameworks with reduced uncertainty in compliance and financial stability and consumer protection are the priorities of policymakers. Safety experiments of embedded finance solutions can be possible through regulatory challenges and adaptive regulation models. Governments can also invest in digital infrastructure, mechanisms of data governance, and financial literacy to assist SMEs in being involved in digital financial ecosystems. Moreover, the financial regulators, fintech companies, and digital platforms should be coordinated to handle interoperability, cybersecurity, and data privacy issues. This kind of policy intervention would be able to support responsible innovation and reduce regulatory and policy challenges.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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Appendix: Sample Description

Study	Year	Publication Type	Outlet	Meets Inclusion Criteria (2020-2026, English, Peer-Reviewed, SME/Embedded Finance Focus)
Ogunjobi & Aboaba	2025	Journal Article	International Journal of Engineering Technology Research & Management	Fully satisfied
Innocent & Olugbenga	2026	Journal Article	Nigerian Journal of Banking and Financial Issues	Fully satisfied
Alsobai & Aassouli	2026	Journal Article	Journal of Risk and Financial Management (Springer Nature)	Fully satisfied
Griffiths et al.	2025	Journal Article	International Journal of Emerging Markets (Emerald)	Fully satisfied
Fowowe et al.	2025	Journal Article	International Journal of Foreign Trade and International Business Upgradation	Fully satisfied
Harichandana	2025	Journal Article	IJSAT—International Journal on Science and Technology	Fully satisfied
Okafor et al.	2023	Journal Article	International Scientific Refereed Research Journal	Fully satisfied
Bises	2025	Article	Palgrave Handbook of FinTech in Africa and Middle East (Springer)	Fully satisfied