

Research on Digital Inclusive Finance to Alleviate the Dilemmas of SME Financing and Countermeasures

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Abstracts. SMEs are the focus of regional economic development, which mainly solves a large number of labor problems and provides technological innovation. However, SMEs have great difficulties in corporate financing. The emergence of inclusive finance is a breakthrough in supporting disadvantaged groups to enjoy low-cost and high-quality financial services, among which the technical support of digital inclusive finance is of great significance in solving the problem of financing channels for SMEs. In this paper, we will start with the current situation of SME financing development and the reasons for financing difficulties, identify the current problems and put forward corresponding suggestions to the current problems by analyzing the impact of digital inclusive finance on SME financing constraints.

Keywords: Digital Inclusive Finance, SME Finance, Financing Dilemma

1. Review of national literature

Huang Bo (2021) found that the development of digital inclusive finance significantly alleviated the financial constraints of SMEs, and found that the development of digital inclusive finance in regions with higher levels of financial development had a mitigating effect on the alleviation of SMEs' financial constraints. In exploring feasible ways to explore the alleviation of SME financial constraints, Li Jianwei and Wei Renyi et al. (2022) used models such as the two-way fixed effect model and the moderating intermediary effect model to verify that digital inclusive finance could effectively alleviate SME financial constraints and that this phenomenon was particularly evident among private and family-owned enterprises. Based on data from Chinese SMEs listed on the SME board, Zou Wei and Ling Jianghuai (2018) found that the development of inclusive finance can alleviate the financing constraints of SMEs, which can be significantly enhanced if under a higher economic level and a good legal system environment. Teng Lei (2020) finds that among the various types of innovative services, investment, and credit services have the most obvious alleviating effect and that the infrastructure of digital finance should be strengthened in the future to create a perfect digital financial ecosystem for SMEs financing. According to Yu Ping and Dou Junxia (2020), digital inclusive finance can enhance the accessibility of financial services with the support of emerging technologies, which in turn is conducive to supporting the financing of SMEs, especially high-tech enterprises that are not state-owned enterprises.

Digital inclusive finance has important economic and social values, mainly in rural revitalization and poverty reduction, optimizing the allocation of financial resources and contributing to economic growth by narrowing the gap between the rich and the poor.

2. Reasons for SMEs' financing difficulties

High business risk and consequent lack of financing credit. The reason why SMEs have difficulties in financing is due to the high risk of their operations, and the poor stability of the enterprises themselves. In addition, the imperfect management system of SMEs has led to a disconnect between enterprise financing and the development direction of the enterprise, resulting in the phenomenon of low comprehensive credit and unclear accounts, coupled with low awareness of enterprise credit, which makes it easy for fraudulent financing and other deceptive practices to occur when funds are lacking. This has increased the difficulty of financing for SMEs.

Inadequate market system and information asymmetry. At present, the capitalist market in China is not sound, and many financial institutions such as banks are not very active in lending to SMEs due to the high risk of their operations and lack of creditworthiness. There is also an information asymmetry between SMEs and large enterprises. SMEs are less transparent than large enterprises in their business activities, and large enterprises also communicate "hard information" through financial statements, etc. In contrast, small enterprises are lacking in these aspects and rely on "soft information" which is more troublesome to handle. "The more obvious the information asymmetry, the more difficult it is to lend. Financial institutions will require the same loan requirements for SMEs as for large enterprises, but SMEs will receive fewer loans than large enterprises, resulting in the cost of lending to SMEs being much higher than for large enterprises.

And although the state has provided support to SMEs in recent years and has introduced a series of policies to help them develop, the implementation of these policies is at an experimental stage and there are limitations to their practical effect. The lack of highly professional personnel and the lack of strong support have led to difficulties in financing.

3. Problems of Digital Inclusive Finance in Supporting SME Financing

The development and diffusion of digital inclusive finance varies considerably between regions. Digital inclusive finance relies on internet technology and emerging communication technologies to expand its reach in the country, so the remote areas are at a disadvantage, and quantitative change leads to a qualitative change in different areas to produce significant differences. According to the data provided by the China Internet Information Center (CNNIC), as of June 2022, the number of Internet users in China was 1.051 billion, and the Internet penetration rate reached 74.4%, while the penetration rate of Internet access among rural residents was only 58.8%, which is still a big gap compared to the 82.9% penetration rate of Internet access among urban residents in China. The difference in financial inclusion between different regions in China is evident from the gap in Internet penetration between rural residents and urban residents.

The regulator's risk prevention and control mechanism cannot keep pace with the innovation of Internet products. Regulators play a major role in the implementation of digital inclusion by providing proactive analysis of financial products and platforms to reduce the frequency of financial risk events. However, now regulatory measures are inadequate, regulators will not be able to understand new financial products and familiarise themselves with financial platforms, making them less effective, and even if they find problems in the process, they will not be able to take timely emergency measures to resolve them.

The digitalisation of information is fragmented and brings with it related information security issues. The completeness of relevant information on the Internet in China is currently low, and the degree of perfection of its credit system needs to be improved. Because the completeness of relevant information is low and too fragmented, some large companies have taken advantage of the opportunity to make a fortune and have a monopoly on credit information, an action that seriously reduces the social credibility of information access platforms.

4. Countermeasures for Digital Inclusive Finance to Support SME Financing

4.1. Establishing a comprehensive credit system for SMEs and improving the regulatory system

To strengthen the audit of the enterprise's books, improve the relevant rules and regulations, such as the inspection and registration management system of the books, to prevent the enterprise's book changes at a later stage. If problems are identified, the relevant departments should include them in the key observation objects, record them in the credit system of enterprises and publish them in the society. For speculation to disrupt the market order of enterprises, they should be entered into the system of the Administration for Industry and Commerce, and the enterprises should be subject to

key supervision. Furthermore, if an enterprise takes a loan from a bank, the bank providing the loan should promptly track the whereabouts of the enterprise's funds to prevent speculation with the loan funds.

4.2. Accelerate the digitization of SMEs and the development of digital infrastructure

SMEs need to carefully understand the digital transformation process and make corresponding development plans to change the old production and marketing mindset. The advantage of SMEs is that they are small in scale and require less capital when developing a digital system, while there is more room for trial and error. By applying digitalization to production and sales step by step, the entire industry chain is connected to eventually form a digital transformation. And we need to improve the related facilities as soon as possible while classifying the related data. After the infrastructure is perfected, the data related to production and marketing will be entered into the digital program to achieve the purpose of rapid application.

4.3. Innovative ways of inclusive financial services

In terms of innovation of inclusive financial products, it is mainly necessary to combine regional economic characteristics, adhere to the combination of basic and innovative services, and design targeted financial products according to the needs of different regions accordingly. We should make full use of information technology such as big data and cloud computing in digital inclusive finance, reduce the over-reliance on collateral and guarantee, reduce the information gap, set up more adaptable products for different enterprises and different groups, and continuously enrich inclusive financial services for SMEs. Secondly, service innovation can promote cooperation between banks, enterprises, and banks, granting credit, assuming a part of the risk, and providing certain funds so that they can jointly carry out activities to achieve a win-win effect of risk sharing and cooperation.

5. Conclusion

From the current trend of the future development of digital inclusive finance, the digital inclusive financial system can comprehensively improve the economic efficiency of the service entity, help SMEs solve their financing difficulties, help them operate in a standardized manner and improve their own financing capacity. In the future, digital inclusive financial services should be better oriented to the market and gradually explore development strategies based on the combination of theory and practice in order to better adapt to the market and promote the comprehensive development of enterprises.

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