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# **Problems and Countermeasures of Digital Inclusive Finance Supporting the Financing of Small and Medium-Sized Enterprises**

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**Abstract:** Based on the problems existing in the current digital Inclusive Finance in supporting small and medium-sized enterprises to solve financing constraints, this paper discusses the lag of the current regulatory measures for the innovation of digital financial technology and the regional problems of digital Inclusive Finance in supporting the financing of small and medium-sized enterprises. At the same time, it puts forward some countermeasures, such as strengthening the construction of digital infrastructure, establishing a standardized financial system for small and medium-sized enterprises and disclosing more financial information.

**Keywords:** Digital Inclusive Finance; Small and Medium-Sized Enterprises; Financing Constraints

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## **1. Introduction**

As China's economic growth has entered a high-quality growth stage, especially under the background of the call of "mass entrepreneurship and innovation" put forward by the Chinese government, the innovation passion and vitality of small and medium-sized enterprises have been stimulated, and small and medium-sized enterprises are playing a more and more important role in the process of China's economic development. In the process of innovation activities of small and medium-sized enterprises, financing constraints have always been the key problem perplexing the further development of small and medium-sized enterprises. The "Digital Inclusive Finance" first proposed in the G20 advanced principles of digital Inclusive Finance at the G20 Hangzhou summit in 2016 has opened a new door to solve the financing constraints of small and medium-sized enterprises. However, many "keys" are still needed to help open this new door.

## **2. Current situation of digital inclusive finance and financing of small and medium-sized enterprises**

### **2.1 The meaning and development status of digital Inclusive Finance**

In the G20 high level principles of digital Inclusive Finance, the definition of digital inclusive finance refers to "all actions to promote inclusive finance through the use of digital financial services." as the name suggests, digital Inclusive Finance is the combination of digital, inclusive and finance. At present, the development of digital Inclusive Finance in China has crossed the stage of "traditional Internet financial model" and "Internet direct financing model", and is currently in the stage of "financial technology". The current stage is in the high-speed development stage of digital Inclusive Finance. New digital technology and traditional financial methods are integrated with each other, fintech companies and traditional financial institutions complement each other, and emerging and traditional complement each other, so as to jointly promote the further development of digital Inclusive Finance. Among the working ways of digital Inclusive Finance, the "online lending" and "online crowdfunding" are the most fettered by the financing constraints of small and medium-sized enterprises.<sup>[1]</sup>

### **2.2 Financing status of small and medium-sized enterprises**

Small and medium-sized enterprises are an important pillar of China's national economy. Their number accounts for 99% of the total number of enterprises in China, creating more than 50% of taxes, about 60% of GDP, more than 75% of technological innovation and more than 80% of emerging products.<sup>[2]</sup> However, the problems of financing, such as asymmetric information, asymmetric income risk and unregulated management of SMEs, have long been a popular financing channel for SMEs. Financing difficulties and expensive financing have been a problem for SMEs. Especially since the outbreak of COVID-19 in 2019, many SMEs have be caught off guard, and cash flow has broken risk. The demand for

financing is further increased, which further exacerbates the imbalance between financing demand and supply of small and medium-sized enterprises, and the financing status of small and medium-sized enterprises is not optimistic.

### **3. Problems of digital inclusive finance supporting the financing of small and medium-sized enterprises**

Although digital Inclusive Finance has helped small and medium-sized enterprises solve problems such as high financing cost, few financing channels and information asymmetry to a certain extent through development modes such as "online lending" and "online crowdfunding", and alleviated the financing constraints of small and medium-sized enterprises, However, in the current situation, there are still some problems to be solved, such as regulatory lag and regional heterogeneity.

#### **3.1 The lag of regulatory measures for the innovation of digital financial technology**

With the rapid development of Internet technology, the innovative development progress of digital financial technology, the supporting technology of digital Inclusive Finance, is also obvious to all. For example, the rise of blockchain technology has brought new financial products such as digital currency to the financial market. However, while using these innovative technologies to vigorously develop digital Inclusive Finance to alleviate the financing constraints of small and medium-sized enterprises, due to the uncertainty of the responsible department of the regulatory body and the lack of corresponding understanding of the operation mode of emerging financial technologies and financial platforms emerging in the financial market, To a certain extent, this has led to the failure of regulators to intervene in the supervision and management of relevant financial products and platforms in time. This can easily lead to the rapid viral expansion of relevant financial products and financial platforms, and its connotation of financial risks become more and more obvious over time, affecting the healthy financial market environment. In addition, after the supervision institutions found the risks of the operation modes of relevant emerging financial products and financial platforms, they lacked a direct and practical treatment scheme. After the huge risk events of the operation modes of emerging financial products and platforms, they usually took clearance and exit measures, which hindered the innovation and further development of digital financial technology to a certain extent. On the whole, the regulatory measures for the innovation of digital financial technology are lagging and imperfect.

#### **3.2 Regional issues of digital inclusive finance supporting the financing of small and medium-sized enterprises**

According to the previous literature and reality, it is not difficult to find that the local environment where small and medium-sized enterprises are located, such as local economic policy environment, legal environment and credit environment, will have a significant impact on the financing of small and medium-sized enterprises.<sup>[3]</sup> If the local environmental situation of the location of small and medium-sized enterprises is poor, it will not be conducive to solve the financing constraints of small and medium-sized enterprises. According to The Marketization Index of China's Provincial Marketization Index (2018) prepared by Wang Xiaolu and others, there are still great differences in the economic development and marketization degree of various regions in China.<sup>[4]</sup> In areas with imperfect financial market development, imperfect property right protection system, insufficient number of digital infrastructures, insufficient information disclosure of small and medium-sized enterprises and weak supervision and implementation, the market transaction cost and risk of digital Inclusive Finance will increase, and there will be an obvious gap with areas with good institutional environment. On the whole, it is not difficult to find that regions with a good external environment often have more advantages in alleviating the financing constraints of small and medium-sized enterprises. These huge differences in the external environment have also caused the regional problem of digital inclusive finance supporting the financing of small and medium-sized enterprises.<sup>[5]</sup>

### **4. Countermeasures and methods of digital inclusive finance to support the financing of small and medium-sized enterprises**

The importance of digital Inclusive Finance for solving the financing constraints of small and medium-sized enterprises is self-evident. Putting forward effective countermeasures is of great significance to solve the lag of regulatory measures for the innovation of digital financial technology and the regional problem of digital inclusive finance supporting the financing of small and medium-sized enterprises.

## 4.1 Strengthen the construction of digital infrastructure

If digital Inclusive Finance is to be further developed, better support and solve the financing constraints of small and medium-sized enterprises, China must further expand the construction scale of digital infrastructure. Taking 5G base stations in digital infrastructure as an example, by the end of September 2021, the total number of 5G base stations in China was 1.159 million, accounting for only 12% of the total number of mobile base stations, while the total number of traditional 4G base stations was still as high as 5.86 million, accounting for 60.4%.<sup>[6]</sup> Considering the impact of COVID-19, the speed and scale of China's digital infrastructure construction has been considerable. However, if we want to better promote the development of digital Inclusive Finance and alleviate the financing constraints of small and medium-sized enterprises, we must increase investment in digital infrastructure construction, and comprehensively promote the construction and development of 5G, industrial Internet, AI and data center throughout the country, especially in the underdeveloped areas in the West and central China, Promote the further promotion of digital finance in a wider range, and truly achieve universal benefits.<sup>[7]</sup> In addition, strengthening the construction of digital infrastructure can also promote the integrated application of big data, artificial intelligence, blockchain and other technologies, so as to further help enterprises more quickly build a reasonable dynamic model of company operation and development, and find the operation weaknesses and weaknesses of small and medium-sized enterprises in combination with the big data of the market industry, so as to promote the improvement of enterprise operation efficiency. In conclusion, strengthening the construction of digital infrastructure can not only promote the further development of digital Inclusive Finance and the improvement of operation efficiency of small and medium-sized enterprises, but also promote the solution of financing constraints of small and medium-sized enterprises.<sup>[8]</sup>

## 4.2 Small and medium-sized enterprises should establish a standardized financial system and disclose more financial information

In addition to the external macro factors, the internal micro factors of small and medium-sized enterprises are also an important reason for the low interest of financial and credit institutions such as banks in providing financing to small and medium-sized enterprises. Small and medium-sized enterprises should keep pace with listed enterprises, introduce standardized advanced financial system, standardize their own financial behavior, break down external information barriers, interact with the government credit investigation system, and promote the standardization, openness and transparency of financial information as much as possible.<sup>[9]</sup> At the same time, the company should also break down the internal information barriers, promote the information flow between various departments within the enterprise, and improve the operation efficiency of the company. So as to reduce the possibility of adverse selection and moral hazard, win the trust of government departments and financial and credit institutions, so as to attract more financing supply to meet the financing needs of small and medium-sized enterprises and promote their own better development.<sup>[10]</sup>

## 5. Conclusion

In a word, digital Inclusive Finance is of great significance to solve the financing constraints of small and medium-sized enterprises. Although it still faces such regional problems as the lag of regulatory measures for the innovation of digital financial technology and the support of digital Inclusive Finance for the financing of small and medium-sized enterprises, it is believed that if we can strengthen the construction of digital infrastructure and help small and medium-sized enterprises improve their standardized financial system and promote information disclosure, The financing constraints of small and medium-sized enterprises can be better solved.

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