

Research on the Current Situation and Problems of Financing for Small and Medium-sized Enterprises in Haikou

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Abstract: The establishment of Hainan Free Trade Port provides a new opportunity for the financing of small and medium-sized enterprises. In the process of the country continuously promoting the development of a free trade port, the financing environment of small and medium-sized enterprises has gradually improved, and the financing environment has been greatly improved. But the small and medium-sized enterprises “financing difficult” “financing expensive” problem still exists. The problems of difficult and expensive financing of small and medium-sized enterprises in Haikou city have their reasons as well as the influence of external environmental factors. Therefore, to better solve the financing problems of small and medium-sized enterprises in Haikou, this paper analyzes the reasons for the difficulty and expensive financing of small and medium-sized enterprises according to the existing research results and summarizes the financing experience of small and medium-sized enterprises at home and abroad. This article finds that the financing systems for small and medium-sized enterprises (SMEs) in developed countries are relatively well-established, and both the government and society offer significant support to SMEs. Therefore, this paper believes that the government should adjust the business strategy to improve the financing ecological environment and enhance the financing ability of SMEs. The government should take the lead in perfecting the guarantee system, continuously improving the credit information system of enterprises and various financial service institutions, promoting the opening and institutionalization of private credit, and developing Internet finance ^[1].

Keywords: Haikou; Small and medium-sized enterprises; Financing situation

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1. Introduction

Under the background of “free trade port with Chinese characteristics,” the development of small and medium-sized enterprises in Hainan is facing unprecedented opportunities. At the same time, the financing difficulties and expensive problems of small and medium-sized enterprises in Hainan Free Trade Port have become increasingly prominent. This is not only related to Hainan’s financial environment but also deeply affected by the level of SMEs’ internal control of financing constraints, which is the result of comprehensive internal and external factors.

With the development of Hainan Free Trade Port, the financial service capacity provided by financial opening and financial innovation for the free trade Port has also continued to rise. Therefore, whether the Hainan Free Trade Port can develop sustainably and healthily and how to solve the financing problems of small and medium-sized enterprises are particularly critical^[2]. Based on this research background, this paper analyzes the current situation of development and financing of SMEs in Hainan and puts forward new insights on the choice of financing channels for SMEs in Hainan. It also makes the government departments realize the importance of the development of SMEs and provides references for formulating more favorable financing policies for SMEs in the future^[3].

2. Analysis of current situation and causes of financing of SMEs in Haikou City

2.1. Development status of SMEs in Hainan

In the process of reform and opening up, small and medium-sized enterprises (SMEs) in Hainan have sprung up like mushrooms, thus continuously promoting the economic development of Hainan. During this period, local reform initiatives often played a leading role, and breakthrough results were achieved before they were formally adopted as national policies. For example, in the early 1980s, the Haikou municipal government had begun to promote and support the growth of individuals and private entrepreneurs, which became a core part of Haikou's economy at the time. In recent years, Haikou's government has implemented stronger support measures for small and medium-sized enterprises. Haikou has put specific funds into development, which has reduced the financing expenditure of small and medium-sized enterprises. In addition, the government has introduced incentives such as tax cuts and entrepreneurial skills training to help SMEs grow steadily. Haikou is working hard to promote the process and innovation of brush digitalization. Haikou has been selected as one of the country's first cities to conduct digital transformation trials. To improve the operation quality of SMEs, Haikou City to strengthen the industrial economy through twenty measures, Haikou City small and medium-sized Enterprise development special fund management measures (2024 revision), Hainan Province high-quality small and medium-sized enterprises gradient cultivation management implementation rules. In recent years, Hainan Province and Haikou City have introduced a "package" supporting policies to support the whole life cycle of enterprises from supporting the transformation and upgrading of SMEs, supporting the construction of SMEs' public service system^[4], and improving the financing environment of SMEs.

2.2. The role of SMEs

2.2.1. To promote employment

Employment has always been a key factor affecting socio-economic growth and promoting social harmony. A large number of small and medium-sized enterprises bring huge jobs, and most of the small and medium-sized enterprises are concentrated in labor-intensive industries, so they can provide a large number of employment opportunities. In the whole industrial field, the number of employees of small and medium-sized enterprises accounts for a large proportion. In recent years, the employment opportunities provided by small and medium-sized enterprises in the secondary and tertiary industries in Hainan Province have accounted for more than 95 percent of the total enterprise employment opportunities, becoming the main way to solve the problem of labor employment in the province.

2.2.2. To drive innovation

Many SMEs are flexible, responsive, and able to make breakthroughs in certain market segments or innovative products. They often try and innovate in technology, business models and management methods to inject new

vitality into the economy.

2.2.3. To promote economic diversification

The development of small and medium-sized enterprises helps to promote the diversification of industries, reduce dependence on a single industry or large enterprises, and enhance the resilience of the economy.

2.2.4. To support local economies

Most small and medium-sized enterprises are local enterprises. Their development has directly promoted the growth of the local economy, enhanced the vitality of the regional economy, and improved the living standards of local people.

2.2.5. To promote the development of social services

Some small and medium-sized enterprises not only have a foothold in the manufacturing industry but also play an important role in the service industry, cultural industry, and creative industry, which has promoted the vigorous development of the social service industry.

2.3. Current financing situation of SMEs

2.3.1. Single financing channels

Small and medium-sized enterprises in Hainan have relatively single financing channels, mainly bank loans. However, due to the small scale and relatively high risk of SMEs, banks are usually reluctant to provide sufficient loan support considering the risk factors, which makes it difficult for these enterprises to obtain funds through traditional bank loans. The difficulty of external financing and bank loans leads to the high financing constraints faced by SMEs.

2.3.2. High financing cost

Even if they can get bank loans, SMEs usually need to pay higher loan interest due to credit and collateral problems, which increases the financing cost of enterprises. In addition, due to the lack of sufficient collateral, these enterprises often need to pay higher guarantee fees, further increasing financing costs. As a result, financing costs for SMEs are relatively high.

2.3.3. Limited financing scale

Small and medium-sized enterprises in Hainan are generally small in scale, and their operating income is limited, so their internal financing capacity is relatively weak. This means that it is difficult for these enterprises to meet their financing needs through their accumulation, and they must rely on external financing support.

2.3.4. Insufficient policy support

Although the government has introduced some policies to support SME financing, the implementation of these policies has not been obvious. For example, some policies have made it difficult for SMEs to enjoy the benefits of these policies due to asymmetric information, cumbersome approval procedures, and high application costs. Risk prevention mechanisms are inadequate, with larger enterprises accounting for less than 1 percent of the total nationwide, but their accounts receivable balance has reached nearly 50 percent, compared with less than 25 percent for SMEs that contribute more than 50 percent of GDP. This shows that the investment of small and medium-sized enterprises is grossly disproportionate to the financial support they receive ^[5].

3. The experience of domestic and foreign regions in solving the financing difficulties of SMEs

3.1. The US Government provides a favorable external development environment for small and medium-sized enterprises

American SMEs are not only engines of economic growth but also major providers of technological innovation and job opportunities. However, they also appear vulnerable in the face of economic uncertainty and need continued government support to maintain their competitiveness and vitality.

- (1) Improve relevant laws and regulations: The Basic Law of Small and Medium-sized Enterprises in the United States, promulgated in 1953, is the Small Business Act, which provides specific provisions on the financial system, stock system, business scope, legal protection, and other aspects of small and medium-sized enterprises.
- (2) Loan guarantee: Through cooperation with commercial banks, the SBA provides loan guarantees for SMEs to reduce the risk of bank loans to SMEs. Common loan programs include 7(a) loans, 504 loans, and microloans, among others.
- (3) Small Business Investment Companies (SBIC): The SBA provides equity financing to small and medium-sized businesses by partnering with private investment firms to help businesses expand production or enter new markets.
- (4) Tax breaks: For example, the Small Business Jobs Act, implemented in the United States, provides tax breaks for eligible small businesses, including accelerated depreciation on capital investments and tax incentives for first-time asset purchases, among others.
- (5) R&D tax credit: This tax credit allows eligible small and medium-sized businesses to enjoy tax credits for innovative research and development, encouraging companies to innovate in technology.
- (6) Improving the support mechanism for finance: In the United States, the interest rate for small business loans is comparable to that for commercial credit. The US has created a risk-sharing mechanism involving government-guaranteed agencies, financial entities, and small and medium-sized enterprises. The financial assistance system for SMEs in the US includes two aspects: Internal management and external financing. As for the lending behavior of banks and other financial institutions to SMEs, the small business administration assumes the responsibility to ensure that the rights and interests of these financial institutions are reasonably protected and has the right to recover the arrears of SMEs.

3.2. The government of the Republic of Korea has established a sound financial system

3.2.1. Financing support and loan concessions

The government of the Republic of Korea provides low-interest loans to SMEs through institutions such as the SME Bank to help them solve financing problems. In addition, the Republic of Korea has provided financial support to eligible small enterprises through the SME Financial Support program, including start-up loans, export loans, and technology innovation loans, which has eased the financial pressure on enterprises.

3.2.2. Tax incentives and subsidies

the Republic of Korea offers a series of tax breaks to small and medium-sized enterprises to encourage their innovation and growth. For example, the Research and Development Tax Credit policy provides tax incentives for enterprises to invest in research and development, helping enterprises to reduce innovation costs. In addition, the government provides tax breaks and incentives, especially in supporting local small and medium-sized enterprises and the development of green technologies.

3.2.3. Technological innovation and export support

The Korean government encourages SMEs to make technological innovations and expand overseas markets through the Technology Innovation Support Program and the SME Internationalization Program. In particular, the SME Technology Innovation Fund provides financial support to help companies conduct research and development and technological transformation. At the same time, the Republic of Korea is also helping small and medium-sized enterprises (SMEs) gain access to international markets and enhance their international competitiveness through measures such as export credit guarantees.

3.3. Financing measures in Zhejiang Province

Zhejiang Province actively promotes the financing innovation of small and medium-sized enterprises and has made brilliant achievements. To sum up its financing experience, it mainly includes the following aspects ^[6]:

Looking for new ways to raise funds. To promote the legal progress of equity pledge financing more strategically, Zhejiang Province promulgated the first local regulation in the country, the Guiding Opinions on Equity Pledge Loans in Zhejiang Province. The release of this new legal provision not only provides a clear legal support for equity pledge financing but also opens up a new solution for small and medium-sized companies in financing difficulties and high costs ^[7].

Promoting the innovation of banks in the implementation of credit mechanisms. To improve the efficiency of loan approval for SMEs, it is proposed to establish an examination body specifically responsible for the credit market promotion and approval process and assign the responsibility of loan authorization to its subordinate units to effectively improve the quality of approval and loan quality ^[8].

Actively research and innovate various credit products and their models. Given the current financial climate, many banks across the province are trying to innovate their credit instruments and strategies to cater to the diverse needs faced by all types of businesses and individuals.

Gradually improve the credit guarantee system ^[9]. The credit guarantee organizations in Zhejiang Province have gradually diversified from the three directions of policy guarantee, commercial guarantee, and mutual guarantee. This diversified structure helps to meet the financing needs of different enterprises and industries and improves the coverage and flexibility of the credit guarantee system ^[10].

4. Inspiration to the financing of small and medium-sized enterprises in Zhejiang Province

4.1. Increasing financing support and innovating loan tools

Many foreign countries, such as the United States and the Republic of Korea, provide SMEs with various financing supports such as low-interest loans, credit guarantees, and venture capital through special banks, guarantee funds, and loan guarantee schemes, thus solving the problem of difficult and expensive financing for SMEs ^[11].

Hainan can provide low-interest government loans by setting up a special SME financing guarantee fund, or strengthen cooperation with financial institutions to provide customized financial services for SMEs of different sizes and industries. In addition, innovative financing tools from abroad, such as export credits and loans for technological innovation, can be borrowed to promote innovation and the internationalization of SMEs ^[12].

4.2. Improving tax policies and incentives for innovation

Hainan can introduce more flexible preferential tax policies, especially for R&D investment of high-tech, small, medium and micro enterprises, and implement tax deduction or tax reduction policies. Enterprises should be encouraged to increase research and development and innovation in smart manufacturing, green technology, and

information construction. In addition, more support can be given to small and medium-sized technology-based enterprises, and more innovation support and incentives can be provided to them ^[13].

4.3. Government procurement and market development opportunities

Hainan can develop more explicit policies to prioritize a certain percentage of government procurement budget to local small and medium-sized enterprises to help them secure a solid market foundation. At the same time, the government can help Hainan SMEs go global, especially countries along the Belt and Road, by setting up an export credit guarantee fund, supporting participation in international exhibitions, and providing training for market exploration, etc., to enhance their international competitiveness ^[14].

Through in-depth discussion and analysis of the experience of supporting SMEs' financing in advanced areas at home and abroad, it is found that there is a gap between Haikou City and developed areas at home and abroad in terms of government support for SMEs' financing. Their experience is worth thinking and referencing. It has important reference value for Haikou to support the financing of small and medium-sized enterprises and is worth learning from Haikou ^[15].

Disclosure statement

The authors declare no conflict of interest.

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