

# Research on Alleviating the Financing Constraints of Small and Micro Enterprises in Hainan under the Background of Digital Inclusive Finance

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**Abstract:** With the establishment of Hainan Free Trade Port, the small and medium-sized enterprises in Hainan Free Trade Port have developed and grown in the continuously optimized enterprise environment. The continuous establishment of a large number of small and micro enterprises makes its social and economic development play a non-negligible role. However, due to the small size and insufficient economic strength of small and micro enterprises, their status in the financial system is often very humble. Therefore, under normal circumstances, small and micro enterprises are faced with financing difficulties and high costs, which has a great side effect on their development. The proposal and continuous development of digital inclusive finance, so that small and micro enterprises in access to a wide range of financing opportunities at the same time, their financing methods are more convenient than in the past, the cost is getting lower and lower. This paper deeply discusses the role of digital inclusive finance in easing the financing constraints of small and micro enterprises and puts forward corresponding suggestions <sup>[1]</sup>.

**Keywords:** Digital inclusive finance; Small and micro enterprises in Hainan; Financing constraints

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## 1. Introduction

With the formulation and release of the overall plan for the construction of Hainan Free Trade Port, the state has increased its support for Hainan's economic policies in all aspects, and the economic development of Hainan has attracted more and more attention. However, as one of the pillars of Hainan's economic development, small and micro enterprises are facing a series of challenges. For example, financing is difficult, expensive, and credit evaluation is insufficient. The core of digital inclusive finance is to improve the coverage of financial services through digital technology, reduce the financing threshold, and improve efficiency, which will provide more convenient and low-cost financial support for small and micro enterprises <sup>[2]</sup>.

## **2. Current situation of digital inclusive finance development in Hainan Province**

With the launch of the development plan for promoting inclusive finance (2016–2020), inclusive finance has come into public view. In today's constantly updated and iterated digital technology, the emergence of digital inclusive finance has played a significant role in promoting the development of inclusive finance. In Hainan Province, the government also attaches great importance to the development of inclusive digital finance and has formulated many policies and measures to promote its development.

### **2.1. Digital financial inclusion coverage**

By the end of 2023, Hainan Province had achieved a significant increase in financial service coverage, especially in rural and remote areas. The penetration rate of mobile payment has reached 30 million mobile payment users in Hainan Province, and the payment transaction volume has exceeded 1 trillion yuan. Residents and tourists in Hainan mostly rely on platforms such as Alipay and Wechat Pay for payment, especially in the tourism and retail industry, where payment scenarios are becoming increasingly popular.

### **2.2. Digital financial inclusion platforms**

In the digitalization of inclusive finance, Hainan has not only promoted the development of local financial platforms but also promoted financial innovation through external cooperation. In terms of the financing scale of Internet financial platforms, the cumulative amount of loans provided by Internet platforms in Hainan Province will reach 30 billion yuan in 2023. especially in agriculture, tourism, catering, and other industries, the demand for loans will increase. Most of the loans are directed to small and micro enterprises and farmers. The number of fintech companies has increased, with more than 150 in Hainan Province, covering areas such as blockchain, artificial intelligence, and big data analysis. These enterprises offer customized financial products, such as micro-loans, insurance, and payment tools, to individuals and small and micro enterprises.

### **2.3. Digital financial innovation and cross-border business**

As a free trade port, Hainan has attracted a large amount of foreign capital to enter the digital finance sector.

With the promotion of the Hainan Free Trade Port policy, the cross-border payment business in Hainan increased by 35 percent in 2023, with more than 50 billion yuan of cross-border payment transactions completed in Hainan. The green finance market in Hainan is also expanding, with the total transaction volume of green financial products exceeding 20 billion yuan in 2023, covering fields such as green bonds and green insurance <sup>[3]</sup>.

### **2.4. Inclusive financial loans**

Inclusive financial loans in Hainan Province have covered a wide range of low-income groups, small and micro enterprises, and agricultural producers.

The balance of inclusive financial loans in Hainan will reach 150 billion yuan in 2023, up 20 percent year on year. About 70 percent of the loans went to small and micro enterprises and individual consumers. For inclusive financial products in the agricultural sector, Hainan's loans to farmers and agricultural enterprises totaled about 50 billion yuan in 2023, accounting for one-third of inclusive financial loans.

### **2.5. Financial digitalization and fintech talent**

While promoting the integration of fintech and inclusive finance, Hainan also pays attention to the training of financial talents. Many traditional financial institutions such as banks, insurance companies, and securities firms have strengthened cooperation with Internet enterprises and launched brand new online financial services. Online services not only improve the efficiency of services but also effectively control the cost so that financial services

can bring convenience to more people. Under continuous development, Hainan has also made important progress in the innovation of inclusive financial products and services <sup>[4]</sup>.

### **3. The development of small and micro enterprises in Hainan and the financing difficulties they face**

Compared with large and medium-sized enterprises, small and micro enterprises have unique advantages such as small scale and flexible operation mode. However, these advantages also hide disadvantages: Lack of capital, chaotic management, low market competitiveness, and high financing costs <sup>[5]</sup>.

#### **3.1. The problem of credit rating**

When small and micro enterprises in Hainan Province need financing, due to the small scale of small and micro enterprises, the management level is not high, the financial data is not perfect, and financial institutions have very little information about them, resulting in the credit rating results being difficult to obtain. At the same time, small and micro enterprises lack perfect credit records due to their short history or poor management, which makes it difficult for financial institutions to evaluate their credit status, which further increases the difficulty of credit rating. As a result, small and micro enterprises are faced with high credit rating difficulties in financing <sup>[6]</sup>.

#### **3.2. Guarantee problems**

Small and micro enterprises in Hainan Province also face a guarantee problem when seeking external financing. For example, the value of the collateral is not high, the risk of the guarantee institution is high, the guarantee fee is high, the information asymmetry and the lack of trust are etc. At the same time, the operation conditions of small and micro enterprises are relatively unstable, and guarantee institutions are often unwilling to risk high risks to guarantee them, so it becomes more difficult to obtain guarantee support. At the same time, to make up for potential risk losses, guarantee institutions often charge higher guarantee fees, which makes small and micro enterprises face higher financing pressure <sup>[7]</sup>.

#### **3.3. Financing channels**

Small and micro enterprises are faced with the challenge of having too few financing channels when financing. This problem is mainly reflected as follows: First, the financing channels of small and micro enterprises mainly rely on traditional bank loans, while there are few other financing channels. The single financing channel not only restricts the financing of enterprises but also increases the risk of financing. Secondly, due to the small scale and short operating history of enterprises, it is difficult to meet the financing requirements of traditional financial institutions, resulting in a high financing threshold, and many enterprises are unable to raise financing.

#### **3.4. High interest rates and red tape**

Small and micro businesses in Hainan Province usually face problems such as high interest rates and red tape when seeking financing. Small and micro enterprises are small in scale and have relatively weak credit status, so financial institutions usually set their loan interest rates higher to cover potential risks. As a result, small and micro enterprises need to bear higher credit costs when financing <sup>[8]</sup>.

## **4. Analysis of related causes of financing problems faced by small and micro enterprises in Hainan Province**

### **4.1. Imperfect credit system**

Small and medium-sized enterprises in Hainan, especially start-ups, generally lack perfect credit records. Traditional financial institutions are more cautious about the financing needs of these enterprises, especially financial institutions such as banks, which often rely on traditional ways of judging loan risks such as credit records, financial statements, and collateral of enterprises. However, many small and medium-sized enterprises in Hainan did not establish a complete credit history in the early days of their establishment, or because of their small scale and opaque finance, they have high credit risks and find it difficult to obtain support from traditional financial institutions.

### **4.2. Insufficient guarantees and collateral**

SMEs often lack sufficient fixed assets and high-value collateral, which makes it difficult to obtain traditional bank loans. Bank loans rely heavily on collateral, and many Hainan SMEs, especially those in the service, Internet, and cultural and creative sectors, often do not have enough collateral assets.

### **4.3. Single financing channels**

Although Hainan has vigorously promoted the development of fintech and digital financial inclusion in recent years, many SMEs still rely on loans from traditional banks, which have strict lending standards and long approval cycles, resulting in relatively undiversified financing channels. The main financing channel for SMEs in Hainan is still bank loans, but banks generally require high asset collateral and guarantees during the approval process, which makes it difficult for funds to flow into SMEs quickly. Hainan's capital market is not yet fully mature, and it is difficult for SMEs to obtain funds through equity financing, especially some innovative and technology-based SMEs, which lack the resources and experience to attract investors.

### **4.4. Financial products and services lack pertinence**

Despite Hainan's active promotion of fintech, many financial products and services are still not fully tailored to the specific needs of SMEs. For example, many traditional financial institutions have high loan products and interest rates, while small and micro enterprises have limited profit margins and can hardly afford high loan interest rates. The interest rate of traditional bank loans is high, especially for small and medium-sized enterprises with bad credit and lack of guarantee, and the financing cost is heavy. The existing financial products are more biased towards large enterprises, and it is difficult to customize services for the actual needs of SMEs, resulting in many SMEs being unable to obtain financial products suitable for their development.

There are many reasons why SMEs in Hainan face financing difficulties, including challenges in the market environment, as well as deficiencies in the financial system and policy implementation. To solve these problems, the government, financial institutions, and enterprises need to cooperate to alleviate the financing difficulties of SMEs by improving the credit system, expanding financing channels, and providing customized financial products.

## **5. The role of digital financial inclusion**

Digital inclusive finance, as a major innovation in the modern financial field, has unique advantages and functions. The rise of digital inclusive finance has greatly expanded the coverage and accessibility of financial services <sup>[9]</sup>. Through the use of digital technology, financial services can break through the limitations of traditional models



and achieve a more convenient and efficient service experience. This provides great convenience for small and micro enterprises that are located in remote areas and difficult to reach by traditional financial services so that they can equally enjoy the dividends of financial services. In addition, digital financial inclusion has enhanced small and micro enterprises' sense of trust and security in the financing process by enhancing the transparency and traceability of financial services<sup>[10]</sup>.

Digital financial inclusion is a brand new financial service that can better improve the financing environment of small and micro enterprises. After summarizing, this paper finds that it is mainly reflected in the following aspects:

### **5.1. Improving the availability of financing**

Through the digital inclusive financial platform, it is easier for small and micro enterprises to obtain financing information and submit applications. This new financial service uses advanced information technology and big data analysis to collect business information and credit records more comprehensively and quickly, and then makes a more accurate assessment of the credit and repayment ability of enterprises, making it more convenient for small and micro enterprises to obtain financing<sup>[11]</sup>.

### **5.2. Reducing financing costs**

Traditional financing methods often require a variety of procedures and a long waiting time, which invisibly increases the financing cost of enterprises. Digital financial inclusion, on the other hand, simplifies the financing application and approval process through an online and automated process, making operation and time costs lower, thus making financing costs lower for small and micro enterprises<sup>[12]</sup>.

### **5.3. Broadening financing channels**

Traditional financing channels mainly rely on traditional financial institutions such as banks, but in the context of digital inclusive finance, the development of the Internet has effectively connected traditional financial institutions and other financing channels. Small and micro enterprises have more choices in financing, and financing has become flexible and convenient<sup>[13]</sup>.

With the launch of the Hainan Smart Financial Integrated Service Platform on June 6, 2022, the purpose of this service platform is to further solve the financing pain points of SMEs by relying on digital government and financial technology, which plays a significant role in expanding the financing channels of small and micro enterprises. By April 2024, the number of enterprises served by this platform had reached 505,302. The cumulative application amount is as high as 41164.82 million yuan, and its popular products such as: Recruitment enterprise loan, technology e-loan, "Sea Micro Loan" — Huinongdai, etc., effectively expand the financing channels of small and micro enterprises in Hainan Province, and further alleviate the financing difficulties of small and micro enterprises in Hainan Province<sup>[14]</sup>.

### **5.4. Improving the risk management ability**

Digital financial inclusion uses big data analysis and advanced risk assessment models to more accurately identify and assess the risks of small and micro enterprises so that small and micro enterprises can greatly improve their risk management. It enables small and micro enterprises to have a clearer understanding of their risk management, thus reducing financing risks and improving their ability to continue operation<sup>[15]</sup>.

## Disclosure statement

The authors declare no conflict of interest.

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