

The Role of Digital Financial Inclusion under the Impact of COVID-19--the Perspective of Small and Micro Enterprises

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Abstract: This paper takes the COVID-19 event as the background and small and micro enterprises as the investigation object to study the dilemma faced by small and micro enterprises. In the specific research process, from the perspective of enterprise performance, this paper takes the developmental level of digital inclusive finance as the moderating variable for analysing its positive moderating effect on the adverse impact of COVID-19 on enterprise performance. From the perspective of the government and financial institutions, this paper analyses how inclusive finance helps small and micro enterprises to overcome difficulties of the epidemic. Finally it analyses the two influence mechanisms of inclusive finance on small and micro enterprises and further discusses what developing opportunities it brings. Finally, according to the research conclusions, this paper puts forward some recommendations that the government should also cooperate with financial institutions so that we can strengthen the progress of inclusive finance. Besides, we ought to help them optimize credit management, improve enterprise credit repair mechanism and provide differentiated financial services.

Keywords: digital; covid-19; financial inclusion; micro business

1. Introduction

On March 11, the World Health Organization declared COVID-19 a pandemic. The COVID-19 had spread around the world, causing huge losses. The outbreak of the epidemic in early 2020 brought a huge shock to the domestic economy, especially to small and micro enterprises. Then the country adopted a lock-down policy, which shut down almost all economic activities. As operating pressure increasing, small and micro enterprises' inherent defects of weak risk resistance and insufficient liquidity are magnified, making it difficult to repay principal and interest on time. This paper focuses on the dilemma faced by small and micro enterprises under the impact of the epidemic, and whether digital inclusive finance plays a positive role in helping small and micro businesses survive. Through the collection of data, this paper also analyses their development trends. Finally, studying the opportunities that inclusive finance can bring to small and micro enterprises in the post-epidemic era. This paper provides advice for the country to fight against the epidemic, recover the economy and develop digital inclusive finance.

2. Discussion

2.1 What impact will Covid-19 have on the development of small and micro businesses?

Under the impact of the epidemic, small and micro business operators cannot achieve the goal of fully resuming work and production, resulting in their revenue falling short of the expected target, resulting in business difficulties. Financial distress mainly refers to the failure of small and micro business operators to resume work and production and operate as expected due to the rupture of capital chain and the inability to obtain sufficient financing from other channels.

The revenue of small and micro enterprises has improved slightly, but the gap is still large compared with before the epidemic. Through data collection, the average recovery ratio of operating income of small and micro operators is compared with the same period of 2019 before the epidemic (Figure 1).

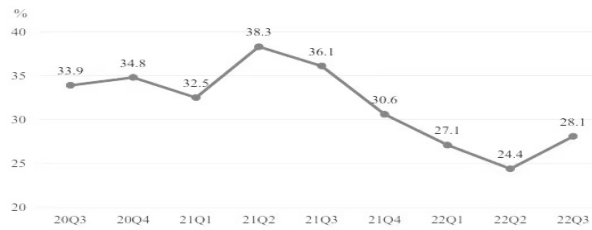


Figure 1. Compares the same period in 2019 for nine consecutive quarters

It is found that the recovery ratio of operating income from the first quarter of 2020 to the third quarter of 2022 is less than 40% compared with that before the epidemic. The average maintenance time of cash flow is still less than three months.^[3] From the perspective of the maintenance time of cash flow, it can be seen that during the COVID-19 epidemic, there are severe survival challenges for small and micro enterprises with weak comprehensive strength. The stagnation of market business impacts its comprehensive income and faces the risk of capital chain interruption.

Table 1. Main sources of pressure faced by small and micro operators (%)

	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2	2022Q3
cost of operation	55.1	47.9	47.1	49.6	51.5	45.1	43.1
market demand	48.6	46.9	45.4	46.5	46.5	40.2	43.1
Loan servicing pressure	20.8	21.9	21.9	21.0	21.7	23.0	21.8
Policy uncertainty	17.9	17.3	22.8	22.8	21.8	26.4	28.1
Tax pressure	4.8	5.1	5.3	5.5	6.4	4.9	6.6
others	3.4	5.1	5.1	5.2	4.9	6.3	5.1

The collected data show that cost pressure, weak market demand and uncertain pressure brought by epidemic prevention and control continue to become pain points for small and micro operators. The tax burden rises, and the cost pressure of epidemic prevention is obvious. The more serious the epidemic is, the higher financing demand is. This can reflect the severe situation faced by small and micro enterprises. Although financing can help them tide over difficulties, the increase of macroeconomic downward pressure and the uncertainty of market confidence make corporate financing more severe than before.

2.2 How does inclusive finance currently break the situation for small and micro enterprises?

Model

$$YEJI = \beta_0 + \beta_1 QUEZHEN + \beta_2 SHUPU + \beta_3 QUEZHEN * SHUPU + CONTROLS + \epsilon$$

This paper selects the small and medium-sized board and main board listed companies from the first quarter of 2019 to the second quarter of 2020 as the research samples. The results of the regression model shows the regression coefficient sign of the cross term Q U E Z H E N × S H U P U is positive, which is opposite to the regression coefficient sign of the main effect. It shows that the relationship between the degree of digital inclusive financial development (S H U P U) and enterprise performance (Y E J I) and epidemic severity (Q U E Z H E N) exists in the negative adjustment section. The coefficient is significant at the significance level of 10 %, which indicates that the negative tuning function ratio is more obvious. That is to say, the adjustment of digital inclusive finance can be used to alleviate the negative impact of COVID-19 on the business performance. The data also show that it is significant at the level of 5%. This shows that digital inclusive finance has significantly suppressed the negative impact of COVID-19 on the business performance of small and medium-sized enterprises compared with large enterprises in the main board market.

Besides, by collecting information from journals and government reports, this paper expounds and analyses the role of inclusive finance during the period of COVID-19 from two aspects: policy and financial institutions.

From a policy perspective, the 2022 Government Work Report provides a clear direction for the next step to help. “We will guide more capital to flow to key areas and weak links, and expand the coverage of inclusive finance. We will encourage financial institutions to lower real loan interest rates and lower fees, so that the majority of market entities will feel that financing is more convenient, and the comprehensive financing cost is actually falling.”^[2]

From the perspective of financial institutions, the People's Bank of China actively guided financial institutions to increase the supply of inclusive small and micro credit, extended two direct monetary policy tools of inclusive small and micro business loan extension support tool and credit loan support plan to the end of December 2021, and lowered the deposit reserve ratio of financial institutions by 0.5 percentage points to provide an businesses. At the same time, financial institutions have lowered their service focus and taken the initiative to meet the financial service needs of small and micro enterprises, and the service scope of inclusive finance loans has continued to expand rapidly. By the end of June 2021, inclusion loans had supported 38.3 million small and micro business entities.

2.3 What opportunities does inclusive finance bring to the development of small and micro businesses?

From the perspective of financing, there are two main channels for the impact of digital inclusive financing on corporate performance. First, it will expand financing channels. It can provide crowd financing and other channels to strengthen financing capacity. Second, it will reduce financing costs. Inclusive finance optimizes the service method through digitalization, which can not only strengthen the identification and control of risks, but also reduce the operating costs of financial institutions, thus helping to reduce the financing costs.

From the perspective of the development of enterprise innovation capability, due to the involvement of digital inclusive finance, its innovation behavior will also be supervised by external investors, which is conducive to improving the innovation efficiency of enterprises. On the one hand, it helps enterprises with insufficient funds to effectively obtain external financing in carrying out innovative projects and improving the financing efficiency of technological innovation; ^[4]On the other hand, over investments in innovation projects by firms are restricted. Digital inclusive finance can reduce information asymmetry and moral hazard to limit over investments.

3. Conclusion & recommendation

This paper analyses the impact of COVID-19 on small and micro enterprises and the moderating effect of inclusive finance on their response to the crisis from multiple perspectives. Finally, the following conclusions are drawn:

First, COVID-19 had a negative impact on the performance of small and micro enterprises. It led to the shortage of labor force in enterprises, weak production power, and less consumption of residents. Under these influences, the cash flow of the enterprise is tight and the cost of financing is rising, which affect regular operation and continuous profit of the enterprise.

Second, the adjustment and regulation of digital inclusive finance can soften the unprofitable impact of COVID-19 on corporate performance. The government and financial institutions actively help small and micro enterprises tide over difficulties through inclusive finance means.

In general, in the later stage of the epidemic, the government also needs to cooperate with financial institutions to strengthen the development of inclusive finance to relieve the financial pressure of small and micro enterprises and help them carry out better capital circulation. This not only alleviates the survival pressure of small and micro enterprises, but also encourages more small and micro enterprises to continue to operate and develop to a certain extent.

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