

Research on the Impact of Inclusive Finance on Innovation and Entrepreneurship of Small and Medium Enterprises in China

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Abstract: In September 2014, Chinese Premier Li Keqiang proposed "Mass Entrepreneurship and Mass Innovation" at the Summer Davos Forum. The rapid development of small and micro enterprises (hereinafter referred to as SMEs) has become a new engine driving China's economic growth. However, when the total amount of social funds is limited, large-scale financing platforms will have a strong "crowding-out" on SMEs, and financing difficulties have become a key problem hindering innovation and entrepreneurship of SMEs. By analyzing the current situation of inclusive finance in China, this paper draws on the experience of the USA and Bangladesh in helping SMEs to finance and start their own businesses through inclusive finance, so as to provide feasible suggestions for the innovation of SMEs in China.

Keywords: Inclusive Finance; SMEs; Innovation

1. Development status of inclusive finance in China

In 2005, the United Nations put forward the concept of inclusive financial system. According to the World Bank, inclusive finance is the range of banking products and financial services made available to poor populations. Based on this concept, China established "developing Inclusive Finance" as a national strategy in 2013 with the strategic thinking of "inclusive development" and "harmonious development" (Zhang, Yuan, Cui and Li, 2022). Inclusive finance is an important direction in the "14th Five-Year Plan" period and the realization of the long-term goal of 2035, and it is also one of the important keynotes for the transformation and development of China's financial industry.

The statistics shows there are more than 73 million SMEs in China by the end of 2017, accounting for 99% of the total enterprises (Home.saic.gov.cn, 2018). SMEs have played a significant role in promoting employment, economic growth, social stability, and technological innovation. But in the past two years, in the context of China's industrial transformation, Financing difficulties make the majority of SEMs run into innovation dilemma. Inclusive finance is a business, and social responsibility as well. It is booming in China now. The following conditions provide convenience for Inclusive Finance to help innovation and Entrepreneurship of SMES in China. (Ke, 2018).

The popularity of smart phones has made mobile payments such as mobile banking, WeChat payment, and Alipay payment widely used by the public, expanding the scope of services for banking, insurance, securities and other financial services.

China is popularizing financial knowledge education. The education strengthens the public's financial knowledge, investment risk awareness and legal awareness, which effectively promotes the acceptance of inclusive financial services by the public.

The government has strongly supported the development of inclusive financial services and has included the development of inclusive finance in its national development strategy.

2. Financing experience of SMEs in foreign countries by inclusive finance

Whether it is a developed country or a developing country, financing problem is an important factor affecting enterprise innovation. Therefore, the key to helping SMEs to innovate is to solve financing problems. After many years of practice and experience exchanges, many countries have achieved fruitful results in resolving the financing of SMEs and have reached many consensuses.

2.1 Example of USA

The USA has established the Small Business Administration (SBA) to support the development of SMEs. The Small Business Administration (SBA) is a United States government agency that provides support to entrepreneurs and small businesses (Sba.gov, 2018). The SBA was established in 1958. The main function of the SBA is to provide financing guarantees, provide direct financial support, establish small investment companies, and act as social intermediary agencies. For the SMEs, the main function of SBA is to provide loan guarantee program, which makes capital available to small businesses through bank and non-bank lending institutions. For example, When SMEs have poor turnover and are unable to make timely payments, SBA could assume up to 90% of debt for SMEs. Meanwhile, SMEs still have the obligation to continue to repay loans. Under the perfect credit guarantee system, the SMEs have good credit evaluation. Therefore, SBA is providing guarantee for financing of SMEs. Another main function of SBA is to directly provide loans for SMEs. For instance, when SMEs suffer losses due to natural disasters, SBA will directly provide loans for SMEs to help them out of trouble. At the same time, they encourage SMEs to innovate in technology, independently research and development, and provide direct loan support to SMEs who has innovative capabilities. Although they have a limited amount of direct loans for SMEs, they are an important part of the USA SMEs service system.

2.2 Example of Bangladesh

Bangladesh is one of the poorest countries in the world. Some old statistics shows that there were about 78,440 SMEs in Bangladesh, of which 60 percent of the units were in urban areas and 40 percent in rural areas, comprising 93 percent of all industrial units. Duo to the basic situation of Bangladesh, financing dilemma is the main obstacles to SMEs in Bangladesh. About this question, the basic mode of SMEs financing in Bangladesh is Non-Governmental Organization. A typical example is the Grameen Bank.

Grameen Bank was founded in October, 1983, and the founder is Muhammad Yunus who was awarded the Nobel Peace Prize because of that bank. Grameen Bank is a microfinance organization and community development bank, which aims at providing small loans to the impoverished without requiring collateral, helping them to do business (Grameen.com, 2018). First of all, Grameen Bank has the special repayment system. They do not pay attention to that pay a lump sum. In order to ease the pressure on the poor, they only need to repay the principal and interest by weekly. Secondly, the Grameen Bank's financing is based on human rights. People use loans to do their business and improve their life standards instead of relying on outside help. Last but not least, a joint guarantee mechanism was established. When people who are in the same area receive the loans, they set up a special supervision department, which is basically responsible for supervising. Each department has several subgroups. Each subgroup should regularly investigate the loan repayment situation of members who are in the group. What is more, the behavior of each group member will affect the credibility of the group. In this condition, each member is unwilling to influence other people. Therefore, non-performing loans are almost zero, which greatly reduces the risk.

3. Channels for inclusive finance to support SMEs' innovation

Specialized financial institutions for SMEs should be established (Zheng, 2015). So far, we have three specialized banks in China, each of which is dedicated to a specific lending purpose. We called policymaking banks, which include the Agricultural Development Bank of China (ADBC), the China Development Bank (CDB) and the Export-Import Bank of China. We strongly supposed to build up the fourth policymaking bank which could be called SMEs Bank of China. The main mission is to provide more specialized financing service for SMEs. Firstly, the business outlets of banks are not only in first-tier cities and second-tier cities, but also it should be set up in some regions or cities that are less developed in the northwest of China, such as Xi'an city and Lanzhou city. Therefore, it is pretty

important to provide more business outlets in the different part of China. Secondly, concerning about main business, it could be include two parts. On the one hand, bank focus on the savings and loans as the normal commercial banks. The main different point is that the government could give corresponding financial subsidies for banks to ensure their daily operation and then banks could lower their lending rates. Different preferential standards for SMEs are applicable to different industries. For example, SMEs who are engaged in innovative industries, such as the Internet industry and information technology industry, will be given more preferential treatment to encourage the innovation and development of SMEs. One the other hand, consulting service should be paid attention to. There are some SMEs entrepreneurs who are poorly educated, and it is difficult for them to understand the loan process and provide loans related documents, thereby giving up loans from bank and getting loans by other ways. Therefore, it is very important to establish a consulting service department. Lastly, risk assessment department is also essential for bank.

Small and medium financial institutions should innovate on credit products (Wang, 2012). Compared with the four major state-owned banks in China, small and medium-sized financial institutions have fewer branches and insufficient capital. Therefore, it is difficult to attract valued clients, and target customers should be locked into SMEs. Small and medium-sized financial institutions have a simple organizational structure compared with commercial banks. Based on that, credit product innovation could promote small and medium-sized financial institutions to provide better services for SMEs. The specific countermeasures are as follows. First off, we should increase the variety of credit products and enhance the adjustment of credit structure. Small and medium-sized financial institutions should adjust loan procedures according to the characteristics of SMEs financing. Secondly, in different regions of China, the pace of economic development and the conditions for its own development are different. Small and medium-sized financing institutions located in different regions could try to provide different financial products. For instance, Shanghai, the most developed city in china, has a number of innovative enterprises who belong to electronic commerce industry. Most of the operators of these SMEs are young people who are highly educated. Providing more novel credit products could be quickly understood and accepted by them. Last but not least, Small and medium sized financial institutions should try to establish a close relationship with the SMEs. In this way, small and medium-sized financial institutions could better understand the operation situation of SMEs, avoid risks in time and improve the loan recovery rate. Finally, a group of high-quality customers are developed.

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