

Analysis of Financial Support Policies for SMEs in the Context of the COVID-19

— Taking Shanghai as an Example

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Abstract: The COVID-19 virus, which emerged in the early 2020s, is now present on every continent. Small and medium-sized firms (SMEs) face significant hurdles as a result of the global epidemiological situation and the drastic changes in the global economy and trade. After implementing a number of groundbreaking financial regulations, China has seen impressive growth. Using Shanghai as an example, this research combines public policies with financial support for SMEs in order to cope with the negative economic changes caused by the COVID-19 to SMEs. The methods used in this research include investigation, literature review, and a case study. This research intends to stimulate legal reform and development as well as improve the quality of financial supervision in addition to fostering an environment that is more favorable for businesses who have been adversely affected by the COVID-19.

Keywords: COVID-19, financial support policies, SMEs, financial institution

1. Introduction

By early 2020, the COVID-19 has already become a global threat to human life. China has taken a variety of preventative and control measures in response to the recent pandemic, including the closure of tourist sites, restrictions on public meetings and traffic, the elimination of public entertainment venues, and nucleic acid testing, among other things. These policies have had a significant impact on the economic situation in China, reducing people's income and spending, but they have been quite effective in controlling the pandemic. In order to control economic growth, financial policy has always been crucial. Many financial measures have been implemented nationally to assist businesses in getting back to work and production so that the domestic economy can recover as quickly as feasible.

This paper uses a combination of literature review, investigation and case analysis to examine the role that financial aid plays in the success of small and medium-sized businesses in a few specific industries. It then summarizes the key features of these businesses, as well as their current policy and performance status, to draw conclusions about these factors. The current condition, the policy reasons of the service system, internal and external environmental elements, etc., are used to analyze the existing shortfalls. The success of the financial assistance policy for SMEs in this field is also analyzed, with the location of the actual causes for the success of the program being determined.

Success case study has led to adjustments in how money is allocated to small and medium-sized enterprises (SMEs), how SMEs are managed, how deeply finance is reformed, and how policy recommendations are formulated. The creation of a contemporary economic system and the expansion of the national economy rely heavily on the efforts of small and medium-sized businesses. Small and medium-sized businesses (SMEs) need the combined efforts of local governments and banking institutions to recover and grow.

This paper examines the growth of small and medium-sized enterprises (SMEs) in Shanghai during the COVID-19 pandemic, as well as the support policies of relevant institutions and their benefits and drawbacks. It will be of great practical use in fostering the growth of SMEs and ensuring economic stability.

2. Literature Review

2.1. The Current State of Research Abroad

Some of the oldest capitalist nations, like the United States, the United Kingdom, France, and Japan, have been hit hard by natural calamities and economic upheavals since the turn of the century. Theories relating to financial support for SMEs evolved as a result of government policy interventions and financial rules that made it possible for SMEs to thrive and expand.

Due in large part to the worldwide recession of the 1970s, small and medium-sized enterprises (SMEs) became increasingly important to economic growth. SMEs' financial environments received increasing focus from governments and thinkers. The credit rationing theory posits that there is a major issue of knowledge asymmetry between financial institutions and SMEs [1]. It also is difficult for banks to keep tabs on their lenders, which could cause borrowers to invest in riskier projects for the sake of better returns, or cause borrowers to leave the credit market altogether if interest rates are increased. Banks and other lending institutions are wary of extending loans to small and medium-sized enterprises (SMEs) due to risks associated with adverse selection and moral hazard.

Since the 1990s, many nations' economies have expanded rapidly, thanks in large part to the efforts of their small and medium-sized enterprises (SMEs), and monetary policy modifications have had a bigger impact on SMEs and corresponding banks. Financial factors have the greatest impact on the expansion of small businesses, according to an analysis of company data from 54 nations. SMEs face significant challenges in expanding their operations due to a lack of available capital [2]. After the bank merger, there was a noticeable drop in the proportion of SME financing to total bank loans [3]. The extent to which governmental policies have an impact on developing countries and small and medium-sized enterprises (SMEs), and the elements that contribute to that impact.

Economists all over the world have agreed that improvements can and should be made to monetary policy frameworks in the wake of the 2008 financial crisis. Its primary goals should be to clarify and strengthen the role of managing inflation expectations, preserving financial stability, supporting the actual economy, and advancing the growth of associated policy instruments. The percentage of loans made to small and medium-sized businesses (SMBs) increases after bank mergers, according to an analysis of U.S. SMB survey data [4]. The American academic Banerjee advocates for the creation of local financial institutions that cater to micro, small, and medium-sized enterprises. Jeng and Wells argue that stock markets are beneficial to the growth and prosperity of small and medium-sized enterprises (SMEs). Small and medium-sized commercial banks, and especially community banks, have an inherent advantage when it comes to banking institutions dealing with information asymmetry, as shown by the credit rationing theoretical framework [5], which confirms the existence of information asymmetry between banks and firms [6]. Credit rationing is founded on the concept of moral hazard [7].

2.2. Domestic Research Status

According to the results, SMEs generally have a cash flow gap and face increasing cash flow pressure [8]. This is mostly because to the negative impact of COVID-19, which has reduced the cash flow bearing capacity of SMEs to the point that 70% of SMEs can only support less than three months.

Following the pandemic's onset, major foreign countries implemented a series of policy measures to ensure that the real sector continued to get credit and that financial institutions had access to adequate liquidity. China has taken a number of measures to combat an unexpected pandemic, including increasing credit supply and ensuring reasonable and sufficient liquidity, bolstering efforts to prevent and manage epidemics and get businesses back to work, and promoting a full economic recovery.

While suffering from the COVID-19's enormous impact, China's private firms have also acquired fresh development and transformation chances. Taking the retail business as an example, on the one hand, the offline retail business is under immense pressure to survive due to the significant reduction in consumer flow; on the other hand, the online retail industry surged swiftly despite the trend. To ensure the steady development of private firms and reduce their negative impact, the central and local governments have implemented a range of policies and initiatives to support the development of private enterprises. It focuses primarily on the various financial support policies issued by the central government and the local government during the epidemic, and uses the retail industry as an example to summarize four types of precise support policies, providing a reference for boosting the market share of private businesses [9].

The lack of financing is the most significant factor impeding the development of small and medium-sized enterprises (SMEs). Therefore, it is crucial to pay close attention to the pain points and needs of SMEs, formulate financial support policies scientifically, and improve innovation to increase the effectiveness of policies in order to help SMEs overcome obstacles and grow larger and stronger [10].

3. Analysis of Support Policies

The Shanghai Municipal Human Resources and Social Security Bureau has announced a series of burden reduction policies in order to effectively prevent and manage the pandemic and guarantee the normal functioning of businesses. On this premise, the governments of Jiading, Jing'an, and Yangpu District developed and published regulations to further decrease the burden on businesses and combat the pandemic together. It primarily entails cash assistance and rent reduction.

3.1. Strengthening Financial Support

First, the government encourages industrial finance connectivity magnificently. Financial institutions are urged to give credit loans to the aforementioned SMEs in the district through the district's industrial and financial platform, with a maximum discount of 50 percent to firms, so that the platform can play a greater role in industrial and financial cooperation.

Second, provide a discount interest subsidy guarantee. Give a 5% interest rate subsidy to the loan business of small loan companies whose interest rate is below 10%, and a 1% rate subsidy to the guarantee business of financing guarantee firms whose guarantee rate is below 2%.

Third, establish green funding channels. Coordinate with financial institutions to establish a "green channel" for the approval of the aforementioned SME's, give acceptance priority, and expedite the approval and financing processes. We will provide full assistance and promotion to the aforementioned SME applicants for national and local funding projects.

3.2. Reducing the Burden on Enterprises

First, provide emergency transformation technical support. Governments encourage the aforementioned small and medium-sized businesses to implement technological transformation in order to enhance quality and productivity. Investment and equipment rental expenses for emergency technical transformation initiatives would be subsidized.

Second, ensure that employees' housing needs are met. We will increase the depth and breadth of support for talent housing subsidies and give greater preference to the aforementioned SMEs in the provision of housing subsidies. 1000 special quotas for short-term rental subsidies will be added, the subsidy level will be 800 yuan per person per month, and the subsidy length has been tentatively set at three months to assist the aforementioned SMEs in attracting and retaining their core teams.

Third, reduce the enterprise's labor costs. Employers who do not lay off or reduce the number of employees, as well as qualified employers, will get a refund of fifty percent of the entire unemployment insurance premiums paid by the firm and its employees over the previous year. If employees (including sent workers) are organized to engage in various online vocational training during the closure time, they will get 95% of the subsidy based on the real training cost. The starting and end dates of the social insurance payment year (including the employee medical insurance year) are adjusted by three months, from July 1 of the current year to June 30 of the next year. If the insured unit fails to pay the social security costs, it will not levy late fees after reporting to the social security agency, and the individual rights and interests of the insured workers will not be affected. It will suffice to make the payment within three months of the end of the outbreak. For college graduates of businesses, offer recruitment services for public welfare groups and agencies.

Fourth, reduce and eliminate rent paid by small and medium-sized businesses. The rent is temporarily waived for one month and halved for two months for small and medium-sized businesses and self-employed industrial and commercial households that rent state-owned and collective enterprise asset-type commercial buildings in the area. Depending on the circumstances, the lease will be extended following expiration. The owner (landlord) must lower or exclude the tenant's rent for the rental of other commercial property.

Fifth, delay tax payments and supporting welfare contributions. For the above-mentioned small and medium-sized businesses that are indeed unable to pay their taxes on time owing to specific problems caused by the impact of the pandemic, they must seek for a three-month payment extension in accordance with the legislation. Relevant authorities implement the corporate income tax and individual income tax pre-tax deduction policy for public welfare donations.

Sixth, firms should be encouraged to handle returned people effectively. A one-time rental subsidy will be provided to the aforementioned small and medium-sized firms whose employees return to Shanghai to undergo 14 days of medical observation at home and are isolated at home by renting accommodation.

3.3. Optimizing and Improving Services

First, enhance the system for leaders to contact businesses. Through the linkage mechanism between bureau and town, strengthen the services provided by district leaders and the leaders of various committees, offices, streets, and towns to enterprises, further promote the production of epidemic prevention materials, and coordinate the resolution of problems in enterprises caused by epidemics.

Second, open a green channel for enterprise licensing. It is necessary to open a green channel for small and medium-sized enterprises that produce and operate materials for epidemic prevention and control, launch the "defect tolerance acceptance" mode, handle emergency filing of Class I medical devices, and direct enterprises to apply to municipal and national departments for registration of Class II and Class III medical devices. Emergency epidemic prevention or significant district initiatives

must be managed around-the-clock. New projects required for production and the prevention and control of epidemics will be put in the green channel, and the assessment process will be expedited. Start environmental impact assessment and implement environmental protection measures concurrently for identified important epidemic prevention and control initiatives in order to expedite project implementation.

Third, provide epidemic-related consultation services. Relevant authorities will strengthen consultation services on epidemic prevention and control expertise, build public welfare legal service organizations, provide online and offline legal consultation services, and safeguard enterprise legitimate rights and interests.

3.4. Other Countermeasures

To counteract the effects of the COVID-19, the Shanghai Municipal Government has promised to provide measures for post-stabilization, social security payment, training subsidies, etc. In addition, the Suzhou Branch of the China Development Bank will play its part as part of the "national team" of policy banks by implementing the first batch of 2 billion yuan in emergency financing quota, encouraging the Bank of Suzhou and the Agricultural Bank of Suzhou to issue special project loans, and guaranteeing that the interest rate on these loans will be lower than the level of interest quoted by the loan market during the same time period.

The Shanghai policy is beneficial as the corporate social insurance premiums are substantial each month. In an interview, the founder of a Nanjing-based offline education company claimed that he had recently gotten notification from the government saying that he could not begin lessons, and that he was in a position of having no income while having daily expenses such as rent, social security, and wages.

While government agencies and large banks have been the primary forces in the rescue of firms, a number of banks have also adopted strategies to aid SMEs in rescuing themselves and weathering the enterprise epidemic. As an example, China Guangfa Bank's Shanghai branch offered 15 steps to aid in production restart, which the bank says will help Shanghai's businesses immensely. Repayment plans for small and medium-sized enterprises (SMEs) and self-employed industrial and commercial households must be renewed, extended, and adjusted reasonably, without affecting credit reporting records and without penalty interest, as mandated by the Standing Committee of the People's Republic of China on May 5th.

4. Conclusions

Despite having advantageous rules, the focus of the relevant financial service providers is on how to benefit from macro to micro individual policies and give exact support and assistance to SMBs in various circumstances. This epidemic has afflicted other industries in various ways and to varying degrees. Some industries may recover from setbacks on their own, while others may require a lengthy period to get back on track. Some industries that formed as a result of the epidemic will defy the tendency and prosper despite the outbreak. Thus, we can conclude that SME funding cycles, rhythms, and service techniques vary by state, and that only focused decisions can maximize the effectiveness of financial support policies.

SME's must stabilize their cash flow, boost income while minimizing expenses, and standardize their financial management and business operating processes. For banks and other financial institutions to alleviate their capital pressure and prevent capital imbalance, they must expand SME loan support. The government and financial authorities must establish precise policies for SMEs, enhance the quality of their services, and intensify their efforts to reform and innovate financial policy.

In conclusion, the successful case of Shanghai government and relevant financial institutions supporting local SMEs has great reference value, highlighting the importance of paying attention to the needs and weaknesses of SMEs and assisting them in overcoming obstacles, as well as the need to scientifically formulate financial support policies and improve innovation in order to improve the practical effects of policies and contribute to China's economic development.

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