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SMALL AND MEDIUM-SIZED ENTERPRISES IN PRC UNDER CRISIS

Abstract

The research examines the effects of the ongoing global crisis on small and medium-sized enterprises (SMEs) in the People's Republic of China (PRC). It emphasizes the underlying causes and the resultant challenges stemming from the contraction of export markets, which include diminished export orders, escalating operational costs, reduced productivity, an increase in business closures, a significant rise in unemployment, eroded investment confidence, disrupted funding channels, and limited resources. Furthermore, the paper provides an initial evaluation of the countermeasures implemented by the PRC government, particularly its support initiatives for SMEs, while also addressing the challenges encountered in the execution of these policies. The research offers policy recommendations aimed at enhancing the growth of SMEs, proposing relevant strategies such as tax reductions for SMEs, the enhancement of service frameworks, and the fortification of self-development mechanisms within these enterprises.

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4 figures, 17 references.

Problem Statement

The emergence of public health crises has profoundly affected the functioning and productivity of businesses. Small and medium-sized enterprises (SMEs) are particularly weak to heightened risks of insolvency and financial failure, primarily due to limited financial resources and inadequate resilience against economic shocks. In answer to the Covid-19 pandemic, the government of PRC adopted a stringent strategy aimed at curbing the virus's transmission. Although this approach effectively reduced community spread, it initially inflicted considerable economic distress, particularly on SMEs. To alleviate these adverse effects, the government promptly launched an extensive policy initiative designed to support SMEs and facilitate their recovery and operational resumption following the lifting of lockdown measures.

The purpose of this article is to determine the place of SMEs in the PRC economy, identify the measures to overcome the SMEs crisis, and outline the directions for further development of SMEs.

In the last twenty years, there has been weighty growth in SMEs within the China. In 2003, Chinas government introduced «The Interim Regulations on Small and Medium Enterprises Categorizing Criteria», which formally defined main parameters for classifying SMEs. Before the issue of «The Interim Regulations on Small and Medium Enterprises Categorizing Criteria», research predominantly focused on the indicators obligatory by private enterprises for analytical purposes. SMEs found a significant segment of private enterprises as category of economics; thus, the general development of private enterprises largely mirrors the conditions faced by SMEs. Private enterprises can be categorized into three distinct types founded on the quantity of employees: «micro and small private enterprises», «small and medium private enterprises», and «large private enterprises». In the PRC, «state-owned enterprises» are classified as «large and super-large enterprises».

There are several aspects that warrant clarification regarding the relationship between «large private enterprises» and «small and medium-sized enterprises (SMEs)». Firstly, proportion of the large private enterprises relative to the total number of private enterprises is negligible, as evidenced by their minimal representation. Specifically, «large private enterprises» account for 5.3% of total workforce within the private sector, and their registered capital constitutes less than 10.0% of the overall capital across both categories of enterprises. Additionally, large private enterprises generate approximately 30.0% of the total revenue within the private sector. Trends in the impact of the global financial crisis and the pandemic COVID-19 on SMEs closely mirrored those experienced by all private enterprises. It is evident that the repercussions of these crises on SME exports would be significantly more pronounced if large private enterprises were excluded from the analysis of the private sector. SMEs are becoming increasingly important for the economy of the People's Republic of China.

Literature Review

Chowdhury (2011) conducted a study indicating that the effects of the financial crisis were not experienced uniformly worldwide. Regions that were at the epicentre of the crisis, as well as those with a significant reliance on external markets for trade and for finance, faced more instant and severe repercussions from the global infection. Conversely, small businesses, characterized by some options for diversification and miniaturization of limited products have experienced more consistent effects in various economies, regardless of trade dependencies. This phenomenon can be attributed to the robust backward linkages and the substantial participation of small and medium enterprises in the up-stream supply chain, wherever they produce intermediate goods for export and non-export large industries. Additionally, the credit crunch that influenced SMEs, which are often perceived as less credible up till now more dependent on credit than large firms, exacerbated the impact of crisis on these businesses.

Liu (2013) identified that SMEs play an important role in the modern market economy; however, they face significant challenges within their financing systems. The international financial crisis has exacerbated these issues, leading to increased downward pressure on the macro economy, which in turn has created new obstacles for the financing systems of SMEs. These challenges severely hinder the growth and transformation of these enterprises. The author examined innovative financing strategies through the lenses of preferential policies, legal frameworks, and financial institutions to enhance the financing environment. Additionally, an analysis of effective measures was provided to improve the financing capabilities of SMEs, thereby fostering their sustainable development.

Naradda et al. (2020) conducted a critical analysis of the existing literature concerning the global challenges met by SMEs to gain insights into their existence and achievement mechanisms in the present competitive commercial environment. The review recognised some significant global tests for SMEs in the framework of economic globalization, with financial crises, competition in the global market, progressions in information and communication technology, the growth of MNCs and TNCs, changes in consumer behaviour and trade dumping, preferences, religious conflicts, trade wars, and international terrorism. Additionally, the research explored the survival strategies adopted by SMEs in the industrial sector, accenting the importance of developing sustainable policy and the need for comprehensive theoretical basis to analyze the SME's survival strategies in light of these global problems.

A study conducted by Guo, Yang & Huang (2020) utilized a data set derived from a survey of 518 Chinese SMEs to investigate the correlation between the digitalization of enterprises and their answers to public crises. The results indicated that digitalization has significantly enhanced the ability of SMEs to answer successfully to such crises by leveraging their dynamic capacities. Also, the research suggested that digitalization contributes positively to the overall performance of SMEs. The authors proposed a theoretical basis linking digitalization to crisis answers in SMEs, outlining three potential directions for the future research.

Liu & Tai (2020) conducted a comprehensive review and analysis of the influences exerted by increasing labor costs, the appreciation of the Chinese Yuan (CNY), and the Global Financial Crisis in 2008 on the performance of SMEs in PRC. These SMEs have played a pivotal role in connecting the Chinese economy with the global market, actively participating in the regional and international production networks and supply chains. Though serving as crucial intermediaries between the global economy and the national economy, they have also become significant channels through which global events affect the domestic economic landscape.

Methodology

The methodology outlined herein encompasses a collection of research methods and instruments pertinent to small and medium-sized enterprises (SMEs) within the domains of economics and management, specifically tailored for research. The methodology entails the processes of defining, designing, preparing, collecting, and analysing data, ultimately leading to conclusions relevant to the SMEs sector. The methodology of research presents the problem in a manner conducive to practical application, with a focus on causally examining functional laws that hold significance for SMEs. Following the establishment of research objectives and design questions, appropriate methods were selected to gather the necessary information. The research methodology comprises several components: quantitative (the study is grounded in numerical data to evaluate hypotheses regarding crises faced by SMEs); qualitative (the research analyses behavioural patterns to comprehend governmental crisis policy responses); conceptual (the study employs theoretical frameworks to elucidate phenomena related to the resolution of crises in SMEs); comparative (the research contrasts various crisis elements to gain insights into SME crisis dynamics); and analytical (the study involves the examination of data and information to unravel the complexities of SMEs in crisis situations).

Research Results

Small and medium-sized enterprises (SMEs) in PRC are characterized by the Law of PRC (National People's Congress, 2017) on «The Promotion of Small and Medium-sized Enterprises», which describes them by way of organizations that possess a relatively small scale by of staff and business operations. The criteria for categorizing these enterprises are established by the pertinent agencies of the State Council. The classification of the business into micro, small, and medium-sized is influenced by various factors, including the specific industry, operational revenue, total assets, and employee count. On April 23, 2021, the Ministry of Industry and Information Technology of the People's Republic of China, in collaboration with the National Bureau of Statistics of China and other pertinent departments, conducted a review of the Regulations on SMEs criteria of classification (European Commission, 2021). This effort resulted in creation of a revised draft intended for public consultation. The new draft reevaluates the classification standards for enterprises characterized by a small workforce yet substantial business income or significant total assets, which were previously classified as SMEs. Additionally, it streamlines the industry classification of SMEs, reducing the number of categories from 16 to 9. SMEs characterise the important share of the business landscape in PRC and take a crucial place in the country's economic progress. About 50% of the national tax income and 60% of PRC's GDP are produced by SMEs. Furthermore, these small businesses contribute to 70% of technological innovation and account for 80% of urban employment within the nation (Ma, 2021).

In PRC, the classification of a business into micro, small, medium-sized enterprise is influenced by several factors, including the industry sector, operating income, total assets, and employee count. In contrast, the European Union primarily defines and categorizes SMEs grounded on the quantity of employees and specific financial thresholds, which may include either turnover or total balance sheet value. The European Commission defines a SMEs as a business entity that employs less than 250 individuals and has an annual turnover that does not surpass EUR 50 million, or possesses total assets amounting to EUR 43 million. Furthermore, if a business has access to substantial additional resources, it may not qualify for SMEs classification. SMEs take a crucial place in the European Union economy, much like their counterparts in PRC. Within the non-financial business sector, SMEs represent 99.8 percent of all enterprises, contribute to 65 percent of total employment, generating 53 percent of the overall value-added. The most common category among these SMEs is micro-enterprises, which are defined as businesses employing less than ten individuals and having an annual turnover that does not exceed two million euros.

Access to financing is a significant problem for SMEs, especially in PRC, where domestic banks tend to favour the more secure option of lending to state-owned enterprises (SOEs). Over the years, various national policies have been implemented in an effort to tackle the financing difficulties faced by SMEs. Public financing for SMEs is facilitated by the government at various levels, as stipulated by the SME Promotion Law. This financing is channelled through the creation of dedicated funds aimed at fostering the development of micro and small enterprises (Brown, Rocha & Cowling, 2020). Additionally, this multi-tiered approach to SME financing is outlined in «The Five-Year Action Plan for Promoting the International Development of SMEs» and «The PRC Manufacturing 2025 Initiative». Furthermore, public financing may be allocated to SMEs operating in particular segments or engaging in designated activities, such as those focused on innovation.

Private financing is generally challenging for SMEs in PRC, as these businesses are often perceived as high-risk and low-return investments. Chinese authorities recognize this predicament. Article 18 of «The SME Promotion Law» addresses direct financing by advocating for establishment of a multi-tiered capital market system, alongside the enhancement of equity and bond financing as viable funding avenues for small and medium enterprises. SMEs can utilize these financing options through the «National Equities Exchange and Quotation» (NEEQ), commonly referred to as the «New Third Board». In recent years, additional platforms aimed at facilitating SME listings have emerged, such as the «Shanghai Science and Technology Innovation Board» (STAR), which was launched in 2019 and is modelled after the Nasdaq, specifically catering to innovative start-ups (Kuckertz et al., 2020). To bolster SME financing, the Ministry of Industry and Information Technology (MIIT), in partnership with 16 other governmental departments, released the Several Opinions on Improving the «System for Supporting the Development of Small and Medium Enterprises» (2020 Opinions) in July 2020. This document outlines various strategies to enhance direct financing, including initiatives to guide angel investors, private equity, and venture capitalists in expanding equity financing for SMEs; promoting SME listings on capital markets through mergers, acquisitions, and restructuring; diversifying the types of bonds available for SMEs; and advancing reforms of the New Third Board, as well as facilitating the transition of companies listed on the NEEQ to other boards.

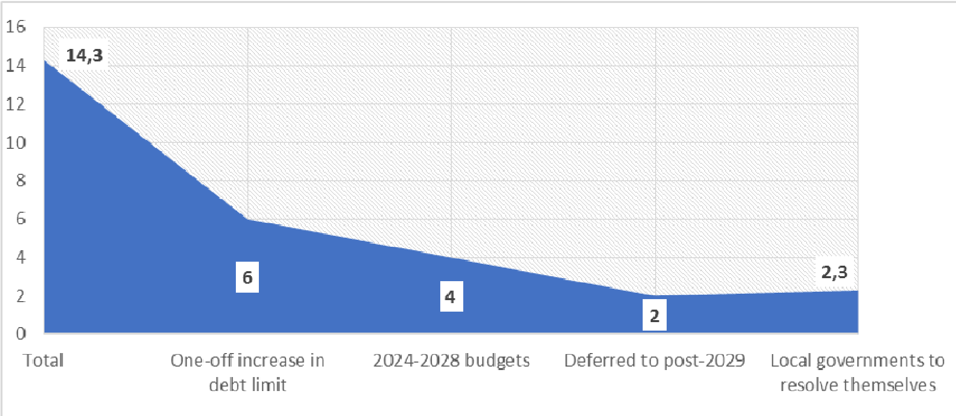
The SME Promotion Law facilitates indirect financing by permitting the use of transferable assets and accounts receivable as collateral for chattel secured financing. Additionally, it promotes the issuance of credit guarantees. In April 2021, the «PRC Banking and Insurance Regulatory Commission» (CBIRC) released a circular aimed at enhancing the quality of financial services offered to SME. This circular outline several initiatives, including urging the five largest banks to boost the proportion of inclusive loans provided to micro- and small-enterprises by over 30 percent, refining services for first-time borrowers, and development collaboration between banking and insurance sectors to progress innovative financial products tailored for SMEs.

The challenge of securing financing for micro-, small-, and medium-sized enterprises (MSMEs) has long been a persistent issue within the Chinese economy. The economic disruption caused by the COVID-19 pandemic has intensified both the significance and urgency of this challenge (Du, Razzaq & Waqas, 2023). As a result of the pandemic, revenues for Chinese MSMEs have plummeted to below 50% compared to the similar period in the prior year, with over 80% of these enterprises experiencing cash flow difficulties. Although a range of financial support measures has been implemented, small and medium-sized banks are grappling with the compounded issues of increasing non-performing loan ratios and diminishing net interest margins when providing credit to small and micro enterprises. This current situation presents a unique opportunity to leverage big data, artificial intelligence, and other technological advancements to address the financing challenges encountered by MSMEs (Su et al., 2022).

The figure 1 indicates that the concealed debt of local governments amounts to RMB 14.3 trillion. In response to this situation, a comprehensive debt restructuring strategy has been proposed. This strategy includes a one-time increase in the debt limit by RMB 6 trillion, with RMB 4 trillion allocated within the budgets for the years 2024 to 2028, and a deferral of RMB 2 trillion to a period beyond 2029. Consequently, only RMB 2.3 trillion remains for the local governments to address independently.

Figure 1

Local governments hidden debt, RMB trillions



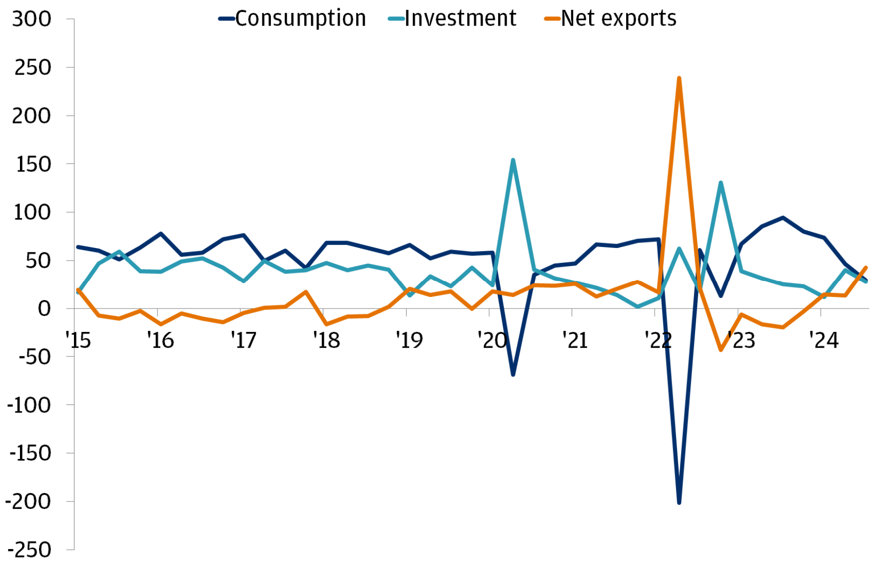
Source: based on Asia Investment Strategy Team (November 25, 2024).

Some investors have inquired whether a debt restructuring entails more than merely a series of substantial accounting adjustments. It is important to recognize that not all forms of debt are equivalent. Off-balance-sheet debt resembles private sector debt in that it must ultimately be repaid in full. In contrast, sovereign debt is typically subject to refinancing. The advantages of extending the duration of debt and achieving savings on interest costs are noteworthy. Previously, local governments faced challenges in meeting maturing debt obligations, which resulted in salary reductions for public employees, postponed payments to corporate suppliers, and stringent tax collection practices. These factors significantly undermined business confidence. The restructuring effectively alleviates these issues. As part of the forthcoming 2025 budget, it is anticipated that local government bond issuance quotas will increase, facilitating greater investment expenditure. This debt restructuring represents an initial measure to combat deflation and enables local governments to assume a more prominent function in counter-cyclical fiscal strategies.

The figure 2 illustrates the quarterly contributions of consumption, investment, and net exports to PRC's GDP growth from 2015 to 2024. Historically, consumption has been a significant contributor, accounting for approximately 60-70% of growth between 2015 and 2022. Investment ranks as the second most important factor, contributing around 40% during the 2015-2020 timeframe. Notably, there was a surge in investment share of GDP growth in June 2020, coinciding with a dramatic decline in consumption, which plummeted from about 50% to -68% in the same month.

Figure 2

Share of PRC's GDP growth, quarterly %



Source: based on China National Bureau of Statistics (2024).

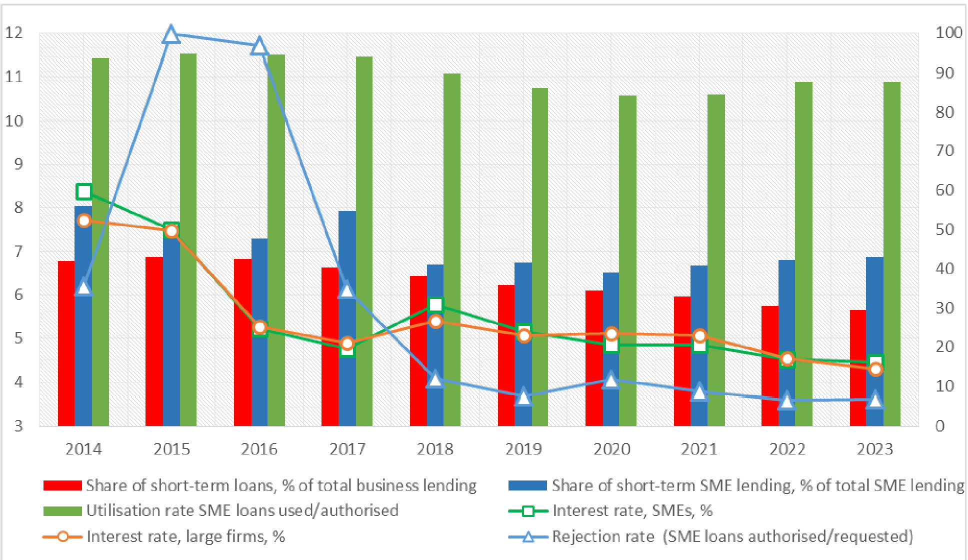
Between 2020 and 2022, the proportion of GDP growth attributed to investment steadily decreased from 40.5% (September 2020) to 17% (March 2022). In terms of net exports, its contribution to GDP growth was predominantly negative since 2015 to 2019. However, since 2019 to 2022, this figure became positive, changing between 10-20%, before experiencing a remarkable increase to 239.0% in June 2022. Following the COVID-19 in early 2022, net exports dropped sharply from this peak to -43% by December 2022. Subsequently, from beginning of December 2022 to the end of September 2024, net exports rebounded to 43%. Contrasted, the consumption decreased to 29.0% in September 2024 after peaking at 94.4% in September 2023. Likewise, the investment share of GDP growth has also declined, falling from a high of 130.5% in December 2022 to 28% as of September 2024.

PRC has set a goal to nurture one million innovative small- and medium-sized enterprises by the year 2025, as outlined in a government directive concerning the development of SMEs during the period of «14th Five-Year Plan» (2021-2025). By this target date, the nation also intends to foster 100,000 SMEs characterized by uniqueness, specialization, innovation, and refinement, alongside 10,000 «little giant» firms, which are defined as nascent small enterprises concentrating on advanced technologies. It is anticipated that R&D expenditures for small industrial firms exceeding a designated size will sustain an annual growth rate of over 10 percent by 2025, with a corresponding 10% annual increase in patent applications (Xinhua, 2021). Initiatives during the «14th Five-Year Plan» period will prioritize alleviating the financial challenges faced by SMEs, emphasizing support for new business models, the coordination of research and production, and enhancing the innovation linkages between large corporations and SMEs. Additionally, efforts will be directed towards improving service efficiency for SMEs and upgrading these services through the integration of digital technologies.

In 2022, the rate of rejection for small and medium-sized enterprise loan applications remained consistent at approximately 3.6%. Concurrently, the utilization rate of bank loans by SMEs sustained a robust level of 87.7%. In general, 58.4% of SMEs sought to secure a bank loan. Outstanding business loans for micro- and small- enterprises (MSEs) reached CNY 60 trillion in 2022, reflecting a growth of 20% compared to 2021. The proportion of these loans has continued relatively consistent over the last 2 years, standing at level of 47% in 2021 and rising to 49% in 2022. Additionally, the ratio of short-term loans to total loans for SMEs rose from 41% to 42% between 2020 and 2021, further increasing to 43% in 2022, which represents an increase of 0.9 percentage points (see fig. 3).

Figure 3

Financing SMEs and Entrepreneurs indexes in PRC



Source: based on OECD (2024) – Financing SMEs and Entrepreneurs of PRC.

In 2022, the interest rates for SMEs and large corporations were recorded at 4.45% and 4.29%, reflecting decreases of 0.07 and 0.24 percentage points, correspondingly, in comparison to 2021. The interest rate differential between larger firms and SMEs remained positive, increasing from -0.01% to 0.16% during the period from 2021 to 2022, following a rise from -0.22% to -0.01% in the preceding year. In recent years, PRC has made strides in enhancing and executing policies aimed at reducing taxes and fees associated with debt financing. In 2022, SMEs incurred an average level of 1.42% in additional loan fees relative to the total value of bank loans, which represented a slight decline of 0.39 percentage from the prior year. Furthermore, the one-year interest rates within the shadow banking sector in 2022 varied between 11.78% and 13.11%, exhibiting a spread of approximately 7.3% to 8.7% when compared to conventional bank loans. Total assets within the shadow banking system reached CNY 50.3 trillion in 2022, marking a notable reduction of CNY 3.29 trillion, while the ratio of shadow banking assets to GDP fell to 41.6%, the lowest level recorded since 2013 (OECD, 2024).

Over the last 15 years, Chinese officials have faced the challenge of balancing two opposing aims: fostering economic growth while simultaneously reducing the likelihood of financial instability. These objectives are inherently at odds, as the strategies employed to stimulate growth often involve increased borrowing, which in turn heightens the potential for a debt crisis. To stimulate the economy, authorities have increased investment spending; however, there are instances when this stimulus is curtailed due to concerns regarding the overall level of indebtedness within the economy. China's escalating debt levels have heightened concerns among authorities regarding financial stability. Over the past 15 years, private sector debt in China has nearly doubled, reaching 200 percent of GDP by the end of 2023. A significant consequence of this trend has been the increased emphasis on state-owned enterprises, often to the detriment of the private sector. Such shift became particularly evident in 2021, marked by a campaign aimed at curbing the «unrestrained expansion of capital».

China is set to enhance its support for innovative SMEs as well as unicorn companies, aiming to cultivate new quality productive forces. This initiative is designed to assist these enterprises in broadening their market reach and unlocking their potential for growth. In order to enhance liquidity and regulatory adaptability for small and medium-sized enterprises (SMEs), the banking sector implemented several measures. The Central Bank of the People's Republic of China reduced the targeted reserve requirement ratios by 1% point, thereby releasing RMB 400 billion (approximately US$ 57 billion) in long-term funding. Additionally, there was an increase in the flexibility of regulatory standards within the banking sector. To facilitate access to financing for SMEs, authorities established a dedicated credit quota that offered preferential interest rates. Overall, a total of RMB 1.6 trillion (around US$ 226 billion) was allocated for SMEs, with half of this amount designated for new loans and the other half addressing postponed loan repayments. It is noteworthy that these delayed repayments did not adversely impact the credit histories of the businesses involved.

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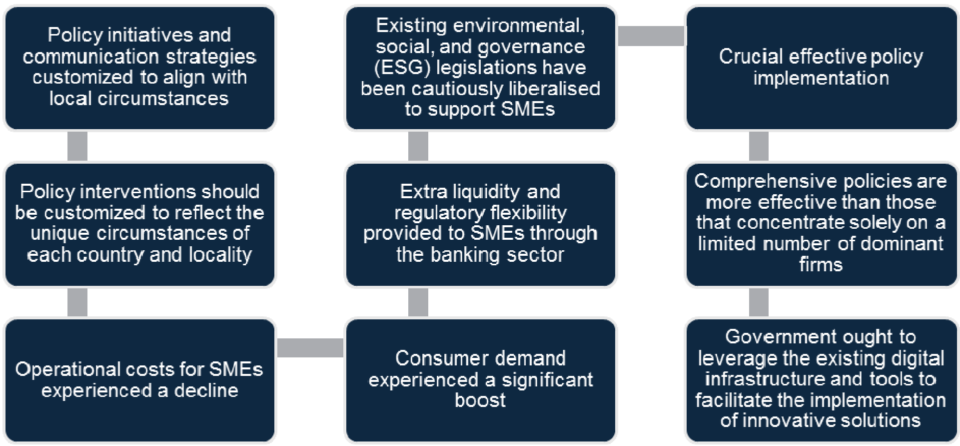
Policy initiatives and communication strategies were customized to align with local circumstances (see fig. 4). The central government recognised the online policy repository on its primary website (the PRC'S State Council website) to catalogue all pertinent policies for SMEs, while assigning the execution of specific policies to local authorities. To motivate these local entities, the performance metrics for local governments were modified, placing greater emphasis on revitalizing the local economy rather than solely focusing on controlling the spread of the coronavirus. Additionally, the central government deployed teams to various regions to gain a deeper understanding of the unique needs of local businesses. It also reinforced the involvement of business associations in addressing these requirements. So, the Shenzhen Municipal Government launched a rapid response mechanism mandating that government agencies respond within 24 hours to particular requests from SMEs concerning the resumption of their operations.

Figure 4

Model of PRC support for SMEs under crisis



Source: developed by author.

Operational costs for small and medium-sized enterprises (SMEs) experienced a decline. In the cities of Beijing and Shanghai, rental fees for SMEs occupying state-owned properties were eliminated. Government authorities implemented a reduction in value-added tax (VAT) and granted VAT exemptions to small taxpayers in specific regions, such as Hubei province. Additionally, local governments were urged to lower local taxes and fees. Other measures aimed at reducing operational costs encompassed a 5 percent decrease in electricity charges, the provision of deferred utility payment options for SMEs, the temporary removal of tolls on all highways, and an increase in subsidies for vocational training programs.

Consumer demand experienced a significant boost. By mid-April, over RMB 10 billion (approximately US$ 1.4 billion) in vouchers for goods purchases had been distributed to residents across around 80 cities in China. The issuance of consumption discount coupons not only encouraged spending among the general populace but also targeted specific groups, particularly in sectors that had been adversely affected, thereby generating a considerable multiplier effect throughout the broader economy. Additionally, the government facilitated the participation of SMEs on digital platforms by reducing barriers, such as lowering commissions on individual orders and minimizing deposits required for potential quality concerns, to enhance online sales and marketing efforts. Furthermore, authorities advocated for the prioritization of SMEs in all government procurement processes.

Existing environmental, social, and governance (ESG) legislations have been carefully liberalised to support SMEs. For instance, in an effort to implement the requirement for table density in dining establishments, the Chengdu government modified city appearance regulations, permitting restaurant owners to place tables outdoors. Additionally, to facilitate access to financing, authorities classified the pandemic as a force majeure event, thereby absolving bank counter managers of legal liabilities associated with the accumulation of non-performing loans (NPLs). This action aligns with the broader trend of regulatory leniency introduced by the Central Bank concerning commercial banks' management of NPLs. Effective policy implementation is crucial. It necessitates involvement from all tiers of government to achieve a balance between managing the epidemic and revitalizing the economy. Furthermore, successful execution demands the allocation of responsibilities among various policy stakeholders, all while maintaining a cohesive approach. Policy interventions should be customized to reflect the unique circumstances of each country and locality. For instance, in scenarios where the household savings rate is elevated, the resumption of economic activities should be paired with initiatives aimed at boosting consumer spending. Concurrently, additional strategies are required to address the specific local conditions.

Government ought to leverage the existing digital infrastructure and tools to facilitate the implementation of innovative solutions. In PRC, for instance, authorities utilized digital technology to create a coding system that assessed the potential risks associated with individual employees, while also employing big data to improve health inspections. Additionally, the government established platforms to synchronize labour demand and supply, as well as point-to-point and one-stop transportation service, particularly for migrant workers. Furthermore, the authorities promoted the adoption of online tools for remote work among small and medium-sized enterprises. Comprehensive policies that address the entire industry or supply chain are more effective than those that concentrate solely on a limited number of dominant firms. Given the interdependent characteristics of industrial production, a major enterprise cannot function independently from its supply chain, which typically includes numerous small and medium-sized enterprises (SMEs). Consequently, it is imperative for the government to encourage the revival of economic activities throughout the entire industrial sector, regardless of the size of the enterprises involved, rather than exclusively prioritizing core firms.

Conclusions

The objective of research is to present a comprehensive set of policy recommendations aimed at assisting policymakers in effectively alleviating the potential adverse impacts of the crisis on numerous SMEs. Additionally, the study offers strategies for businesses to enhance their resilience to various risks. This focus is crucial, as the economic recovery is significantly contingent upon the robust growth of SMEs, which represents a central concern for PRC's economic advancement during the pandemic. In leveraging current circumstances to prevent a resurgence of the epidemic crisis, it is imperative for the government to prioritize the sustainable development of SMEs. The sustainable growth in PRC necessitates a significant transition from reliance on external demand to fostering domestic demand, shifting the focus from investment in export-led growth to a model determined by consumption. Enhancing domestic demand will bolster the China's resilience against global supply fluctuations. Policies aimed at supporting SMEs should also prioritize addressing demand-related issues. Such support measures would enhance local markets by increasing the capacity for domestic consumption. Additionally, these policies ought to promote and facilitate innovation within SMEs while simultaneously reducing the costs associated with innovation activities.

SMEs have been essential to the economic growth of PRC. Nevertheless, the inherent fragility of SMEs renders them particularly susceptible to external disruptions, such as liquidity crises exacerbated by the COVID-19 pandemic. This vulnerability is especially pronounced among innovative SMEs, start-ups, microenterprises, businesses located in rural regions, and those focused on localized services. The adoption of high-tech solutions and digitalization can mitigate the negative effects of pandemic on SMEs. Furthermore, government policies play a crucial role in fostering the sustainable development of these enterprises. The government ought to develop policies that require banks to extend credit to SMEs or to offer substantial incentives that encourage banks to lend to SMEs voluntarily, thereby enhancing the proportion of bank loans allocated to these businesses. In this context, financial institutions that provide loans to SMEs could be granted exemptions from business taxes. Additionally, organizations and individuals who transfer or lease patents to SMEs may also qualify for exemptions or deductions on their business taxes.

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