

Research on Financing Problems of Small and Medium-Sized Enterprises

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Abstract: *Small and medium-sized enterprises have flexible management methods and fewer restrictions on establishment, which play a key role in increasing employment, maintaining social harmony and stability, and promoting economic development and technological innovation. However, small and medium-sized enterprises have more problems in financing because of the small scale of operation, the imperfect internal management system and low transparency of financial information, for example, there are fewer ways to raise funds. These problems have seriously hindered the development of enterprises. How to solve the financing dilemma and promote the development of enterprises has become a key issue of national concern and a hot topic discussed in the 2019 sessions. This paper combines the financing status of the development of small and medium-sized enterprises in China, analyzes the reasons for the difficulty of financing from the aspects of internal management system and external credit environment, and provides some suggestions around the enterprises, banks and government.*

Keywords: Small and medium-sized enterprises; financing issues; external financing; small and medium commercial banks

1. Introduction

SMEs have flexible management methods and fewer restrictions on establishment, which play a key role in increasing employment in China, maintaining social harmony and stability, and promoting national economic development and technological innovation. According to the statistics of the National Bureau of Statistics, based on the scale of enterprises and operating income, more than 90% of China's companies belong to small and medium-sized enterprises, and the sum of the end-of-year GDP of small and medium-sized enterprises accounts for more than 60% of China's annual GDP. The contribution to the national tax revenue is about 50%, and more than 80% of the jobs are provided to the residents. At the same time, in terms of product innovation, the number of patent grants and new product development of small and medium-sized enterprises accounted for more than 65% of the innovation products of the whole society. It can be seen that small and medium-sized enterprises are gradually transforming into the main vitality of social productivity development and economic innovation, and become an important foundation for promoting national technological innovation, maintaining stable economic operation, and promoting social harmony and stability.

However, small and medium-sized enterprises are also suffering from shortage of funds and difficulties in financing in the long-term business development. In the 2019 government work report of the two associations, it pointed out that the financing difficulties and financing problems faced by China's small and medium-sized enterprises in 2018 have not been effectively alleviated. At the same time, in 2018, the P2P platform chaos was serious, which aggravated the financial crisis and financing risks of enterprises, and severely restricted the growth ability and profitability of SMEs.

How to solve the financing problem of small and medium-sized enterprises has become a key topic of the two sessions in 2019, and has become a hot issue in academic

research. Whether small and medium-sized enterprises can smoothly alleviate financial pressures and improve financing difficulties is not only related to their own survival and growth, but also to the development and innovation of the national economy and the stable construction of a harmonious society.

2. Current status of SME financing

In 2018, China's small and medium-sized enterprises actively responded to the supply-side structural reforms and played a key role in stabilizing employment, stabilizing finance, and stabilizing investment. However, in the 2019 government work report of the two sessions, it is pointed out that the financing problems faced by China's small and medium-sized enterprises in 2018 have not been effectively alleviated. This paper analyzes the current situation of financing for small and medium-sized enterprises based on the actual situation:

2.1 Corporate information is asymmetrical and it is difficult to borrow from banks

Most small and medium-sized enterprises are established by individuals or families. The internal management system and financial supervision system are not perfect. The business information and financial status of the enterprise are largely concealed and operable, which increased the cost of information screening for banks in pre-lending review and post-lending supervision. In order to avoid the increase in non-performing loan ratio caused by information asymmetry, most commercial banks implement strict credit review systems and veto loan applications for SMEs for various reasons.

According to the report of China Small and Medium Enterprises Association's "Economic Operation of Small and Medium-sized Enterprises in China in 2018", the growth rate of China's small and medium-sized enterprises' loan balances dropped to 10% in 2018, breaking the historical record and becoming the lowest value since

2009. And the national unified team According to a sample survey, only 29.4% of SMEs can obtain loans from banks, At the same time, the possibility of a loan application of the small and medium-sized enterprise from bank being rejected is as high as 56%. It can be seen that small and medium-sized enterprises face greater obstacles in raising funds through applying for loans from banks.

2.2 The financial market has a high threshold, and the financing methods and channels of enterprises are less

The way in which small and medium-sized enterprises raise funds generally includes internal financing, issuing stocks and bonds, and obtaining funds through banks or private lending. However, for small and medium-sized enterprises, commercial banks have more restrictions on borrowing, private lending rates are higher, and the securities market has higher financing thresholds. It is more difficult to issue stocks and bonds, and the financing channels are narrow, which cannot meet the capital needs of enterprises for sustainable and healthy development.

In 2018, the Bank of China conducted a random sample survey of bank lending financing for SMEs, and found that more than 90% of the 1,000 companies randomly selected did not successfully obtain financial support through private lending, bond markets, and Internet financial platforms. 13% of the companies obtained a small amount of funds from leasing, securities, trusts, etc. While 34% said that in addition to bank lending since 2018, the financing channels of small and medium-sized enterprises contracted and increased difficulty, which is not conducive to the sustainable and healthy development of enterprises.

2.3 Private lending rates are higher, and corporate loan interest costs increase

The cost of funds raised by small and medium-sized enterprises mainly includes loan interest, guarantee fees and collateral assessment fees. The external financing methods of small and medium-sized enterprises mainly rely on bank lending. However, due to the imperfect internal management system and financial supervision system, the operational information and financial status have greater concealment and operability, It has increased the difficulty for banks to judge the actual business risks of enterprises. In order to reduce the occurrence of non-performing loans, banks require higher loan interest rates when lending money to small and medium-sized enterprises, which increases the loan interest cost of enterprises; on the other hand, require SMEs to choose guarantee or mortgage to make loans, Increased collateral registration assessment fees and guarantee fees for small and medium-sized enterprises.

The "Economic Operation of Small and Medium-sized Enterprises in China in 2018" issued by the China Small and Medium Enterprises Association, it is pointed out that in 2018, the loan interest expenses of industrial SMEs in China increased by 11.5% compared with 2017, and 6.4% higher than the loan interest expenses of state-owned enterprises in the same period. But here In the case of high interest rates, there are still many banks that are reluctant to lend money to small and medium-sized enterprises, forcing them to borrow

from private lending to higher interest rates. The private lending system and rules are not perfect, and there is no reasonable supervision and effective restrictions.

2.4 Internet financial lending is not standardized, and corporate financing risks increase

The emergence and development of Internet finance has effectively alleviated the short-term financial pressure of small and medium-sized enterprises. In particular, the emergence of P2P online lending platform has met the funding needs of some small and medium-sized enterprises. According to the data of the online loan network, the short-term loans obtained by various enterprises from the P2P platform have shown an exponential growth trend in recent years, from 6.38 billion in 2012 to 100 billion yuan in 2014, and then reached 800 billion in 2016. It can be seen that lending and financing through the online lending platform has gradually become one of the main ways for short-term loans of various enterprises, expanding the financing methods and financing channels of enterprises. However, there is a big blind spot in Internet finance. The government's laws and regulations on P2P online lending are not perfect, and the regulatory mechanism is not clear. It provides financial services for SMEs while strengthening corporate financing risks and bankruptcy risks.

3. Reasons for financing difficulties for SMEs

Drawing on the above-mentioned financing status of small and medium-sized enterprises, this part starts from the internal system and the external environment, and from the perspective of enterprises, banks and governments to analyze the main reasons for the large capital pressure.

3.1 Analysis of the internal reasons for the financing difficulties of SMEs from their own perspective

3.1.1 The internal management system of SMEs is not perfect, and the financial rules and regulations are not strict

Most small and medium-sized enterprises are established and operated by families or individuals, the scale of production is generally small, the internal management system is not perfect, and the financial rules and regulations are not strict. This makes the business information and financial status of the enterprise have greater concealment and operability. Increased the information screening cost of the bank when conducting the loan review. At the same time, most small and medium-sized enterprises do not have strict planning and supervision on the use of funds and the establishment of accounts. And most SMEs pay more attention to the company's profit growth, and to neglect the supervision and management. It result in banks and other financial institutions are reluctant to handle financing loans.

3.1.2 The business status and financial information of SMEs are highly concealed, and credit information is seriously deficient

China's small and medium-sized enterprises have fewer registration restrictions and flexible modes of operation, and the ownership and franchise are not completely separated. Small and medium-sized enterprises are prone to such as

untrue registration information, serious distortion of funds and current account accounts, and unclear accounts receivable and, which make credit rating agencies unable to fully understand the real operation of SMEs. The situation has led to the failure of companies to obtain the credit rating of professional institutions, and the lack of strong information and evidence on credit. Moreover, small and medium-sized enterprises lack sufficient and effective secured assets, which make the guarantee companies unwilling to guarantee the funds raised by them.

3.2 External causes of financing difficulties for SMEs

3.2.1 Analysis of the reasons for the financial pressure and financing difficulties of SMEs from the perspective of banks

- 1) Traditional commercial banks have more restrictions on lending conditions for SMEs, and the funds are less. In order to stabilize the stable development of China's financial industry, China Banking Regulatory Commission implements a strict credit management system and risk supervision mechanism for all banks. The regulatory authorities have strict assessment of the non-performing loan ratio of financial institutions, and the non-performing loan ratio of financial institutions has been controlled below 5%. According to the policy requirements of the China Banking Regulatory Commission, most banks strictly control the bank's loan risk based on the principle of prudence and safety. In the face of small and medium-sized enterprises with high default risk and lack of credit status, they have a higher probability of not lending, even if they agree to lend.
- 2) Small and medium-sized commercial banks rely on deposit and loan spreads as the main source of income, and the loan interest rate remains high.

In order to effectively solve the problem of high borrowing costs and strict restrictive conditions for small and medium-sized enterprises, and to alleviate the financial pressure and financing difficulties of enterprises, China actively encourages the development of small and medium-sized commercial banks with registered capital and business scale that have great commonality with small and medium-sized enterprises. And guide it to become the main force of the bank to meet the funding needs of small and medium-sized enterprises. However, most small and medium-sized commercial banks have not shaken off the traditional big banks' operating methods and profit models, and the financial support for small and medium-sized enterprises has not achieved the desired results.

The source of income of small and medium-sized commercial banks is still based on the difference between earning deposits and loans. According to the China Banking Regulatory Commission Annual Report 2016, the proportion of interest income in the income structure of banking financial institutions has reached 73.4%, and fund management fees and business consulting fees. And the proportion of guarantee fees and so on. As a joint-stock commercial bank for profit, it faces the pressure of competition between small and medium banks and the pressure of traditional large banks. In order to maintain the

sustainable and effective development of banks, small and medium banks are much more dependent on deposit and loan spreads.

3.2.2 Analysis of the reasons for the financial pressure and financing difficulties of SMEs from the perspective of government

- 1) The government's laws and regulations are not perfect, and the financing guarantee system and credit rating system are not perfect. In order to promote the financing development of small and medium-sized enterprises, various departments in China have actively introduced various policies to continuously improve the laws and regulations on lending, but the implementation of relevant laws and regulations is not in place, the implementation effect is not obvious, and the financial pressure of enterprises has not been effectively and effectively alleviated financing dilemma. The higher evaluation requirements and guarantee fees for small and medium-sized enterprises are not conducive to the reduction of corporate financing costs and sustainable development. However, most rating agencies are reluctant to carry out credit ratings for small and medium-sized enterprises with vague business information and associated fuzzy transactions. The credit reporting system and credit system that lead to small and medium-sized enterprises have not been perfected, and the difficult financing situation has not been effectively improved.
- 2) The government's management of financial markets is not perfect, and the supervision of private lending and online lending is not in place.

China's securities market has a high threshold for entry. Most small and medium-sized enterprises do not have the rigid indicators of capital size, solvency and profitability as stipulated in the stock market. It is difficult to meet the capital needs of their own operations through equity financing. There is a certain lag in the way of Internet financial lending, and it is impossible to effectively prevent and supervise new problems that may arise in the new era and new background. For example, private lending and Internet platforms are highly concealed, lending systems and rules are not perfect, resulting in the government's lack of effective monitoring and management of private lending.

4. Suggestions and countermeasures to alleviate the financial pressure and financing difficulties of SMEs

Aiming at the causes of the above-mentioned small and medium-sized enterprises' financial pressure and financing dilemma, this paper proposes practical suggestions and countermeasures for alleviating the financing difficulties of enterprises from the perspectives of enterprises, banks and governments, in order to provide reference for the company's capital demand and sustainable development.

4.1 Internal Countermeasures to Alleviate the Financial Pressure and Financing Plight of Small and Medium Enterprises

- 1) Improve the internal management mechanism of small

and medium-sized enterprises and establish a modern enterprise system. Small and medium-sized enterprises should improve their own management capabilities, actively introduce high-quality and high-level management personnel, and promote the effective separation of internal management rights and ownership. On the basis of changing the fuzzy management of family management and powers and responsibilities, we should establish a modern enterprise system with clear property rights and clear rights and responsibilities, standardize the internal management system.

- 2) Strengthen the establishment of financial isolation system for enterprises and improve the credit rating of SMEs. Small and medium-sized enterprises should actively improve the financial regulation management mechanism, make effective planning for the use of internal funds, improve the efficiency of capital use, reduce the bad situation of capital breaks, and thus improve the credit loan capacity of enterprises, and alleviate the insufficient guarantee assets within the enterprise. The plight of the guarantee institutions not willing to cooperate.

4.2 External Countermeasures to Alleviate the Financial Pressure and Financing Plight of Small and Medium Enterprises

4.2.1 Commercial banks should identify their own positioning, improve their lending methods, and promote the continued healthy operation of SMEs

- 1) Traditional commercial banks should effectively lower the financing threshold for SMEs and increase credit supply. In 2018, the Chinese government clearly pointed out that the bank's support and contribution to the private and small and medium-sized enterprises' economic development should be included in the bank's performance appraisal indicators, and banks should be encouraged to increase credit support investment for SMEs. On the basis of the government's change of performance appraisal of financial institutions, commercial banks actively innovate credit products. According to the different development cycles of enterprises, the capital needs of different scales and uses, combined with the unique scale of business operations, low information transparency, insufficient mortgage assets and so on, to propose a unique credit service program and effective credit financial products.
- 2) Small and medium-sized commercial banks actively carry out credit product innovation, alleviating corporate financial pressure and financing difficulties

Small and medium-sized commercial banks should actively find suitable business methods, change the profit model based on deposit and loan spreads, rely on the development of Internet technology and financial technology, and fully understand the business information and assets of small and medium-sized enterprises. In response to the capital needs of small and medium-sized enterprises, it actively carried out innovations in credit products and service models, and intensified the innovation of mortgage guarantee methods and term interest rate setting. Effectively alleviate the borrowing and financing pressure of small and medium-sized enterprises, realize the sustainable and

healthy development of small and medium-sized enterprises, and provide a unique profit model and competitive advantage for the development of small and medium-sized commercial banks.

4.2.2 The government should increase support for SME financing and establish a diversified financing system

- 1) Improve laws and regulations on corporate finance, improve the financing guarantee system for small and medium-sized enterprises and the credit rating system. The Chinese government should actively establish and improve laws and regulations on financing guarantees and credit ratings for small and medium-sized enterprises, and improve the corporate financing guarantee system and credit rating system. The government should actively promote the construction of a financing guarantee system for small and medium-sized enterprises, and use policies such as government incentive subsidies and tax reductions to encourage guarantee institutions to serve small and medium-sized enterprises, and effectively reduce the guarantee costs. Alleviate the pressure on financing and improve the current situation of high guarantee costs for small and medium-sized enterprises.
- 2) Broaden the financing methods and channels of SMEs and establish a diversified financing system. First, the Chinese government should actively improve the financing access system of the securities market, formulate a reasonable access mode for small and medium-sized enterprises for the uniqueness of small and medium-sized enterprises, strengthen the risk control of listed companies' financing, reducing the financing threshold of enterprises, so that small and medium-sized enterprises can ease the pressure of capital demand through equity financing;

The second is to regulate the financing methods of enterprises through private lending and online lending to reduce the financing costs and risks of small and medium-sized enterprises. The Chinese government should strengthen the positive guidance and regulation of private lending, and guide the private lending according to the actual situation of the enterprise through regular and irregular disclosure of the credit status, financial information of small and medium-sized enterprises.

5. Summary

Based on the actual situation, this paper analyzes the problems of existing bank lending difficulties, fewer financing channels and higher interest costs, proposes effective suggestions and countermeasures for enterprises, banks and government. First, encourage enterprises to improve their internal management systems, strengthen the establishment of corporate financial isolation systems, and improve the credit rating of SMEs; Secondly, encourage traditional commercial banks to improve their credit methods, support small and medium-sized commercial banks to actively carry out credit product innovation, and promote the sustainable and healthy development of small and medium-sized enterprises; Finally, increase the government's support for small and medium-sized enterprises, explore diversified financing channels, and

promote sustainable and stable development of enterprises, and guide them to become an important force to promote national technological innovation, maintain stable economic operation, and promote social harmony and stability.

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