Innovation of Financing Mode of Small and Micro Enterprises in Jiangxi Province Under Internet Financing

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Abstract. Small and micro enterprises (SMEs) have become an important part of Chinese economic system, which plays a crucial role in Chinese economic growth and easing employment pressure. However, due to financing difficulties, the development of SMEs has been limited. Under the circumstance, the emergence of internet finance helped SME to satisfy financial service demands and provided fresh blood for financial industry.

Introduction

As an important part of Chinese economic system, SMEs can alleviate employment pressure, maintain social stability and promote economic growth. At present, Chinese SMEs provided many employment positions and created more than half of the fiscal revenues. However, due to the SME financing difficulties, undeveloped technology and other problems, there are many problems existing in market indirect financing and bank credit market. With the continuous development of the open and equal internet finance, it becomes more and more satisfying the demand of individuals and SMEs to personalize financial services, which brings opportunities to SMEs.

1. Theoretical Research on the Innovation of Financing Model of Internet Finance and SMEs

The research of domestic scholars is divided into the study of the internet finance model, the research on the SME financing, and the analysis of the influence of internet finance on SME financing. This paper summarizes the current domestic research in three categories.

1.1 Researches on Internet Finance Model

Xie Ping (2012) argued that internet financial model is new financing model that is different from the indirect financing of commercial banks, the direct financing of the capital market. It is an efficient stock market close to the general equilibrium theorem that describes the state without financial intermediaries. He also pointed out the three core parts of internet financial model, including payment method, information processing and resource allocation.

1.2 Researches on SME Financing

Zhang Weiying (1997) put forward the main reason of financing difficulties between SMEs and financial institutions is the asymmetries of the choice behavior, investment projects and the entrepreneur management. Lin Yifu and Li Yongjun (2001) proposed that SMEs are in the form of enterprises of Chinese factor endowment structure. Financing difficulties of SMEs result from their own characteristics, inability to direct financing, as well as large financial institutions being reluctant to provide SMEs with indirect financing services. In terms of information superiority, small and medium-sized financial structure is the best object to offer SMEs financing services.

1.3 Researches on the Impact of Internet Finance on SME Financing

In 2014, Ma Ruibo considered both merits and demerits of the internet finance impact on SMEs. There are several positive influences of internet finance, such as solving information asymmetry problems between SMEs and commercial banks, settling SME guarantee problems and decreasing
credit cost of SMEs. Negative influences are unsound laws and regulations of internet finance industry, quite low cost of default of SMEs, and high uncertainty of financial risks.

2. Small and Micro Enterprises Current Financing Status

2.1 General and urgent financing demand

The financing difficulties of small and micro enterprises are outstanding problems in the world financial field all the time, since 2008, the financial crisis has been frequent, which has brought many adverse effects, making the production and operation of small and micro enterprises in our country more difficult. “Small and micro businesses financing development report: present situation of China and practice in Asia” shows, small and micro business financing demand in our country is common and urgent, nearly 40% of the small and micro businesses depend on loan, more than 30% of the enterprises are eager to get long-term financing support. Survey shows that small and micro business survival period is generally short, every year, there are nearly 1/3 small and micro businesses are closed, and in these small and micro businesses, nearly 1/3 of the enterprises failed due to breaks of funding strand, there are big financing funding gaps of small and micro business.

2.2 Small and fast financing demand

Financing demand of small and micro enterprises has small amount of funds, short borrowing cycle, tight borrowing time and so on due to their own production and management reasons. General speaking, the liquidity is insufficient, temporary loans help enterprises tide over difficulties. According to the survey, the lacking liquidity small and micro enterprises accounted for 60% of the total number of small and micro enterprises, while liquidity loans accounted for as much as 95%. From the amount of funds, many small and micro businesses daily funding gaps are about 100 thousand, and most of the loans are within 1 million, even the small and micro businesses that their turnover are more than 10 million, they have almost hundreds of thousands of funding gaps. They are mainly used for raw materials procurement, repayment of the project, payment of wages and other short-term use, and few of them are used for long-term project investment, development and other long-term use, and the money was achieved fast for emergencies. More than 40% of small and micro enterprises hope to get money within 5 days when financing, otherwise, the utility of the loan will be greatly reduced, and then they would abandon the loan.

2.3 Less financing channels and high cost pressure

Small and micro enterprises have little exogenous financing, so the dependence on endogenous financing is higher. The preferred financing channels for small and micro businesses are traditional financial institutions such as banks, but because of the lack of audit, standardized financial statements, mortgage assets is a common phenomenon, the banks and other financial institutions give insufficient financial support for small and micro businesses from their own business situation and risk management considerations. Investigation shows that most small and micro businesses rely on relationship lending, especially in the early stages of development, many of them rely on friends and relatives to maintain production, and the later development still lacks benign financing support, many small and micro businesses turn to informal financial capital for support, but the cost of and
risk of informal financing is greatly improved, so many small and micro businesses in some parts of
the coastal area have run away few years ago. It can be summarized as lack of financing channels,
high financing threshold, and high cost.

3. Main Mode of Small and Micro Enterprises Financing Under Internet Finance

3.1 Point to point financing model

At present, the most common and most regulatory mode is the point to point financing model. It
refers that small and micro businesses can use the Internet platform for finding capital supplies, that
means using Internet platform as financing channels, which is simply called “peer-to-peer lending”,
the borrowing and lending process can be completed on the platform. The main advantages of the
financing mode are: first, to effectively reduce financing costs and greatly alleviate the pressure of
funds operating of small and micro businesses; second, because the processes are on the Internet,
the information becomes more transparent, the risk of financing behavior is relatively small; third,
on the point to point Internet platform, it can provide many fund supplying parties, there are also
more interest rate options, these can facilitate small and micro businesses make more rational
financing decision. Its disadvantages are: income may not cover costs, credit judgment errors may
lead to bad debts, fraud prone, and it is also vulnerable to hacker attacks.

3.2 Big data microfinance financing mode

Big data microfinance financing mode, simply put, is to use big data and cloud computing
technology, relying on the mining and analysis of data and information of fund demanding party
and the ability of repayment, then combining with the traditional financial model to introduce a
variety of personalized financial products to meet and realize small and micro businesses financing
needs. It achieves its function mainly through the formation of Internet electricity supplier
enterprise’s micro credit companies. A typical example of big data microfinance financing mode is
“Ali small loans”. It needs to focus on examining the repayment capabilities, operating conditions
and certification data of small and micro businesses. Small and micro enterprises apply for
financing to financial platform, then the platform conducts data analysis, provides appropriate credit
lines, and monitors to reduce financing risk in real time.

3.3 Mass financing model

Mass financing model refers that small and micro enterprises connect the fund raisers and fund
suppliers through the Internet platform, that is, to mobilize the strength of the masses to focus the
capital of masses to provide loans for small and micro enterprises. The model has low financing
threshold, diversity and creativity. The most important is to rely on the public power. It should be
noted that the crowd funding are not donations, the financial backers have corresponding returns. At
present, the domestic public crowd funding platforms are: equity-based crowd funding, rewarded
crowd funding, donated crowd funding and other different forms of crowd funding. Its main content
is: small and micro enterprises providing their own financing information to the public funding
platform, and then waiting their audit, and completing the financing before the deadline, if the
project is failed, all the funds require to return back to financial backers.

3.4 Electronic financial institutions - portal financing model

This is the main mode of traditional financial institutions innovating Internet finance. The model
refers that the small and micro businesses using the traditional portal service platform, such as
“financial 360” to carry out the “search - price” mode to compare the financial credit products
provided by all kinds of financing institutions, and the electronic banking of financial institutions
would provide kinds of financial services for small and micro enterprises, which have reached the
purpose of financing. The biggest advantage of this model is that this is a win-win model, which is
beneficial for commercial banks to expand their customer base and customized financial services,
and to enhance their competitive strength. For small and micro enterprises, there is also one more
financing channel.
4. The Significance Small and Micro Enterprises Financing Model Innovation Under Internet Finance

The financing difficulties of small and micro enterprises are prevalent all over the world. If we want to solve these problems, we must combine financial development with the actual situation and characteristics of social and economic development. Financial innovation can lead and promote the development of financial markets, financial institutions, financial instruments and financial systems, it can also expand the financing capacity of financial markets and optimize the structure of resources. From the reality of small and micro enterprises financing situation, the financing difficulties are mainly due to the credit mechanism hindered trading opportunities. Therefore, in order to break the pattern of financing difficulties for small and micro enterprises, the key lies in financial innovation of the systems, organizations and methods for the small and micro credits. Because of the backwardness of financing guarantee system and the opaque information of small and micro enterprises, there is a serious information asymmetry between banks and enterprises. Therefore, if we do not break through and innovate small and micro credit model, the financing problems of small and micro enterprises can never be resolved. The main function of financial institutions is financing, while the accommodation of funds is from the support of liquidity and risk management. The advantage of bank lies in better liquidity exchange, and the advantage of Internet finance lies in low cost risk management. Small and micro businesses have long been ignored in China’s traditional financial credit pattern, it is becoming a hidden treasure under the Internet financing opportunities, only when bank and Internet financial forces carrying out mutually beneficial cooperation, it would be more successfully to develop a small micro credit market. Therefore, it is very reasonable and necessary to explore a financing model for small and micro enterprises. That helps commercial banks to quickly integrate into the financial wave of the Internet, finding more business models and new profit growth, promoting the transformation and development of commercial banks; at the same time it can also realize the more comprehensive development of electronic commerce in scale and services in China. The creation of new model small and micro businesses financing can provide benefits for banks, e-commerce, logistics in the wave of Internet finance, and thus wining the new profit growth to solve China’s Small and micro businesses financing problems from the source, and to promote its healthy development and help sustainable growth of China’s economy.

5. Summary

Small and micro enterprises have created a driving force for China’s economic development and they also stimulated employment at the same time. It is an indispensible force in China’s economic development. But small and micro businesses face a lot of obstacles in the development process, because the own size and low credit of small and micro businesses can not meet the conditions for bank loans, they are unable to obtain loans from banks; its self-accumulation needs long cycle time, which is unable to meet the needs of their own development; informal lending needs higher financing costs, can not be the main way of small and micro businesses financing. These problems have greatly weakened the financing capacity of small and micro enterprises and strengthened their financing pressures, which finally restricted the development of small and micro enterprises. As an important way to solve the financing problem of small and micro businesses, the Internet financing is more targeted to small and micro businesses financing, it is more comprehensive and scientific, and can greatly reduce the cost of financing, which has very important practical value for promoting the development of small and micro businesses.

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