Difficulties and Countermeasures on the Financing of SMEs

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Abstract. It is normal for Small and Medium Enterprises (SMEs) to develop a variety of problems, but how do we solve these problems in the right way? In the development of SMEs, we sum up some effective measures, carry out various innovations, design a variety of modes of operation, all of these measures to some extent alleviate the plight of SMEs financing and promote the development of small and medium enterprises. In order to solve the financing difficulties faced by SMEs, to further promote the development of SMEs, better serve and promote the development of SMEs, based on the theory and successful practice, this paper puts forward the policy recommendations to solve the financing difficulties of SMEs.

1. Introduction

As we all know, China’s SMEs have been one of the main and key driving forces to promote the development of our national economy. But in recent years, SMEs have become the bottleneck to promote the development of SMEs, especially the SMEs in the development process of financing problems are troubled by the daily operation of SMEs operators is the main problem. Although China’s financial policy gradually flexible, SMEs through policy guidance and their own efforts, gradually from the financial institutions to obtain more loans and the amount of credit is increasing year by year, but the overall number is still low. Therefore, it is a very practical problem to explore why the SMEs can not obtain the loan support. This paper is just in this case.

2. The Status Quo and Analysis of SME Financing

Since the reform and opening up, China’s SMEs have made great development and played an important role in solving employment, contributing tax revenue, technological innovation, coordinated development of regional economy and new rural construction. However, due to market mechanism is not perfect and immature, social credit environment is imperfect, SMEs are more limited when financing difficulties also hinder the development of small and medium enterprises in China.

Financing channels are relatively narrow. SMEs financing channels are divided into internal financing channels and external financing channels. Among them, the endogenous financing channels include endogenous equity capital financing channels and internal sources of debt capital financing channels, external financing channels, including direct financing channels, indirect financing channels and policy financing channels. In practice, China's SMEs financing channels are relatively narrow, mainly rely on owners of investment, internal financing and bank loans and other financing channels, although venture capital, issuance of stocks and bonds and other financing channels are also used, but the role of SMEs Very limited [1].

From the bank loans more difficult. With the continuous development of SMEs, the rapid growth of capital demand. From the perspective of capital demand, the demand of individual enterprise funds is not large relative to the large enterprises, but most of the SMEs are short of funds, the overall there is a large amount of total capital requirements. However, due to the difficulties of SMEs to meet the mortgage guarantee conditions of bank loans and the high risk of loans, as well as the low level of financial management, coupled with the grass-roots banks to grant loans is relatively limited, resulting in the enthusiasm of the banks to issue loans is generally not high.
Especially large-scale commercial banks often to small and medium-sized enterprise financial system is not perfect or lack of collateral assets and other reasons to shut out small and medium enterprises; and some small and medium financial institutions through in-depth understanding of the actual production and business conditions, and an objective assessment of their credit needs and credit risk, to meet the financing needs of SMEs which has played a positive role. In general, SMEs from banks to obtain loans is still relatively large difficulty.

3. The Causes of Financing Difficulty of SMEs

3.1 Lack of own funds

China’s non-public enterprises from scratch, from small to large, from weak to strong, enterprise development mainly rely on their own accumulation, endogenous financing, thus greatly restricting the rapid development of enterprises and stronger and bigger. According to IFC research, owners’ capital and internal retained earnings account for 30% and 26% of China’s private enterprises’ funding sources respectively, and corporate bonds and external equity financing are less than 1%.

3.2 SMEs themselves

SMEs are small in scale and limited in assets. It is difficult to provide collateral for loans and guarantees. Meanwhile, SMEs have a cognitive bias in financing issues, which leads to credit problems and directly affect external financing. While the high proportion of enterprises closed down or closure of financial institutions to increase the risk of lending, SME accounting system imperfect information asymmetry, statements disclosure is not true, which led to banks and other financial institutions to SMEs lending is not assured, a direct result of SME financing is that outlook is sluggish.

3.3 Credit and credit guarantee of financial institutions are not perfect

The size of SMEs is relatively small, small assets can be collateral, leading to financial enterprises to SMEs lack of enthusiasm for loans, SMEs lack of sufficient collateral assets, most of the SMEs do not meet the bank’s loan conditions. While in China’s banking system, the most obvious is the lack of SMEs specifically for small and medium-sized banks. In addition, the size of bank loans, information costs of a loan and other transaction costs are not very different, large corporate loans and the bank’s unit of loan costs are relatively low; and SMEs due to the small amount of loans, resulting in higher cost of bank units, which is bound to affect the bank’s enthusiasm for loans to small and medium enterprises.

3.4 SMEs financing channels are not perfect

Although China’s SMEs have diversified financing channels, in general, there are mainly three: first, the direct access to high threshold of financing, through small and medium-sized board and the GEM and GEM listing or issuance of capital enterprises limited; second, private capital is lucrative, but long-term lack of effective supervision, usurious, can not be used for small and medium enterprises; third, bank loans are the most important external financing channels for SMEs. But the loan difficult has been plagued by small and medium enterprises, and excessive concentration of funds is not conducive to bank risk prevention and the further expansion of SME financing scale.

3.5 SMEs financing lacks legal support

For enterprises, the capital adequacy, risk, interest rates are suitable for bank loans in the choice of financing mode of choice. In China, about 70% of the bank credit is less than 30% of the industrial contribution rate of state-owned units. On the contrary, while the SMEs, mainly private enterprises, received only 30% of the financial support, and its contribution to the new part of the gross national product has reached 60%. In 2003 “SMEs Promotion Law” promulgated to fill the small and medium enterprise legal gaps, but the content of the program, the framework of a direct result of the standard legal norms are cited as a small opportunity for small and medium-sized enterprise financing and there is no direct help.
3.6 The information asymmetry problem in the financing process of SMEs is outstanding

First, SMEs in the early stages, usually without external audit of financial reports, its profitability is difficult to predict; second, most SMEs do not have a sound corporate governance structure; third, the scale of small and medium-sized business activities is small scale, its business activities are difficult to understand.

4. Solutions to Financing Difficulty of SMEs

4.1 Strengthen the self-construction of SMEs, and comprehensively improve the quality of SMEs

We should promote the diversification and socialization of the SME system and rationalize the governance structure. It is necessary to introduce the capital socialization direction, change the family management, absorb the elements of the modern enterprise system and management system, regulate the financial system and increase the transparency of the enterprise financial system. At the same time, establish a good faith-based awareness and abide by the credit and improve their credit status, remodeling the image of corporate credit and credit brands. Only in this way can improve the overall impression of financial institutions on SMEs, financial institutions can change the idea of small and medium enterprises to improve the financing effect.

4.2 Financial Institutions Should Deepen Reform to Promote Financing of SMEs

First, financial institutions should actively innovate financial products and services. For example, in some areas of our country for SMEs to implement unsecured loan model, mainly for small, lack of adequate collateral assets of SMEs launched a new loan model. Second, banks should be based on the actual situation of SMEs, different enterprises to develop appropriate loans and approval procedures. On the financing support in the SMEs to adhere to the credit policy of advance and retreat, good financial situation, product market enterprises, not because of its small size does not give loans or strict audits; again, should take the initiative and small and medium enterprises and Relevant government departments to strengthen ties. This will not only be good to open up their own business, but also for enterprises to provide better service. Finally, the establishment of small and medium-sized enterprise development and adapt to the financial institution system. Owned commercial banks set up a special credit department for SMEs, and actively expand the deposit and loan business for small enterprises, according to the characteristics of small and medium-sized enterprise funds demand tight time, strong effect, open credit policy, appropriate to improve the authorization of grassroots institutions, simplifying procedures. At the same time, adjust the city commercial banks, urban credit cooperatives and rural credit cooperatives to invest in credit, highlight the support of local small and medium enterprises, small and medium financial institutions to give full play to support the main channel for small and medium enterprises [2].

4.3 Broaden the financing channels for SMEs

First, encourage enterprises to strengthen their internal financing, the formation of joint-stock cooperative enterprises. Joint-stock cooperative enterprise is a kind of all-in-one enterprise, which can increase the capital source of the enterprise, and gather all the idle funds of the staff and workers and bring the scale effect into full play. Second, create a direct financing model to guide SMEs into the bond market. Enterprises should cooperate with local governments and financial institutions to jointly select other local enterprises that meet the requirements, and provide tailor-made collective debt financing services for enterprises. At the same time improve the market risk-sharing mechanism for SMEs to provide a better debt financing system environment. Third, vigorously regulate and guide the development of small loan enterprises. Micro-credit enterprises can effectively regulate and guide large amounts of private capital into small and medium enterprises such as the real economy, to solve the current problem of small and medium enterprises financing. Finally, to further strengthen and improve the credit guarantee system for SMEs. As a bridge and link between banks and enterprises, credit guarantee institutions can effectively disperse
and mitigate the lending risks of banks, so that the lending channels between SMEs are smooth. In recent years, although China’s SME credit guarantee mechanism has been the initial development, but the industry base is still relatively weak. To this end, governments at all levels should arrange for certain special funds, while attaches great importance to the security industry, personnel training [3].

4.4 And perfect the legal system and system of financing for SMEs

Government and law as a powerful support for the plight of SMEs financing difficulties, the Government should adhere to the legitimacy of financial support, efficiency, transparency, legitimacy is the most basic prerequisite for the implementation of the government is the minimum legal requirements for financing. Benefit type is the government to support the financing of small and medium enterprises should improve the efficiency of the use of support funds to ensure that achieve the desired target. Transparency is information disclosure, national policy and collective project support should be open to the community to accept social supervision. At the same time, it is necessary to establish the law on SME financing enterprise services and establish and perfect the law enforcement system for middle and lower enterprises. On the one hand, the reform of SMEs, on the other hand, it should be identified through legislation to ensure that SME security agencies to ensure good communication between SMEs and cooperation, information replacement, given the legal form of organization of small and medium enterprises groups. China can learn from the Japanese government’s management style, clear the central and local support for small and medium-sized enterprise division of labor, in the central set up the highest administrative institutions of SMEs, specifically responsible for supporting the development and implementation of SMEs, local government set up SME administrative departments, Specifically responsible for management and guidance.

5. Conclusion

To promote the development of SMEs is the correct direction of China’s current economic development. With the deepening of China’s market-oriented reform, SMEs have been booming. But the financing difficulties of SMEs have been plaguing the development of SMEs in China. To solve the problem of the development and financing of SMEs in China is a huge system project, which requires the legal system policies, market players, market links, social credit and other levels of comprehensive support, to make SMEs financing more smoothly, so that SMEs play a full role in the Chinese national economy, so as to promote China’s overall economic operation mechanism. Therefore, a smooth solution to the problem of financing small and medium enterprises urgently needs more exploration and practice.

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