Research on Problems and Countermeasures of Small and Medium Sized Enterprises Financing

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Abstract. The problem of financing has been puzzling the small and medium sized enterprises in China. China's small and medium-sized enterprises accounted for 90% of the total number of enterprises, financing difficulties is more serious compared with the international community. This paper puts forward the current situation of SME financing in China, analyzes the problems and causes of SME financing, and finally puts forward the corresponding countermeasures.

Introduction

The vigorous development of the stable and orderly socialist market economy in China can not be separated from the healthy growth of small and medium-sized enterprises. A large number of small and medium-sized enterprises play an indelible role in promoting the speed of economic growth, improving innovation, increasing tax revenue, providing a wide range of jobs and improving living standards. However, the increasingly serious financing problem has become the biggest obstacle to the rapid development of small and medium-sized enterprises. In order to promote the faster and better development of SMEs, this paper analyzes the causes of SME financing difficulties from the perspective of enterprises, banks and governments, and puts forward corresponding solutions and implementation plans.

Analysis of the Current Situation and Existing Problems of SME Financing

The Current Situation of SME Financing

Chinese banks set the extremely harsh conditions for lending to small and medium-sized enterprises, this phenomenon is not only for the small and medium enterprises bigger blow, and make the production and operation of small and medium-sized enterprises very careful. Many owners of small and medium-sized enterprises have to go to the road of usury, so as to meet the needs of funds in a short time.

In the financing-difficult environment, how to raise the necessary funds for the production and operation of enterprises quickly and safely has become an indispensable link in the enterprise development strategy. But it is clear that banks prefer to lend to state-owned enterprises, because state-owned enterprises can recoup their costs even after they lose money, after all, they have strong support from the state. From the view of banks, the small and medium enterprises lending conditions are harsh for that lending money to small and medium enterprises will have a greater risk of failing to recover costs.

While SMEs have urgent financing needs but cannot get loans through formal ways, they have to resort to private lending usury and illegal fund-raising efforts to maintain the production and operation of enterprises. What is regrettable is that although they still suffer from crisis, they have to get into deeper waters. According to the data collected by the Federation of industry and commerce, 90% of small-scaled enterprises have no lending interactions with financial institutions and only 5% of microenterprises have a small number of borrowing and lending interaction with financial institutions.

Financing Problems of Small and Medium Enterprises

In recent years, although the central government has actively helped to solve the problem of financing difficulties and high financing costs, and the relevant departments have also issued
corresponding policies to help enterprises reduce the cost of financing. Financing is still the difficult problem for most current enterprises especially SMEs to tackle.

a) The comprehensive quality of SMEs is low and their credit level is uneven. The quality of small and medium-sized enterprises in China is generally low. The majority of enterprises are urban and rural integrated, and the technological innovation ability of enterprises is worrying. In the face of high risk market, the competitiveness is very weak, and banks and other financial institutions dare not give loans to them. In the small and medium-sized enterprises in China, the number of private enterprises prevail, managers lead to the low level of management, production and operation of enterprises face greater risk, but does not have a good credit concept. The imperfect financial system leads to opaque and incomplete accounting information, finally resulting in financial institutions cannot predict the risk of lending to SMEs accurately. The level of risk is usually predicted twenty percent higher than the actual risk so that financing costs will have to be improved.

b) Banks often require enterprises to provide collateral to guarantee them. But small and medium-sized enterprises have less registered capital, few mortgages, only limited and cheap land use rights, plant mortgage and ownership of machinery and equipment, because the size of small and medium-sized enterprises have already decided the value of collateral. The setting threshold of banks and other financial institutions basically determines the financing difficulties of small and medium-sized enterprises.

c) National policies are not conducive to SME financing. Under the influence of the financial crisis, the government has formulated a conservative and tight fiscal policy to alleviate the impact of the financial crisis.

d) Internal rectification and clearance of financial institutions. Banks have reduced the scale of lending, especially in small and medium enterprises.

The Causes of SME Financing Problems

External Causes of SME Financing Problems

The external conditions of China's economic development are rather hard. The international background is complexing: a) The new president of the United States Trump policy toward China policy after taking office is not clear. b) Protectionism is serious throughout the world. c) The spread of Islamic terrorism. d) Slowdown in global economic growth.

But fortunately, the domestic economic environment is good. In 2016, the National Bureau of statistics issued a document on the overall economic and social development of the country. The data show that the GDP of last year was about seven billion yuan, which is an increase of six percentage points over the previous year, and the overall economic stability of China was stable. From the perspective of domestic economic development environment, we can analyze the external causes of financing difficulties of SMEs in China from the aspects of financial institutions and the government.

The vigorous development and prosperity of small and medium-sized enterprises can not be separated from the powerful support of funds and capital. Capital has an important significance for enterprises, just like the fish cannot do without water. The external reasons for the financing of small and medium-sized enterprises in China mainly lie in the following aspects:

a) Financing difficulties. According to McMillan's defect principle, both state-owned commercial banks and joint-stock commercial banks are more prone to loan to the powerful big group, large production scale and powerful enterprises. It is because of this kind of preference of banks that small and medium-sized enterprises have made great difficulty in obtaining loans from formal banks. Because of the impact of the financial crisis, commercial banks have implemented the system of lifelong accountability of credit personnel lending, credit individuals will not easily provide loans to SMEs in order to avoid lifelong responsibility.

b) Financing costs are expensive. The law expressly stipulates that enterprises should not lend money to each other, which not only makes the idle capital enterprises can not be effectively
utilized, but also lessens a channel for the enterprises which have urgent demand for financing.

Because of the expensive bank loans, difficult loans, complex procedures and long cycle, small and medium-sized enterprises have to place their hopes on private lending, which is a dangerous financing tool. As we all know, the biggest advantage of private lending is short time and high efficiency, but its drawbacks and risks are also worrying.

c) Imperfect financial system. Although the financial system of our country has developed rapidly in the decades of reform and opening up, but it is still unsound from the whole financial system. The main reason is that there is a lack of a competitive system among the financial institutions, which leads to the dominant role of the credit market. Small and medium sized enterprises can only be passively chosen by banks as they are now.

d) The number of private financing institutions is small. Compared with banks, the number of private financing institutions is extremely small among China’s financial institutions. If people want to achieve the goal of value-added, they can only through the financial institutions such as banks. If the formal and efficient folk financial institutions can be recognized by law, it will tackle the financing difficulties of small and medium-sized enterprises greatly.

e) Less preferential policies for SMEs. For a long time, China's support and preferential policies are basically concentrated in large enterprises rather than small and medium-sized enterprises. Although some preferential policies and some laws and regulations have been promulgated, some of them have not been effectively implemented.

The Internal Reasons for the Financing Problems of SMEs in China

The first is the inherent defects of small and medium-sized enterprises. There are fewer employees in small and medium-sized enterprises, and there is no rich experience in production, operation and management; the organizational structure of SMEs is simple. There is no separation between the right of management and that of the ownership of enterprises. Most of China's small and medium-sized enterprises are family-succession enterprises, which means that high-level and middle-level managers and employees are mostly related to each other, thus impeding the development of enterprises.

The second is that the small and medium-sized enterprise assets are fewer. Compared with large enterprises, capital accumulation in SMEs is slow. The number and scale of China's small and medium-sized enterprises is relatively small and property rights are unknown. Enterprise assets can generally be divided into tangible assets and intangible assets. Not only the tangible assets of SMEs are lack, but the intangible assets are rare.

The third is that small and medium-sized enterprises are low in science and technology. China's small and medium-sized enterprises in labor-intensive industries accounted for the majority, especially in the coastal city. Enterprises have limited resources and relationships, while the production of the products and services of science and technology content are not high, the technology is not advanced, the high-quality professional and technical talents are in lack, leading to the result that small and medium-sized enterprises rarely have the intellectual intangible assets.

The forth is that SMEs are weak in risk resistance. SMEs’ ability to compete and resist huge market risks is weak and if firms suffer heavy losses, their ability to repay their debts is at stake.

The fifth is that the financial management is not standardized or opaque. The scale of SMEs’ production and business is not large, and the financial management activities have not been highly valued by managers, resulting in the vacancy of accounting departments and the shortage of accounting workers. Since only a few people are on control of SMEs’ management activities and the rights and responsibilities are not clearly distinct, the financial management activities are chaotic and the accounting information is distorted and ineffective.

Countermeasures to Solve the Problems in SMEs’ Financing

The problem of small and medium-sized enterprises financing difficulties is not only serious in China, but also a worldwide problem. To solve this problem, we should take the enterprise itself, the government and the financial institutions into consideration.
SMEs Should Improve Their Comprehensive Quality

First of all, seek countermeasures from the enterprise's own point of view:

a) Improve awareness of itself. SMEs need to try to shorten the cognitive bias on financing issues for credit problems will directly affect the enterprises to obtain funds through external financing methods. Only by establishing a good credit concept and reputation image can they be able to cooperate with financial institutions for long-term cooperation to reduce the cost of financing. First way is to improve the awareness of debt obligations, abide by the credit and shape the image of corporate credit and brand appeal. Second is to improve their credit rating in order to reduce the threshold of the bank loan.

b) Strengthen the internal management of enterprises. Small and medium-sized enterprises should establish and improve the financial system, the disclosure of statements should be true and accurate enough to ensure the authenticity and integrity of accounting data, which can not only provide a reliable and true basis for the application of loans, but also mobilize the enthusiasm of commercial banks for enterprise financing.

c) Seek new financing tools. SMSs can make full use of the current Internet platform resources or finance by GEM listing, but also can choose the form of trade financing or private lending to obtain loans. If enterprises have international trade behavior, they can also actively choose the international settlement to finance.

Commercial Banks Should Improve the Quality of Financing Services for SMEs

Commercial banks should take the initiative to improve the quality and quantity of financing services for SMEs. They can set up a special small and medium-sized enterprise department, create a platform for communication and interaction between banks and enterprises, and provide special financing services to small and medium-sized enterprises. They should implement the duty exemption system instead of the lifelong responsibility system, streamline the examination and approval process, make the loan procedures more concise, and make great efforts to carry out financial innovation. In addition, banks should continue to introduce new financing products, to meet SME' personalized needs.

The State Should Introduce the Policy to Support the Financing of Small and Medium-sized Enterprises

The state and the government should introduce some policies to support SMEs. Government should:

a) Establish a qualified guarantee system. The State and the government should strengthen the supervision of guarantee institutions, further introduce and improve the financing guarantee related legislation, and establish the SME financing guarantee of the regulatory body, regulatory content and regulatory rules. At the same time, the government should improve the information disclosure of financing Guarantee Corporation, mobilize the enthusiasm of the majority of market participants to supervise, and provide the guarantee for the financing guarantee of SMEs.

b) Establish and improve an effective indirect financing system for SMEs. Political or commercial banks should be established to serve the small and medium-sized enterprises, and to support and help the development of small and medium-sized enterprises.

c) Formulate and improve laws and regulations concerning financing. The government should improve the legal system of SME financing, such as the revision and improvement of the SME Promotion Law and the development of SME financing law.

Small and Medium Sized Enterprises Should Strengthen Cooperation with Those Abroad

The financing difficulties of SMEs in China are mainly caused by low production technology and low technology content. The small and medium-sized enterprises in the western developed capitalist countries have rich experience in the financing and management of enterprises. Our banks can build a platform for mutual communication between SMEs in China and SMEs abroad. In addition, China's SME can go out, investigate the production, operation and financing model of foreign small
and medium-sized enterprises, in order to achieve complementary and win-win purposes. They can also invite foreign experts in the financing of enterprises to serve as consultants.

References