

Analysis on the Problems and Countermeasures of Financing for Small and Medium sized Enterprises in China

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Abstract: The rapid development of small and medium-sized enterprises provides continuous employment opportunities for society, drives economic prosperity, promotes technological innovation, and contributes to the rapid development of society. Based on the financing characteristics of small and medium-sized enterprises, this article analyzes the current situation of financing for small and medium-sized enterprises from the perspectives of financing channels and methods. It is found that small and medium-sized enterprises have external financing constraints in terms of listing financing, private fund financing, and bank financing. Based on this, further analysis reveals that small and medium-sized enterprises have natural weaknesses, and specific suggestions are provided for addressing the financing problems of small and medium-sized enterprises.

Keywords: Small and medium-sized enterprises; Financing channels; Financing methods; Solutions

1. Introduction

As of the end of 2021, the number of registered small and medium-sized enterprises in China has reached 48.038 million, accounting for 94% of the total number of enterprises in China. The Chinese government attaches great importance to the development of small and medium-sized enterprises, and in recent years, has successively issued relevant policies to increase financing guarantees and support for small and medium-sized enterprises.

The economic development trend of small and medium-sized enterprises is good, but there are also many hidden dangers that hinder development. The first thing to face is the shortage of funds. Funds are the lifeline of enterprise operation. Due to their small business scale, low credit level, and high default risk, small and medium-sized enterprises have a natural inferior quality. Compared to large enterprises, the financing problems of small and medium-sized enterprises are more prominent, and even improper financing affects the survival of enterprises. Therefore, in the new era, it is urgent to re-examine the financing issues of small and medium-sized enterprises. Based on a comprehensive review of domestic and foreign literature, there has been a wealth of research on financing issues and strategies for small and medium-sized enterprises, which will provide a detailed theoretical basis for this article. The theoretical research on financing issues for small and medium-sized enterprises in foreign countries is earlier than in China, such as Baner Jeel's "Long Term Interaction Hypothesis" in 1994 and Ross's "Information Asymmetry Theory" in 1977. However, with the development of China's economy, Chinese scholars are increasingly paying attention to the financing problem of small and medium-sized enterprises, and by applying foreign theories and starting from China's basic national conditions, on the basis of traditional financing methods, further exploring financing methods suitable for local small and medium-sized enterprises. et al. Analyzed the influencing factors of financing problems for small and medium-sized enterprises from the perspective of financing problems, and some scholars conducted in-depth research on financing strategies, proposing financial tools suitable for financing for small and medium-sized enterprises, emphasizing the construction of internal control systems, digital finance, and other measures (Geng Aoyi, Liu Qiqi, Qu Shuping et al). This article is based on information asymmetry theory and high-level echelon theory, analyzing the current financing structure of small and medium-sized enterprises. Based on this, it summarizes the current financing problems of small and medium-sized enterprises, and provides reference for financing for small and medium-sized enterprises from the perspectives of improving financing concepts, expanding financing channels, and fully utilizing preferential policies.

2.The current development status of small and medium-sized enterprises in China

2.1 Characteristics of small and medium-sized enterprises in China

At present, small and medium-sized enterprises in China have the following characteristics: firstly, they are numerous, widely distributed, and involve a wide range of industries; Secondly, the lifespan of the enterprise is short and the old and new updates are fast; Thirdly, it is concentrated in labor-intensive industries, with small scale and poor technical equipment; Fourthly, the ownership and management rights of enterprises are highly unified, and the owner and operator are merged into one; Fifth, there is a shortage of talents and a weak team spirit.

2.2 The status and role of small and medium-sized enterprises in China

As of the end of 2021, the registered market entities nationwide reached 154 million, including 51 million enterprises and 103 million individual businesses.

In 2021, the average operating income rate of small and medium-sized enterprises in China was 6.2%, 0.9 percentage points higher than the end of 2012, and the development quality and efficiency continued to improve. A large number of new technologies, industries, formats, and models originate from small and medium-sized enterprises. According to the “2021 China Small and Medium sized Enterprise Financing Development Report”, the final product and service value of small and medium sized enterprises in China accounted for over 60% of GDP in 2021, with approximately 79.4% of urban labor and employment contributions.

According to the 2022 Environmental Assessment Report on the Development of Small and Medium sized Enterprises released by the Ministry of Industry and Information Technology of China, in 2021, the average transaction volume of technology contracts for small and medium-sized enterprises in participating cities was 72.178 billion yuan, an increase of 21.453 billion yuan compared to 2019. The average domestic patent authorization and trademark registration in 2021 were 58600 and 102500, respectively. The three indicators of small and medium-sized enterprises in participating cities showed an overall trend of growth, and the innovation capacity of small and medium-sized enterprises in the country was improving at a stable growth rate.

3.The current situation of financing for small and medium-sized enterprises in China

The importance of working capital lies in the fact that every turnover of working capital may create profits for the enterprise. It is undeniable that financing is the source of working capital for enterprises and is crucial for their development. This article studies the current financing status of small and medium-sized enterprises from different paths such as mainstream financing channels and financing methods.

3.1 Financing channels

3.1.1 Internal financing

Endogenous financing has various advantages such as low cost, convenience, and no need to repay principal and interest. Small and medium-sized enterprises both domestically and internationally have a large demand for endogenous financing. Internal financing essentially refers to the accumulation of funds within a company, mainly including self owned funds, loans from family and friends, and reinvestment of retained earnings.

According to the sample survey report on the working capital structure of small and medium-sized enterprises in China in 2021, the data is sourced from the China Project Development Center of the International Finance Corporation: jointly funded by the governments of Australia, Switzerland, and the United Kingdom, and the International Finance Corporation. The headquarters is located in Chengdu, and the main work includes promoting financing for small and medium-sized enterprises, improving the development environment for small and medium-sized enterprises, and promoting the development of intermediary service institutions, 78.1% of the working capital of 601 small and medium-sized enterprises in the survey sample comes from their internal accumulation. This set of data indirectly reflects the overall working capital situation of small and medium-sized enterprises in China - their funding sources mainly rely on internal financing.

3.1.2 External financing

External financing has gradually become an important way for enterprises to obtain funds. This article analyzes the current financing situation of small and medium-sized enterprises in China from two aspects: direct financing and indirect financing.

First, direct financing. This article takes the most representative listed financing in direct financing as an example to briefly describe the current situation of direct financing for small and medium-sized enterprises. According to the plan of the Ministry of Industry and Information Technology, China will cultivate 10000 specialized, refined, and innovative small giants during the 14th Five Year Plan period. Since the cultivation of small and medium-sized enterprises' specialized, refined, and new small giants, as of the end of 2021, China has a total of 4235 provincial-level specialized, refined, and new small giants, as well as 4762 national level small giants. Among the national specialized, refined, and new small giants, 361 are listed on the A-share market, New Third Board There are 391 listed companies, but there are still 4010 small and medium-sized enterprises specialized in the new giant that have not yet entered the capital market. Under the huge base of small and medium-sized enterprises in the country, the number of small and medium-sized enterprises that can ultimately successfully go public and enjoy the dividends of the capital market is really small, and the current situation of difficulty for small and medium-sized enterprises to go public urgently needs to be solved.

Secondly, indirect financing. Financial institution loans have always been the main external financing method for small and medium-sized enterprises, especially inclusive small and micro enterprises. According to the Statistical Yearbook of the China Banking and Insurance Regulatory Commission from 2019 to 2021, with the strong support of governments, banks, and financial institutions across the country, the overall total amount of inclusive small and micro enterprise loans has increased increased government financing guarantees, a good trend of reducing financing costs. With the support of local governments and financial institutions, the amount of government financing guarantees has been increasing year by year, while the rate of financing guarantees has been decreasing year by year, making the indirect financing path for small and medium-sized enterprises increasingly smooth.

3.3 Financing methods

Song Hua (2019) pointed out in his book "Smart Supply Chain Finance" that diversified financing methods include listed financing, private equity funds, bank loans, supply chain finance, internet+finance, etc. [Song Hua. Smart Supply Chain Finance [M]. Beijing: China Renmin University Press, 2019 10-15]. This article takes universal financing methods such as listing financing, private equity funds, bank loans, etc. as the analysis object to explore the current situation of financing methods for small and medium-sized enterprises.

3.3.1 Listing financing

Listing financing refers to the equal division of all capital of the operating company, manifested in the form of stocks. After approval, it is listed and circulated, publicly issued, and directly purchased by investors. It can raise a huge amount of funds in a short period of time. Listing financing has three prominent advantages: firstly, the funds raised are permanent, have no maturity date, and there is no pressure to repay principal; Secondly, the one-time fundraising amount is large; Thirdly, the restrictions on usage are relatively loose. So both large and small and medium-sized enterprises want to use the company's listing to raise large amounts of funds and solve the company's financing difficulties.

3.3.2 Private equity funds

The securities market is the place where all securities are issued and traded, and is a collective term for various economic rights and interests. At present, the distribution of private equity fund registration products in China's securities market is uneven, with Guotai Jun'an Securities and Huatai Securities alone accounting for up to 43% of the market share. Obviously, registration products are monopolized by several large securities companies.

Under the monopolistic development trend of private equity fund products, financing for small and medium-sized enterprises distributed in various regions is greatly inconvenient, and the path for small and medium-sized enterprises to obtain financing through private equity funds may become narrow or even blocked.

3.3.3 Bank loans

Bank loans have always been the main external financing method for small and medium-sized enterprises. According to data released by the China Banking and Insurance Regulatory Commission, the balance of loans used by banking and financial institutions for small and micro enterprises at the end of 2021 was 50 trillion yuan, with a year-on-year growth rate of 24.9% for inclusive small and micro enterprise loans of 10 million yuan or less, much higher than the average growth rate of loans. According to an OECD survey: In 2020, the median proportion of bank loans to total corporate loans for small and medium-sized enterprises in various countries was 40.41%, compared to 64.96% in China, which is higher than other developing economies and also higher than most developed economies.

Based on the current financing situation of small and medium-sized enterprises listed above, it can be observed that the external financing environment for small and medium-sized enterprises is getting better and better, and external financing constraints are gradually easing. This cannot be separated from the encouragement and support of local governments and financial institutions for small and medium-sized enterprise financing. However, due to the uncertainty of the development scale of small and medium-sized enterprises, the prominence of operational and default risks, and the outdated and outdated financing concepts, financing issues remain obstacles and hidden diseases for the development of small and medium-sized enterprises in the current situation. Once the funding chain breaks, small and medium-sized enterprises will no longer exist.

4. Solutions to Financing Difficulties for Small and Medium sized Enterprises in China

4.1 Relieve financing channel constraints

4.1.1 Enhancing the vitality of endogenous financing

Only by continuously improving profitability can enterprises obtain more economic benefits in their development and utilize their own internal funds to alleviate financing constraints. Therefore, improving the profitability of small and medium-sized enterprises is crucial.

The first is to scientifically control the sales costs of enterprises. The cost of sales has a significant impact on the profitability of small and medium-sized enterprises. In order to increase their profit margin, small and medium-sized enterprises need to scientifically control various sales costs and expenses in their business processes.

The second is to actively apply market penetration strategies. To enhance the market share of enterprises, small and medium-sized enterprise managers can formulate corresponding market development strategies from three aspects: target market, market analysis, and market positioning. This can provide scientific conditions for the development of the enterprise market and have a positive significance for improving the profitability of the enterprise.

The third is to strengthen product innovation. Products are an important tool for enhancing profitability in the development of small and medium-sized enterprises. In order to enhance product innovation, small and medium-sized enterprises can increase capital investment, create new product content, endow products with more attractiveness, and thus make their products more competitive in the industry.

4.1.2 Increase policy implementation efforts

As can be seen from the previous text, there is a certain gap between the awareness and implementation of the policy of assisting enterprises in poverty alleviation. From the practical perspective of policy implementation, on the one hand, it is necessary for government departments to coordinate and cooperate, and do a good job in tracking and auditing policy implementation. From regular policy implementation tracking results, it is possible to fully understand the application of policies in small and medium-sized enterprises, and relevant departments can also make corresponding adjustments to policies based on the audit results as soon as possible. On the other hand, small and medium-sized enterprises should not only be satisfied with the level of knowledge about the policies for aiding and relieving enterprises, but should also have a deep understanding and make full use of preferential policies to help enterprises develop.

4.2 Emphasize diversified financing methods

4.2.1 Fully utilize new sectors for listing

At present, in addition to the main board that requires higher approval for listing, there are also three sectors in China that allow companies to go public: the ChiNext, Science and Technology Innovation Board, and the New Third Board, which have lower listing thresholds and diversified listing standards. Compared to other sectors, the Science and Technology Innovation Board allows companies to go public without realizing profits, which undoubtedly brings good news for small and medium-sized enterprises to go public.

The reform of the stock issuance registration system was officially launched in 2023, this new measure by the China Securities Regulatory Commission will accelerate the pace of listing and financing for small and medium-sized enterprises.

4.2.2 Attempting new financing methods

Actively try diversified financing methods and expand financing channels. From a practical perspective, China's small and medium-sized enterprises have a single financing channel and highly rely on bank loans. Therefore, small and medium-sized enterprises should actively try other financing methods, such as Internet+finance, supply chain financing, financial leasing and other new financing methods, cleverly utilize inclusive financial policies, expand financing channels, and enrich the sources of enterprise funds.

4.2.3 Enhance the financing awareness of enterprise managers

Enterprise managers themselves should enhance their financing awareness and management level. The phenomenon of centralization of power in small and medium-sized enterprises is quite serious. As the controllers and decision-makers of enterprise rights, they should gradually enhance their financing awareness and use different channels to understand the latest developments in the financial market.

4.2.4 Attract professional talents in fund management

Actively attract fund management professionals. Due to the imperfect internal control system and talent management system, there is a serious phenomenon of talent loss in small and medium-sized enterprises, especially in private fund management talents. Therefore, in order to improve the efficiency of private equity fund financing, small and medium-sized enterprises should increase their talent cultivation efforts, which can be achieved by increasing salary benefits or equity incentives to provide sufficient material protection for enterprise talents, thus achieving the goal of retaining talents.

4.2.5 Establish and improve standard financial systems

Small and medium-sized enterprises should establish sound financial systems, standardize accounting, increase accounting information disclosure, pay attention to corporate integrity, repay on time and in full, and thereby improve the success rate of corporate financing. A sound financial system is of great significance for the financing of small and medium-sized enterprises. For example, when banks issue loans to small and medium-sized enterprises, they will check the enterprise's tax receipts, transaction records, credit ratings, and other information. Standard financial processes are the guarantee of enterprise credit. In addition, small and medium-sized enterprises should avoid capital waste as much as possible, reduce unnecessary additional expenses as much as possible, and improve the efficiency of enterprise capital utilization.

5. Conclusion

Small and medium-sized enterprises are the main force of China's economic development, the main channel for employment, and an important carrier of innovation. Solving the financing problem of small and medium-sized enterprises requires multiple assistance, including strong support from financial policies and the improvement of their core competitiveness. This article analyzes the current financing situation of small and medium-sized enterprises in China, taking the perspective of small and medium-sized enterprises as the starting point, and provides countermeasures and suggestions from two aspects: alleviating financing channel constraints and valuing diversified financing methods. It suggests increasing policy implementation efforts, fully utilizing new sectors for listing, attracting fund management professionals, and establishing a sound standard financial system to improve the efficiency of small and medium-sized enterprise loans. I hope to provide meager efforts to solve the financing problem of small and medium-sized enterprises.

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