

# Research on Financing Problems of Small and Medium-sized Enterprises under Supply Chain Finance

Juehao Li

School of Economics and Management, Guangxi Normal University, Guilin, Guangxi, 541006, China

---

**Abstract:** Information asymmetry between banks and enterprises has led to banks not favouring small and medium-sized enterprises (SMEs) in traditional credit. In order to meet the development needs of SMEs, the problem of financing constraints needs to be solved urgently. With the use of supply chain finance, it is of great practical significance to solve the problem of financing constraints of SMEs and promote the innovative development of SMEs. This paper mainly starts from the perspective of supply chain finance, analyses the main financing modes under this financing system, summarizes the financing problems of SMEs under this perspective, and puts forward financing suggestions from the perspective of policy support, with a view to helping SMEs to give full play to the advantages of supply chain financing and promoting the rapid development of SMEs.

**Keywords:** Supply Chain Finance, SME Financing, Challenges and Strategies

---

## 1. Introduction

In recent years, with the rapid development of China's market economy, the competition among enterprises has been increasing, and enterprises have to adopt credit sales on a large scale to increase sales and thus expand their market business, which has led to the problem of accounts receivable backlog. In order to solve this problem, supply chain finance has emerged through the empowerment of financial technology, which can effectively solve the problem of high financing threshold of small and medium-sized enterprises (SMEs) brought about by information asymmetry, and help SMEs to create a good financing environment. Therefore, it is necessary to carry out research on supply chain finance to broaden the financing channels of SMEs.

## 2. Literature Review

### 2.1. The Financing Difficulties of SMEs

Wu Lili et al. (2021) found that SMEs have higher financing costs due to relatively narrow financing channels, and put forward suggestions on financing from SMEs themselves, the government and financial institutions. Firstly, SMEs should improve their ability to withstand risks; secondly, the government should play a guiding role through strong legal guarantees; and lastly, financial institutions should set up specialised credit service departments to provide diversified financing platforms<sup>[1]</sup>.

### 2.2. Supply Chain Finance Financing Models

Lamoureux (2008) believes that supply chain finance can bring a new financing choice mode for upstream and downstream related enterprises in the supply chain<sup>[2]</sup>. Yang Bin et al. (2016) proposed a new supply chain finance model, which mainly shares the risk arising from bad debts, so that suppliers and commercial banks share the risk to achieve the purpose of cost reduction<sup>[3]</sup>.

### 2.3. Mechanism of Supply Chain Finance in Solving the Problem of Financing Difficulties of SMEs

Su Zengfu (2021) argues that the financing channels of SMEs can be broadened by accelerating the speed of supply chain finance information transmission<sup>[4]</sup>. Li Yuxuan et al. (2021) pointed out that supply chain finance can optimise internal resource allocation to open up the important links of production and operation, and achieve the sustainability of the supply chain<sup>[5]</sup>.

### **3. Difficulties and causes of SME financing**

#### **3.1. The Financing Dilemma of SMEs**

##### *3.1.1. Over-reliance on external borrowing for financing*

The relatively small asset size of SMEs does not allow them to meet the stringent restrictions for listing in the capital markets, so SMEs often opt for borrowing as a form of external financing.

##### *3.1.2. Difficulty in financing*

The financial situation, profitability, and ability to combat external systemic risks of small enterprises are not as good as those of large enterprises, so commercial banks and other financial institutions will prefer to grant loans to large enterprises, making it more difficult for SMEs to raise funds.

#### **3.2. Causes of SME financing difficulties**

##### *3.2.1. Internal factors*

Firstly, because SMEs generally have fewer fixed assets, they are unable to provide sufficient effective collateral for mortgage financing when lending to banks and other financial institutions, which makes banks reluctant to lend. Secondly, SMEs lack special risk control departments in their internal job settings, and their business management systems are not perfect, making financing more difficult. Finally, the lack of talent in SMEs and their weak ability to attract talent make it difficult to raise funds at low financing costs.

##### *3.2.2. External factors*

Information asymmetry between SMEs and commercial banks and other financial institutions results in adverse selection and moral hazard. Adverse selection is mainly manifested in the fact that commercial banks and other financial institutions are unable to assess the loan needs of SMEs, and ultimately will not grant loans to enterprises with relatively poor qualifications. Moral hazard is mainly manifested in the fact that after obtaining the funds, SMEs do not use them for the purposes agreed in the loan contract, but use them for other high-risk investment areas, which increases the lending risk of commercial banks and other financial institutions.

### **4. Operation mode and advantages of supply chain finance**

#### **4.1. Operational Models of Supply Chain Finance**

Nowadays, the production mode of enterprises has changed from single to collective cooperation, which has led to the emergence of a whole supply chain. Commercial banks have developed an innovative financial business based on the needs of enterprise supply chain management: taking the core enterprises in the supply chain as the starting point, injecting funds into the upstream and downstream suppliers, solving the problem of difficult financing and expensive financing for SMEs, and at the same time introducing commercial banks, injecting bank credit into the commercial credit between enterprises, linking the core enterprises in the supply chain with the middle and lower reaches of the supply chain, and transforming the uncontrollable risk of individual enterprises into the controllable risk of the supply chain as a whole, and promoting the establishment of long-term strategy between SMEs and the supply chain. The uncontrollable risks of individual enterprises are transformed into controllable risks of the supply chain as a whole, which promotes the establishment of long-term strategic synergistic relationship between SMEs in the supply chain and core enterprises.

#### **4.2. Advantages of Supply Chain Finance**

Improvement of information asymmetry in financing. The main reason for the difficulty of financing SMEs is the asymmetry of information between borrowers and lenders. Compared with large enterprises, SMEs lack a perfect business management system, and financial transparency is relatively low, so it is more difficult to obtain loans from commercial banks and other financial institutions. The emergence of supply chain finance has changed the traditional financing model. Commercial banks no longer directly assess the operation and financial status of SMEs, but first assess the operation status of core enterprises in the supply chain. By assessing the trade transactions between the core enterprise and the upstream and downstream enterprises, they will then decide whether to provide supply chain financial services to the

upstream and downstream SMEs. By monitoring the capital flow and logistics of each transaction, commercial banks can grasp the real operating conditions of the credit-granting entities, thus improving the information asymmetry.

## 5. Conclusion and Recommendations

### 5.1. Conclusion

The article focuses on the role and importance of supply chain finance in solving the financing difficulties of SMEs. SMEs face greater financing difficulties due to their smaller size and fewer assets, which mainly stem from internal factors such as insufficient assets, poor risk management and lack of talent, as well as external factors such as information asymmetry with financial institutions. The article analyses the operation mode of supply chain finance and highlights its advantages, including the improvement of information asymmetry and the promotion of long-term strategic synergy between SMEs and core enterprises. Supply chain finance, empowered by fintech, provides SMEs with new financing options, helps solve the information asymmetry problem, and lowers the financing threshold.

In summary, the article argues that supply chain finance is of great practical significance for promoting the innovative development of SMEs, and puts forward specific suggestions for policy support and financial institution operation, with a view to helping SMEs make full use of the advantages of supply chain finance and achieve rapid development.

### 5.2. Recommendations

#### 5.2.1. Building a unified, efficient and transparent information service platform

Relevant government departments should establish a sound supply chain credit system, reduce the degree of information asymmetry between financial institutions and SMEs, innovate the supply chain credit system, achieve standardisation and unification, and strictly supervise the credit rating work; the government can take advantage of the Internet technology, use its own advantages in information control, build an information transparency, information interoperability, efficient and convenient information service platform, and broaden the scope of supply chain financial financing subjects and financing business.

#### 5.2.2. Strengthen risk prevention

Establish a complete set of risk warning mechanisms. Financial institutions should establish a set of risk early warning mechanisms, appropriately improve the market access of supply chain finance, strictly control the financing qualification of SMEs in supply chain finance, implement a special supervision mechanism for supply chain finance business, prevent and control the credit risks that may arise in supply chain finance, and build a set of risk early warning mechanisms.

## References

- [1] Wu Lili, Zou Xiaofeng. Analysis of Financing Dilemma and Countermeasures of Small and Medium-sized Enterprises in China [J]. Enterprise Science and Technology and Development, 2021(12): 4-6.
- [2] Michael Lamoureux, A Supply Chain Finance Prime [J]. Supply Chain Finance, 2007, 4 : 34-48.
- [3] Yang Bin, Zhu Weiming, Zhao Haiying . Research on Supplier-led Supply Chain Finance Model [J]. Financial Research, 2016(12): 175-190.
- [4] Corn Zengfu . Research on Financing Problems and Countermeasures of Small and Medium-sized Enterprises Based on Supply Chain Finance .[J]. Journal of Guangxi Vocational Teachers College, 2021, 33(3): 18-23.
- [5] Li Yuxuan, Xie Guifen . Research on Financing Problems of Small and Medium-sized Enterprises Based on Supply Chain Perspective [J]. Research [J]. Market Weekly, 2021, 34(10):32-33+108.