



Research on the Financing of Small and Medium Enterprises

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Abstract

Small and medium enterprises' financing constraints are an important reason for its development in recent years, national policy and legal aspects are also efforts to promote the development of SMEs, the SME financing is still a lot of the biggest obstacles to entrepreneurs. In this paper, the status of financing small and medium enterprises start to analyze the reasons for its financing of the status, and guide financial institutions to be innovative financial products and improve financial services, a variety of financing at the same time, expand the financing channels for small and medium enterprises, can also build a multi-level credit Security system, security is difficult for SMEs to resolve outstanding issues.

Keywords: Small and medium enterprises, Financing

China's economic development in small and medium enterprises play an important role. There are more than 10 million small and medium enterprises, which was the 99% of the total number of registered companies, the total industrial output value and profits were up 60% of the country and 40%, provided About 75% of urban jobs, so how to properly resolve the problem of financing of small and medium enterprises is of great significance. Recently, the National Development and Reform Commission according to a survey: SME loans declined to be more than 56%, a survey conducted by the National Bureau of Statistics also showed that nearly 4% of the working capital of private enterprises from some loan sharks, of which nearly 1 % Of the companies working capital by more than 25% of the loan sharks of the financing. Financing the development of small and medium enterprises become one of the major problems. From a global point of view, financing is also constrained the development of SMEs in the primary bottleneck. As a result, analysis of the causes of the current situation and financing small and medium enterprises, small and medium enterprises to recall the basic practice of financing, financing for small and medium enterprises in the institutional, policy and operational obstacles to study hard to ease the financing of policy recommendations for promoting the healthy development of small and medium enterprises with very important practical significance.

1. Difficulties of China's small and medium enterprises financing are caused by following main reasons.

In 2003, 56% of China's GDP, 59% of sales in the community, 46% of revenue, 62% of exports and employment, 75% are from small and medium enterprises to create or provided. However, it is very disproportionate between SMEs' financial resources in its national economic and its social development in the status of the role.

1.1 Small and medium enterprises financing status

1.1.1 The normal operation and necessary funds is insufficient.

China's system of financing of small and medium enterprises, venture capital funds is less obvious, there are also fewer funds invested in enterprises in total of 300 million. Specifically, small and medium enterprises, unlike large enterprises which can use issuing corporate bonds and stocks, and other means from the capital markets to raise funds; at the same time it is very difficult to borrow money from financial institutions for small and medium enterprises in order to retain profits, enterprises, equipment depreciation, and other internal capital accumulation is limited.

1.1.2 Less access to credit support.

According to statistics, China's 3,000,000 private bank loans supported by only 10%. Township in 2003, private individuals, "three-capital" of corporate short-term loans accounted for all the short-term bank loans ratio was only 14.4 percent. According to the survey, in 2001 private investment which from bank loans was 20.1 percent in Zhejiang Province. Compared with large enterprises, the financial structure of SMEs is in much harsh conditions. Generally, SMEs have weak financial strength, low credit, when the financial institutions lending to SMEs, the mortgage on the property and guarantee is very strict, even to improve financing conditions, such as raising substantial interest rate, shorten the period of financing and so on. On the other hand, complicated credit procedures also affects the financing of SMEs.

1.1.3 Narrow channels of direct financing.

Due to the high threshold of the stock market, the venture capital system, and it is difficult to raise funds through capital markets for small and medium enterprises. According to research of the People's Bank of China in August 2003 showed that 98.7 percent of SME' financing comes from bank loans, that means only 1.3 percent is direct financing.

1.1.4 The lack of its own funds.

China's non-public enterprises from scratch, from small to large and from weak to strong, enterprise development mainly depends on the accumulation of their own, with the source of financing, which greatly restricted the rapid development of business and grow in size and strength. According to the study of the International Finance Corporation, the owners of capital and retained earnings were within our private sources of funding accounted for 30% and 26%, corporate bonds and external equity financing less than 1%.

1.2 *The main causes of small and medium enterprises "financing".*

Small and medium enterprises have their own reasons in financing, but banks and other financial institutions as well as policies also have some problems, and many other reasons, as for their own reasons can be followed.

1.2.1 Small and medium enterprises usually operate in small-scale, with low ability to resist risks, industry competition, even more difficult to survive. From the safety of bank loans, more willing to choose loans for large and medium-sized enterprises. In mortgages, land, property, and other real estate as collateral are the form of loans or guarantees. Due to the small and medium enterprises in China for more than the current lease, in the form of contractual operation, without its own asset-backed, and those linked to collective or joint ventures, co-operation of private enterprises in the machinery and equipment and housing ownership, land use right of access on certain is the legal obstacles, which makes bank loans to SMEs more difficult to achieve.

1.2.2 Small-scale guarantee, decentralized risks and the lack of compensation, and corporate credit capacity is poor.

According to the survey, small and medium enterprises' loan ratio is as high as 23.8 percent, because of implementation of security, as much as 32.3 percent can not occur while the loan-to-resist, both the total refusal of the total loan rate is as high as 56.1 percent. However, the credit guarantee for small and medium enterprises development is also difficult to meet the majority of the SMEs need to enhance the ability of credit: the establishment of the government-funded credit guarantee agency usually only be the beginning of planning for the one-time financial support, lack of follow-up of a compensation mechanism; private security agencies' ownership by discrimination, can only be left holding the bag secured credit risk, and can not be shared with the collaboration mechanism for the formation of the bank. Due to security and to spread the risks of loss and share the compensation system has not yet taken shape, making security funds to enlarge the functions and the ability of credit guarantee agencies are subject to greater restrictions. In addition, credit guarantee and related laws and regulations behind the building of a certain extent, the impact of the credit guarantee agencies regulate development.

1.2.3 Lower credit rating of SMEs also affected the enthusiasm of bank loans.

Weak capacity to finance small and medium enterprises, information asymmetry, the impact on the enthusiasm of the banks. Weak basis for the management of small and medium enterprises, and a general lack of good corporate governance mechanism. Part of the financial management of small and medium enterprises need to be further regulate. As the small part of the financial reporting system behind, lack of transparency of information, lack of audit departments confirmed that the financial statements and good operating performance, an increase of the bank-to-business financial information to review the degree of difficulty, the banks face a greater risk. In addition, the complexity associated with the transaction, financial systems, a lower degree of transparency is not high degree of credit. SME loan is characterized by "less urgency, frequency," the bank credit for SMEs are often a result of asymmetric information, credit transactions and monitoring costs and high risks rather than loans. In 2003, China's major commercial banks to SMEs, the average non-performing loan rate of 32.1percent, commercial banks than the average non-performing loan rate of 15.7percent higher than that of poor quality loans have also affected the enthusiasm of bank loans. Such as Jiangsu, Zhejiang related to the survey, small and medium enterprises credit rating over 60percent in the following. In recent years, corporate restructuring, a number of small and medium enterprises "Jinchantuoke" an attempt to evade the bank's debt occurred from time to time, making bank loans to SMEs with great care.

2. The financing system also affects the small and medium enterprises finance.

It's a long time for less credit of SMEs. China's policies and financing system based on state-owned enterprises, especially large state-owned enterprises, which was not for the SMEs in the service system, has become a constraint the crux of their development, specifically in the following areas.

2.1 The distribution of financial resources and distribution of small and medium enterprises does not match, and the policy strength is not strong.

To guard against financial risks, the state-owned commercial banks are "big cities, large enterprises and projects," the strategy of large-scale grass-roots networks merge, the loan authority to make those small and medium enterprises and the supply of funds that match small and medium-sized financial institutions have a responsibility-free right, but not the power. At the same time, the government of the bank loans of small and medium enterprises to carry out incentive to be innovative, banking institutions in their own settings, product design, credit rating, credit management for small and medium enterprises find it hard to adapt to the specific needs of financial services. China has set up SME Technology Innovation Fund for small and medium enterprises and international market development funds, but each year only 10 billion meet the needs of small and medium enterprises development. From 1999-2004 in May, individual small business loans to national security only paid 1.8 billion, compared with the huge capital needs of small and medium enterprises which was only a drop in the bucket. China's other multi-level capital market has not yet taken shape, direct financing and indirect financing is of non-conforming. According to the data show that in 2003 the first two quarter of the stock market accounted for only 1.6 percent financing, equity financing in the first three quarters accounted for 2.2 percent. In direct financing and indirect financing structure of a lack of co-ordination under the premise of the main board stock market or tilt to large enterprises. In addition, the low threshold of the Growth Enterprise Market of the delay in opening, the local equity market have been banned, non-formal financing the lack of legal support for small and medium enterprises direct financing problems worse.

2.2 Bank's inadequate incentives.

Major banks enhance their risk management, credit to their non-performing loans caused by the acts of credit should be held responsible for life, and the economic benefits generated by lending its no incentive provisions, resulting in banks reluctant to lend.

2.3 Social service agencies are not perfect.

No unified national credit evaluation mechanism and supervision mechanism, the central budget has not yet secured funding clear, there is no comprehensive national security system, the lack of financing for small and medium enterprises to provide intermediary services, small and medium enterprises difficult to guarantee, mortgage difficult. Enterprises have to apply for a mortgage the property must apply for assessment of the property, registration, insurance, notary, and other complex procedures involved in a number of functional departments and to provide a wide range of relevant information, and mortgage registration and evaluation of high-cost, arbitrary. Due to the normal supply of funds and lack of blocking the channels, forcing a large number of small and medium enterprises to obtain the necessary funds have high exposure to interest rate risks on the ground floor of the capital market.

3. Measures taken by small and medium enterprises for financing.

To further enhance small and medium enterprises in China's economic and social development ,the states should take a series of measures in "financial difficulties" :

3.1 Guide financial institutions, innovative financial products and improve financial services.

In 1998, China's four major state-owned commercial banks have been formed by the Ministry of Finance, two small and medium enterprises to adjust lending rates, floating interest rates to encourage commercial banks to increase loans to small and medium enterprises, and encourage and guide a series of business Bank of strengthening and improving financial services for SMEs specific measures. For example, through the Central Bank refinancing and rediscount and to issue financial bonds in the form of small and medium enterprises in order to serve the small and medium-sized financial institutions to support; adequate working capital loans to small and medium enterprises delegation of authority is for approval; on the markets and economic returns, SME credit can be issued to simplify loan procedures and improve the credit system, expanding the proportion of credit, and so on. These incentives the mobilization of commercial bank loans to SMEs enthusiasm to a certain extent,. China Development Bank as a national policy banks, based on an active network of lending to small and medium enterprises, and the conditions of the credit guarantee institutions for SMEs is on a trial basis and secured. The joint-stock commercial banks are doing their best to achieve the financial philosophy of financial products and services innovation. Guangdong Development Bank decided lending 100billion yuan to non-public ownership enterprises and small and medium enterprises in three years , and this well-built "Private 100" special financial services program. In response to the "start" and "growth" and "development" phase of the three different financing needs of the eight packages designed to effectively address the difficult issues of corporate loans. According to the survey, urban commercial banks take more than 70% of credit funds into the various types of small and medium enterprises.

3.2 Broaden the financing channels for small and medium enterprises.

First, the establishment of scientific and technological innovation fund, through the discount interest loans,free financing, such as capital investment, science and technology to support the rapid development of small and medium

enterprises. From 1999 to 2003, the state invested a total of 3.3 billion funds to support the 4946 national high-tech small and medium enterprises, vigorously promoted the development of small and medium enterprises and entrepreneurs. Second is the establishment of property rights in trading market. At present, China has established more than 200 different levels, different sizes of property rights trading market, Shanghai, Beijing, Tianjin and other cities of property rights trading market has been a considerable scale. 2003 Shanghai Property Rights Exchange's trading volume has exceeded 30,000million yuan, for all types of assets, restructuring small and medium enterprises, multi-property rights to provide a trading platform. Third, give full play to the pawn, lease financing for small and medium enterprises, and other characteristics of the role of the financial instrument. By the end of 2003, China's pawn line has been developed to more than 1,000, more than 60 million capital for SMEs through the pawn to facilitate financing; size of the lease financing have become increasingly polarized, 2003, only one in Zhejiang province, more than leasing business 7,000million yuan. Fourth, setting opening and direct financing channels. In May this year, the Shenzhen Stock Exchange launched the SME board, strong priority for the rapidly growing small and medium enterprises to provide a source of direct financing. According to statistics, there are now 34 completed public offering, with a total size of 83.4million shares, issued 822.1million yuan of the total amount of financing, the average size of 2,452 million shares issued, the average amount of 242 million financing, the listing of new shares on the first day or an average of 83%. In line with a number of conditions for the growth of small and medium enterprises will be listed on financing opportunities.

3.3 Building a multi-level credit guarantee system for SMEs to resolve outstanding security issues is difficult.

Local governments at all levels support small and medium enterprises. Learning from developed countries , combined with the reality of our country to promote the SME credit guarantee system for the building work. Through years of practice and gradually explore with Chinese characteristics "One Body Two Wings four-story," the credit guarantee system for small and medium enterprises will be made. "Integration" means the main body model emphasis on "diversification of funding, market-oriented operation of enterprises, those blue-chip support"; "two wings" refers to the commercial and civil security guarantees as a necessary complement and mutual assistance; "four" refers to the central level, Province (cities, districts) level, city level, county (city) level. In recent years, issued a guarantee to the relevant laws, policies and tax incentives, and so on, has vigorously promoted the formation of the security industry and development. According to incomplete statistics, as of the end of in June 2003, the country has set up various types of SME credit guarantee agencies 966, secured funds to raise a total of 28.70million yuan; a total insured business of about 50,000, the total amount secured a total of about 118 billion yuan, Insurance companies to add 11.8 billion sales, profits and taxes add 10.2 billion. To some extent alleviate the difficulties SMEs look for security problems.

3.4 To promote small and medium enterprises credit system, enhance the capacity of small and medium enterprises financing.

Credit needs to cultivate and standardize the credit market and improve the credit system and create a credit environment for SMEs to upgrade the overall quality and competitiveness, against credit risk, to increase its financing capacity, with urgent practical significance. On the one hand, establishing and improving the external business of small and medium enterprises credit information systems and credit evaluation system gradually. As for banks it is urgent to provide credit information business, and keeping promises in recognition of small and medium enterprises, establish a typical credit vigorously publicizing and promoting the advanced credit management mode and experience ; On the other hand, active in the enterprise credit system and the popularity of the work to strengthen the internal management of the contract, warning of marketing, business accounts collection, management and accounting investigations, and other former employees, business, management, detection, and other personnel to carry out credit and professional skills training, training credit analysis of the survey, evaluation and supervision of professionals. Through the establishment of business credit files, credit rating, business credit system, and improve their own financing capacity.

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