

Investigation and Analysis of the Situation of Financing of Small and Medium-Sized Enterprises---Taking Xiaogan as an Example

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ABSTRACT

There have been many problems in the financing of small and medium-sized enterprises(SMEs), but in recent years, due to the epidemic, the financing of SMEs has become more and more difficult. Therefore, based on this situation, by searching the literature and using literature analysis methodologies, case analysis and data analysis, this paper discusses the current situation, development trends and financing problems of SMEs in China. At the same time, it states China's SMEs development and the development of SMEs in Xiaogan City and summarizes some problems existing in the financing of SMEs: few effective financing channels, incomplete development of the financial market, and so on. In view of these problems, this paper puts forward a series of relevant policies and measures, such as standardizing the financial system of SMEs, improving the credit management mechanism of SMEs, and perfecting relevant laws and regulations. Through these measures to solve the financing problems of SMEs in Xiaogan City.

Keywords: *Xiaogan, Small and medium-sized enterprises, Financing*

1. INTRODUCTION

Financing, in a narrow sense, is the action and procedure of an enterprise's fund-raising. In the broad sense, financing can also be called finance, which is the financing of financial assets. In the financial market, the parties use different ways to raise or lend funds. China has a huge number of SMEs. They are the mainstay of China's economic development and are of great significance to the economy. For national employment, steady economic development and scientific and technological innovation, SMEs have played a very important role. However, the financing of SMEs is not easy, which greatly weakens the competitiveness of SMEs.

In his 2016 study, Lixing Xu pointed out that the economic crisis in 2008 had a great impact on SMEs, and many SMEs were facing bankruptcy and bankruptcy[1]. Tianjia Jiang's paper in 2017 showed that China's SMEs are developing steadily and their scale is gradually increasing, but the financing level has never kept up[2]. ACS Z J, morek R, shaver J M, et al (1997) pointed out that SMEs sometimes help industrial innovation. However, SMEs are facing two challenges: property

rights protection and entry barriers. The author believes that by utilizing existing multinational firms as an international avenue for SMEs' innovation, these restrictions may sometimes be bypassed.[3]. Edwards, t. Delbridge, R (2005) proposed a new direction of innovation research for SMEs, reviewed the progress of mainstream innovation research, and considered the nature of innovation research of SMEs. The author believes the level of comprehension at present is limited by the theoretical and methodological bias in existing research, and one way to achieve a better understanding is by rejecting normative difference methods and assessing innovation inside institutional processes and structures must be done in the context of strategic behavior. This will help to better understand the innovation of SMEs by focusing on the process of change.

With regard to the financing difficulties of SMEs in Xiaogan City, this paper focuses on the reasons for the financing difficulties of SMEs in Xiaogan City and the existing problems of financing and puts forward the methods to solve the problems from the two directions of themselves and the outside world. At the same time, it plays a role in paving the way for the next research of others and provides some basis for the preparation of related content.

2. MAIN PROBLEMS OF SMES IN THE FINANCING IN XIAOGAN CITY

2.1 Less Financing in the Venture Capital Market

The investment period of three to five years accounts for a significant percentage of venture capital. The main purpose of setting the investment period to three to five years is to use the investment in the initial stage so that some enterprises with great risks and investors feel that they have development potential and can withdraw from the investment in some legal ways and get a return. 1985 was the embryonic stage of venture capital in China. It has developed step by step, but the scale is still not very large and the development speed is not very fast[4]. In addition, China's laws and regulations governing venture capital firms are not perfect. Besides, the relevant management is not fully standardized. As a result, although China has support for venture capital enterprises, there is no obvious development effect.

2.2 Own Problems of SMEs

Due to the imperfect management of SMEs in China, there are many problems in SMEs, such as unstable profitability, weak credit awareness, insufficient ability to avoid risks, chaotic enterprise structure, and so on[9]. The management structure of most SMEs in China is chaotic, the management mode is unscientific, the enterprise financial system is not clear, and the information is incomplete, which leads to the difficulty of Bank review and low efficiency, resulting in the reluctance of banks to lend to SMEs[5]. SMEs themselves are not as orderly as the finance of large enterprises, and most of the financial systems are not perfect. At present, Xiaogan has more than 10000 SMEs, but only 2800 enterprises have loan certificates, accounting for less than 30%. At the same time, SMEs themselves are very fragile, with high bankruptcy risk and short survival life. At present, it is difficult for SMEs in Xiaogan City to complete the certificates required for loans in a short time, and most of them have no real estate recognized by the bank as collateral. Besides, the mortgage conditions are harsh.

2.3 Incomplete development of the financial market

At present, China is a developing country with a short history in the financial markets and few financial products. The relevant provisions are not very comprehensive and have not become a complete system. There is also a large gap between the capabilities of China's financial institutions and international leading institutions, and our citizens' understanding of financial products is relatively scarce. Therefore, the development of China's financial market is not comprehensive. At

present, China has several mainstream capital markets, Shanghai Stock Exchange and Shenzhen Stock Exchange are two examples.[6]. Compared with some western developed countries, The Chinese capital market is insufficiently developed to suit the demands of SMEs. The basic reason why China's SMEs are relatively difficult to enter the market is that the listing threshold of the stock market is too high so SMEs cannot use this method for financing.

2.4 High Credit Entry Conditions for SMEs

Currently, there are four major commercial banks in China, which are far ahead in terms of scale and reputation, and even in a monopoly position. Therefore, the four largest banks handle loans and other business for the majority of state-owned firms, big private enterprises, and SMEs. Due to China's national circumstances and the system of the four major banks, the loan amount is diverted at the source. First, the state-owned enterprises get most of the amount, and large private enterprises get most of the remaining amount. It is difficult for SMEs to get the loan amount from the four major banks. Moreover, the procedures of China's Bank loan system are very cumbersome, the efficiency of review and loan procedures is not very high. The loans required by SMEs are not one-time, and the amount will not be large, which makes it even more difficult for SMEs to obtain bank loans. Secondly, the higher cost of Bank review and supervision also leads to the reluctance of banks to grant loans to SMEs.

3.REASONS FOR FINANCING DIFFICULTIES OF SMES IN XIAOGAN CITY

3.1 Small Scale of Venture Capital

China's venture capital industry has aided the country's and people's economic growth after more than 30 years of development., promoted the growth of various technologies, enhanced international competitiveness and widened the capital market. So far, the main problems in China are: the development progress of venture capital is slow, the development scale is relatively small, the scale of venture capital is small, and the amount of financing available is also small. In addition, although there are some policies issued in China to support those enterprises that have accepted relevant venture capital, there are no relevant laws and regulations to protect the public. Therefore, at present, China's standardization in many aspects of venture capital is still poor.

3.2 The Limitations of Conditions of SMEs

At present, the majority of China's SMEs are privately owned. Entrepreneurs have several jobs, both managers,

decision-makers and executors. Sometimes they lack skills, and they will have more intentions but less strength. Even if they make a lot of effort, they still can't meet the expectations. Secondly, most SMEs are prone to loopholes because of their small production scale, low level of capital and technology, and many small businesses lack financial and accounting personnel. SMEs are tiny businesses with no professional staff., they will also face market risks that cannot be accurately identified. If they blindly follow the crowd, they will easily fall into the vortex of the capital market and become the contemporary so-called "leek".

3.3 Low Level of Capital Market

There is a high proportion of equity financing in China's SMEs, but this way of financing cannot be used in China's SMEs. The GEM market in China is still in its early stages. Hundreds of listed companies cannot represent thousands of SMEs every year. The financing problems have been properly solved. In the field of bond financing, the development of the stock market is even

better than that of the Chinese bond market, and the threshold of bonds is higher, this makes it more difficult for SMEs to get funding through bond issuance.

3.4 The Trivialness of the Loan Examination

Methods of banks and other financial institutions From 2017 through 2021, the following graph pulls data from the loan demand index for big, medium-sized, and small and micro firms. It can be seen that no matter which quarter, the index required for enterprise loans is inversely proportional to the enterprise scale, but the smaller the enterprise, the less energy it has to go through complex and cumbersome loan procedures. At present, the procedures required for bank loans are very complex and inefficient, which cannot be coordinated with small and high-frequency loans of SMEs. The number of loans required by SMEs is often not high, and the credit is far lower than that of large enterprises, resulting in banks' unwillingness to lend to SMEs. Furthermore, the banking funding cycle is lengthier. According to the survey, bank loans take about a month.

SgnQuarter	LCorpLoanDemIndex	MCorpLoanDemIndex	SCorpLoanDemIndex
2017-03	59.5	60.1	62.6
2017-06	58.8	59.6	61.4
2017-09	57.1	58.4	61.4
2017-12	56.9	58.6	62.2
2018-03	61.1	62.7	66.3
2018-06	58	60.6	64.5
2018-09	56.3	58.1	67.1
2018-12	54	56.6	67.9
2019-03	58.3	60.8	71.8
2019-06	54.5	57.6	70.5
2019-09	54.4	57.2	70.2
2019-12	54.9	57.1	69.6
2020-03	59.7	62.6	68.6
2020-06	60.7	66.9	78.6
2020-09	59.5	64.8	76.6
2020-12	59.3	62.9	74.7
2021-03	63.8	66.8	76.5
2021-06	59.1	62.3	72.3

Figure 1 Loan demand index from 2017 to 2021

4. SOLUTIONS FOR SOLVING THE FINANCING DIFFICULTIES OF SMES IN XIAOGAN CITY

4.1 Strengthening the Construction of the Market for Venture Capital

The government should encourage the people to participate in venture capital and increase the number of venture capital in the first place, while strengthening the government's venture capital in the allocation mode, so as to promote the construction of the limelight market together. Secondly, the construction that should be strengthened most is the relevant laws and regulations. It is the most effective to strengthen and standardize the venture capital market with the system, which can also protect the interests of investors. At present, the exit mechanism of China's venture capital market is mostly public listing, but most of China's SMEs will not choose

to be listed, which limits the development of China's venture capital market to a certain extent and the development of SMEs. To sum up, establish more ways of exit mechanisms, such as liquidation after bankruptcy, transfer of others and sale of property rights, so that more SMEs can obtain financing. In the venture capital market, they can help each other and develop together.

4.2 Solving the Problems of SMEs

First of all, enterprises themselves should establish a sound financial system and supervision and management system, such that the problem of financial challenges is essentially solved In order to strengthen the enterprise's financing capabilities, it should be managed in a systematic manner., improve the system, supervise the internal statements and contracts without problems, and improve the transparency of information[7]. Secondly, credit is extremely important in this era. In order to obtain the trust and support of relevant financial guarantee

institutions, SMEs must first improve their credit awareness, so as to obtain the required capital flow[10]. SMEs should actively solve the problem of information asymmetry with commercial banks, improve their overall level, pay attention to debt repayment image and construction, and improve credit rating is particularly important. At the same time, banks should play the effect of supervision, help SMEs stay awake when they want to invest blindly, and prevent moral hazards[8]. SMEs themselves should also establish and improve their own internal supervision, let each accountant and approver know the importance of their responsibilities, and standardize the use of each fund while being efficient.

4.3 Developing Capital Market

China's capital market should develop in two directions: depth and breadth. The market should be more comprehensive and launch products for the financing of SMEs. Providing diversified products gives SMEs more choices. Developing a variety of different financing products can not only effectively help the development of small and medium-sized enterprises, but also make China's capital market more hierarchical. As the mainstay of direct financing, the capital market should be considered for all types of enterprises and help the development of SMEs. Only when all directions develop together can China's economy rise steadily.

4.4 Improving the Credit Management Mechanism

One of the difficulties in financing SMEs mentioned above is that the way of bank loan review is cumbersome. First, we should improve the relevant mechanisms to manage the credit of SMEs, simplify the procedures that SMEs need to complete in the credit process, and quickly approve and reduce the cycle. SMEs' development can only be achieved by fully using the advantage of flexible operations, becoming bigger and stronger, and contributing to China's economic cause. The beginning of the SMEs credit management method should focus on its development characteristics, refer to its business characteristics, and think about formulating effective risk prevention and control mechanisms to prevent systemic risks.

5. CONCLUSION

This paper takes Xiaogan City as an example, through the investigation of the statistical data on the financing of SMEs in Xiaogan City, this paper investigates the difficulties in Xiaogan City's financing of SMEs and puts forward reliable suggestions based on the analysis of practical problems, which will help to promote the research on the financing of SMEs in Xiaogan City, and then improve the existing problems in the financing of SMEs in Xiaogan City, making the financing easier. At

now, there are several funding choices for SMEs in China, but effective financing is constrained by many reasons, and SMEs also have many problems. However, it is obvious that the state has been helping SMEs and promoting the growth of SMEs, and has made a lot of efforts to this end. Constantly updating and innovating financial products and the setting of capital market gem all mean that the financing problems of SMEs will be improved one day. In addition, in the future, the research on the financing of SMEs may be more inclined to use new financial instruments to help calculate risk data.

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