



# Study on the Feasibility of Finance Lease to Solve the Financing Problems of Enterprises

Qian He<sup>(✉)</sup>

Hangzhou Hongshan Enterprise Management Co. LTD, Hangzhou, China  
13023643888@163.com

**Abstract.** At present, the financing difficulty of small and medium-sized enterprises has been troubling the rapid development of small and medium-sized enterprises. Analysis the author from the perspective of financing lease business, financing lease business process indispensable three parties - equipment suppliers, financial leasing companies and enterprises in their respective development present situation, analyzes the application of financing lease in the role, and puts forward how to efficient use of financing lease mode to develop enterprise's financing channel construction and countermeasures.

**Keywords:** Finance lease · Financing problem · Enterprise · Solution

## 1 Introduction

Financial Leasing, also called equipment leasing or modern Leasing, means that the lessor concludes a supply contract with a third party (supplier) according to the request of the lessee (user). According to the contract, the lessor purchases the equipment selected by the lessee from the supplier [1]. Financial lease is a new transaction mode which has three parties structure of lessor, lessee and seller and involves two contracts: sale contract and lease contract. According to Article 237 of the Contract Law, 'A financial lease contract is a contract whereby the lessor, based on the lessee's selection of the seller and the lease item, purchases the lease item from the seller, provides it to the lessee for use, and the lessee pays the rent.' Finance lease is a product of modern times, the world's first financial leasing company which was established in 1952, the United States, the decades financing lease as a new trade model popular in the world, has spread to countries such as Germany, eastern Europe, Russia, Japan, China's first financial leasing company China Eastern leasing co., LTD. Was established in 1981. This paper will discuss financial leasing from the advantages of financial leasing, the legal structure of financial leasing contract, legal nature, definition of four aspects, in order to promote the objective understanding of financial leasing [2].

As an important force in promoting the economic development of our country, small and medium-sized enterprises are constantly contributing to the progress of the national economy. Small and medium-sized enterprises have played a positive role in solving employment problems, increasing tax revenue, driving regional development and promoting urban and rural economic development, and their importance is self-evident.

© The Author(s) 2023

V. Gaikar et al. (Eds.): FMET 2022, AEBMR 227, pp. 689–696, 2023.

[https://doi.org/10.2991/978-94-6463-054-1\\_75](https://doi.org/10.2991/978-94-6463-054-1_75)

However, due to the limited industrial scale of small and medium-sized enterprises and the lack of corresponding economic security, it is easy for small and medium-sized enterprises to go into a difficult situation or even bankruptcy due to the break of capital chain in the process of development [3]. Compared with other large enterprises, small and medium-sized enterprises have relatively insufficient reputation and limited development potential, which also aggravates the financing difficulties of small and medium-sized enterprises. With the rise of financial leasing and the support of Internet data technology, financial leasing has alleviated the financing difficulties of small and medium-sized enterprises to a certain extent.

## **2 Current Situation of Financing of Small and Medium-Sized Enterprises**

### **2.1 Financing Conditions Are Limited**

With the constant improvement of our financial system, the role of finance in economic development is highlighted day by day. Financial system has provided important fund support for the development of enterprises in China, and become an important booster of enterprise progress. However, affected by various factors, small and medium-sized enterprises have not fully enjoyed the benefits brought by the reform of the financial system.

In the market competition, small and medium-sized enterprises in danger, even because of financing difficulties once fell into a development dilemma. Small and medium-sized enterprises have small scale, insufficient credit guarantee, poor development prospects, limited technical level and low technological innovation ability, which lead to large banks unwilling to provide loans for them. Due to the practical needs, small and medium-sized enterprises can only turn to local small banks for financing. The limited capital of small banks largely fails to meet the financing needs of many small and medium-sized enterprises, which also aggravates the financing difficulties of small and medium-sized enterprises.

### **2.2 Financing is Expensive and Long**

The limitation of small and medium-sized enterprise development scale by itself, in order to reduce the pressure on the development of small and medium-sized enterprises and the pressure on the loan, in the process of financing, mostly do financing for many times, and each time the amount of financing is less, this way of financing is not popular with big Banks, led to many large Banks are reluctant to related to small and medium-sized enterprise financing cooperation. Even if large banks cooperate with small and medium-sized companies in financing, the small and medium-sized companies will pay a certain amount of hidden fees to the bank in addition to the corresponding interest fees or evaluation fees to meet the loan conditions.

Moreover, the procedures for small and medium-sized enterprises to apply for loans from banks are relatively complex, and they also need to go through a series of fund reviews. The review procedures are relatively complex and take a long time, so the loan cycle is relatively long, which cannot meet the needs of small and medium-sized enterprises for quick fund relief.

### **2.3 Insufficient Access to Information About the Financing Process**

In the process of development of small and medium-sized enterprises, limited by the enterprise scale or development level and other conditions, more or less lack of supervision of enterprise financial management mechanism, resulting in small and medium-sized enterprises when applying for loans, due to the lack of advance capital management work, can't provide complete information to the bank. Bank in small and medium-sized enterprise information review, is likely to be because of incomplete information provided by enterprises, or enterprises provided by the information doesn't accord with the reality, will lead to the bank for small and medium-sized enterprises more strict censorship, in the long term, leads to crisis of confidence between Banks and small and medium-sized enterprises, ultimately affect the small and medium-sized enterprise loan application.

## **3 The Importance of Using Finance Leasing to Solve the Financing Difficulties of Our Small and Medium-Sized Enterprises**

### **3.1 It Can Help Small and Medium-Sized Enterprises to Complete Equipment Upgrading and Technological Progress**

Nowadays, the economy is developing rapidly, but the transformation and upgrading of small and medium-sized enterprises is difficult because of financial difficulties, and it is difficult to update equipment. With the emergence of financial leasing, small and medium-sized enterprises can obtain the equipment they want with only a small amount of funds, and have sufficient operating funds in the later period. Moreover, they can continue to pay the rent through the value generated by the equipment, and have more time, energy and economic support to promote technological progress [4]. Small and medium-sized enterprises can obtain advanced equipment in the production process through a small amount of capital, promote technological progress, product renewal, and enhance the market competitiveness of enterprises. Under the mode of financial leasing, enterprises reduce the complicated procedures and speed up the time of equipment introduction. On the other hand, financial leasing combines financing and procurement, so that projects can be signed, introduced, put into production and benefit within one year, which greatly shortens the time and buys valuable time for small and medium-sized enterprises to carry out transformation and upgrading in the fierce market competition [5].

### **3.2 Low Threshold Will Help Solve the Financing Problem**

Financial leasing solves the problem of various restrictions on loans from commercial banks. On the one hand, financial leasing combines financing with loans, so that the leased property can be recovered in case of any problem, which provides security for the lessor and reduces the difficulty compared with bank mortgage loan. On the other hand, banks generally issue loans to large and powerful enterprises, while small and medium-sized enterprises are difficult to get loans due to their poor credit standing. The emergence of financial leasing just solves this problem. At the same time, the ownership of leased equipment does not affect the production of products and manufacturing profits

of enterprises. Compared with large amounts of money to buy equipment, equipment acquisition by installment is more suitable for small and medium-sized enterprises [6].

### **3.3 It is Helpful to Prevent Business Risks**

In the process of transformation and upgrading of small and medium-sized enterprises, due to their own reasons such as lack of funds and difficult loans, their ability to bear risks is very low. Once a financial crisis occurs, the enterprise is likely to go bankrupt. By way of financing lease financing, once the financial crisis such as deflation, such cases don't need to pay extra rent to the leasing company, make company does not increase the cost of financing, financing lease and deflation, according to the contract, the rent does not change, but the actual value is in decline, the equivalent of the enterprise financing costs reduced [7].

In addition, with a long financing term and the guarantee of contracts, enterprises can apportion financing costs in the short term to maintain capital liquidity and avoid financial crisis.

Similarly, financial leasing helps enterprises prevent exchange rate and interest rate risks. When small and medium-sized enterprises purchase from abroad, the financial lease contract is calculated in RMB, so that it can prevent exchange rate risk. Setting interest rates early in the contract also protects against currency risk. This is an ideal way of risk transfer for small and medium-sized enterprises.

## **4 Feasibility Study on Financial Leasing to Solve Financing Difficulties of Small and Medium-Sized Enterprises**

### **4.1 Combination of Financing and Melt**

Financial leasing refers to the purchase of equipment required by smes according to their needs in the process of transformation and upgrading, with the ownership of the equipment remaining and smes having the right to use it. In this way, financing and financing are combined. Same as Banks, financing lease can be loans, but the difference is that with the bank financing lease to trade in goods, in financing at the same time providing labor services, namely can reduce enterprise purchase equipment of the intermediate links, improve efficiency, also can solve the problem of small and medium-sized enterprise talent shortage, and enriched the financing channels, and to achieve the optimal allocation of resources.

### **4.2 Separation of Ownership and Use Right of Leased Assets**

The separation of right to use and ownership is a typical feature of finance lease. The lessor has the ownership of the leased assets during the lease term, while the lessee has the right to use, operate and earn the leased assets during the lease term. Since the lessee owns most of the useful life of the leased asset during the lease term, the lessee chooses the purchase and is responsible for the maintenance and repair, while the lessor provides financing and shopping services.

### **4.3 Feasibility of Financial Leasing for Small and Medium-Sized Enterprises**

In view of the financing lease in terms of the lessee, that is, small and medium-sized enterprises, can through the financing lease business, quickly acquire the fixed assets need to be able to meet, and in this process, the amount of money through the lease term, uniform distribution in the middle of each month, that period can through the way of the financing lease, Small and medium-sized enterprises shall make full use of funds for product development, technology research, business exchanges and other fixed assets and purchases.

## **5 Relevant Countermeasures and Suggestions on How to Use Financial Leasing Effectively**

### **5.1 Strictly Examine the Credit Degree of the Lessee of Finance Lease to Avoid Unnecessary Disputes**

In order to continuously raise the financing leasing business form to solve the financing problems, Chinese smes should keep a good business relationship with the leasing party when cooperating with it. Through strengthening cooperation, we can effectively solve and improve, introduce and realize the benign development of enterprises, and bring more sufficient funds for the development of enterprises, so that they can be applied in the construction of enterprises.

For small and medium-sized enterprises in China, we should strictly examine the credit degree of the lessee of finance lease and avoid unnecessary disputes. By doing this, not only can promote the formation of a good relationship between small and medium-sized enterprises and the lessee, but also can make small and medium-sized enterprises establish a good word of mouth and bank credit, for small and medium-sized enterprises in the future development of the formation of the new financial leasing relationship to provide an important foundation and guarantee.

To improve the credit degree of enterprises needs both internal and external repair.

First, enhance the credit consciousness of small and medium-sized enterprises. Running a business is the same as being a man. Although the small and medium-sized enterprises belong to the vulnerable group in the enterprise, but to understand and understand the “enterprise without faith will not stand” and “integrity in front of no size” truth. As long as small and medium-sized enterprises can consciously be honest and trustworthy, they will be able to win wide respect from all walks of life, so as to succeed in the society, so it is natural to get credit fund support and other financial services from the financial sector.

Second, strengthen credit publicity and credit system construction. Local governments at all levels should promote the sustainable and healthy development of small and medium-sized enterprises from the perspective of creating a good credit environment. On the one hand, the government should focus on building a good faith government image, drive and urge smes to establish and improve the financial system of smes, standardize enterprise credit behavior; On the other hand, strengthen the publicity and guidance, through the establishment of honest enterprise reward and trust-breaking enterprise public notification system, and strive to create a good faith atmosphere based on honesty and ethics.

Third, establish a sound credit guarantee system for small and medium-sized enterprises as soon as possible. The credit guarantee system of small and medium-sized enterprises can effectively disperse the financing risk of financial institutions to small and medium-sized enterprises and effectively solve the financing difficulty of small and medium-sized enterprises. In recent years, positive progress has been made in the construction of a credit guarantee system for small and medium-sized enterprises. In the next step, smes credit guarantee institutions should improve credit guarantee quality by reasonably determining and appropriately reducing loan guarantee fee standards, simplifying loan guarantee procedures and shortening loan guarantee processing time. It is also necessary to strengthen consultation with banks and strive to adopt the “one-time credit granting, sub-use and circular guarantee” method within the credit line to improve the efficiency of insurance review and lending.

Last, actively insure enterprise credit insurance. Credit insurance is a kind of insurance that the insurance company undertakes economic compensation for the bad debt loss caused by the buyer's bankruptcy or default when the enterprise sells goods on credit. It can effectively help the enterprise to avoid and transfer the credit risk and reduce the huge economic loss caused by high bad debt. Must remind the small-business owner is here, the enterprises in the financing bank assessment is the key to the reimbursement ability and the enterprise credit, credit insurance can cover corporate buyers of credit risk, and indirectly, improve enterprise's credit status, and its own credibility, and standardized management is the key to winning the trust bank.

## **5.2 Improve the Human Resource Management Level of Small and Medium-Sized Enterprises and Strengthen the Emphasis on Talents**

Due to the flexibility and adaptability of financial leasing itself, the theory and practice of financial leasing have been under development and innovation in the past several decades, the research and publicity in this field is far from enough, and the professionals engaged in long-term financial leasing are only about a thousand people, and professional theory workers are still little. The business practice and publicity of financial leasing mostly stay on the international understanding of financial leasing in the 1980s.

There are few talents in finance leasing, which hinders the development of finance leasing. At present our country finance lease market also need about 50000 people left and right sides, enough to see the financial leasing market in China's thirst for talents, relevant departments, colleges and universities, financial and economic theory research department, business should be through a variety of ways and methods to cultivate their own financing lease experts as soon as possible, actively carry out international exchanges, strengthen the practice and theory research of financing capital lease. We should strengthen the popularization of the theory and practice of financial leasing, and strengthen the training and improvement of existing professionals. The practitioners of financial leasing, especially the leading members, must be interdisciplinary talents with knowledge of finance, trade, finance and taxation, accounting, law, project evaluation and other aspects. The competition among leasing industries is bound to be a competition of such interdisciplinary talents.

Second, we can according to the current financing lease financing lease company market demand, develop professional training mode of financing lease, offline financing

lease workshop, invite experts financing lease companies on successful cases, to participate in the learning of students, also can learn to communicate each other, face to face communication with senior industry experts difficulties encountered in the operation, Actually help attendees solve problems. Such more targeted training can accurately and timely solve the difficult problems in the process of financial leasing to support the transformation and upgrading of small and medium-sized enterprises.

## 6 The Conclusion

This paper draws the following conclusions through the impact of financial leasing on the transformation and upgrading of small and medium-sized enterprises:

- (1) Financial leasing can help smes solve various difficulties in the process of financing. Financing lease is the most suitable for small and medium-sized enterprises financing, financing lease its margin due to the unique characteristics of combining compared to bank is more suitable for small and medium-sized enterprises, can help broaden the financing channels of small and medium-sized enterprises, small and medium-sized enterprise product innovation to upgrade, because financing lease can customize according to the requirements of small and medium-sized enterprises high-end equipment, In addition, it can pay the installment rent through the income generated by the equipment, solve the problem of insufficient funds, release more assets, win market opportunities, seize more orders, and promote the development of the transformation and upgrading of small and medium-sized enterprises.
- (2) There are still problems to be solved in the process of smes' financial leasing. Although financing lease can well solve the small and medium-sized enterprise financing difficulties in the process of transformation and upgrading, the lack of talents, backward management experience, but there is no denying the fact that its financing process also has some problems, such as regulatory problems, the law is not sound, understanding insufficiency or understand the problems, such as need the government and finance companies active efforts to further improve.
- (3) it is important to note that the emergence of the new financing channel does not mean to deny the traditional financing field, they still play an important role, the role of financing channels only compatible or not, not, give up don't give up the problems of financing lease is compared with the traditional field of each is suitable for the development of the transformation and upgrading of small and medium-sized enterprises, does not mean eliminating traditional channels.

## References

1. Cuishuang Jiang. Analysis of Financial leasing. The modern economy, 2008(7):12. (in Chinese)
2. Guangjiao Wu. Analysis of Financial Leasing Contract and Loan Contract. Shenzhen Information Vocational Technology Journal of the Academy, 2006 (2): 50. (in Chinese)
3. Chinyu Zhang. On the Bankruptcy of Financial Leasing. Forum on Political Science and Law, 2013 (5): 60. (in Chinese)

4. Steve C. Lim, Steven C. Mann, Vassil T. Mihov. Do operating leases expand credit capacity Evidence from borrowing costs and credit ratings. *Journal of Corporate Finance*, 2016.
5. Xiaocheng Zhang. On the impact of financial leasing on small and medium-sized enterprises. *Economic and Trade Practice*, 2016(23):83-85. (in Chinese)
6. Jianping YANG. The Research on Financial Leasing and China's Small MicroEnterprises. *International Business and Management*, 2012:5
7. Nicoleta BARBUTA-MISU. The Effects of Financing on Enterprise Performance. *Annals of Dunărea de Jos University. Fascicle I : Economics and Applied Informatics*, 2010:1.

**Open Access** This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial 4.0 International License (<http://creativecommons.org/licenses/by-nc/4.0/>), which permits any noncommercial use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.

