

The Research on Financing Problems and Countermeasures of SMEs

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Abstract— The small and micro enterprises (Below we call it SMEs) are playing important roles increasingly in Chinese national economy, especially in increasing revenue, expanding employment and the other aspects. However, due to the own conditions of SMEs and other external factors, resulted in "financing difficulties" is becoming an obstacle and the main bottleneck to the further development and expansion of the scale of SMEs. This paper is based on analyzing the current financing situation of the SMEs, combed the various factors that caused the financing difficulties of small micro enterprises systematically, then provided the methods to solve the financing difficulties of SMEs.

Keywords-SMEs; financing difficulties; financing mode

I. INTRODUCTION

In China, the body of SMEs is not only an important part of our national economy, but also the most dynamic economies. It continues to meet the increasingly diverse needs of the people, creating a variety of employment opportunities in many areas, increasing the national revenue and contributing their strength for the state. However, in recent years, the pace of development of SMEs is drifting slowly, even many companies with development potential exited of the private enterprises in the ranks prematurely. The main reasons for this phenomenon in addition to the own deficiency of management and product competitiveness of SMEs, another important reason is the "financing difficulties." Because of insufficient financial support, SMEs are difficult to carry out production activities, so long, resulting in slow growth or even bankruptcy consequences. Thus, the biggest bottleneck is the "financing" for development of SMEs. And to solve the "financing difficulties" issue is an important measure to protect the long-term development of SMEs. Therefore, it is significant to research on the financing situation of SMEs and then analysis of SMEs financing difficulties caused by the reasons, at last provide the methods to solve the financing problems of SMEs.

II. THE FINANCING SITUATION OF CHINESE SMEs

A. *Financing Needs of SMEs are Difficult to Meet*

According to the survey, Chinese SMEs have never obtained more than 60 percent of long-term loans of 1-3 years, while 56% of SMEs regard the loan as the main approach to get external financing. And this abnormal

financing situation makes SMEs that accounted for 99% of the total number enterprises just obtained only 20% loans in the country's total number of loans.

B. *The Main Financing Channels*

At present financing channel of SMEs is narrow in China, and its current development mainly depends on its internal accumulation, so the status is internal financing ratio is significant while external financing ratio is low. Bank loans are the most important external source of SMEs financing, but the bank is the main provider of liquidity and update their national assets, and rarely provide long-term credit. At the same time both mortgages and secured loans are the main loan styles that banks give to SMEs, thus companies with high credit quality financial institutions has become the object of giving loan, while some SMEs with potential development and small scale newly developed without a valid mortgage substances cannot provide sufficient credit guarantees, the banks are reluctant to identify the status of them so that they don't want to give them the loans.

Now relatives lending, Internal union financing and other non-formal financial institutions in SME financing are playing an important role, but because of the difference between local economic development level and private credit systems, non-formal financing institutions are developing in different degree of different regions, causing greater obstacles to the development of SMEs.

C. *Financing Cost is High*

Finance costs include both corporate financing costs and capital utilization fees (explicit costs), also include opportunity costs (hidden costs). The contradiction between strong demand for funds of real economy and the bank credit limit is becoming more prominent, the phenomenon that loans rate go up of small micro-enterprise is widespread, resulting in financing costs have risen sharply. Report released by Chinese Entrepreneurs Survey System recently shows that: most of the small micro-enterprise considered that loans from banks is "very difficult" or "difficult" and more than half of SMEs represent the current funding rather "nervous." Many rely on private financing usury, usury monthly interest rate is generally 5% to 6%, even it can reach the highest rate 120%.

Zhejiang in Wenzhou is famous for the developed private economy, from December 2010 to May this year, the

composite interest rate private loans were between 23% -25%. Three months or more long-term lending rates in Wenzhou pawn from last month's 2.2 points (about 26 per cent per annum) rose 3 points (36%), while the short-term borrowing has generally been more than 8 points (96%). The report from Zhejiang CPPCC democratic supervision group showed that even though some companies can get the loans from banks, banks typically arise the interest rate 30% -50% for small enterprises, coupled with deposit returns and other expenses, the actual financing of small enterprises costs by up to 15%, the actual borrowing costs close to twice of the bank base rate. However, for SMEs, even though the bank's borrowing cost is increasing they can afford this compared with the relative cost of private lending. What difficult is that many banks are reluctant to meet for the financing needs of micro-enterprises, they are difficult to obtain a loan from your bank directly, even if approved, they also face the risk of losing the opportunity cost.

D. Financing Characteristics of SMEs

The characteristics of Liquidity needs of small micro-enterprises are short, frequent, fast and small. Even if they can obtain loans from the banks, because of the loan approval process is cumbersome, when funds are available the opportunities have been missed, loss of short-term borrowing purposes. Financing of small micro-enterprise with high lending risk, small capital demand, fast frequency characteristics are also increased bank loans management costs and risks, then can impact banks loans enthusiasm in addition.

III. THE FACTORS THAT CAUSED FINANCING DIFFICULTIES

A. Financial Institutions and Credit Services are not Perfect.

Considering funds security, various financial institutions have highly the conditions of the loan business requirements, at the same time the examination and approval procedures are very cumbersome, especially because lack of the credit product innovation and new credit services products, credit for SMEs products are even fewer, so the demand for credit funds of SMEs cannot be meet. In the other hand, the scale of SMEs are small, so under the strict financial regulation conditions, the lack of effective asset-backed caused the financial institutions will not grant loans to them.

B. Credit System is Imperfect.

At present, China is still a lack of social credit system, credit system construction is still lagging behind. Therefore, financial institutions are cautious for lending, especially information asymmetry between banks and enterprises, social credit information collection system is not perfect, the credit information among financial institutions cannot be shared, which will affect the financial institutions lending to enterprises, especially to small micro-enterprise credit support inevitably.

C. The Management of SMEs is Behind.

The scale of SMEs are small and technology level is low, with backward management, poor operating efficiency, even in debt. Most often lack of the projects that compliance with loan condition, financial management is not standardized, even cooking the books. These made financial

institutions are reluctant to loan to them, it is difficult to get their trust and credit supports.

IV. PATHS TO SOLVE THE FINANCING DIFFICULTIES OF SMEs

A. Regulate the Development of Private Lending Market.

According to the State Council on the right to regulate the management of private lending, risk prevention requirements, strengthen the supervision and management of private lending, prevent private lending risks effectively^[1]. At the same time, the law should clear legal status of private lending, distinguish private lending between normal and illegal financial activities properly, crack down on illegal fund-raising and other illegal activities, legal protection of normal private lending; meanwhile, guide the private lending institutions such as pawn shops, the agency transformed into a small loan companies and finance companies correctly, so that the private lending specialization and standardized. Only in this way to alleviate the financing pressure of SMEs and normalize finance acts.

B. Make Relevant Fiscal Policies to Support SMEs Actively

Currently, Most of the funds allocated to the various subsidies better operating efficiency scale enterprises, yet really in need of funding SMEs cannot get it. Thus, at the present financial support should be formulated, establish special financial assistance fund to small and micro businesses specifically^[2]. For the small micro-enterprise that meet requirements, to give some financial discount when loan to them, thus reducing the cost of financing effectively. In addition, for the small micro-enterprise loans by the banks that issued in the business tax, corporate income tax must be given preferential tax rates for reduction or exemption of small micro-enterprise loan business tax and income tax, so as to promote bank credit support to SMEs.

C. Enhance Their Own Quality to Improve Their Own Financing Conditions.

In order to adapt to financing environmental needs further, SMEs must enhance their quality continuously. Changing family, paternalistic management modes, and improve enterprise management level constantly. With the development of SMEs, increase management personnel, technical personnel, finance staff training to improve the cultural quality of managers and employees and operational capacity, and financial officers financial management constantly, particularly to standardize corporate finance accounting system gradually, strengthen financial transparency. Meanwhile, enterprises should strengthen management, prudent, steady and healthy development adhere to principles, attempt to reduce production costs and increasing production efficiency, and to increase investment in science and accelerate technological innovation and optimize the adjustment of product structure, improve product quality continuously, in order to increase market competitiveness and expand market share^[3].

D. Develop Direct Financing

Direct financing can reduce the cost of capital, so the SMEs that meet the requirements should be supported listing, to develop direct financing, increase informal

channels of financing to SMEs to^[4]. At present, China still lags behind of direct financing, and the accounting is small, while the proportion of SMEs is almost zero. For those high tech SMEs should encourage its listing to financing directly to break through the bottleneck of funds, reversing financing difficult situation of SMEs.

E. Improve the Credit Risk Assessment Mechanism.

Due to the scale of SMEs are small, lack of funds, management is lagging behind, the ability to withstand market risk is low, so the expansion of rural credit cooperatives for small micro-enterprise loan business, be sure to establish a sound credit risk assessment mechanisms that regulate the credit for SMEs, ratings and information dissemination, prevent and resolve credit risks, the rural credit cooperatives to take the initiative to raise awareness of small micro-enterprise credit actively, to support SMEs to survive and develop healthily in the fierce competition in the market^[5].

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This paper analyzes both internal and external factors that caused financing difficulties of SMEs, on this basis, from several aspects such as proposing to regulate the development of private lending market, increasing policies and regulations support, SMEs to strengthen their own management, developing the direct financing and improving the credit risk assessment mechanisms of the proposal to solve the financing problems. The process to improve the financing environment for SMEs and solve the difficulties of its financing is a long way, so SMEs, financial institutions, relevant government departments should work together to them, and increase financial support for SMEs, promote SMEs to obtain long-term, healthy development, to ensure the prosperity and development of the national economy.

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