

Analysis on the Financing Problem and Solution of Private Small and Micro Enterprises

Manli Sun

Xi'an Peihua University, Xi'an, China

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Abstract: Small and micro enterprises play an increasingly important role in China's economy. To solve their financing difficulties will increase employment opportunities, promote market innovation and resist unexpected market risks. The financing difficulties of small and micro enterprises are caused by many factors. It needs the joint efforts of enterprises, governments and banks if we want to solve this problem.

1. Introduction

Small and micro enterprises are the collective name of small enterprises, micro enterprises, family workshop enterprises and individual business. The construction industry has a business income and its total assets of 3 million Yuan or more who is a small enterprise; the micro enterprises have a business income or total assets of less than 3 million Yuan.

The concept of small and micro enterprises in taxation is slightly different from that of other departments, which mainly includes three criteria. Firstly, total assets in industrial enterprises not exceeding 30 million Yuan and other enterprises not exceeding 10 million Yuan; secondly, the number of employees in industrial enterprises not exceeding 100 people and other enterprises not exceeding 80 people; thirdly, tax targets, annual taxable income not exceeding 300,000 Yuan. Complying with these three criteria is a small and micro enterprise in terms of taxation.

2. Characteristics of Small and Micro Enterprises.

Small and micro enterprises have a series of characteristics, such as small scale of production, large quantity and diversified management.

Due to the lack of funds, the credibility of small and micro enterprises is generally not high. Because there are some difficulties in financing, the expansion of production scale is slow and the scale of production is generally small. It is difficult to expand the scale of production because of the scarcity of production resources and the lack of stable sources of capital. It is difficult for small and micro enterprises to get stable and rapid development in this production environment, so small production scale is the most remarkable feature of them.

From the statistical data, small and micro enterprises are absolutely dominant in the number of both developing and developed countries.

Small and micro enterprises have a wide range of business involving almost all aspects of social and economic life which includes service, manufacturing, agriculture, construction, transportation industry and other sectors of society. Although Chinese small and micro-enterprises involve almost all walks of life, most of them are concentrated in labor-intensive industries. Because of the lower dependence on capital and technology, they lack core competitiveness and are generally difficult to achieve healthy and stable development.

3. Financing Status of Small and Micro Enterprises in China.

3.1 Financing Environment of Small and Micro Enterprises.

In the process of China's economic development, small and micro enterprises have become an important form of enterprises in China by virtue of their flexible market adaptability and simple

operation mechanism. But the first problem for them to develop is the shortage of funds. Most small and micro enterprises are not in the leading position of the industry in our market, nor can they issue stocks and bonds to raise funds publicly like large listed companies. Therefore, most of them in China generally have financing difficulties. In addition, a large amount of money has entered the real estate and energy markets which makes them in the financing aspect do not occupy the superiority and the small micro-enterprise even worse.

3.2 Financing process of small and micro enterprises

Because of the limited operating capital, small and micro-enterprises are prone to encounter capital problems which are usually solved by financing. It can solve the problem with the use of collateral and pledge where the scope of collateral is very wide, not only in the traditional sense of machinery and equipment, factory buildings, raw materials, finished products. In fact, only valuable items can be used as collateral, such as transportation, production tools and so on. Generally, small and micro-enterprises may obtain the fund through banks and private financial institutions, but asset mortgage is also the financing means often used by them.

3.3 Financing Means of Small and Micro Enterprises in China.

The financing means of small and micro enterprises in China mainly include bank loans, private financing and lease financing.

Bank loans are the main means of small and micro enterprises, but in China, bank loans are more inclined to large enterprises. In the face of small and micro enterprises, loan conditions are often stricter.

Private capital financing is also the main means of small and micro enterprises. At present, the total amount of private capital in China is very large which can bring strong support to small and micro enterprises, so the private financing market is in a very active state. The threshold of private financing is low and the financing speed is fast. However, private financing has great risks, and the relevant legislation of it in our country is not perfect.

At present, lease financing is still relatively limited in our country. There is not much capital for small and micro enterprises to lease goods. Lease financing is a kind of leasing method for financing purposes. It borrows money by borrowing things. Therefore, lease financing is more suitable for developed countries with more diversified financing means.

4. Analysis of the reasons for the difficulty of financing for private small and micro enterprises.

4.1 The central bank's monetary policy leads to the lack of strong support for the financing of small and micro enterprises.

Although the government has promulgated a series of preferential policies for loans to small and micro-enterprises and the central bank has increased the money input, the credit derivation, money creation and transmission mechanism are not smooth. Before they lend loans to small and micro-enterprises, banks will still consider their own costs and benefits. At present, small and micro-enterprises cannot become a good loan enterprise in the eyes of commercial banks.

Firstly, the amount of financing will not be too large. At this time, banks will consider its cost and the benefits of its investment in small and micro-enterprises. Secondly, no matter whether there will be bad debts or not in the future, for loans to small and micro enterprises, banks can only implement benchmark interest rates, low-interest or interest-free loans, cannot bring greater returns. By contrast, banks are more willing to lend money to large and medium-sized enterprises.

4.2 The financing policy issued by the government is imperfect.

Although there are a number of policies and regulations in favor of financing of small and micro enterprises all over the country, many of these policies are not perfect when implemented.

In addition, the institutional transaction costs such as administrative grey rent-seeking costs, long approval procedures of starting an enterprise increase the environmental cost of financing.

According to World Bank data, China's business environment ranks 46/190 in the world, with a business start-up time of 9 days which is 2.25 times as long as that of the United States of 4 days. In addition, the difficulty of financing and bankruptcy in China is deteriorating and the ranking down year by year.

4.3 Monopoly of banking industry and inadequate opening of service industry lead to high basic cost.

Banks control our economy and commercial banks are more willing to lend money to state-owned enterprises at low interest rates than smaller micro-enterprises when they make loans. At this time, small-scale informal financial organizations have become the choice of financing loans for small and micro enterprises, which makes the financing cost of them greatly increased. In addition, the monopoly position of the bank and the inadequate opening of the service industry make the bank have a high position of superiority. Over-selection of loans leads to the high cost of basic financing for small and micro enterprises.

4.4 Banks are also struggling.

In 2018, trust loans, entrusted loans, capital management plans, fund subsidiary products and other channel businesses of banks declined sharply. The sources of funds of shadow banks, such as off-balance sheet financing and interbank deposit receipts, contracted. The off-balance sheet returns brought about an increase in on-balance sheet loans and pressure on banks to replenish capital.

Although the central bank increased the basic money investment, banks lowered the reserve requirement ratio for four times from the money supply point of view in 2018, and the funds in the bank statement greatly improved, the phenomenon of "reluctance to lend" is obvious because of the recession of the real economy and the rising bad rate. At the same time, the off-balance sheet business and shadow banking business of the bank have been strictly regulated, and the ability of money creation has been greatly reduced.

4.5 Life Cycle Problem.

There are high risks in running small and micro enterprises and the scale of production is relatively small. Under the impact of the financial crisis, their survival probability is far less than that of large and medium-sized enterprises, so banks are reluctant to take greater risks to lend money to small and micro enterprises.

At the same time, the innovation ability of them is insufficient and the products they produce are relatively single. If they cannot innovate and develop in time and the products cannot meet the needs of the market, they will easily be eliminated by the market. Therefore, the survival cycle of the enterprise itself also affects the bank's financing psychology for small and micro enterprises.

4.6 Irrationality of Small and Micro Enterprise Management

The management of these small and micro enterprises generally has the problems of imperfect internal control mechanism and low management level. Most of them are also accustomed to the traditional management mode. The arbitrary management style seriously affects the development of enterprises and greatly reduces the efficiency of enterprises.

The majority of them have not yet promoted the modern enterprise management system. The means of management are single, and management is authoritarian. In such a family-based, the single ownership structure, it can lead managers not to consider other people's effective suggestions which can slow development of enterprises.

4.7 Lack of guarantees and mortgages.

There is a serious lack of guarantee conditions for small and micro enterprises usually because they are inherently insufficient. There are few institutions that can guarantee small and micro enterprises while large and medium-sized enterprises are usually reluctant to take risks to guarantee small and micro enterprises. In addition, there are too little fixed assets available for mortgage which can meet the insufficient collateral of banks.

5. Suggestions on solving financing difficulties of small and micro enterprises

5.1 There are efforts to improve their own quality

Only by improving their own operating ability can small and micro enterprises attract the attention of banks and investors and successfully conduct financing. Efforts should be made to put the orientation of entrepreneurship in the entrepreneurship projects strongly supported by the government and to develop industries in line with government support. Accurate positioning in the market, analysis of competitive advantage of business can establish good brand effect. They should avoid blind innovation in the production process and achieve specialization and excellence in the field where they are familiar with.

5.2 By linking the performance appraisal of the banking industry with support of the development of private economy, we can promote it to actively provide the financing needed by small and micro enterprises.

On November 1, 2018, Xi Jinping pointed out at the private enterprise symposium that the problem of financing difficulty and high cost of private enterprises must be solved, must link the performance appraisal of banks with support of the development of private economy and solve the problem of not daring to lend and not willing to lend. Banks should actively respond to the government's policies and cooperate with small and micro enterprises and have a thorough understanding of them. They should not only focus on fixed assets and deposits. Attention should be paid to the comprehensive factors such as the reputation of corporation, business environment and so on. Further understanding can reduce information mismatch between banks and small and micro enterprises.

At the same time, small and micro enterprises should also attract the attention of banks through good corporate image and excellent business results. To strengthen internal control and increase financial transparency can increase bank's understanding of the company, win bank's support and trust and create favorable financing conditions for themselves.

5.3 We should support private enterprises to broaden financing channels.

From January to December 2018, the scale of social financing increased by 19.26 trillion Yuan, a decrease of 3.14 trillion Yuan compared with the same period last year and the off-balance sheet non-standard decreased significantly. Therefore, the financing channels of private enterprises should be broadened to give full play to the role of private banks, micro-loan companies, venture capital, equity and bonds. To mobilize more financial funds to support private small and micro enterprises, private enterprises with equity pledge liquidation risk can also actively seek help to tide over the difficulties. Local governments have also issued relevant policies to provide necessary financial assistance to private enterprises that is in line with the direction of economic structure optimization and upgrading and has promising prospects.

5.4 We should increase government support for small and micro enterprises.

5.4.1 Mobilizing more financial funds to support private enterprises

Policies have gradually realized that small and micro-enterprises play an important role in economic development and employment as well as the difficulties they face in the new economic situation. On November 6, 2018, Yi Gang, President of the People's Bank of China, proposed to adopt a policy combination of "three arrows" to support private enterprises to broaden their financing channels: credit support, bond financing support tools for private enterprises and equity of private enterprises. We should focus on solving the problems of inadequate consideration, lack of coordination, deviation from the implementation of some previous policies and the overlapping effects of strong regulatory policies which have resulted in the credit crunch and increased the financing difficulties of private enterprises.

On November 7, China Banking and Insurance Regulatory Commission also proposed to promote banking financial institutions to deal with the risk of equity pledge steadily. We should

consider to achieve the goal of "125" for loans to private enterprises, that is, in the newly added corporate loans, the loans of large banks to private enterprises are no less than 1/3, and that of small and medium-sized banks are no less than 2/3. After three years, the proportion of loans from banks to private enterprises in the newly added corporate loans is no less than 50%.

5.4.2 We should implement structural wide credit.

It is suggested that financial supervision policies should be changed from "one size fits all" to structural credit and support real economy debt issuance, local infrastructure, just-in-demand and improved housing demand, and activate the stock market. Although non-standard financing has increased the financing chain, it objectively eases the financing pressure of private enterprises. The supervision of shadow banks needs to avoid "one size fits all", and at the same time, the regulatory policy should cooperate actively to transfer "broad currency" to "broad credit".

5.4.3 We should reduce tax and burden.

The total tax rate of enterprises in China (as a percentage of profits) is 67.3%, which is at a high level in the world, 1.7 times that of the United States. The corporate contribution rate of social insurance (five insurance and one fund) is 43%, which is higher than 13.65% in the United States. There are still a lot of administrative fees with non-tax revenue accounting for 16.4% in China and less than 5% in the United States.

On November 9, 2018, Wang Jun, Director-General of the State Administration of Taxation pointed out that policy proposals should be put forward as soon as possible to meet the requirements of larger-scale, substantive and inclusive tax reduction and burden reduction. He hoped that the burden of small and micro enterprises could be reduced by the implementation of these policies.

5.4.4 We should speed up the pace of structural reform on the supply side.

From 2016 to 2017, to rectify unreasonable borrowing and lending, the investment in manufacturing industry has reached the bottom but the new capacity of small and micro enterprises has been limited by the restrictions of banks on the "two high and one surplus" industry, environmental supervision and supply-side capacity. After more than six years of economic adjustment and capacity clearance, superimposed supply-side reform and environmental protection supervision, Chinese economy is stepping into the L-shaped horizontal, standing at the bottom and starting point of the new cycle. Further efforts will be made to improve the profitability of small and micro enterprises through the reduction of bad bank rate, the modification of balance sheet and deeper structural reform of supply side.

6. Conclusion

Small and micro enterprises are of great importance for the economic development and social stability of China. Now many of these companies are facing financing problems due to their own limits, the imperfect banking system and the lack of policy supports. To solve these problems, we need to improve the quality of small and micro enterprises, improve the banking system and increase government support, so as to promote the rapid and stable development of these companies and ensure the continuous development of China's economy.

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