Research on Innovation of Financing Model and Risk Management of Small and Micro Enterprises under the Background of Internet Finance

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Abstract: With the rapid development of the main economy in recent years, small and micro enterprises have gradually become an important supporting force, and their economic contribution has steadily increased. Since 2012, the popularization and application of new Internet technology have promoted the emergence of new forms of Internet finance and many business models have changed. For small and micro enterprises, the emergence of Internet finance makes the original financing difficulties find a new breakthrough direction. In this context, based on the literature review, this paper combs the financing status of small and micro enterprises in China. It is found that the causes of financing risk of small and micro enterprises are the problems of small and micro enterprises themselves, financial institutions and policies and regulations. To this end, this paper puts forward some management strategies, such as optimizing the financial structure system, rebuilding the risk control system, innovating and optimizing the financing mode, in order to promote the innovation of financing mode of small and micro enterprises.

1. Research background

1.1 Literature review

At this stage, risk control has affected many traditional banks' financial business. In this context, the strict degree of financing approval conditions for small and micro enterprises has been strengthened, and they are facing more financing pressure. In this regard, many professionals and scholars and experts have carried out the research. In Wuyang's view, under the background of strict financing, the Internet financial model has brought a new direction for the financing of small and micro enterprises. When facing some financing difficulties, we can combine the advantages of Internet finance to innovate and optimize the financing mode of small and micro enterprises (Wu, 2017). In China's national economic development, small and micro enterprises occupy a special position and become an indispensable part of the economic system. Through investigating small and micro enterprises, Gao Shan analyzed the innovation of financing mode and the existing risks. In the current economic development, we should correctly position the social status of small and micro enterprises and give full play to the advantages of small and micro enterprises (Gao, 2018). Duan Dingqiang and Hu Yunxiao take science and technology-based small and micro enterprises as the research object and find that the financing service model represented by P2P can effectively alleviate the financing difficulties of small and micro enterprises. However, it also causes problems such as unreasonable risk-sharing mode and imperfect information disclosure mechanism (Duan and Hu, 2015). Zhang Yin and Li Yanhui believe that one of the driving forces of national innovation and sustained economic growth is small and micro enterprises. However, small and micro-enterprises show significant high-risk characteristics, further improving the threshold of capital entry. To solve the financing problem, we need to improve the financial system, provide more convenience for small and micro enterprises to finance, and effectively reduce the financing cost.

1.2 Purpose of research

The development of small and micro enterprises is a continuing hot spot of a market economy. It not only promotes the development of national economy but also helps solve the problem of social
employment. However, the main problem faced by small and micro enterprises is that they have difficulties in financing, and how to optimize the existing financing mode at the same time. This difficulty hinders the development of small and micro enterprises and makes it difficult to achieve rapid industrial upgrading and development. By reviewing the relevant domestic research literature, it is found that there are more studies on the financing of small and micro enterprises in China, but there are fewer analyses combined with Internet finance. In this regard, based on the development characteristics of the Internet financial background, this paper summarizes the main financing difficulties faced by small and micro enterprises. By putting forward the corresponding mode innovation path and risk management suggestions, we hope to promote the effective solution of the financing problem of small and micro enterprises.

2. Financing status of small and micro enterprises in China

2.1 Overview of Small and Micro enterprises in China

In China's economic and social development, small and micro enterprises have always been one of the important supporting forces. It plays an irreplaceable role in ensuring stable growth of the national economy, promoting market competition, alleviating social employment pressure, promoting technological innovation, optimizing economic structure and maintaining social stability. According to the State Administration of Industry and Commerce's National Report on the Development of Small and Micro Enterprises, the proportion of small and micro enterprises in China is as high as 94.15% and they bear more than 70% of the employment population. The value of final products and services created by small and micro enterprises accounts for 60% of GDP, 50% of the total national tax revenue, 65% of the total patent inventions completed, and more than 80% of the research and development of new products.

2.2 Financing Channels for Small and medium-sized enterprises in China

In recent years, the domestic and foreign trade cooperation has been strengthened, and the financing channels of small and micro enterprises have gradually diversified. Among them, equity financing and bond financing increased significantly. There are five kinds of common equity financing channels for small and micro enterprises, i.e. owner's independent investment, financial/investment institution investment, angel investment, stock issuance, listed company investment, etc. Common bond financing channels are basically divided into commercial bank loans, finance company loans, guaranteed loans, private loans, pawn loans, trade loans, and other ways. In addition, there are other financing channels, such as financial subsidies, tax incentives, financial leasing, loan assistance and so on.

2.3 Financing Status of Small and micro enterprises in China

According to the data released by the Banking and Insurance Regulatory Commission, by the end of 2018, the total loan balance of small and micro enterprises in China was 33.49 trillion yuan, accounting for 23.81% of the total loan balance. Among them, the balance of loans for inclusive small and micro enterprises was 9.36 trillion yuan, an increase of 21.79% over the beginning of last year, 9.2 percentage points higher than the growth rate of loans. The number of households with loan balance was 17.23 million, an increase of 455.07 million over the beginning of last year. At the high-level forum on innovation and development of small and micro enterprises in 2017, it was pointed out that more than 75% of the loan demand of small and micro enterprises in China has not been met. The problems of the imperfect guarantee system, lack of collateral, untimely information exchange and untransformation of entrepreneurship results have led to prominent financing difficulties for small and micro enterprises. The phenomenon of difficult and expensive financing aggravates the shortage of operating funds of small and micro enterprises in China, which is not conducive to the sustainable development of small and micro enterprises.
3. Cause analysis of financing risk of small and micro enterprises

3.1 The Problems of Small and micro enterprises

The financing difficulties faced by small and micro enterprises are caused by many factors. The problems of small and micro enterprises themselves must be considered and paid attention to. There are three aspects of the problems of small and micro enterprises themselves. First, the financial system is not perfect. The vast majority of small and micro enterprises in the initial period, there is no system management system. Therefore, there are usually many problems in financial management, and the ability of internal fund dispatching is relatively weak. At the same time, there are still some problems, such as imperfect capital use plan, neglect of cash flow management, poor inventory management and poor internal control of creditor's rights and liabilities, which make the financial management of small and micro enterprises confused and raise the financing difficulties of enterprises. Secondly, the technology level is relatively low. At present, the phenomenon of low technology level exists in small and micro enterprises. The main reason is that the balance of regional distribution is low and the support of scientific and technological activities is not strong. And small and micro enterprises generally have weak risk resistance ability and backward management concepts. At the same time, science and technology activities are mainly concentrated in the first-tier cities, which leads to the employment preference of high-tech talents for large and medium-sized enterprises, thus making small and micro enterprises in other regions face financing and development obstacles. Third, small and micro enterprises lack mortgage capital. Generally speaking, mortgage guarantee is the main way of lending provided by banks and other financial institutions. However, the capital strength, equipment, and facilities of small and micro enterprises are relatively scarce, and fixed assets and liquidity are not much. Therefore, many small and micro enterprises do not meet the bank's loan qualification requirements.

3.2 Problems in financial institutions

Many financial institutions have little support for small and micro enterprises loan projects. Due to the uncertainty of current policies, financial institutions show polarized support in the face of corporate lending. In order to better control the risk of financing mortgage, financial institutions are more willing to handle credit business for large and medium-sized enterprises and infrastructure projects. However, the business volume of small and micro enterprises is relatively small, and there are few specialized financial institutions for small and micro enterprises. For a long time, there has been no excessive investment in small and medium-sized financial institutions, resulting in the vacancy of corresponding management and supervision mechanisms. Moreover, the existing small and medium-sized financial institutions have not yet transformed their operating mechanism, and a large number of credit businesses are highly monopolized by large financial institutions. Under this background, the financial service environment faced by small and micro enterprises obviously has the problems of lack of stability and openness. For financial institutions, the cost of opening credit business to small and micro enterprises is higher. However, from the actual situation of China, financial institutions have been the main financing channels for small and micro enterprises. However, the small sum of money and the high frequency of loans belong to the prominent characteristics of small and micro enterprises' loan business. This feature will obviously increase the management cost of loan banks and weaken the support of financial institutions for small and micro enterprises to a certain extent.

3.3 Problems in policies and regulations

At present, the legal system of financing for small and micro enterprises is not perfect. In addition to the basic laws and regulations related to credit, there is no specific regulation on credit activities. The promulgated Law on Promotion of Small and Medium-sized Enterprises (SMEs) only provides for the financing of SMEs in a general way and does not provide implementation measures and measures. In the absence of policies and regulations, it will lead to the imperfection of the financing market or even the phenomenon of high threshold. In order to ensure the stability and
orderly development of the financial market, the state will restrict the standard of equity financing for small and micro enterprises. Although some small and micro enterprises have high technological innovation ability, the speed of technological upgrading and industrialization of scientific research achievements is also faster. However, because most small and micro enterprises are in the period of start-up, the production scale is low, and it is difficult to meet the conditions of IPO. In this case, the high cost of all kinds of enterprises makes small and micro enterprises fall into the practical problem of financing difficulties.

4. Innovation of financing model and risk management strategy for small and micro enterprises

4.1 Optimizing the financial structure system

In the current financial institution system of China, state-owned commercial banks still occupy a high monopoly position. Urban credit cooperatives were originally positioned to provide services for small and micro enterprises, but so far they have been merged into cooperative banks and local commercial banks. At the same time, the target of service has also changed, more inclined to large and medium-sized enterprises. In this financial structure system, the financing efficiency of small and micro enterprises has been greatly reduced, which is not conducive to promoting the development of small and micro enterprises. In this regard, China's relevant departments should optimize the financial structure system to form a win-win situation between financial institutions and small and micro enterprises. Through the establishment of specialized financial institutions on small and micro enterprises, we can provide credit financing services for small and micro enterprises and effectively solve the financing difficulties.

4.2 Rebuilding risk control system

The main reason for the financing difficulties of small and micro enterprises is that financial institutions are difficult to evaluate their credit qualifications. Therefore, financial institutions can use emerging technologies, such as blockchains, big data, etc., to evaluate the risk and credit management of small and micro enterprises. By using the emerging data technology, financial institutions can mine and analyze various credit data of small and micro enterprises in detail, conduct credit evaluation, and achieve effective credit evaluation. In addition, small and micro enterprises should pay full attention to the cultivation of credit awareness, strengthen their own credit management, and consciously accept the supervision and management of relevant departments.

4.3 Innovation and optimization of financing methods

Small and micro enterprises should constantly innovate and adjust the direction of financing. Supply chain finance, accounts receivable finance, bond-equity combination, debt-to-equity swap, and other ways can be considered to effectively solve the financing difficulties of small and micro enterprises. Specifically, government departments can set up industrial investment funds and high-tech venture capital funds for long-term development. When small and micro enterprises are financing, the fund can provide financing guarantees to reduce the risk of investors. At the same time, relevant departments can create conditions to build small and micro enterprises stock financing platform, and further broaden the financing channels of small and micro enterprises. By encouraging the vigorous development of the GEM market, we will continuously improve the bond issuance audit system and credit evaluation system, and innovate the financing methods of small and micro enterprises.

5. Conclusion

In China's economic system, small and micro enterprises have always been an important part. However, due to the imperfect financial system of small and micro enterprises, the technical level is relatively low and the lack of mortgage capital. At the same time, the current policy is uncertain,
facing enterprise loans, financial institutions show a polarized support attitude. At this stage, the legal system of financing for small and micro enterprises is not perfect. These problems make small and micro enterprises face the problem of difficult financing and expensive financing for a long time. The development of Internet finance has brought new ideas and directions for the innovation of financing mode for small and micro enterprises. In this regard, this paper summarizes the financing status of small and micro enterprises in China. At the same time, we find that the financing risk of SMEs lies in the problems of SMEs themselves, financial institutions and policies and regulations. To this end, this paper puts forward some management strategies, such as optimizing the financial structure system, rebuilding the risk control system, innovating and optimizing the financing mode, in order to promote the innovation of financing mode of small and micro enterprises.

References