

Obstacles and Countermeasures of Financing for Smes in Qingdao

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Abstract: Based on the characteristics of China's small and medium-sized enterprises, this paper takes Qingdao as an example to study the financing status of SMEs, the existing financing dilemmas, and analyze the root causes of the obstacles to financing for small and medium-sized companies. Step out of the financing dilemma and propose countermeasures.

1. Introduction

1.1 Research Background

Small and medium enterprises have shown tremendous vitality and potential in China's national economy, and have become an important force for stimulating the development of China's national economy, increasing government revenue, promoting the optimization and upgrading of the industrial structure, improving the employment situation, and creating an atmosphere of innovation. However, the development of local SMEs has its own development limitations, and financing is difficult to become a bottleneck restricting the survival and sustainable development of SMEs. As the economic leader of Shandong Province, Qingdao is faced with a serious shortage of funds for the development of small and medium-sized enterprises, which restricts the development of enterprises and affects the degree of economic activities in China. From the data obtained by the Statistical Research Office of the Qingdao City Central Branch of the People's Bank of China, as of the end of May 2019, the balance of domestic and foreign currency loans of Qingdao's small and medium-sized enterprises was 636.8 billion yuan, accounting for 36.72% of the city's total domestic and foreign currency loan balances; The loan balance was 608.5 billion yuan, accounting for 37.3% of the city's renminbi loan balance; the SME foreign currency loan balance was US \$ 4.1 billion, accounting for 27.58% of the city's foreign currency loan balance. In recent years, although the State Council has strongly encouraged financial institutions to lean on SMEs, the Qingdao Municipal Government has also followed the national policy weathervane and issued a series of policies and provisions to promote the sustainable development of SMEs, which has significantly eased the development difficulties and accelerated the development of SMEs. As of the end of May, the balance of inclusive small and micro loans was 10.3 trillion, a year-on-year increase of 21%. The balance of loans from five large state-owned banks to inclusive small and micro enterprises increased by 23.7% over the end of last year, and most of the full-year plan has been completed, with an average interest rate of 4.79%, a decrease of 0.65 percentage points from last year. However, the problems of "difficult" and "expensive" financing faced by Qingdao SMEs remain unresolved, and the financial difficulties faced by SMEs are also a difficult problem for financial and academic research in the country.

1.2 Research Status

In the "Macmillan Report" published by Macmillan in 1931, there was a financing gap in SMEs, known as the "Macmillan" gap. Since then, large-scale research on SME financing issues has begun.

(1) Information Asymmetry Theory

The problem of information asymmetry between SMEs and financial institutions can easily cause problems such as "moral hazard" and "adverse selection". The research results of the information asymmetry theory reveal the core of modern economics, make up for the shortcomings of traditional

microeconomics, and lay the foundation for the study of financing guarantee theory.

(2) Debt capital financing gap theory

The financing gap of general affairs capital refers to the difficulties faced by SMEs in raising debt capital. Foreign experience shows that loans from banks and other financial institutions are the main channel for financing external debt of SMEs. But often even if they can provide collateral or accept higher interest rates, many SMEs still cannot get the loans they need in a timely manner. There are four reasons for the debt financing gap: First, there is information asymmetry. Second, SMEs have limited ability to withstand market fluctuations, and the failure rate and default rate are much higher than those of large enterprises. Third, SMEs often cannot provide mortgages or guarantees. When applying for loans, they either face credit rationing or face unfavorable loan conditions. Fourth, the shortcomings of the financial organization system. Due to the reform of the financial system, the internal control system of commercial banks in industrialized countries and the improvement of post-policy loan guarantee systems have alleviated the problems of information asymmetry and moral hazard in the financing of SMEs.

2. Qingdao Sme Financing Situation

2.1 Qingdao Sme Financing Methods

Internal financing and external financing are the main methods of financing for small and medium-sized enterprises. Endogenous financing is the internal tapping of a company's internal potential and the use of its idle assets. In terms of financing channels, it is divided into direct financing and indirect financing. Direct financing refers to equity financing and bond financing of SMEs, and indirect financing includes bank credit and financing leases. Generally speaking, the financing methods of SMEs in Qingdao are mainly bank credit, lease financing and private credit.

2.2 Features of Qingdao SMEs' Financing

Mainly indirect financing, lack of direct financing channels and irrational financing structure

According to statistics, most of the current working capital of SMEs comes from bank loans. Small and medium-sized enterprises (SMEs) are small in scale, flexible in operation, small in production batches, and diverse in production methods, which make their capital requirements small but high in frequency. These characteristics further determine that the borrowing time is short, and the amount of each financing required is small and frequent. The stock market and corporate bond market are too high and immature, and Qingdao's small and medium-sized enterprises can only be discouraged.

High financing cost and financing risk

SMEs have extensive management and low technology, and banks have a high risk of providing loans to them. In this regard, banks obtain compensation by raising interest rates, and SMEs therefore bear higher financing costs compared to large enterprises. On the other hand, banks implement a system of accountability for non-performing loans, and staff members will be held accountable if bad loans or non-performing loans occur in corporate loans. Therefore, the accountability system for non-performing loans is also a factor that affects the enthusiasm of banks for lending to SMEs.

3. The Reasons for Qingdao Smes Financing Difficulties

The “bottleneck” of SMEs, that is, the shortage of funds, is related to the survival and development of enterprises. It is of great significance to the financing environment of SMEs in Qingdao, the realization of economic recovery in Shandong Province, the overall development of SMEs in China, and the expansion and provision of corporate financing channels.

3.1 Analysis of Internal Factors of Qingdao Enterprises

Qingdao SMEs have many problems. First, it affects the financial evaluation of financial institutions for enterprises. First, the enterprise is small in scale, insufficient in assets, and has no movable or real property that can be mortgaged. The cases are as follows:

Qingdao RS Trading Co., Ltd. is a small and medium-sized enterprise mainly engaged in clothing, footwear, textiles, hardware, electricity, daily necessities and household appliances. In May 2019, Qingdao RS Trading Co., Ltd. applied for a loan of 10 million yuan from a financial institution as an example, but the result was not approved. The reason is that the asset-liability ratio is too high, which does not comply with the provisions of bank launch policies. Most of the trading enterprises' business premises are leased, lacking their own fixed assets, and insufficient assets lead to excessive asset-liability ratios, which affects corporate loan approval rates.

Second, some enterprises operate irregularly, have poor pressure resistance, loose cash management, low employees requirements, extensive management results in a low level of industry, weak profitability or even loss, resulting in insufficient repayment ability; third, Insufficient funding for innovation, low production technology, limited development potential and weak repayment ability. Fourth, the company's credit status is poor, there have been or existing bad loans or interest arrears, or the lack of credit of the legal representative, resulting in the company's inability to finance. Fifth, the lack of guarantors with strong guarantee capabilities has resulted in the inability to approve loans. Sixth, corporate market prospects are not good, such as industries that have been restricted by the state or have been banned from placing credit funds, such as high energy consumption and high pollution industries.

3.2 Analysis of External Factors of Qingdao Enterprises

(1) Analysis from the perspective of Qingdao Municipal Government

The Qingdao municipal government's emphasis on SMEs still needs to be improved. Inadequate financing channels, insufficient enforcement of related policies, and inadequate supervision of SMEs restrict the solution of Qingdao's SME financing obstacles.

(2) Analysis from the perspective of Qingdao Bank

First, commercial banks have shown insufficient interest in SMEs. Banks have very different attitudes towards state-owned enterprises and small and medium-sized enterprises, and provide higher-interest loans and stricter loan conditions for small and medium-sized enterprises. Secondly, the lack of a mature and mature loan incentive mechanism within banks, and the "accountability system for loans" increased the difficulty of financing SMEs. Finally, the opacity of information between financial institutions and SMEs has reduced banks' willingness to lend to businesses.

(3) From the perspective of Qingdao financial institutions

Qingdao lacks relational financial institutions, and due to the strict restrictions and supervision of national policies, it is difficult for SMEs to obtain funding difficulties.

(4) Analysis from the perspective of Qingdao's financial system and market mechanism

Qingdao's immature market mechanism and the failure to follow up on the reform of the financial mechanism have made it impossible for SMEs to obtain a sound and healthy financing environment. The municipal government's lack of exogenous financing reforms reasonably cooperates with the market, and the lack of market incentives also hinders the solution of financing bottlenecks.

4. Countermeasures to Ease Financing Obstacles for Smes

According to local conditions, based on policies and actual conditions, actively explore countermeasures to alleviate financing obstacles for small and medium-sized enterprises, and improve the feasibility of financing for medium-sized enterprises in Qingdao.

Financial institutions (banks) improve financial services

(1) Strengthen relationship-based loan financing to take the lead in maintaining credit chains and promote interactive cooperation between banks and enterprises. Maintain a long-term and close credit relationship with SMEs, consider the role of SMEs in lending to society, make up for the credit gap based on "soft information", and improve the bank's disadvantaged position.

(2) Innovate loan methods and products of commercial banks. Compared with guaranteeing the security advantages of mortgage loans, commercial banks prefer to place mortgage loans mainly. The

lack of effective collateral for SMEs is a common phenomenon, which makes it more difficult to obtain bank credit fund support. Therefore, innovative guarantee methods or expanding the scope of collateral have become new avenues for financing SMEs, such as pledges with intellectual property rights, well-known trademarks, and receivables. According to Qingdao's SME risk level, type of enterprise, development stage, capital use, seasonality of the company's products and so on, we provide different credit products for different needs of enterprises.

(3) Financial institutions change their service concepts and service mechanisms, from investing in focus to large enterprises to SMEs that are in line with national industry support, and optimizing internal capital allocation; decentralizing SME loan approval authority and expanding grassroots branch SMEs Loan approval quota, shorten the approval process and improve approval efficiency.

4.1 The Government Strengthens Policy Support

First, the financial special funds that support the development of small and medium-sized enterprises shall be strictly monitored. Clarify the amount, purpose, and use of funds. When carrying out the hierarchical budget management, the special fund for Qingdao SMEs will be drawn. Increase funding for scientific and technological innovation, product research and development, and social welfare. Encourage social forces to create venture capital funds, credit guarantee funds, and technology innovation funds, and provide financial subsidies and preferential tax policies for this.

Second, the government has invested in establishing and improving a credit platform to increase corporate information transparency. The government continuously updates Qingdao's SME credit rating, credit history, credit evaluation and other information through the platform to facilitate information users' query and use. Bad companies with low credit levels will have nothing to look for, and will also play a better management and deterrent role for other small and medium enterprises, and will also reduce investor risks to a certain extent.

Third, the People's Bank of China and the regulatory authorities have clear system requirements for SME investment at financial institutions at all levels, and implement a periodic evaluation system to promote the transfer of loans from financial institutions to SMEs. In recent years, the People's Bank of China and the regulatory authorities have implemented a number of effective measures to strengthen the lending of small and medium-sized enterprises, especially for small and micro enterprises. The management institutions have established a dual assessment of the growth of small and micro enterprises and the growth rate of financial institutions, this has increased the initiative of financial institutions to SMEs, especially small and micro enterprises

4.2 Effectively Play the Role of Commercial Guarantee Institutions

According to statistics from the local financial administration, Qingdao currently has 45 guarantee companies. The number is small and the risk sharing ratio is not yet clear. The parties to the bank-to-bank cooperation shall negotiate and determine the risk sharing ratio of the financing guarantee business. All parties involved in bank cooperation shall specify the conditions for business access and guarantee reimbursement, clarify the liability for reimbursement, and strengthen the risk identification and prevention of secured loans. Form an effective "borrowing and loan repayment" operating mechanism.

4.3 Strengthen the Self-Construction of Smes

First, small and medium-sized enterprises in Qingdao should fully explore their competitive advantages, clarify their business direction, improve their management systems, improve their economic efficiency and competitiveness, and make themselves bigger and stronger in order to obtain better capital application qualifications.

Secondly, improve the corporate financial system and establish a credible and reliable corporate image. Promote the credibility and transparency of its financial management. Under the constraints of the corporate financial system, do a good job of financial management to ensure the legality and authenticity of financial statements.

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