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Research on the Financing Problems and Solutions of Small and Medium-sized Enterprises

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Abstract: With the deepening of globalization, market boundaries are becoming increasingly blurred, and the importance of small and medium-sized enterprises (SMEs) as an indispensable part of the market is becoming more prominent. SMEs play an irreplaceable role in promoting economic growth, increasing employment, fostering market integration, and driving technological innovation. However, in the complex and ever-changing market economy, SMEs face significant challenges in securing financing. This article examines the root causes of these financing difficulties and proposes a series of practical and feasible solutions through theoretical analysis. It can be concluded that the current challenges faced by SMEs in financing include tight bank loan quotas, limited collateral, internal management issues, and asymmetric market information. At the same time, this article also proposes solutions such as optimizing government policies and improving the capabilities of SMEs.

Keywords: Small and medium-sized enterprises, financing, difficulties, solutions.

1. Introduction

As of the end of 2022, the number of small and medium-sized enterprises (SMEs) in China has exceeded 52 million, a 51% increase from the end of 2018, accounting for 99.8% of all enterprises and contributing about 60% to the country's GDP. This highlights the critical role SMEs play in China's economy. This article will extensively collect academic literature and case studies related to financing for SMEs in China, conduct in-depth analysis and comparison, and extract the core elements and solutions to their financing challenges. This study provides a theoretical basis for the healthy development of financing for small and medium-sized enterprises, with the potential to promote their growth. Addressing the financing difficulties of SMEs can directly enhance their market competitiveness and innovation capacity, which is crucial for driving national economic growth. Moreover, it can optimize resource allocation. Research on SME financing issues can help reveal problems such as information asymmetry and unreasonable risk pricing in the financial market, thereby promoting the optimal allocation of financial resources. By improving financing mechanisms, funds can flow more efficiently to SMEs with development potential and growth space, enhancing overall economic efficiency and strengthening financial stability.

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2. Challenges and difficulties faced by small and medium-sized enterprises in financing

According to statistics, the proportion of direct financing in China is only 20%, less than one-third of that in developed countries. Among them, the proportion of direct financing for SMEs is even smaller, less than 5%. In theory, SMEs have access to a wide range of financing options, but in practice, over 90% of SMEs in China rely on internal financing, credit financing, and bank loans, with little dependence on equity financing [1]. The financing channels are actually narrow.

This chapter categorizes the difficulties faced by small and medium-sized enterprises in financing into the following three types:

2.1. Limited Bank Loan Quotas and Restricted Collateral

At present, SME financing channels primarily consist of commercial bank loans (over 90%), credit financing (about 3%), financial leasing (about 2%), venture capital and private equity investment (about 1%), as well as bond financing (about 0.2%)[1].

The loan amounts provided by banks to SMEs are generally limited. Many SMEs, due to their small scale and limited assets, often lack sufficient collateral, such as property or equipment, to meet bank requirements. This makes it more difficult for them to secure loans. At the same time, China has not yet established a guarantee mechanism and credit guarantee institution for financing of SMEs, nor are there specialized rating methods or effective risk assessment systems for SMEs [1]. This leads to a lack of effective alternative financing solutions for SMEs when their own collateral is insufficient. Even if these enterprises have good credit records and business prospects for investment projects, they may not be able to obtain the necessary financing support smoothly. Lack of policy funds means that SMEs face more intense competition when seeking these funds, and may not be able to fully meet their funding needs due to limited resources, thereby exacerbating financing difficulties.

Besides, the process of applying for bank financing is often complex, requiring extensive documentation and involving lengthy review times, making it difficult for SMEs to obtain funds quickly. This delay in securing capital can hamper their operations. Moreover, even if banks approve loans to SMEs, they will still increase their loan interest rates to balance the borrowing risks of these enterprises. This risk premium has to be borne by the enterprises, which increases their financing costs and affects their normal operation, thereby hindering their long-term sustainable development [2].

2.2. SMEs' Internal Management Problems

The financing difficulties of SMEs often stem from their own shortcomings. For example, some small businesses have inadequate financial systems, non-standard financial statements, and even some choose to falsify their finances in order to obtain financing. All of these have damaged the credit image of enterprises, making it difficult for banks and other financial institutions to accurately assess their financial condition and operational risks. Additionally, due to limited funding, SMEs often struggle with talent acquisition and employee training, resulting in a generally lower quality of management and workforce. This lack of skilled management, coupled with the absence of scientific management systems and effective decision-making mechanisms, leads to lower operational efficiency. As a result, these businesses find it difficult to attract external investment and meet the needs of modern management.

Many SMEs also lack clear business strategies and long-term plans. Misjudging product lifecycles, incorrectly predicting market size and sales prospects, and failing to determine appropriate financing scales based on actual needs further complicate their financing efforts [3]. And due to limited technological level and innovation capability, many SMEs lack competitiveness in their products, making it difficult for them to occupy a favorable position in the market, thereby affecting their

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financing ability. In addition, weak credit awareness is also a crucial point. Some SMEs engage in practices such as loan defaults and debt evasion, which make financial institutions more cautious when considering loan approvals.

2.3. Market Information Asymmetry

SMEs often lack efficient information collection and analysis tools and talent reserves, making it difficult to capture the latest developments in the financing market. The lag in obtaining accurate information means that SMEs may struggle to evaluate the pros and cons of various financing options, often leading them to choose financing paths that are not well-suited to their needs. Moreover, information asymmetry can also put SMEs in a passive position in negotiations with financing institutions [4]. Large banks and investment institutions with powerful information networks and resources often have clear insights into market trends and the real situation of SMEs. In contrast, SMEs often have to passively accept the conditions proposed by the other party during negotiations, and may even face unfair treatment.

Furthermore, market information asymmetry may also affect the credit evaluation of SMEs. Due to the difficulty for financing institutions to fully grasp the true information of SMEs, they often have to rely on limited and possibly incomplete information when conducting credit evaluations. This information asymmetry not only increases the difficulty and uncertainty of evaluation, but may also lead to misjudgment and underestimation of the credit of SMEs. In the end, SMEs that should have received financing support may be rejected, exacerbating their funding challenges.

3. Methods for SMEs to Solve Financing Problems

3.1. Government Optimization Policies

Firstly, optimizing tax policies is essential.

The government plays a crucial role in financing for SMEs. Firstly, the government should introduce and implement financing incentives and tax reduction policies to provide financial institutions with tangible economic benefits when issuing loans to SMEs, which will significantly alleviate their concerns about the potential risks of such loans. At the same time, the government also needs to implement interest rate preferential policies, which will enable SMEs to obtain the necessary funds at a lower cost. By promoting the development of varied financing options, including innovative financial products, expanded financing channels, and the introduction of social capital, SMEs can select the most suitable financing methods based on their specific needs and circumstances. Through these measures, SMEs can more efficiently and accurately address their funding challenges. Furthermore, by reducing taxes and offering tax rebates, the government can lower the operating costs of SMEs, increase their profit margins, and provide strong financial support for their future growth.

Secondly, improving the guarantee system is another key focus.

The government can provide a risk compensation fund to compensate for the losses that financial institutions may suffer in supporting financing for SMEs. In cases where SMEs are unable to repay loans on time due to poor management or other reasons, the risk compensation fund can provide financial compensation to financial institutions according to a certain proportion, thereby reducing their losses. This mechanism effectively reduces the risks in the credit business of financial institutions and encourages them to provide financing services more actively for SMEs. The government can further support financing for SMEs by establishing and improving guarantee mechanisms. Guarantee institutions can offer loan guarantees for SMEs, assuming partial responsibility for compensation when SMEs fail to meet repayment obligations. This will also greatly reduce the credit risk of financial institutions and increase their willingness to lend to SMEs. At the

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same time, the government can further reduce the financing costs of SMEs and enhance their financing capabilities by providing guarantee subsidies, reducing guarantee rates, and other means.

Thirdly, improving the Internet system and increasing information transparency is crucial.

In the current digital era, the Internet financial system has brought significant convenience to the financing of SMEs. Financial institutions can leverage the power of big data technology to efficiently obtain and analyze the credit status of borrowing enterprises, and then precisely customize financial products that meet the financing needs of SMEs, achieving personalized and efficient services. This process not only significantly reduces the cost of information collection and evaluation in traditional credit approval, but also enhances the acceptance of financing for SMEs by financial institutions. At the same time, the Internet financial system effectively alleviates the problem of information asymmetry in the market and breaks the information gap between traditional banks and enterprises, which also provides more transparent and efficient financing channels for SMEs, provides more clear and accurate decision-making basis for potential investors, further enhances the reliability and stability of their financing. This, in turn, broadens the range of financing channels and methods available to SMEs.

3.2. Enhancement of Enterprise Capability

As a key influencing factor in the financing process of SMEs, strengthening their own quality and enhancing their financing capabilities are of great significance in solving their financing difficulties [5].

Firstly, enterprises need to attract high-end talents and build strong teams.

Competitiveness is the foundation of the survival of SMEs and a reflection of their financing ability. The fundamental improvement of core competitiveness lies in talent planning [6]. SMEs should fully leverage their unique advantages by offering competitive salary and benefits packages to attract high-tech talent. At the same time, they should focus on talent cultivation and team building by promoting employee integration with corporate development goals through internal training, cultural exchange programs, and other initiatives. This helps foster a strong cohesion and centripetal force. Corporate culture, as an important factor in enterprises, plays an irreplaceable role in attracting and retaining talent. Building a positive corporate culture atmosphere can not only stimulate employees' creativity and work enthusiasm, but also enhance the overall image and brand value of the enterprise.

Secondly, enterprises should optimize their internal management structure and improve operational efficiency.

Given their relatively small scale and weaker management foundations, it is particularly important for SMEs to optimize their internal management structures. These enterprises should clearly define their development goals and establish sound management systems that cover the entire operational chain—from decision-making and financial monitoring to production and sales—to ensure smooth and efficient operations. At the same time, enterprises must focus on cost control, improving resource utilization, and implementing effective supervisory mechanisms to enhance transparency and build market trust. This creates favorable conditions for financing. Maintaining a risk reserve and improving risk resilience are also necessary steps to ensure stable and sustainable development.

Finally, enterprises should strengthen technological innovation and independent research and development.

SMEs should focus more on technological innovation and independent innovation when resources are limited. Enterprises should regard technological innovation as their lifeline, and even if funds are tight, they should not reduce investment in research and development projects. Establishing or strengthening independent research and development institutions can not only promote product iteration and upgrading, but also build unique competitive advantages in the market. At the same time, through technological transformation and brand building, the product and technology update cycle is

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shortened, the enterprise value is continuously enhanced, and the leading position is ensured in the rapidly changing market.

4. Conclusion

This article explores the financing issues of small and medium-sized enterprises in depth, revealing their market importance and financing difficulties. The main obstacles identified in the financing process include bank loan limits, collateral restrictions, management deficiencies, and information asymmetry. A series of solutions have been proposed to address these challenges, including optimizing government policies, improving guarantee systems, reducing financial institution risks, increasing information transparency, and enhancing the capabilities of small and medium-sized enterprises.

In summary, the issue of financing for SMEs requires joint efforts from the government, financial institutions, and enterprises themselves. Comprehensive measures are needed to alleviate these challenges and foster their healthy and sustainable growth. However, this study is largely qualitative and has certain limitations. In the future, regional and industry differences can be further refined to provide more comprehensive solutions and focus on the new challenges and opportunities brought by the development of financial markets.

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