

Analysis of Financing Difficulties for Small and Medium-sized Businesses and Solutions

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Abstract: Small and medium-sized businesses in China have grown quickly in recent years, making them the largest and most dynamic group of businesses there. They play a significant role in the country's overall economy. However, small and medium-sized businesses are facing financing difficulties. Businesses financing is necessary for the future operation and development of a company, and it is also a necessary guarantee for the sustainable operation of the businesses. The method used in this paper is literature analysis. Therefore, this paper mainly analyzes the reasons for the financing difficulties faced by small and medium-sized businesses from three aspects: the financing difficulties of small and medium-sized businesses are mainly caused by their own characteristics, financial institutions such as banks, and imperfect laws and regulations. And then gives corresponding solutions. Small and medium-sized businesses have improved their comprehensive strength, improved the construction of banking and other financial systems, and the state has revised and improved laws and regulations.

Keywords: small and medium-sized businesses, financing difficulties, businesses financing, financing analysis

1. Introduction

China's small and medium-sized businesses have developed quickly in recent years, becoming the country's largest and most active group of businesses and a significant part of the country's economy. As a result, the growth of small and medium-sized businesses is linked to the general development of Chinese businesses. However, small and medium-sized businesses are facing financing difficulties due to many factors. Mei Xupei defines that financing mainly refers to the process by which an businesses uses reasonable means to raise social circulating funds in multiple ways to ensure the sustainable and stable operation of funds [1]. It is the procedure for obtaining funding for a business. The operation and growth of a business in the future depend on businesses financing, which also serves as a guarantee for the businesses's long-term viability. Therefore, this paper mainly analyzes the reasons for the financing difficulties faced by small and medium-sized businesses from three aspects: the businesses itself, the bank, and the country. The method used is literature analysis. By comparing previous analyses of the financing difficulties of small and medium-sized businesses, corresponding measures are proposed to solve the financing difficulties of small and medium-sized businesses, thereby helping these businesses in China to quickly finance and drive the national

economic development.

2. Analysis on the Causes of Financing Difficulty in Small and Medium-Sized Businesses

2.1. Characteristics of SMEs

The characteristics of small and medium-sized businesses make financing difficult.

First of all, small and medium-sized businesses have a small scale, high risk, and poor stability. Zhang Yishu stated that there are small and medium-sized businesses in various industries in the primary, secondary, and tertiary industries, especially in agriculture, catering, manufacturing, processing, and retail and wholesale industries [2]. Most of them are mid- to low-end industries. Due to the low threshold for entry into these industries and the lack of much technology and equipment, there are plenty of competing businesses. In order to stand out in the fierce competition, these small and medium-sized businesses have to reduce prices, thus reducing profits. Therefore, the product added value of these businesses is very low, and their profitability is not strong. Also, because the competition is fierce, these businesses face great risks.

Secondly, the management of small and medium-sized businesses is not standardized and their financial affairs are not transparent. Because most small and medium-sized businesses are not listed companies, which do not disclose their financial statements and other business status analysis reports to the public, various information disclosures are extremely opaque as well. Some businesses may have multiple sets of financial books that falsely report and conceal their financial status, in order to achieve illegal purposes such as tax evasion and avoidance. Thus, it is not uncommon for small and medium-sized businesses to have irregular financial conditions and untrue operating conditions.

Moreover, the fixed assets available for a mortgage are limited. Due to the small size of small and medium-sized businesses, the assets available for collateral are limited. Financing without sufficient collateral leads to high financing costs for small and medium-sized businesses. Su Yanli, Xu Yan&Xie Junping agreed that the size of the businesses is directly proportional to the capital demand of the businesses. Banks often implement a sales policy of high volume and high price for corporate financing services. Therefore, larger companies often have the advantage of low financing costs and are more likely to be favored by financial institutions [3].

2.2. Imperfections in Financial Markets

The financial market mentioned in this chapter mainly refers to the market for banking entities. Firstly, there is an information asymmetry between banks and businesses. The main way for small and medium-sized businesses to obtain financing is through banks, which use the same loan conditions and risk assessment system for businesses of different sizes. Businesses are required to provide complete and detailed financial statements. According to Huang Qingyuan the small and medium-sized businesses department is not sound, the financial system is not standardized, financial information is not disclosed, and the credibility of information disclosure is insufficient [4]. Banks have difficulty in assessing the financial risks of businesses accurately. Therefore, these businesses can hardly pass the bank's credit review, and it is difficult for small and medium-sized businesses to obtain bank financing.

Secondly, banks are unwilling to provide financing to small and medium-sized businesses with small, urgent and frequent financing needs. Most small and medium-sized businesses are self-employed or small private businesses, so they are small in scale and require little capital. Compared to the large businesses, the operating conditions of small and medium-sized businesses is slightly weaker and are greatly affected by market fluctuations, so there may be situations where financing is urgently needed. The average financing frequency of small and medium-sized businesses is 5 times faster than that of large businesses and is often used for seasonal demand. For the above reasons,

banks are more willing to lend to large businesses with large and slow financing needs, and long financing cycles. Banks are more willing to choose a large business with stable loans and low risk.

Moreover, the credit management mechanism is not perfect. Government regulations restrict the construction of state-owned banks, and the administrative and market-oriented structure of these financial institutions puts them in a difficult situation. Banks have strengthened their credit management system. Long Junyang&Yu Jing explained that the existing lending mechanism of banks has strong accountability constraints on loan holders. Grassroots banks lack credit, and the bank incentive mechanism appears to be less effective [5]. Incomplete credit management has led to a contraction of credit in the banking industry.

Finally, the loan authority is highly centralized. Many municipal and county-level banks do not have the right to lend to small and medium-sized businesses. For example, state-owned commercial banks prioritize the financing needs of state-owned businesses and give priority to large state-owned businesses. They have strict financing conditions and multiple restrictive clauses for small and medium-sized businesses.

2.3. Imperfect Laws and Regulations

The lack of attention from regulatory authorities and imperfect laws and regulations makes it difficult for small and medium-sized businesses to financing.

Firstly, state-owned businesses are the main body of Chinese businesses, so the development of small and medium-sized businesses is suppressed. Since China's reform and opening up, the national economy has been in a dominant position. The regulatory authorities highlight the development of large businesses, providing multiple preferential and supportive policies to large businesses, such as the establishment of bonded areas and tax reductions and other policies, in order to enable large businesses to go abroad and become the pillar of the national economy. Therefore, the country lays stress on the development of large businesses, crowding out and suppressing the survival and development of small and medium-sized businesses. Many national banks thus discriminate against small and medium-sized businesses, so it is a challenge for them to obtain loans.

Second, there are some flaws in the country's policies and rules that are intended to promote and direct the growth of small and medium-sized businesses. In essence, these provisions can only serve as guidance for the financing of small and medium-sized businesses and lack specific measures to solve problems and protect small and medium-sized businesses. In particular, in recent years, many policies have focused on taxation, and the content of financing for small and medium-sized businesses is not much involved. It is difficult to solve the current financing difficulties for small and medium-sized businesses through national macro legal policies Sun Hong [6]. These policies focus on leadership and theory, without complete operational guidance. Therefore, there are no clear and feasible measures to gradually guide businesses financing, so the problem of difficult financing needs for small and medium-sized businesses has not been resolved.

3. Analysis of Solutions

3.1. Improve the Credit of SMEs

First, small and medium-sized businesses need to improve their strength. Zhou Wanhong refers to the fact that small and medium-sized businesses need to make their industries bigger and stronger, establish modern businesses management systems, improve their own quality, and qualified small and medium-sized businesses hire professional management teams and professional managers to manage the businesses, improve their independent innovation ability, accelerate transformation and upgrading, and enhance market competitiveness [7], so as to stand out in the highly competitive industry, improve their profitability, and reduce their capital risks. The reduction of asset risk has

resulted in more financing opportunities.

Second, the administration of small and medium-sized firms must be strengthened, and reliable financial reports must be produced. Small and medium-sized firms should standardize the duties performed by their departments, divide them up according to the conventions used by major corporations, and conduct all business operations in accordance with the businesses's regulations. To ensure that the financial situation of the company can be open and transparent, without misrepresentation or concealment of financial status, the financial department of a company should perform well in accounting and auditing its financial statements. To ensure authenticity and impartiality, a variety of information should be presented in detail when conducting the audit. Many small businesses must also clearly divide their corporate assets and personal assets to ensure financial standardization. The clearer and more transparent the financial statements, the more recognized they will be by financial institutions, thus obtaining more financing.

Moreover, Credit standing should be improved by small and medium-sized businesses. Each financing has shown a high degree of credibility, gradually forming a fine cooperative relationship with commercial banks, establishing the credit of the businesses, thereby making more banks and third-party institutions willing to finance the businesses; At the same time, improving the quality of products, eliminating counterfeiting and cheating on consumers, and creating a good brand image can enhance the trust of investors and financial institutions in businesses. Although there are few collaterals, good corporate reputation, and good commodity sales can make up for the lack of collateral that causes banks to raise financing rates.

3.2. Establish and Improve Laws and Regulations

First of all, there is a large gap between the repayment capacity of large businesses and that of small and medium-sized businesses. When different businesses apply for financing, banks or other financial institutions cannot use the same loan conditions and risk assessment system but instead need to adopt policies and assessment methods different from those of large businesses to assess whether small and medium-sized businesses have financing capacity. For example, although small and medium-sized businesses cannot provide complete financial statements, they can provide banks with other data and information that can reflect the good operation of the businesses and can also provide operational risk analysis to pass the bank's credit review to obtain financing qualifications. Meanwhile, based on the characteristics of small and medium-sized businesses' weak risk resistance, financial institutions such as banks should be moderately tolerant of problems such as loan defaults by small and medium-sized businesses, provide a time limit, and help small and medium-sized businesses resume normal production in order to repay loans in a timely manner. Tian Shuanglong [8].

Secondly, the government should establish more small banks to strengthen assistance to small and medium-sized businesses. The customer groups of large banks are mostly large businesses, which have large financing needs and long financing cycles. Therefore, large banks are more willing to cooperate with these businesses. For the financing needs of small and medium-sized businesses, the government should establish small commercial banks to compensate for the deficiency of bank financing for small and medium-sized businesses. These small banks are specialized in serving small and urgent financing needs and short financing cycles for small and medium-sized businesses. The government produces a marked effect in strengthening small and medium-sized businesses. The establishment of small banks depends on the integration of private capital, which is the main driving force behind the emergence and development of small banks.

Thirdly, improve the credit management mechanism. The purpose of credit regulation is to curb credit inflation and maintain a suitable total amount of credit growth for financial institutions. However, in the context of the credit crunch, credit regulation has become an obstacle to the credit growth of financial institutions. Therefore, while strengthening support for small and medium-sized

businesses' loans, it is necessary to combine credit management and establish a new credit risk management mechanism to reduce the occurrence of credit contraction. Chen Zhanghua gave an explanation. Banks, as the main channel of financing and credit, should increase effective credit investment support for small and medium-sized businesses [9].

3.3. Improve the Financial Market Environment

First of all, eliminate prejudice and attach importance to the development of small and medium-sized businesses. The country should shift its focus on the development of small and medium-sized businesses, and not exclude or suppress their survival and development.

Secondly, the country should revise and improve its policies and regulations for the development of small and medium-sized businesses and provide guidance and feasibility opinions. At present, China's policy support for small and medium-sized businesses is far from sufficient. The government should not only encourage the public to establish small and medium-sized businesses, but also provide corresponding financial policy support in the subsequent growth and development process of small and medium-sized businesses. In order to achieve the so-called "teaching students according to their aptitude", financial preferential policies suitable for different types of small and medium-sized businesses should be formulated and issued, especially to encourage technological innovation oriented small and medium-sized businesses and promote the social atmosphere of innovation and entrepreneurship. Li Cunxin&Liu Xuan [10]. To improve the policy system for protecting the development of small and medium-sized businesses, the country should be committed to building and developing a sound financial market. The key is to promote the financial development of small and medium-sized businesses. We should introduce preferential and supportive policies for small and medium-sized businesses, specifically propose feasible plans, and gradually help them develop and grow.

Finally, the country should appropriately liberalize the lending authority, granting more municipal and county-level banks and third-party financial institutions more lending authority. The main purpose of granting banks credit approval authority is for banks to improve their internal controls and management of risk. However, the risks of small and medium-sized businesses are inherently higher than those of large businesses, so the granting of credit authority is undoubtedly a restriction on the financing of small and medium-sized businesses.

4. Conclusion

This study analyzes the reasons for the financing difficulties of small and medium-sized businesses in China from the perspectives of the businesses themselves, banks (financial markets), and the country, and then provides solutions to solve the financing demand difficulties in various aspects. This article does not deeply analyze the overall environment of China's financial market and economic situation. Many policies that "inhibit" the development of small and medium-sized businesses and the problems faced by small and medium-sized businesses may be determined by the economic situation of the entire market. The financial market is controlled by an "invisible hand", regardless of whether it is a businesses or a national government, and support or protection policies are likely to be detrimental to the growth and development of small and medium-sized businesses. Therefore, letting small and medium-sized businesses develop may be a better choice. Therefore, in the future, it will also be necessary to further analyze and improve the impact of businesses, banks, and the country on the financing development of small and medium-sized businesses in combination with the analysis of the large market environment and other professional fields and knowledge such as economics, philosophy, and statistics.

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