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Discussion on SME financing based on Digital Finance

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ABSTRACT

Under the background of the normalization of epidemic prevention and control, the financing demand of small and medium-sized enterprises is further expanding, and the financing difficulty is still an important factor restricting their development. The technological advantages of digital finance further reduce the financing cost of SMEs, broaden their financing channels, and provide a new way for SMEs to finance their development. The financial restrictions on small and medium-sized businesses are being loosened by the quick development of digital banking. However, small and medium-sized businesses in China generally continue to have some issues with financing. Based on the current financing situation of SMEs, this paper puts forward optimization strategies from the three aspects of enterprises, financial institutions and government departments. Because the Chinese small- and medium-sized businesses have been crucial to the country's economic growth it is important that this paper provide a new feasible reference for solving the financing problems of SMEs.

Keywords: Digital Finance; Financing; small and medium-sized enterprises

INTRODUCTION

Small and medium-sized enterprises have played an important role in the economic development of China. With the normalization of epidemic prevention and control in recent years, the development of many small and medium-sized enterprises has been affected, and it is urgent to expand financing channels. Digital finance has promoted the transparency of financial information for SMEs, reduced the risks caused by information asymmetry, and reduced the cost of loans for SMEs. Small and medium-sized enterprises (SMEs) have made outstanding contributions to the economy in many aspects, such as employment, technological inventions, economic aggregate and tax revenue. However, SMEs are excluded from the traditional financial system on which they depend and face financing problems for a long time. Their financing scale is not directly proportional to their important contribution to the national economy. In 2012, China put forward the question of accelerating the development of SMEs for the first time, and pointed out that it is necessary to further improve the development quality of SMEs, upgrade innovation-driven development to a national strategy, support SMEs and improve their living environment to achieve high-quality development. However, small and medium-sized enterprises with the largest base in the national economy often encounter many obstacles in the process of business development, and the problem of financing constraints has been unable to be effectively solved. Influenced by high external capital cost, few financing channels, limited financing conditions and other factors, the development space of small and medium-sized scientific and technological enterprises is greatly limited, which further affects their innovation efficiency. With the rapid development of digital technology, digital finance has shown a strong universal effect. As the bottom financing support of enterprise financing, data has solved the information asymmetry of small and medium-sized enterprises to some extent, and financial innovation has met the non-standard financing needs of "long tail" small and medium-sized enterprises. The rapid development of digital finance is to ease the financing constraints of small and medium-sized enterprises. However, in general, small and medium-sized enterprises in China are still facing some problems in financing.

THE ROLE OF DIGITAL FINANCE ON SMALL AND MEDIUM-SIZED ENTERPRISE FINANCING

At present, digital finance has shown a rapid development trend, and its coverage has expanded, showing its service advantages for long-tail groups. The underlying logic of digital finance is close to the distributed bookkeeping of blockchain technology. With the advent of China's blockchain and big data era, the business circulation of enterprises will be recorded in the database in an irreversible and unchangeable way, and every data module contains the real circulation information of enterprises. Most of the materials provided by traditional enterprises in financing need the enterprises themselves to verify the authenticity of the data. However, most small and medium-sized enterprises in the initial stage have loopholes in their internal control, irregular financial control and process construction, cash transactions or separation of public and private, etc., resulting in the inability of financial institutions to assess corporate credit and conduct due diligence on the real operation. The underlying characteristics of digital finance have solved this problem to some extent, which is mainly reflected in the following aspects:

The first role of digital finance is the advanced nature of technological processing. Digital finance relies on the powerful information storage and processing functions of computers, which can fully grasp and understand the relevant information of customers. It can facilitate the collection and processing of loan information, and realize the whole-process management of customer loan information. Due to the rapid development of big data technology, digital finance can fully grasp and evaluate the financial data of enterprises through big data, and reduce the proportion of non-performing loans. In addition, digital finance can also use distributed computing methods to collect computing resources, effectively reducing the data processing time, to greatly improving loan efficiency (Zhou, 2022).

The second role is to reduce financing costs for SMEs. The cost of SMEs in the financing process mainly includes capital and time costs. From the perspective of capital cost, the application and review process of loan businesses based on digital finance is relatively simplified, which greatly reduces the cost of labor and business outlets required for offline operation.

From the point of time cost, small and medium-sized enterprise financing is generally with a small capital demand. However, the characteristics of the traditional financing process are lengthy, contrary to small and medium-sized enterprise financing needs, financing under the digital financial process, makes full use of the information platform to achieve several online business approvals at the same time, speeds up the progress of examination and approval, make the enterprise can obtain financing more quickly (Jiao,2022).

The third role is to expand the financing channels for small and medium-sized enterprises. In the traditional way of financing, corporate financing is mainly equity financing and debt financing, with fixed financing processes and requirements, usually with a large amount of money. Because digital finance is based on corporate credit and operation circulation, there is a large operating space for the development of digital financial products. Financial institutions have a wider range of choices in terms of product cycle and yield, and the underlying asset term of financial products matches the corresponding risk-yield ratio, so SME financing under digital finance is characterized by diversified financial products and financing platforms. In recent years, with the increase in state support for small and medium-sized enterprises, many financial institutions have gradually begun to pay attention to the financing of small and medium-sized enterprises. Then, based on the actual situation of the development of small and medium-sized enterprises launched several targeted financial products, improving the financing selectivity of small and medium-sized enterprises; In addition, many Internet financing platforms have developed rapidly, and with strict and standardized management of online financing platforms, the financing channels of enterprises have greatly reduced the worries at the same time and realized the flexibility and diversification of enterprise lending.

THE CURRENT FINANCING SITUATION OF SMALL AND MEDIUM-SIZED ENTERPRISES IN CHINA

Firstly, the financial channel is single-way. The working capital of many small and medium-sized enterprises in the early stage of establishment mainly depends on corporate profits, own funds and borrowing funds, etc., and endogenous financing features are prominent (Chen,2022). Most of China's small and medium-sized enterprises are self-employed or family-owned companies, with a relatively small scale of operation and the limited ability for scientific and technological innovation. Most of them adopt endogenous financing to solve the problem of company capital shortage. Endogenous financing for enterprise development provides an important guarantee of funds, but with the enlargement of enterprise scale, enterprise operating funds demand increased gradually, depending on endogenous financing can't meet the demand of enterprise funds. It is necessary to broaden the financing channels to bank lending, due to the small and medium-sized enterprise financial information being opaque, bank lending is heavily censored, leading to many small and medium-sized enterprise financing difficulties, It is difficult to expand the financing channels effectively.

Secondly, the financing cost is too high. The repayment ability of enterprises is an important factor for banks to consider regarding whether to borrow from enterprises, so it is an indispensable process to investigate the credit rating and financial situation of enterprises. On the other hand, due to the rigid financing conditions of banks, it is very difficult for SMEs in China to obtain financing through banking channels, usually mainly internal financing and non-standardized financing. The measurement of financing cost by internal financing is generally reflected by opportunity cost, and the financing cost of non-standardized financial products is usually more than 3-5 times of debt financing, such as P2P financing. Except for enterprises with high gross profit, such as emerging industries such as science and technology, which are between maturity and growth, the net profit margin of traditional industries is about 2-3 times the benchmark interest rate of debt financing, and the financial cost guarantee ability of traditional industries to bear non-standardized financing is limited.

Thirdly, it is difficult to meet the financing needs effectively. In the context of normalized epidemic prevention and control, the financing needs of small and medium-sized enterprises have increased. Although the government has introduced relevant policies to increase the support for enterprises, many loans are flowing to large enterprises with high-risk resistance, and the loan financing needs of small and medium-sized enterprises are difficult to be effectively met.

The economy is cyclical. In a period of economic prosperity, funds tend to flow to industries with high returns. For example, in the past 20 years, in China's real estate enterprises, in the period of economic recession, funds tend to flow to enterprises with higher solvency. As the current economy is greatly affected by the epidemic, financial institutions have scaled back their investment in small and medium-sized enterprises to prevent systemic risks. Although

China has promulgated a series of policies and regulations to improve the development environment of small and medium-sized enterprises, which has reduced the tax or development pressure of small and medium-sized enterprises to a certain extent, the credit rating of small and medium-sized enterprises is low, debt financing is highly dependent on the credit rating, and the credit rating is linked to the debt financing ability and financing cost of enterprises, thus forming an assistance support operation mode of the financing system, that is, enterprises with good cash flow and financing conditions have better financing ability, and small and medium-sized enterprises in the period of rapid development of enterprises cannot get good financing.

ANALYSIS OF THE CAUSES OF FINANCING PROBLEMS OF SMALL AND MEDIUM-SIZED ENTERPRISES

The financing difficulty of small and medium-sized enterprises (SMEs) has been a common problem faced by the Chinese government, enterprises and financial institutions for many years. SMEs generally have financing difficulties, and the financing problem has become the core factor restricting the development of enterprises. All parties are actively exploring solutions. In the initial stage, SMEs have limited solvency, narrow financing channels, and high survival risk coefficient. In the financial system, risks and benefits are directly proportional. The characteristics of fixed income determine that debt financing can't compensate enterprises with high-risk coefficients, and financial institutions have large risk exposure. Therefore, equity financing of SMEs in the initial stage is mainly based on equity financing. Besides, the causes of major financing difficulties include the following aspects:

First of all, small and medium-sized enterprises resist the risk of lack of ability. The size of the small and medium-sized enterprise determines its comparison with large enterprises in the management system, internal control, as well as natural disadvantages, plus a lot of small and medium-sized enterprise managers ignore the financial system construction, financial work process specification, also the lack of credit management consciousness, ignore the credit rating, making enterprises face a greater risk of operation (Zhang, 2021). In addition, some SMEs pay too much attention to short-term profits and ignore long-term development. When enterprise profit reaches a certain level, small and medium-sized enterprises will quickly become bigger and stronger through expansion and investment, but this approach is blind, ignoring the risks in the market and the ability of enterprises to bear, easy to make enterprises into a deadlock of capital chain tension or even fracture, making enterprises have a high business risk.

Secondly, the loan system is unreasonable. The ultimate purpose of financial institutions engaged in financing and lending business is to make profits, so for small and medium-sized enterprises with poor anti-risk ability, they will not increase the investigation of their financial information, and they also need to provide loan guarantees. The asset scale of small and medium-sized enterprises is far from that of large enterprises, and many small and medium-sized enterprises in urgent need of loans are unable to meet the loan requirements of financial institutions. In addition, the current credit system neglects the development status and actual needs of small and medium-sized enterprises in the design, which leads to the financing difficulties of small and medium-sized enterprises.

The third is the asymmetry of information. Before providing loans, banks need to master sufficient information, which not only includes the enterprise financial statement data, solvency indicators, credit rating and other information but also includes the industry background of the enterprise, the quality of managers and credit situation (Chen & Huang, 2018). However, most of the small and medium-sized enterprises in China are not listed companies. Due to the short business cycle and imperfect management system, the transparency and accuracy of information are not high, coupled with some difficulties in data acquisition, which makes it difficult for financial institutions to accurately assess the business situation and default risk of enterprises, so that it is difficult to lend to small and medium-sized enterprises.

Fourthly, China's capital market is immature and lacks a sense of hierarchy, and its entry threshold is high. The entry of SMEs requires certain qualifications, and the hierarchical construction of the capital market is related to the liquidity of the market. When the liquidity of the market is insufficient, even if the capital market is layered, it is difficult to meet the financing requirements of SMEs. The capital market and its core are liquidity. The more institutions participate in the market with better liquidity, the more illiquid the market will be. Investment institutions are more reluctant to participate because of the difficulty of exiting, which leads to the fact that although enterprises are listed, there are no financing companies. For example, there are almost no financing transactions in local equity exchanges (also referred to as the four-board market for short).

OPTIMIZATION OF SME FINANCING PROBLEMS BASED ON DIGITAL FINANCE

The characteristics of digital finance's contactless operation, which realizes the direct online connection between borrowers and lenders, have played a certain buffer role for SMEs. At the same time, due to the digital characteristics of digital finance, the cost of information asymmetry has been greatly reduced. Digital finance uses digital technology to optimize and innovate financial products, business models and business processes, to a certain extent, forcing the traditional financial industry to transform to digital. Digital finance is the initial application mode of blockchain finance, which promotes the efficiency of resource allocation in the financial market. For small and medium-sized enterprises, we should strengthen the management of financial information. In the face of the universal problem of financial information and credit management of small and medium-sized enterprises, small and medium-sized enterprises cannot ignore the long-term development because of short-term profit. The development of enterprises must be based on their financial information, internal control system perfect based on full consideration of the enterprise's own risk and market capacity to ensure the comprehensive operation of funds and security, reduce the business risks faced by enterprises; On the other hand, we should improve the accounting system and pay attention to financial management (Yin, 2018). Small and medium-sized enterprises should standardize the financial processing process, and accurate accounting, in order to ensure true and accurate financial data, and according to the problems in the process of financial management to establish a set of complete financial systems, so as to reduce the business risk (Pan, 2015).

SMEs should further improve their awareness of digital finance and their ability to use it. Digital financial to the enterprise financing ability plays an important role, so small and medium-sized enterprises to fully recognize the digital financial and reasonable use, understand the advantage of digital financial characteristics, the business model, risk control, etc., and vigorously the introduction of financial professionals, professional financial team, so as to accurately grasp the financing opportunity, with the minimum of the cost of financing maximize financing effect.

The second is for financial institutions. On the one hand, we should combine the development law of the market economy and the actual demand of small and medium-sized enterprises, and improve the support of financing for small and medium-sized enterprises. In the process of financial information review of small and medium-sized enterprises in addition to paying attention to the enterprise's financial data, profitability and solvency and other key information, but also fully consider the development prospects, the development potential of the enterprise, especially for some science and technology start-up enterprises to appropriately reduce the review standards; On the other hand, financial institutions should combine with the actual development of the market to promote financial product innovation (Ma & Wang, 2021). Financial institutions should fully consider the characteristics of small and medium-sized enterprise financing and the actual demand, combined with their actual situation to launch some targeted small unsecured loans, etc., and combine with the online financing channels to improve the financing service, in addition to the financial institutions should strengthen the platform and system maintenance and management, can set up specialized technical services team is responsible for maintaining the platform to work effectively, Prevent information leakage or theft by checking potential system risks and network security vulnerabilities, so as to ensure the security of enterprise information.

Facing the current situation of opaque financial information and imperfect credit data of small and medium-sized enterprises, the relevant government departments should establish a digital credit information platform, and collect the information of small and medium-sized enterprises filed in the region. Through information sharing, enable banks and other financial institutions to use the platform to collect credit information of small and medium-sized enterprises, then connect digital finance with the platform, and establish a set of credit information analysis models to analyze the credit information of enterprises in the form of financing credit information, thus effectively avoiding the occurrence of information asymmetry (Dina, 2021).

CONCLUSION

Digital inclusive finance can provide data credit for small and medium-sized enterprises, and reduce the asymmetric cost in the financing market to a certain extent. Digital finance is a possible way to ease the financing constraints of small and medium-sized enterprises. By exploring the application of digital technologies such as big data and blockchain, we can build an enterprise ecological data chain, which takes the chain of information flow, capital flow and logistics as the credit basis of digital finance, and links the information of small and medium-sized enterprises' operation and management, the information of upstream and downstream enterprises, capital settlement parties and other enterprise stakeholders, as well as the blockchain. More support should be given to policies related to digital finance. Government departments should give full play to the leading role of the policy, through to the agricultural small loan offer discount and policy guarantee agencies, help to develop microfinance company's business scope, the key to support the development of some high-quality measures such as net credit enterprise for small and medium-sized enterprises to strengthen the policy support, to promote the sustainable development of small and medium-sized enterprises.

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