What are the extent of Small and Medium-sized Enterprises Financing Problems in China and Its Countermeasures

-- Based on SME financing system and cases of Tianjin

By: Sisi Huang

Supervisor: Karl-Markus Modén
Abstract

Small and medium sized enterprises have become significant component of Chinese economy. At present, the financing difficulties of SMEs have become a biggest hurdle in sustainable Development of the "bottleneck." This paper analyzes the current condition of financing of SMEs in China specifically in Tianjin and existing problems and address these issues and put forward innovative financial schemes, develop the financial system, expand financing channels, to optimize the financial environment is difficult to solve the problem of SME financing priority. It needs to find more resources for better system. Three tested and tried approaches that have worked are; First, SMEs need backing from the government and its institutions. Then, the government needs to relax loans on the SME sector. Last and third, government needs to make use of other funds such as bonds, growth financing and other ways to push for SME financing, in a quicker approach.

Keywords: SMEs; financing plight; credit management; financing countermeasure;
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I. Chapter 1: Introduction

Small and medium sized enterprises play a significant role in contemporary economic system. Especially, it is more important for developing economies having major employment and income distribution challenges. It not only contributes to a greater output, but to formation of jobs in chunks and become basic platform for future’s large enterprises. Moreover, it adds directly to collective saving and investments and is involved in the development of a nation’s economy.

In case of China also, SME played an essential role in growth and development of economy. In 2005 Development Report, the number of SME in China, in 2004, accounted for 99.3% of the total national enterprises, 55.6% of GDP, 74.7% of industrial added value, 58.9% of social sales, 46.2% of taxation 0.3% of total exports and of about 75% of the country’s urban jobs were provided by SME. This is owing to the fact that, in Chinese economy, SME proved to be an engine of growth and development. When we talk about mushroom growth of SME in China, one cannot neglect the fact that the SME sector is facing financing difficulties that hinders its efficient development. Surveys shows that the total lending of SME’s from four state owned commercial banks is only 12 %, while the total amount of financial lending from the other financial institutions for SMEs support is not sufficient enough to meet the development needs of SMEs in China. This financial borrowing problem for SME is a global phenomenon; in developing countries, this problem has been looked wisely and solved by efficient and well-established financial systems, supportive policies, rules, and regulations. However, due to developing stage of China that acknowledges less developed financial institutions, market-
financing strategies, legal rules, regulations, and bad development of SME, financing problem have become “bottleneck” for SMEs development in China (Jinchuan, 2008).

Much has been done and written on SME financing in China. However, there is less literature that has discussed the effects of finance on growth of economy. Most of the early economist disagrees with the importance of financial sector’s role in economic development and argue that finances do not cause any economic growth. However, Levine (2004), assessed the effect of finance on growth of the economy and said after analyzing that the financial system directly controls and changes savings rates, Investment decisions, further developments in technology and therefore has direct impact on long-run growth rates. As, it is said earlier that financial system influences investment decisions so in actual it is affecting SME as well, as most of the small and medium enterprises, are majorly based on the investment of banks and other financial institutions.

It is the most difficult task for a country to accelerate SME development with shortage of funds, especially at the national level. China is facing the same problem due to poor SME financial system. From the capital supply side, Chinese society is in the period of the dual transition of system and structure. Banks hold cautious attitude towards SME financing, as they get higher return when they lend money to larger enterprises.

Consequently, state owned banks allocate funds mainly to state owned companies or large private and foreign owned companies, it becomes much more difficult for SMEs to find funds. Entrepreneurs try to find "venture capitalists" who wantto be partners and share both the risk and reward of the enterprise. All capital markets (around the world) suffer from the problem of asymmetric information and the difficulty in assessing risk in new, and small, ventures. This is
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not unique to China, but the centralized and heavily regulated system, may exacerbate this leading to too much capital being allocated to large companies. These companies may in turn, relend the money in the "shadow" sector of the financial system, at high real interest rates. The integrated effects of all these causes is financing of SMEs, which has become center of attention in China in recent years.

1.1 Objective statement:

The main objective of this dissertation is to:

- Explore the financing problems faced by SME in Tianjin, China.
- The dissertation will deeply look at the causes and effects of financing problem on growth and development of SME and later on economy.
- It will also provide countermeasures on financing difficulties specifically in Tianjin.
- In the end, it will address suggestions for better financing system in Tianjin, an overview of example system from a developed country.

The dissertation is based on the empirical work done in past, online surveys, annual reports of SME in China and research done in the same field defining the relation of finance and economic development.

1.2 Major questions to be addressed by the study:

The main questions on which this dissertation relies are

- What limits the growth of SME in Tianjin?
• What is the extent of financing problem in Tianjin?
• How better financing policy can help improving SME system in Tianjin?
• What could be the possible solution to overcome SME related problems in Tianjin?

1.3 Disposition:

The format of this dissertation is as follows: - Chapter 1: Brief introduction of China’s SME condition. Chapter 2: Summarizes theoretical literature done in past in the same field or related. Chapter 3: Includes interpretation and discussion based on previous data. Also includes, Empirical data on Tianjin SME condition. The extent of financing problem in Tianjin and all other factors affecting Small and medium sized enterprises. Some cases of banks and their conditions. Chapter 4: Solutions and recommendations Chapter 5: Lastly, a brief conclusion is presented.
II. Chapter 2: Literature Review

2.1 China's importance to the world economy

China is one of the fastest growing economies as compared to other economies of the world. China’s appearance as an industrial and export powerhouse is no doubt a significant force in today’s world economy. China’s integration in the world economy particularly in Asian countries has become significant. The export of capital goods, consumer goods, raw material, textiles manufacturing and processing, electronics, and medicine hence, in every field China’s presence can be felt (Eichengreen & Tong, 2005). This significant presence has improved industrialization. It’s fastest growing economy has made China a major centralized power for trade. Now it is world’s 2nd greatest economy, largest exporter, second largest importer, second largest receiver of foreign direct investment, and reserves foreign exchange more than any other country in the world (Wayne, 2011).

2.2 Development of SME in China

Small and medium enterprises in China took boom right after the implementation of open door policy in 1978, converting China to a market-oriented economy (Fontes, 2005). The development of SME in China has increased economic growth and holds 99% of the contemporary enterprises in China. SME not only accounts for 60% of country gross domestic
products but also holds the credit of formulating 82% of employment opportunities in China (Xianfeng, 2007).

This SME clustering in China started 15 years ago and has played a pivotal role in enhancement of Economic growth, global benefits, competitiveness and spreading modern business strategies for business (Kanomori, et.al, 2007). The upcoming success of any economy depends on a large extent of its success in encouraging and generating private enterprises, employment opportunities, improvement in business, and the effective and timely assimilation of technological advances developed globally. In all of these processes, small firms and, in particular, those recently created, play a significant role in the development and growth of Chinese economy (Zoltan, et.al, 2007).

2.3 The growing importance of SME in China’s globalization

The importance of China in global market is growing day by day. It is due to the fact that China is playing the role of a hub in East Asia and European countries. It imports intermediate material from all over Asia. After assembling and refining process, it exports the final goods in global market. Due to its mentioned trade strategy China had trade deficit with Asian economies and surplus with European countries especially USA. It is an open door for opportunities as well as threats for Asian/local economy. Especially the challenge of low/cheap cost given by it has made Enterprise in the region to improve performance and efficiency. China has begun to move up the value chain so do the challenges (CEPII, 9).

It is considered that SMEs play a significant role in Asia-Pacific economies for generating employment and opportunities, regardless of the drawbacks of both size and relative complexity of their procedures. However, a ballpark figure of their real input to their respective economies in the region differs very much. In general, SMEs are seen as sustained competitive and flexible
markets through relative ease of entry and exit, and through their role as subcontractors, which support the restructuring of both public and private enterprises in the region. They are also seen making significant assistance to poverty alleviation, seeing as SMEs often provide work for deprived and low-income workforce, regularly providing the key source of income in lagging regions and rural areas (Zoltan, et.al, 2007).

2.4 SME definition and standards in China

Small and Medium Sized Enterprise is enterprise that has not more than 250 employees. The definition varies from region to region but in China, it varies with industry. SMEs are micro enterprises, playing a significant part in GDP. Well-managed and efficient SMEs can generate employment opportunities and can play a part in wealth creation (Basil, 2005). One cannot deny the fact that SME has a major role in economic stability and generation of tax revenues. According to the International Finance Corporation (IFC) 6, “there is a positive relationship between a country’s overall level of income and the number of SMEs per 1,000 people” (WBCSD, 2007). Hence, SME is an engine of growth and catalyst for socio-economic development of any state (Basil, 2005).

The standard of SME is defined in ‘Law of promotion’; enterprises with various forms of ownership, meeting the needs of society, generating employment, following national industrial policies. Hence, in China state council has made same standards for SME according to number of employees working, capital and business turnover.
<table>
<thead>
<tr>
<th>Estate</th>
<th>Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial estate</td>
<td>Employees &lt; 2000, Turnover &lt; 300 million CNY, Total Capital &lt; 4000 million</td>
</tr>
<tr>
<td>Construction business</td>
<td>Employee &lt; 3000, Turnover &lt; 300 million CNY, Total capital &lt; 400 million CNY</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>Retail trade: Employee &lt; 500, Turnover &lt; 150 million CNY</td>
</tr>
<tr>
<td>Wholesale Business</td>
<td>Wholesale business: Employee &lt; 200, Turnover &lt; 300 million CNY</td>
</tr>
<tr>
<td>Transportation Industry</td>
<td>Transportation Industry: Employee &lt; 3000, turnover &lt; 300 million CNY</td>
</tr>
<tr>
<td>Postal Services</td>
<td>Postal Services: Employee &lt; 1000, turnover &lt; 300 million CNY</td>
</tr>
<tr>
<td>Accommodation &amp; Catering Services</td>
<td>Employee &lt; 800, Turnover &lt; 150 million CNY,</td>
</tr>
</tbody>
</table>

**Table 2.1** Standards for classifying SME in most countries (Chen, 2000).
2.5 Structure of SME financial system in China

In China, Small and Medium Size enterprise have played a major role in uplifting economy and creating local employment opportunities. However, China lacks a proper credit system for SME, made up of proper financial services. The government owned banks tend to have high rate of loan and share of deposits. This becomes a problem for SMEs as the criteria for getting loan is very high which and small enterprises cannot meet banks’ lending criteria and is unable to fill this gap due to their own financial and structural limitations (Fontes, 2005).

SME financing is a world class problem; however the way China is facing financing problem being the most successful business king in contemporary world is worrisome. This is due to the fact that the structure of financing system is very poor. Due to the mushroom growth of SME in China it is impossible to facilitate every SME. As major financing institutions are state-owned banks and the structure of financing from state-owned banks is complicated. Moreover, the guarantee system, legal protection system, issuance of securities, lack of SME specific policy making and financing structure make condition even worse (Tianran, 2011).

2.6 Problems of Chinese Financial System

Along with all the growth and economy China stills faces a barrage of problems to meet its economic challenges and become a developed country. To start with, Chinese policy is a short-term one. It needs better long-term policies for the development of if economy and the private sector and the SMEs. Also the taxation needs to be revised similar to those of international standards. Its SMEs might be growing but still need better financial system in order to keep up
with the pace. It’s been noted the support process is still far from perfect. Most of the SMEs rely on support from friends and families and only a few were dependent on the financial institutions. The SMEs don’t have the financial power to meet capital requirements. This shows that SMEs are reluctant on working with the banks and this is systematic issue. So in order to compete internationally, they’d have to reforms to fund SMEs from the banks to grow like the developed countries.

SME faced financial problems for few specific reasons; one, that SME itself does not provide sufficient trustworthy information to lend money from banks. On the other hand, SME have low risk resistance as compared to larger enterprises. So, for this reason they have low possibility of repayment. Also, their poor data records and bad audit system make the situation worse. Second main reason is that most of the Chinese banks are owned by state, however the most of the SME are privately owned. Banks while giving loan and financial assistance prefer large or state owned enterprises as they have high credit availability or are reliable as compared to non-state owned SMEs. Third main reason is the financial system, which consists of only state owned banks. State owned banks need reliable borrower that is the reason why the activity of these banks to lend money to SMEs is quite low. These reasons are sufficient to make the financial system weak and create financing problems for SME in China (Ziyuan and Yuejin, 2009).

2.7 Comparison with foreign financing and financing environment

The economies of China and UK present an intriguing comparison, one being the developing one and the other developed respectively. Both markets have some similarities and some differences when it comes to the SME sector.
2.7.1 SME financing of UK

It’s been established that SMEs have a greater part in the development of any country’s economy and growth (see Birch, 1979; Birchet al., 1993). They, especially the smaller ones, are the catalyst of innovation and job generation (Storey, 1994). They also propel a nation’s name on the international stage as in the case of UK (Matlay, 2004). As the SMEs have a great effect on the country’s growth, finance experts are stressing the need to provide adequate funding opportunities to the small and medium enterprises. Along with the need to radicalize policies, the emergence of e-commerce has become a stronger incentive for the vital support of SMEs in the UK and China agrees on such policies.

Failure of markets, unemployment and poverty has forced the government in the UK to support new start-ups and devise policies that encourage the SME sector. However, it’s been noticed that this sector still needs support when it comes to funding (Tucker and Lean, 2001). Banks play a crucial role by providing only short-term loans to SMEs so increasing debt on the SMEs. The banks have less flexibility now in centralized system so SMEs have hard time getting their finances approved.

There may be more viable options to finance SMEs in the UK but the banks will remain the most common (Mason and Harrison, 1993). However, the new credit scoring system takes the matters out of manager’s hands and to a more generalized approach. However, the system is not conclusive for SME sector and still needs government interference for the success of new entrepreneurs and start-ups. These can help to improve the growth of the economy and help reduces poverty and joblessness.
2.7.2 SME in China

China with a GDP growth of around 9 is today’s the world’s fastest growing economy. Over the years Chinese economy has gone under great transformation in various phases that has accelerated its growth. SME sector has played vital role in its growth. China first expanded its SME sector in the 80’s and the 90’s and today’s it enhances itself by introducing new reforms and focusing on better products and services (Chen, 2006, p. 141).

In the 80s China had SMEs in small towns and villages. With time these merged with the private sector of the country and expanded the growth process. It called for restructuring of the financial institutions for supporting the SMEs. With the development of People’s Bank of China, emerged many other privately owned financial institutions that became the source of funding for the SMEs. The government eased the restrictions on new start-ups to work along with private sector. Sighting the importance of SMEs, the government started supporting SMEs and defined policies that helped SMEs flourish by providing funds and loans all over the country.

Fixing China’s SME funding issues is a systematic approach. It needs to find better approach to get resources. Three tested and tried approaches that have worked are; First, SMEs need backing from the government and its institutions. Then, the government needs to relax loans on the SME sector. Last and third, government needs to make use of other funds such as bonds, growth financing and other ways to push for SME financing, in a quicker approach.
Chapter 3: Related theories of financing for Small and Medium-sized Enterprises (SMEs)

Researchers looked into the problems being faced by the SMEs in finding financing options depending on their characteristics with a view on convention corporate finance. This would help them better understand the two sectors and gain an insight into the factors hindering the finance. Some of the research findings are as follows.

3.1 Macmillan Gap theory

It was first in the early 1900s when world recognized the difficulties being faced by the SMEs in finance. It was then that the Macmillan Gap Theory by Sir Macmillan was brought up in 1929 during the economic crunch. He was designated the task to look into the matters as the head of the “financial committee”. Therefore, he survey different industries and commercial businesses. Based on the finding of the survey Sir Macmillan devised a report in 1931 knows as Macmillan report giving suggestions to the government to take matters into own hands.

Figure 1 Financial gap model of SMEs
It was suggested that SMEs should be given relaxation when it comes to long-term capitals. It was noted that the SMEs with a capital less than 250,000 GBP face challenges in financing and all this comes to be known as the Macmillan Gap Theory.

The main reason for the Gap in China is financial pressure as it is not a true indicator of real capital need with excessive demand and effective supply. The banks information is unbalanced causing a shortage in capital effective supply to enlarge the already huge gap. The figure depicts that when the banks and corporations are in full market economy there is no gap illustrated by $S_0$; $D_0$ being capital needing, $R_0$ the balance rate, $Q_0$ the balanced credit quota. China’s basic credit rate $I_b$ is its own. However the balanced rate $I_0$ of capital market is low compared to that $R_0$ of full market and as a result causes the gap $Q_2Q_1$ which become inevitable in such markets.

### 3.2 MM Theory (Modigliani Miller Models)

The research of corporate financing in modern economics is based on MM theory. In 1958, American economist Modigliani and Miller published their paper <Cost of Capital, corporate finance and investment management> in the <American Economic Review>. This paper points out that the corporate capital structure is independent on corporate market value provided that there is no corporate and individual income tax, no risks of corporate bankruptcy, efficient and full capital market in a perfect market. This theory is named Modigliani Miller Models and attracts great attention. Some people think this theory is beyond the real economic environment; however, this theory is beyond reproach in the ideal economic environment. Others think that
MM theory is the fundament for financing structure of modern corporate. MM theory analyzes the conflicts and agreements of object and behavior between business operators and investors.

3.3 Credits Admeasure Theory

Credit admeasure is the inability of a bank to provide the desired credit. Conventionally, capital price and rate are the regulatory factors in need and supply of credit capital that help keep the credit market rate balanced. Banks expected benefits reap directly from lending rate and also in delay risk of loaning projects from poor choice and moral hazard perspectives [7] Stigliz and Weiss. Banks are unable to fully and correctly estimate for the enterprise reasons of unbalanced information sharing between the two, resulting in the banks only relying on interest rates. This causes poor selection and increase the rate to leave out low-risk borrowers. And so the borrowers tend to go towards high interest rates. The phenomenon increases the average risk level as a result of increased interest rate, making the banks unable to provide credit though the SMEs might be willing to take the high interest rate risk.

Information asymmetry is a common reason for the banks failing to finance the SMEs who then loan projects. Info structure of SMEs is a hurdle in information sharing and increases ambiguity to decrease internal information cost and rise in information for investors. Its main reason is trust on internal information by stakeholders. This lack of information in SMEs and cost of reputation which is higher than bigger corporations makes it difficult to finance SMEs.

3.4 Information Asymmetry Theory

Information asymmetry theory came in late 1900s explains the effects of information dissymmetry between the corporations and financial institutions. Western economists since the
80s have calculated market on basis of information asymmetry theory. The theory explains in three parts. First, none of the two sides contain fully clear information. Then, the distribution is not symmetric. Lastly, both the parties know the status of information acquisition.

With the view of information asymmetry, enterprise financing is the pleasure in the information on the investment by stakeholders. Different factors in acquiring information include size of the corporation, its financial status and capital value etc. SMEs being small have less transparent business activities and a lack of capital serving and capability to finance. On the other hand directly finance process is unaffordable for them as the supplier must know and judge capital user, thus making it difficult for SMEs.
IV. Chapter: 4 The financing status analysis of SMEs in Tianjin

4.1 The economic status of Tianjin

Tianjin is a metropolitan city in North China, one of the five national central cities. It is administrated as a direct-controlled metropolis. Having significant position in China’s economy, the city of Tianjin is a new growth pole in China, and maintains an annual growth rate of nearly 30% of the GDP. As of the end of 2010, 285 Fortune Global 500 companies invested and established branch offices here. Tianjin is the base of China's advanced industrial and financial reform and innovation. Transnational corporations here can enjoy the lowest tax rate of China and highest rate of economic growth.

In 2010, the Tianjin Municipal Government held a press conference to introduce the status of Tianjin’s economic and social development in 2009 is shown as below:

After preliminary accounting, the development status of various industries in 2009 was shown:

Table 4.1.1

<table>
<thead>
<tr>
<th>Items</th>
<th>Value of number</th>
<th>Increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary industrial value</td>
<td>13.101 billion CNY</td>
<td>3.4</td>
</tr>
<tr>
<td>Secondary industrial value</td>
<td>411.054 billion CNY</td>
<td>18.2</td>
</tr>
<tr>
<td>Tertiary industrial value</td>
<td>325.925 billion CNY</td>
<td>15.1</td>
</tr>
<tr>
<td>The city's total GDP</td>
<td>750.08 billion CNY</td>
<td>16.5</td>
</tr>
<tr>
<td>The city's per capita GDP</td>
<td>RMB: 62,403 CNY, equivalent to $ 9,136</td>
<td>11.1%</td>
</tr>
</tbody>
</table>

Data Resources: Report on the aim of economic and social development of Tianjin, 2010.
Table 4.1.2  *The agricultural output value*

<table>
<thead>
<tr>
<th>Items</th>
<th>Total output (million tons)</th>
<th>Growth rate (%)</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food output</td>
<td>156.29</td>
<td>4.9</td>
<td>Yield a good harvest for 6 years, the best level in almost ten years</td>
</tr>
<tr>
<td>Vegetables</td>
<td>373.85</td>
<td>19.0</td>
<td></td>
</tr>
<tr>
<td>Meat</td>
<td>39.51</td>
<td>6.4</td>
<td></td>
</tr>
<tr>
<td>Aquatic Products</td>
<td>34.49</td>
<td>2.5</td>
<td></td>
</tr>
</tbody>
</table>

1. The city's value added of industry completed 374.981 billion CNY, an increase of 18.5%, boost the city’s economy about 9.2 percentage point, the contribution rate reached 55.6%, the city's industrial output value was 1211.903 billion CNY;

2. The total fixed asset investment exceeded 500 billion CNY, reaching 500.632 billion CNY, an increase of 47.1%, nearly the fastest pace in 18 years;

3. The sales area of commercial housing was 15,900,200 square meters, an increase of 27%;

4. The annual total sales of social consumer goods completed 243.083 billion CNY, an increase of 21.5%, after deducting price factors, the actual growth was 22.9%, this was a high record since 1994. Compare with the last year, urban residents’ consumer price total level fell 1.0%, the overall trend present a steady decline status;

5. The city's financial institutions (including foreign) and foreign-currency loans was 1115.219 billion CNY, increased by 47.2%. New loans more than the sum of new loans in the first three years, the outstanding of deposit at the end was 1388.711 billion CNY, increased by 42.1%. The annual direct foreign investment in actual use was 9.02 billion U.S. dollars, increased by 21.6%.
There were 136 enterprises the world top 500 have settled in Tianjin, the annual actual use domestic capital was 124.287 billion CNY, increased by 35.1%;

6. The ten thousand GDP energy consumption of whole city fell 6%, chemical oxygen demand and emissions of sulfur dioxide fell by 1% respectively. Saving energy and reducing consumption kept the national advanced level.

7. Financial expenditure was 143.83 billion CNY, increased by 27.2%, of which social security and employment, education, health, culture, media, urban infrastructure construction and maintenance expenses increased by 13%, 22.1%, 28.5%, 20% and 37.1% respectively; Per capita labor remuneration of urban unions employees were 42,983 CNY, increased by 7.5%. Per capita disposable income of urban residents was 21,430 CNY, increased by 10.3% (after deducting price factors was 11.4%). Per capita net income of rural residents reached 10,675 CNY, increased by 10.4%.

4.2 The development of SMEs in Tianjin

Tianjin SMEs account for 97% in all enterprises, mainly distribute in secondary and tertiary industries of many industries. It has become an important force for promoting economic development.

<table>
<thead>
<tr>
<th>Items</th>
<th>Value (billion)</th>
<th>Increase (%)</th>
<th>The city’s total proportion (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Industrial Output</td>
<td>5101</td>
<td>25.2</td>
<td>60.05%</td>
</tr>
<tr>
<td>Sales</td>
<td>5261</td>
<td>25.5</td>
<td>59.91</td>
</tr>
<tr>
<td>And taxes</td>
<td>181</td>
<td>25.5</td>
<td>59.91</td>
</tr>
<tr>
<td>Profit</td>
<td>465</td>
<td>40.3</td>
<td>67.4</td>
</tr>
</tbody>
</table>
Table 4.2.2  Operation of SMEs in other industries as below:

<table>
<thead>
<tr>
<th>Industry</th>
<th>Revenue (million)</th>
<th>Profit tax (billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>255.63</td>
<td>7.46</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>906.75</td>
<td>15.53</td>
</tr>
<tr>
<td>Transport and postal services</td>
<td>129.52</td>
<td>25.11</td>
</tr>
<tr>
<td>Accommodation and Catering Services</td>
<td>30.57</td>
<td>1.11</td>
</tr>
</tbody>
</table>

We can see from the above data, Tianjin SMEs and even for more geographic scope of the social and economic development increase year after year, the growing role of status and social situation of SMEs in Tianjin should be given more attention and help.

4.3 Tianjin SMEs financing status, characteristics and the current financing difficulties analysis

4.3.1 Tianjin SME financing status, characteristics

Author did a sample survey for the financing situation of SMEs in Tianjin, The 24 operations involving small and medium textile and garment industry, machinery manufacturing and processing industries, catering and accommodation industry, transportation, pharmaceutical, chemical, food processing industry and other local pillar industries to investigate a network to collect data, field research and other methods, covering the main business, ownership, annual sales revenue, set up time, the main source of funding, financing and other aspects. In the survey of enterprises, from the establishment to 2009:
Table 4.3.1 *The average life of 24 enterprises were 5.42 years*

<table>
<thead>
<tr>
<th>Established (year)</th>
<th>Number (home)</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 3</td>
<td>3</td>
<td>12.5%</td>
</tr>
<tr>
<td>3-5</td>
<td>12</td>
<td>50%</td>
</tr>
<tr>
<td>6-10</td>
<td>8</td>
<td>33.3%</td>
</tr>
<tr>
<td>Greater than 10</td>
<td>1</td>
<td>4.2%</td>
</tr>
</tbody>
</table>

Table 4.3.2 *From the enterprise’ total assets point of view*

<table>
<thead>
<tr>
<th>Assets situation</th>
<th>Number</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than 10 million CNY</td>
<td>4</td>
<td>16.67%</td>
</tr>
<tr>
<td>10 million CNY -50 million CNY</td>
<td>10</td>
<td>41.60%</td>
</tr>
<tr>
<td>50 million CNY -1 billion CNY</td>
<td>8</td>
<td>33.33%</td>
</tr>
<tr>
<td>more than1 billion CNY</td>
<td>2</td>
<td>8.33%</td>
</tr>
</tbody>
</table>

Survey showed that: To analyze the financial situation from the total assets of the SME, the enterprise of the total assets must be less than 10 million CNY generally agreed that funding constraints, in more than 60% of the enterprises which total assets between 10 million CNY -50 million CNY in the shortage of funds. About 35% of enterprise which total assets more than 50 million CNY, funds that are basically in balance, there is no shortage. From terms of sales
What are the extent of Small and Medium-sized Enterprises Financing Problems in China and Its Countermeasures

revenue of SMEs, the enterprises with annual sales revenue are less than 1 million CNY in the financial strain in generally; Annual sales revenue are between 1 million CNY and 5 million CNY, more than 70% of enterprises regard as stress or shortage of capital; 30% enterprises think that annual sales revenue are between 5 million CNY and 30 million CNY, the funds are not special circumstances that almost no tension; The annual sales revenue of enterprises are more than 3,000 CNY, the shortage of funds does not exist. This can be inferred that most of SMEs exist in the case of short of capital or cash flow problems; it needs to be resolved through financing.

Meanwhile, Author of 24 Enterprises in the conduct of the statistics, the statistical results are as follows:

Table 4.3.3 Main source of financing enterprises in the founding period

<table>
<thead>
<tr>
<th>Sources of funding</th>
<th>Own funds</th>
<th>Internal financing</th>
<th>Bank loans</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Enterprises (unit)</td>
<td>13</td>
<td>4</td>
<td>11</td>
<td>3</td>
</tr>
<tr>
<td>Proportion (%)</td>
<td>54.17</td>
<td>16.67</td>
<td>45.83</td>
<td>12.5</td>
</tr>
</tbody>
</table>

Note: There are a variety of corporate financing options, so the proportion is greater than 1;

Table 4.3.4 The current main sources of financing for enterprises

<table>
<thead>
<tr>
<th>Sources of funding</th>
<th>Own funds</th>
<th>Internal financing</th>
<th>Bank loans</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Enterprises (unit)</td>
<td>10</td>
<td>3</td>
<td>20</td>
<td>2</td>
</tr>
<tr>
<td>Proportion (%)</td>
<td>41.67</td>
<td>12.5</td>
<td>83.33</td>
<td>8.33</td>
</tr>
</tbody>
</table>

Note: There are a variety of corporate financing options, so the proportion sum is greater than 1;

Data resources: Research of financial support on the SMEs of Tianjin (Fang Yan, 2009).
Data from the table, the SME financing channel is narrow, and its development mainly depends on their own internal accumulation, that is, the proportion of indigenous financing of SMEs is too high, which is lower than the proportion of external financing, external sources of financing, bank lending is still the main funding source of small and medium enterprises in Tianjin.

4.3.2 Financing SMEs in Tianjin Analysis of the Predicament

In financing costs, the surveyed companies generally consider the highest cost of financing from banks, why the high cost of financing from banks, the reason is that companies believe that during the process of bank loans, there are many factors to make business loans more difficult.

Although at the end of March 2009, the city's banking institutions and foreign currency deposits amounted to 1.16202 trillion CNY, 164.4 billion CNY over the beginning of an increase of 36.8%. Higher than the national average, but after research found that the majority of Tianjin SMEs still face great financing difficulties, the main reasons are as follows:

The monetary tightening makes the SME financing more difficult.

From early last year up to now, the central bank raised the deposit reserve ratio for 15 times from 9% upwards to 17.5%. Nationally, equivalent to tighter credit scale about 3.825 trillion. From the situation of Tianjin, by the impact of the deposit reserve ratio rises, equivalent to shrink loans scale about 75 billion CNY. Point of view of interest rates, last year, upwards one-year benchmark lending rate of the central bank from 6.39% to 7.5%, increased by 16.9%. In the first half of last year, Tianjin interest expense was 3.02 billion CNY, year-one-year growth was 7 billion CNY, increased by 30.1%.

Lending on the basis of probability of return

The supply of credit is focused, keen on "big projects, big clients," for small and medium-sized enterprises, especially small and medium private enterprise existence discrimination and arisen phenomenon

Since December 2008, the scale of loans of financial institutions in Tianjin sharply surge, in which, even though the commercial banks had "early launch, early benefit" considerations but it
was obvious to take some of the technical adjustment factors that was the response to pressure of local governments, significantly, increased in credit growth of state-owned banks. After removing the bill financing, the scale of loans of some joint-stock banks has declined, highlighted credit demand which brought by investment of private sectors was still weak, while government background loans which taking the government’s financing platform as the main subject rapidly growth. New bank loans intensively invest to the urban infrastructure with properties of natural monopoly, high comprehensive efficiency and the "big projects, big customers." According to statistics, the end of the first quarter of 2009, Tianjin signed a loan credit agreement of 1244 billion CNY with head office of six banks to implement effective 120.836 billion CNY accumulatively, in which, City Investment Group, TEDA Investment Holding, and state-controlled coastal urban construction were the main investors; Meanwhile, water conservancy, management of environment and public facilities, transport and so on, These infrastructure industries are a major investment area in New bank loans, accounting for about 70% of the proportion of new bank loans.

**Poor Credit Guarantee System**

In addition, credit guarantee systems are unsound and it’s difficult to implement SMEs collateral, combined with the further deepening of financial reform in recent years, commercial banks have strengthened the management of risk, the original policy of discrimination against the financing of SMEs has not changed. When commercial bank lend money to SMEs, often appeared "credit crunch" phenomenon, making the financing difficulties of small and medium enterprises.

**Table 4.3.2: Bank loan applications rejected conditions for enterprise and bank loans in the proportion of the source in the enterprise**

<table>
<thead>
<tr>
<th>Firm size (people)</th>
<th>Less than 51</th>
<th>51-100</th>
<th>101-500</th>
<th>More than 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>The number of rejected percentage (%)</td>
<td>78.92</td>
<td>57.87</td>
<td>44.18</td>
<td>24.34</td>
</tr>
<tr>
<td>Bank loan ratio (%)</td>
<td>5.4</td>
<td>20.6</td>
<td>22.6</td>
<td>47.1</td>
</tr>
<tr>
<td>Business Life (years)</td>
<td>Less than 2</td>
<td>2-4</td>
<td>4-5</td>
<td>5-8</td>
</tr>
<tr>
<td>The number of rejected percentage</td>
<td>72.44</td>
<td>49.07</td>
<td>4</td>
<td>45.79</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>34.98</td>
</tr>
<tr>
<td>(%), Bank loan ratio (%)</td>
<td>1.2</td>
<td>5.2</td>
<td>17.6</td>
<td>25.3</td>
</tr>
<tr>
<td>--------------------------</td>
<td>-----</td>
<td>-----</td>
<td>------</td>
<td>------</td>
</tr>
</tbody>
</table>


After investigation, the bank often adopts credit rating system for small and medium enterprises, based on the business viability and enterprises’ scale. They are using the same credit rating approach as large enterprises, rather than the characteristics of SMEs to establish a set of scientific assessment methods, leading to credit rating is lower for SMEs.

According to the survey of credit rating for 3682 SMEs in Tianjin 2005, there was only 62 enterprises got AAA grade, which accounting for 1.7%. There were 294 enterprises got AA-grade, which accounting for 8%, there were 552 enterprises got A class, which accounting for 15%. Among the evaluation of the Industrial and Commercial Bank for 350,000 SMEs, the credit rating was below BBB grade, which accounted for 88.36%. (Source: Miao Mancong, “The investigation and thinking for SMEs financial and credit services" "financial reference" 2005 No. 8)

SEMs have big fluidity, small size, poor credit, engineering level is low, business performance is instability, poor ability to withstand risks, lacks information, low credit rating and so on. In additional, credit rating of commercial banks underestimated SMEs credit, leading to it is further difficult to obtain loans from commercial banks.

**Imbalanced Credit Structure**

The structure of credit scale is not balanced, slow growth in lending to SMEs, for private enterprises, especially for SMEs, the gap of demanding liquidity is widening.

Further increase the credit scale of financial institutions is important factor for promoting investment growth and sustained economic development, in which, long-term loans increased by 40.2%, year-on-year increase growth was 8.4 percentage points, new long-term loans 107.042 billion CNY, accounting for 69.2% of new loans. Long-term loans, especially in the rapid growth of infrastructure loans played an important role. The proportion is accounting for more than 80% in loan increment (after winkling bill financing). From the loan structure, the
proportion of long-term loans is too high, while compared to the growth of short-term loans, it’s slightly lower. For small enterprises of greater short-term capital demand, the loan growth will corresponding limited. At the same time, there are 94.61% new short-term loans due to the other short-term loans increases, and other short-term loans are mainly do supporting for big enterprise project and the bridge loans which is before the syndicated project loans in place, is not totally the loan for increase liquidity for the enterprises. Therefore excluded this factor, the increase in short-term liquidity loans is bound to less than normal, thereby when financial institutions are not willing to loan for the private economy and squeeze of credit scale, especially for SMEs, the liquidity of the private enterprise especially for SMEs aggravate rapidly.

Notes financing business boom in financing business, but mainly tend to manufacturing industries and large enterprises, not giving fully to play to the real economy and the supporting role of SMEs

From the end of the year 2008, since the bank system has sufficient capital and the rate of the market decreases monthly, financial institutions of Tianjin, especially the small and medium-size bank considered it to be the significant manner for plan of accomplishing the loan to the market, seizing the proportion of loan market, acquiring the profit of interest differences, and dealing with the financial situation and the change of macro adjustment and control flexibly, so it was developed positively, promoted the rapid expansion of the scale of bill financing services, demonstrated the phenomenon of a much higher share of loan market at the same period, and fulfill the capital demand of enterprises to some extent. However, seeing from the situation from the commercial bank, the objects of Bank's Acceptance Bill are mainly the big enterprises of steel and manufacturing industry which have large General credit limit while the support to the SMEs didn’t increase significantly, so the big increase of the bill financing didn’t improve the financing difficulties of the SMEs effectively.

The government regulation of credit funds capability has been weakened

Although China's current monetary policy is more lenient, but will sill strengthen regulate and control for total credit amount, and strictly control the size of credit. The total credit amount of the bank institutes basically stable, but floating space is small. In addition, most of banks have already completed the shareholding reform, adopt modern company organization form to carry
Through compliance operation and carry out business, making the credit funds and steering capacity of government for credit funds and financial institutions operation to run down.

**The enterprises’ own problems**

(1) At present, the manner of bank credit gradually turns from guarantee among enterprises to real mortgage, the line of credit further turn down, technology of part of the enterprises is backward, business conditions of enterprises are undesirability, it is difficult to achieve the credit audit requirement of the banking sector. In addition, it’s difficult to find Guarantee Company for SMEs. The loan amount is small, complex procedure, so it often spends a lot of time and effort when SMEs get loans from the bank.

(2) Allocation of retained profits are inadequate in the process, sort of awareness of self-accumulation.

(3) Equipment’s’ rate of depreciation charges is too low, so that SMEs can not satisfy the demand of renewal of fixed assets.

(4) SMEs their own business risk and lack of the sense of integrity, impact its financing capacity.

A combination of above reasons, in general, Tianjin SMEs have more difficulties on financing, financing costs increase, capital is becoming insufficient.
V. Chapter: 5 An analysis of a successful SME financing of a clothing company in Tianjin

Case 1: Clothing Company Analysis

5.1 A clothing company applies for 650,000RMB personal business investment loan from Bank to purchase raw materials.

Background information: The company is a garment export processing enterprise, small-scale (limited brand development and competitive ability); its leading product is blended knitted garments, main export market being Europe. For a long time textile has been one of the most competitive markets for China in international market but textile industry’s biggest conflict with Occident.

5.1.1 Borrower has a good industry experience and also some personal liability.

The borrower has been in this trade for the last 18 years, producing cloth for quite some time now and has developed good and stable corporate relations with his foreign clients. He loaned 3m RMB in personal investment from June 2005 to June 2008, currently having a balance of 2.2m RMB. In 2001 he loaded residential mortgage of .95m RMB and had a current balance of 0.58. In terms of repayment, the borrower owns a good credit rating.

5.1.2 Small-scale enterprise and less owned accumulation

Borrower’s family has three properties (one is collateral for bank loans, one is office the other is a piece of land). Productions are 100% export. Export amount was about 2 million dollars in the year 2003, 2.5 million dollars in 2004, and 4.5 million dollars in 2005. The export amount reaches 1.5 million for the first quarter of 2006. Most of exchange settlement is in bank loan.
The receivables of company take high proportion of liquid asset and exceed 60%. According to the document calculations, the credit collection takes high proportion of settlement of exchange and also exceeds 60% which is assurance of capital return.

**Table 5.1.2 Financial situation**

<table>
<thead>
<tr>
<th>Item</th>
<th>2004</th>
<th>2005</th>
<th>March, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets (10k RMB)</td>
<td>849</td>
<td>793</td>
<td>809</td>
</tr>
<tr>
<td>Liquid Assets (10k RMB)</td>
<td>800</td>
<td>738</td>
<td>701</td>
</tr>
<tr>
<td>Receivables (10k RMB)</td>
<td>385</td>
<td>499</td>
<td>416</td>
</tr>
<tr>
<td>Stock (10k RMB)</td>
<td>233</td>
<td>117</td>
<td>128</td>
</tr>
<tr>
<td>Liquid Liability (10k RMB)</td>
<td>450</td>
<td>174</td>
<td>199</td>
</tr>
<tr>
<td>Other Payables (10k RMB)</td>
<td>420</td>
<td>153</td>
<td>121</td>
</tr>
<tr>
<td>Total Liabilities (10k RMB)</td>
<td>450</td>
<td>428</td>
<td>430</td>
</tr>
<tr>
<td>Long-term Borrowing (RMB)</td>
<td>0</td>
<td>254</td>
<td>231</td>
</tr>
<tr>
<td>Owner’s Equity (10k RMB)</td>
<td>399</td>
<td>365</td>
<td>379</td>
</tr>
<tr>
<td>Undistributed Profit (10k RMB)</td>
<td>177</td>
<td>143</td>
<td>157</td>
</tr>
<tr>
<td>Main business Income (10k RMB)</td>
<td>2069</td>
<td>3734</td>
<td>903</td>
</tr>
<tr>
<td>Net Profit (10k RMB)</td>
<td>117</td>
<td>96</td>
<td>14</td>
</tr>
<tr>
<td>Asset-liability Ratio (%)</td>
<td>53</td>
<td>54</td>
<td>53</td>
</tr>
<tr>
<td>Liquid Ratio (%)</td>
<td>178</td>
<td>424</td>
<td>352</td>
</tr>
<tr>
<td>Inventory Turnover Ratio (%)</td>
<td>1616</td>
<td>1988</td>
<td>693</td>
</tr>
<tr>
<td>Receivables Turnover Ratio (%)</td>
<td>505</td>
<td>845</td>
<td>197</td>
</tr>
<tr>
<td>Sales Margin (%)</td>
<td>5.6</td>
<td>2.6</td>
<td>1.6</td>
</tr>
</tbody>
</table>
The borrower invests his own fund to the enterprise and all of them reflect in the payables not external debts. Therefore, the actual asset-liability ratio was 35% in year 2005 and 38% currently. In addition, borrower might keep the real profitability because of artificial tax avoidance and so on.

5.1.3 Enterprise and borrower seem to lack the ability to repay.

Borrower’s enterprise earns net profit of 68000 RMB per month. In accordance with the proportion the borrower takes, he has 61000 disposable net profits. Currently borrower’s enterprise owes bank monthly payment of 92511 RMB and with loan added it sums to a total monthly payments of 113000 RMB. According to the account statement it shows low levels of net profit that cannot fully cover payment. However, the enterprise converted the personal investment loan into long-term one and listed the daily repayment into enterprise cost, so it can pay the loan and interest on time. Borrower always pays for the loan and interest on time which indicates the actual ability of repayment.

5.1.4 Risk analysis of enterprise operation

First, it is the risk of International trade. All of the productions export and the main market is occident area. Recent years, China continually faces the restriction of International textile and apparel quota. Trade friction with occident still occurs which means the risk of International trade has the direct and huge influence on the company.

Second, it is the risk of operation. Over the years, Chinese textile and clothing export products have had the problems of being low value-added and low profit rate. The company has to expand production and sales volume to maintain profits and sustainable development. Then the growth won’t be easily affected by international policies.
Third, it is the weak anti-risk ability. Despite in terms of debt level of enterprise, it has strong ability of repayment; its weak self-accumulation indicates the weak anti-risk ability of the entire enterprise.

5.1.5 Ability of repayment and feasibility of loan

According to the repayment situation, the borrower has the ability of repayment of 3 million personal investment loans. From current point of view, borrower has total loan balance of 2.78 million which is still lower than the earlier 3 million. In fact, the bank already has put the factory and office into the mortgage. Increasing the appropriate credit under the security guarantee is increasing credit risk constraints of borrower and protection level of bank’s credit risk.

The loan has finally been approved by the bank, but there are some other bellowing factors playing the key roles.

(1) The company has to deal Chinese and international settlement with the bank for many years and the bank is familiar with the company’s operation; the authenticity of trade is guaranteed.

(2) Borrower has sound operation reputation in local textile export industry, and good relationship with upstream industry; together with stability of family, no other personal investment projects the company has all reliable original documents with proof of ownership documents of various mortgages.

We can see from the above case: Access to the capital market should base on the actual situation of the enterprise and have fully understanding of it. It is feasible to relocate financing development but should not enter the capital market blindly and it can solve the problem of shortage funds through personal investment model. While for the majority of the SMEs, it is priority to improve internal management and raise awareness of integrity. Provide accurate and
reliable information to the bank, otherwise the bank positively doubts the operation level, ability of repayment and even good faith of the enterprise which would affect the bank’s judgment to the enterprise. Besides that, SMEs should actively strengthen the communication with bank, correct the Information asymmetry, letting bank understand the operation of enterprise better. In this way, the bank will objectively and accurately decide the credit level of enterprise and improve the chance of credit and in the meantime the bank can effectively monitor the enterprise, avoid wrong investment and prevent moral hazard.

Establishing the mode of comprehensive credit risk management for SMEs is also a simple and important way to reduce and resolve the credit risk of SMEs. Comprehensive credit risk management is the whole management and control of bank credit. It involves credit risk, market risk, operation risk and several bank risks throughout the enterprise credit activities. Establishing the comprehensive credit risk management system necessarily involves update and improvement of currently credit management and risk control system for State-own bank. However, it will effectively control and resolve SMEs credit risk and reach a win-win situation for both the bank and the enterprise.

To sum up, firstly encourage private capital to participate in and establish various forms of guarantee institutes. Improve policy support to guarantee institutes, such as market access, tax and information sharing. Then, establish re-guarantee institutes to reduce the risk of guarantee institutes. Guarantee is a high risk business, so it is difficult to achieve sustainable business base on the capital of instate itself. Therefore, establish two levels of guarantee institutes within national and provincial scope together with various guarantee institutes faced to SMEs to jointly solve the financing problem of SMEs in order to promote their development.
5.2 Case 2: Ministry of Science and Technology

(1) In 2003, the Ministry of Science and Technology organized a set of 12 enterprises in the high-tech zone to issue bonds with a style of "unity of title, respectively liabilities, guarantee respectively and bundled distribution" and issued a total of 800 million CNY for a period of 3 years. China Development Bank is the issuer of "03 high-tech debt" and government finance in the respective high-tech zone made a promise for the total repayment in time. The bond was launched in 2003 and a successful payment was made in 2006. This kind of bond received regulatory approval, and has good feasibility.

(2) In the year 2007, "a collection of small and medium enterprises bonds in Tianjin“ planned to issue an amount of 10 billion CNY with a total of 20 issuers, with an unconditional and irrevocable joint guarantee from the China Development Bank and was counter guaranteed jointly by the city’s SMEs guarantee centers and High-Tech Investment Guarantee Corporation to China Development Bank. The bond has fixed rate for five years with simple interest at half a year calculation and from the third year the pond repays the principal with a respective proportion of 40%, 30% and 30%. In 2007 "a collection of SMEs bonds in Tianjin" issued successfully.

Through above analysis we can see that debt collection of SMEs will also be an important part of corporate bonds. It will become an important policy for government support SME development, it has strong promotional value.

The implementation of SMEs listing

For SMEs, seeking financing by listing on the stock market is suitable for the enterprises which have good profitability or have good market growth. Enterprises can choose stocks listed inside
or overseas in the market and according to their own characteristics choose main board, some board or growth board of the stock market. Financing by listing on the stock market has some characteristics: a big number of investors, financing scale is large, a number of financing channels can be rolling financing and so on. After the listing, enterprises established the platform for direct financing, according to capital market’s conditions, combined with their own capital demand to use additional public offerings, private placement, placement of shares, corporate bonds, convertible bonds and other methods to achieve the financing, so it is significant for the SMEs financing who correspond to the conditions of listing. In addition, listed enterprises also have the following benefits:

1. To improve the enterprises’ image: by listing, it can improve the visibility and creditworthiness of enterprises and conduction; it is good for expanding the market area;

2. Doubling shareholder wealth: Stock market is the best channel for capital into the stock market by listing in the market, making capital of shareholders capitalized and with the combination of social capital. Double effect of issued premium and full circulation make shareholder’s wealth increase two fold compared with issued;

3. Standardize corporate governance: listing can shape diverse capital structure, improve the corporate governance structure, establish a modern property rights system, decision-making system and a good incentive mechanism, effective trade-offs and constraints, to obtain the potential profits and continued growth in enterprises’ intrinsic motivation;

4. The equity incentive: by listing it can give a certain stock equity to top employees, effectively solve the issue of employees’ motivation, attract and retain talent.

5. The legalization of wealth: the listed company and its assets, business are protected by law
5.3 Case 3: “Jinfa Technology” financing by listing on the stock market

- Company name: Jinfa Technology
- Stock Code: 600143
- Listing Date: June 2004
- Sponsor (lead underwriter): Guangdong Development Securities
- Latest market capitalization: 200 billion CNY

Through multiple financing, asset scale, scale of net assets, sales revenue, and profitability of Jinfa Technology is constantly improving.

Figure 5.1 Total asset, net asset, operation revenue, net margin of the SMEs in Tianjin
Through the above analysis and case, through listing and accessing to capital markets, SMEs can effectively broaden the financing channels, reducing financing costs, so entering capital market is an important measure to solve the financing difficulties for SMEs. In May of 2004, since SME board implemented, there were 306 SMEs with good growth listing and financing of about 120.3 billion CNY. At the end of 2009, in A-share listed companies, there were 327 SME board companies, with a total market value of 1687.255 billion CNY; circulated market value was 750.357 billion CNY. On October 31 of 2009, the growth enterprise market officially launched. At the end of 2009, a total of 36 enterprises listed on the GEM, accumulative total fundraising was 20.4 billion CNY in total; market value was 161.008 billion CNY; circulated market value was 29.897 billion CNY. As of 2010, In Tianjin, the local listed enterprises’ status as following:

**Table 5.3 enterprises’ status in Tianjin in 2010**

<table>
<thead>
<tr>
<th>Categories of securities</th>
<th>Number</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>GEM</td>
<td>3</td>
<td>8.11%</td>
</tr>
<tr>
<td>SME Board</td>
<td>6</td>
<td>16.22%</td>
</tr>
<tr>
<td>Shenzhen A shares</td>
<td>8</td>
<td>21.62%</td>
</tr>
<tr>
<td>Shanghai A Shares</td>
<td>20</td>
<td>54.05%</td>
</tr>
<tr>
<td>Total</td>
<td>37</td>
<td></td>
</tr>
</tbody>
</table>
5.3.1 Increase product’s innovation of SMEs financing

While actively developing financial characteristic services of SMEs financing products, it is also very important to explore the development of multivariate financing ways for expanding SMEs financing channels. Commercial banks should carefully study characteristics of SMEs and the differences in demand compared with large enterprises according to the special demand of SMEs to localize the successful products and experiences which were introduced to tailor abundant financial products and high-quality financial services for the enterprise to satisfy the multivariate financing demand for enterprises. It can effectively solve the problem of SMEs financing difficulties.
5.4 Case 4: **Investigation of the Bohai Bank**

The author made an investigation of the Bohai Bank which actively introduced the successful business philosophy, management style, risk control and product development advantages of the foreign investor Standard Chartered Bank. Along with China's national conditions, they made improvement and innovation in order to launch appropriate products and services for the SMEs in Chinese market. Currently launched SME credit products and services include:

1. **Commercial installment loans**: commercial installment loan which is specially designed for small and medium enterprises doesn’t require SMEs to provide a mortgage and allows naturally providing guaranteed financing products. Loan amount are from 100 thousand to 1 million CNY.

2. **Commercial mortgages**: Commercial mortgage is a financing product which treats the fixed assets which are acceptable by the bank as mortgage. It accepts a variety of mortgages which belong to business or some person.

3. **SMEs mortgage loans**: Mortgage loan is a kind of loan which is provided to small and medium enterprises and used for the purchase RMB loans of fixed assets.

4. **Rapid credit**: Rapid credit is for the products of trade enterprises or production-oriented ones which have import and export operation rights of the trade of products or enterprises. The bank gives the enterprises some exposure credit for opening import letters of credit. Maximum is $200,000 credit line and the credit could be used circularly in one year. The credit only
needs 50% or 70% margin, and is no need of collateral and guarantees from guarantee companies.

5. Commercial property mortgage loans: Commercial property mortgage loan is paid to the commercial property owners by Bohai Bank and treats their own property as collateral and operating income from leasing as a source of repayment of the loan. The repayment plan of the customers is based on the rental income.

6. Operating capital loans: Operating capital loan is designed for SMEs when they are short of capital in the operating process. The customers could use the loan circularly under the credit amount in the credit period. This kind of load accepts a variety of collateral, and is of lower cost of finance.

7. Guaranteed loans: Guaranteed loan from the guarantee company is the loan which has joint responsibility guarantee provided by professional financing institutions which are accepted by the banks. The loan grants loans to SMEs, and is a short-term loan to promote the development of SMEs.

8. Forfeiting: Forfeiting is banks purchasing from the enterprises (exporters) long-term bills without recourse which is under the credit already accepted by the foreign bank and provide non-recourse finance services. In this way the enterprises could change the forward funds on accounts into cash income. The advantage of this kind of financing is the enterprises could get financed without using the bank line of credit in the bank and thus eliminates country risk, credit risk, currency risk and interest rate risk for the enterprises.

9. Trade Guarantee: According to the needs of enterprises, the banks issue a written guarantee to its customers for the guarantee of the behaviors of the tender, fulfilling the contract and advance
payment for the enterprises. The service includes advance payment bond letter of guarantee, bid bonds letter of guarantee, fulfilling contract guarantees and so on. This enhances the credit rating and competitiveness, increases business opportunities, improves performance capacity for the enterprise.

10. The global market financial services: To provide the immediate/forward foreign exchange, interest rate swaps, currency swaps, structured deposits and other foreign exchange derivative products and services thus meet the need for the enterprises in trade and investment. Take account of the profitability and liquidity of the enterprise capital. It is in favor of that the enterprises undertake cost accounting and avoid exchange rate risk effectively.

Meanwhile, the author also found that the most characteristic SMEs products that Bohai Bank launched are commercial installment loans and small and medium provincial income accounts.

Commercial installment loan is the SMEs product first created by Bohai Bank. It filled the gap in the financial markets. The product got the market's favor when put in the market, and is a quick and easy loan style provided to the growth and profitability experienced by companies which exist for more than two years.

The maximum amount of commercial installment loans is up to 100 million and the loan period is from 6 months to 3 years with the loan interest rate of 15% (1 year), 18% (2 years), 22% (3 years). It doesn’t need real estate as collateral and guarantee from guarantee enterprises. It is repaid monthly on equal installments of principal and interest and ensured quick approval processing by the exclusive sales and service staff.
Table 5.4.1 Monthly principal and interest payable (CNY)

<table>
<thead>
<tr>
<th>Line of credit (CNY)</th>
<th>1-year loan</th>
<th>2-year loan</th>
<th>3-year loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>100,000</td>
<td>9,026</td>
<td>4,992</td>
<td>3,819</td>
</tr>
<tr>
<td>200,000</td>
<td>18,052</td>
<td>9,985</td>
<td>7,638</td>
</tr>
<tr>
<td>300,000</td>
<td>27,077</td>
<td>14,977</td>
<td>11,457</td>
</tr>
<tr>
<td>400,000</td>
<td>36,103</td>
<td>19,970</td>
<td>15,276</td>
</tr>
<tr>
<td>500,000</td>
<td>45,129</td>
<td>24,962</td>
<td>19,095</td>
</tr>
<tr>
<td>600,000</td>
<td>54,155</td>
<td>29,954</td>
<td>22,914</td>
</tr>
<tr>
<td>700,000</td>
<td>63,181</td>
<td>34,947</td>
<td>26,733</td>
</tr>
<tr>
<td>800,000</td>
<td>72,206</td>
<td>39,939</td>
<td>30,552</td>
</tr>
<tr>
<td>900,000</td>
<td>81,232</td>
<td>44,931</td>
<td>34,371</td>
</tr>
<tr>
<td>1,000,000</td>
<td>90,258</td>
<td>49,924</td>
<td>38,190</td>
</tr>
</tbody>
</table>
Commercial installment loans are tailored for SMEs which have taken fully consideration of the characteristics and needs of SMEs. It has advantages of easy and quick approval, simple process, no need for real estate as collateral, without guarantee security. Saving interesting rate account is designed for saving the interest for the SMEs. Bohai Bank connects the money in this kind of account to loan account and calculates daily interest and makes quarterly calculation on expiry date for interest so as to deal with repaying in advance. After the repayment of part principal, the monthly amount stays the same, but the actual repaid principal increases monthly, thus shortening the loan period and making interest savings for the client.

The author made a loan example: the benchmark interest rate is 30% higher for a period of 10 years; the deposit balance is always maintained at 100% of the loan balance, for example, as shown in below

**Figure: 5.4**
Through data analysis we can see the advantage of saving interest account is that it helps the enterprises to save up to 60% interest rate, increase their capital rate of return of idle funds to working fund so as to give maximum flexibility to ensure enterprise funds.

Through case studies of Bohai Bank, the authors found that through innovative financial products and services for small and medium enterprises, the bank not only can keep the bank's brand popular and gradually increase market share but also could provide more SMEs quality and efficient services to help them grow.

In addition, the author, with the analysis of the Tianjin City Commercial Bank, found that large commercial banks depend on their own financial strength, more network, the advantage of a wide range of business, not only provide the general funds to SMEs but also strive to provide multi-directional, full tracking and comprehensive financial services to become an important force in financial services for SMEs. Joint-stock banks focus on industry segments and professional development. They have launched products specifically for areas of the Chinese foreign trade, steel distribution, real estate mortgage and other areas. Local corporate banks clearly define their market position and have gradually launched a number of products tailored specifically for small and medium enterprises. They provide the SMEs capital through the establishment of umbrella, box or tower style community. Through the operation of dislocation of different types of banking, they provide many SMEs financial support for financing development.
List of SMES saving interesting accounts:

Table 5.4.2 Loan amount of 100m CNY; interest rate 30% higher

<table>
<thead>
<tr>
<th>Number of Loan installments</th>
<th>The proportion of total deposits to loans balance</th>
<th>The amount of interest customer save</th>
<th>The rate of interest save</th>
<th>The shorten number of loan installments</th>
</tr>
</thead>
<tbody>
<tr>
<td>120</td>
<td>100%</td>
<td>361,443</td>
<td>60%</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>50%</td>
<td>270,562</td>
<td>45%</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>10%</td>
<td>62,159</td>
<td>10%</td>
<td>4</td>
</tr>
<tr>
<td>60</td>
<td>100%</td>
<td>144,689,</td>
<td>52%</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>50%</td>
<td>105,556</td>
<td>38%</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>10%</td>
<td>20,503</td>
<td>7%</td>
<td>-</td>
</tr>
<tr>
<td>36</td>
<td>100%</td>
<td>75,865</td>
<td>48%</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>50%</td>
<td>54,310</td>
<td>34%</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>10%</td>
<td>8,303</td>
<td>5%</td>
<td>-</td>
</tr>
<tr>
<td>12</td>
<td>100%</td>
<td>20,106</td>
<td>38%</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>50%</td>
<td>12,953</td>
<td>24%</td>
<td>-</td>
</tr>
</tbody>
</table>
5.5 Case 5: Bank of Tianjin

Bank of Tianjin all along persisted “positioning, supporting and serving medium and small company” the thorough idea. Actively build the brand image of partner of medium and small enterprises. The various types of SME loans have reached to 200 billion RMB by September this year, accounting for 41.28% of total loans. To furnish over 100 million RMB credit to more than 6000 laid-off workers of Tianjin and nearly 4 million business loans for self-employed.

Currently the bank has formed a financial service system for SMEs. Three series of financial services to small and medium projects involve dozens of business types. The first "to promote the development” project focusing on rising in the development financing needs of SMEs; the second is "fostering the growth” project focusing on SME financing needs of start-up phase; third is the "business venture” project mainly for personal business Entrepreneurship and the financing needs of re-employment of laid-off. This project involves three main varieties of natural persons to provide security by the "small installment loan", a mortgage credit during the recycling of the "Revolving Loan", corporate enterprises to buy vehicles, production equipment and plant, amortization of "Legal mortgage loans " and not only for working capital but also for acquisition of fixed assets and investment of the " commercial mortgage installment loans "and other innovative products.

In addition, to shorten the approval process, a certain amount of loan approval power is delegated to the branch for "easy credit" service, designed specifically for individual business
households shop for lease "rent credit" for entrepreneurship, purchase of equipment, individual shops and business loans for the purchase of bulldozers, heavy trucks, "Construction Machinery mortgage loans " and "Personal Commercial House mortgage loans " and so on.

Binhai Rural Commercial Bank directed by "based on the community, for private, private small and medium enterprises" build up grasping small amplification, after the advance to take development concept and establish "community-based retail bank. " By the end of October, the total loan has reached 10.3 billion, which is accumulative total of 1449 cases for small companies with the amount of 1.37 billion, accounting for 13.3%; 371 medium-sized loans with total amount of 840 million, accounting for 8%. To achieve total issued 42.8 billion loans to small and medium enterprises and natural persons, accounting for 41.5%.
VI. Chapter: 6 Ways to enhance Financing system for SMEs in Tianjin

Keeping in view all the mentioned financing difficulties faced by SMEs in Tianjin in the contemporary economic scenario and the government policies, there are 3 easily implementable policies which can help in providing funding for SMEs and help them grow. First, develop a framework in accordance with the characteristics possessed by SMEs. Then promote and encourage development of innovative financial products that would be able to fulfill the requirements of SMEs. Also, such policies should be devised that help in providing quick funding to the SMEs.

6.1 Providing suitable platform for financing of SME; adopting fiscal policies and regulations, developing monetary institutes and other approaches

6.1.1 Moderating the difficulties for funding of SMEs through adoption of fiscal policies and laws

The author suggests following approaches to the financial difficulties of SMEs combined with healthy policies for them and the right kind of economic environment that would help them nurture perfectly.

Regarding taxation policy:
Taxation polices need to be such that they help the investments. This can be achieved by cutting down tax rates, decreasing amount of taxation, increasing both the standard minimum-taxation
What are the extent of Small and Medium-sized Enterprises Financing Problems in China and Its Countermeasures

and asset depreciation rates.

The Bureau of Finance of Tianjin, on the basis of fiscal legislation of taxation, devised relevant taxation policies for SMEs like Several Fiscal Policies To Support The Development Of Small And Medium Enterprises (“Several Fiscal Policies” for short), listing the policies. Projects such as scientific innovation, technical development and integrated utilization of resources, that are in accordance with general nation production policies are helpful for SME financing and will reduce the funding difficulties.

**Regarding Fiscal allowances:**
SME financing can be done by issuance of different fiscal allowances like employment allowances, export allowances, R&D allowances etc.

Tianjin established Some Implementing Approaches On Promoting Export-oriented Economy of Small and Medium Enterprises (“Some Implementing Approaches” for short). The aim of this was to implement preferential policies for the SME sector. The Some Implementing Approaches works by choosing more than a hundred SMEs to work with to provide funding for brand development, product standardization, trademark registration, advertisement and publication, technological transformation, production development and others. SMEs are desired to encourage scientific R&D and implement integration of production and sales through polices on export of independent intellectual property rights. Foreign corporations are required to work with SMEs and share mutual benefits of human resource and trading capital. Those working well are awarded too for their mutual cooperation. Some Implementing Approaches reaped the advantages significantly.
Monetary Backup for Risk Management
Monetary backup is risk management for SMEs in fiscal budget. It also is fund of guarantee for risk investment from Association of SMEs.

Comparable Competitive market
SMEs being small and handicapped for the financial system, deserve comparable and competitive market. Proper legislation and risk management can bring SMEs at par with nationalized enterprises to provide funds and innovation. Removing improper assignments and minimum requirements can help to encourage securitization of SMEs.

6.1.2 Promoting small and medium financial institutes
Developing small and medium financial institutes help in resolving funding issues of SMEs. Banking Regulatory Authority established Some Points on adjusting the policies for Banking institutions entries in rural areas and promoting the development of socialism villages, on December 21 2006. By the end of year 2009 throughout the country, it had already formed for 2054 rural credit associations, 43 rural commercial banks, 195 rural cooperative banks. By the end of year 2009, there were totally 172 rural financial institutes established, including 148 rural banks, 8 credit companies, 16 rural funding cooperative associations.

6.1.3 Banks hold responsibility for opportune and calculated adjustments of monetary policies with the developing environment
Banks can make use of monetary policies and integrated leverages to come up with suitable monetary credits for the benefit of a health economic atmosphere for the SMEs. Upper limit of loaning interest rate should be released appropriately in order to improve estimated interest-
pricing ability through market influencing of interest rates to motivate loaning to SMEs. Better conditions should be provided with specialized financial services for SMEs with improved conditions for determination of unpaid loans and policy of pretax risk reserves. Releasing of loaning polices of labor-intensive SMEs and third party financial services will provide good atmosphere for SMEs.

6.1.4 Providing additional loans to SMEs by collection of reliable information of agents, creating the credit system of SMEs and risk-management loaning system

Banking on high-return ratio and banking investment to share credit resource between nationalized bank and SMEs is not enough and it’s necessary to remove negative anticipation between them on loans. One key factor in loaning to SMEs is sub-standard management. Some SMEs don’t even have the resources to provide complete financial statements thereby not able to complete operations meaning failure in acquiring loans. Author suggests that banks should also collect and interpret non-financial information of SMEs to be flexible to them for loaning.

6.2 How SME Financing is being tackled in developed countries

Case Study of USA

SME financing is a difficult question in every country but a lot of institutionalized innovation and arrangements can be used to develop SMEs. They however, come with their own characteristics and different ways to achieve targets. But since they remove SMEs finance issues, SMEs in smaller countries can learn from their experience.

Like China, America boasts a great number of SMEs. There are 22.9 million of small and medium sized enterprises in American financing system. The number of those enterprises is 99.7% of all American enterprises. Simultaneously, those enterprises supply 120 million of
employment opportunities. It is 50.1% of private sectors. Also, there are 75% new employment opportunities in small and medium sized enterprises. The sale is 40.9% of all private sectors.

America can solve its SMEs problems in 5 different ways.

### 6.2.1 Special institutes

USA has quite a few ways in which it can solve its financing problems (See exhibit 6-1). An American study suggests that USA possesses SMEs along with monopolization. However, SMEs have their own inherited features which come as a hurdle when they finance more capital (Berger, 1998). In order to improve SME sector, American government made the small business act and set up funds to fund them. One such example was the Small Business Administration (SBA) 1953, whose responsibilities included coming up with standard size of small businesses, helping other institutes in developing small businesses and asking financial institutions to invest in small businesses. These targets can be achieved in various methods. First, SBA established low rate loans then these loans are regulated by financial institutes before being loaned to small businesses. Then, SBA had electro-network “angel funds” that were able to attract private capital. Also, they allowed Small Business Investment Companies (SBICs) to transfer equity investment into small business. SBA also sustained liability guarantee service for small business to establish sub-market loan guarantee. Based on 2002 financial year, SBA provided $12.3 billion small business loan and more than $1 billion disaster-relief loan. There are more than $45 billion loan applied by SBA until now.
6.2.3 Direct assistance from government institutes

SBA helps SMEs in loan acquisition and gets involved in enterprise financing. Two enterprise financing groups include direct loans and coordinating loans. Direct loans have different period which are awarded to those SMEs which are good at innovation and development and SBA gives them self-renewable loans. These loans have low market rate but the ceiling is fixed at $150 thousand, making it the only loan lower than market rate. Other such kinds of loans are handed to people in need like minorities, women and veterans to help them have an effective role in society. Then, some disaster hit corporations also get loans as assistance to help them get back on their feet. Coordinating loans are loaned by SBA and other financial institutions are there to help the companies get more capital.

6.2.4 Venture Capital

America is home to two basic kinds of venture capital. One is government and other is non-government. SBA founded government venture capital companies. They provide funding to SMEs. These have the conditions that the financing should only be from government venture capital and these cannot have capital lower than $1 million and ceiling being no higher than $90 million. Government prefers them over others in a 3 to 1 or 4 to 1 ratio. They provide capital to SMEs through debt subscription. However, they are not allowed to invest in real estate or credit enterprises or control companies not invested in for a while. In the end, there are 369 small and medium sized venture capital companies in America until May of 2000. They have $3.5 billion. Also, they invest more than $13 billion into more than 100 thousand small and medium sized enterprises which have higher risk.

America hosts about 600 non-governmental venture capital companies most of them hail from Silicon Valley. They promote small business that develop technology and innovate by providing
loans of both guaranteed and unguaranteed kinds. On the other hand, non-governmental venture capital companies can get higher return from small business. From 1970-1979, there are more than 13 thousand high techno-companies which are provided by venture capital in America. Also, from 1979 to 1995, the amount of venture capital increased from 2.5 billion to 40 billion. There are 11 new enterprises every week and 62 new millionaires every day in Silicon Valley. The total value is more than 500 billion.

6.2.5 Well Established Capital Market System

America has the best of capital market system in the world. It has four levels of capital market. The first hosts NYSE and NASDAQ national market. It offers equity financing to dominating enterprises. Secondly ones is AMEX and NASDAQ small capital market. It offers equity financing service to SMEs. Third is BOSTON stock exchange, CHICAGO stock exchange and PACIFIC stock exchange. This is a local exchange market. Lastly, OTC market by over the counter bulletin board (OTCBB), pink sheet single bulletin board, and grey over the counter (OTC). The OTC market has equity financing for SMEs. America’s huge capital market system has strip block pattern, mature function, and multi-arrangement. It both uniform and centralized level capital market and a lot of local level capital market. Good for enterprises with multitude of size and need to get equity financing in capital market offering more opportunities to develop. For example, because NASDAQ stock market has lower condition for initial public offerings, it is helpfully for SMEs, and high-tech enterprises to finance. As a successful growth enterprise market (GEM), NASDAQ stock market is important for Hi-Tech venture enterprises to through securities market, venture capital to get yield, and guarantee venture capital has a good circle. According to statistics, there are more than 90% American developing enterprises listed in
NASDAQ stock market. However, OCT market can provide equity transfer service to delisting enterprises and small enterprises.
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<table>
<thead>
<tr>
<th>Financing Resource</th>
<th>All Enterprises</th>
<th>Small sized Enterprises</th>
<th>Medium sized Enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td>EQUITY FINANCING</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owner Capital</td>
<td>31.33</td>
<td>44.53</td>
<td>27.22</td>
</tr>
<tr>
<td>Angel Funds</td>
<td>3.59</td>
<td>4.58</td>
<td>3.86</td>
</tr>
<tr>
<td>Venture Capital</td>
<td>1.85</td>
<td>1.65</td>
<td>1.98</td>
</tr>
<tr>
<td>Other</td>
<td>12.86</td>
<td>5.24</td>
<td>13.61</td>
</tr>
<tr>
<td>Total</td>
<td>49.63</td>
<td>56.0</td>
<td>46.67</td>
</tr>
<tr>
<td>DEBT FINANCING</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financing Organization</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial Bank</td>
<td>18.75</td>
<td>14.88</td>
<td>19.94</td>
</tr>
<tr>
<td>Financial Corporation</td>
<td>4.91</td>
<td>3.08</td>
<td>5.47</td>
</tr>
<tr>
<td>Other Financial Institution</td>
<td>3.0</td>
<td>3.53</td>
<td>2.83</td>
</tr>
<tr>
<td>Total</td>
<td>27.66</td>
<td>21.41</td>
<td>27.47</td>
</tr>
<tr>
<td>Un-financial Enterprises and Government</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Credit</td>
<td>15.78</td>
<td>11.81</td>
<td>17.01</td>
</tr>
<tr>
<td>Other Enterprises</td>
<td>1.74</td>
<td>1.06</td>
<td>1.95</td>
</tr>
<tr>
<td>Government Loan</td>
<td>0.49</td>
<td>0.37</td>
<td>0.52</td>
</tr>
<tr>
<td>Loan to Initial Investor</td>
<td>4.10</td>
<td>5.59</td>
<td>3.63</td>
</tr>
<tr>
<td>Private</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit</td>
<td>0.14</td>
<td>0.53</td>
<td>0.02</td>
</tr>
<tr>
<td>Other Personal Debt</td>
<td>1.47</td>
<td>3.16</td>
<td>0.94</td>
</tr>
<tr>
<td>Total Debt</td>
<td><strong>50.37</strong></td>
<td><strong>44.0</strong></td>
<td><strong>52.33</strong></td>
</tr>
</tbody>
</table>
Table 6.2.5
6.2.6 “Walked Out” financing

SBA offers three types of investment loans to boost SMEs “Walked Out” financing. First, the direct investment loans encourage SMEs in the developing world. Unlisted FORTUNE SMEs are eligible to apply for loans. The can acquire loans between $900 thousand and $6 million. The average amount is $3 million. Secondly, direct investment financing provide guarantee loan, insurance loan, and direct loan to legality investors investing in developing countries. Limit is between $10million and $75million, average being $20 million. Lastly, foreign investment insurance can give war and political risk insurance to foreign investors. Furthermore, American government founded directly financing institution which is called Export-Import Bank of Washington in 1938. It provided loan to private investors who do foreign investment directly. Then, Overseas Private Investment Corporation (OPIC) is set up to help foreign investors. The major obligations are submission of loan and financing guarantee to invest enterprises, providing information and technology service to investors. Until end of 20 century, OPIC provide more than 3 thousand investment item. And, it finance $145 billion loan.

Table 6-1 Resource framework of American Small and Medium Sized Enterprises (%)

What are the extent of Small and Medium-sized Enterprises Financing Problems in China and Its Countermeasures

VII. Chapter: 7 Conclusion

In conclusion, since SMEs have disadvantages financing, the whole world recognizes their issues. To resolve the issues faced by the SME sector, 1st world countries have taken steps to find financing sources for SMEs and are have made good progress to overcome the issue. Chinese SMEs play a vital role in their economy and have a good future ahead. However, compared to the developed world, they face more challenges because of their financing institutions, regulatory authorities and financial environment. China needs to cover up this divide to meet the international community.

Today, Chinese economy is progressing well. However, they have a poor sustaining system and government support which is a cause of weakened credit system, resulting in challenging environment for the SME sector. In crunch times, there is a dire need to solve SME financing difficulties for Tianjin. It’s just a small view of the whole Chinese market. This paper tries to analyze the funding difficulties faced by Tianjin SME sector as a smaller picture of the bigger problem.

Fixing China’s SME funding issues is a systematic approach. It needs to find more approached to find better resources. Three tested and tried approaches that have worked are; First, SMEs need backing from the government and its institutions. Then, the government needs to relax loans on the SME sector. Last and third, government needs to make use of other funds such as bonds, growth financing and other ways to push for SME financing, in a quicker approach.

Keeping these in mind, future will be bright. Also, with a better use of technology, financial institutes can make better profits and increase funds. So, banks and other monetary institutes
What are the extent of Small and Medium-sized Enterprises Financing Problems in China and Its Countermeasures

need to relax terms on SMEs to support them better. Sustainable development and better funding will help a great way in the development of SME sector in Tianjin and in China.
Acknowledgement

I would like to express my sincere gratitude and appreciation to all those who have contributed in one way or another in the process of my research.

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References


