

# Endogenous Optimization of The Financing Environment for SMEs

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**Abstract:** With the establishment of the market economy system, China's SMEs have gradually become the main artery of the national economy, which has greatly helped the development of China's economy and the progress of society. However, even with the help of government financing policies, SMEs still need financing help. It is necessary to analyze the problems and causes in the financing process of SMEs in China and formulate corresponding countermeasures.

**Keywords:** Small and medium-sized enterprises, Financing environment, Endogenous optimization.

## 1. Introduction

SMEs play an essential role in promoting the development of our economy. Compared with large enterprises, SMEs are more flexible and proactive and can effectively collaborate with large enterprises, which is essential for cost savings and risk reduction. The most crucial factor in SMEs' operation is capital adequacy. However, financing for SMEs is in a bottleneck situation in the current market environment.

## 2. Overall Financing Status of Domestic SMEs

According to the survey report of the Association of Small and Medium Enterprises on the current situation of SME financing in recent years, it can be seen that in the process of financing, the most notable performance of SMEs is that financing cannot satisfy the demand, and financing is complex. At present, the problem of difficult financing for SMEs is becoming more and more serious. The method of obtaining funds through their internal accumulation is called internal financing. Most SMEs have used this method for a long time, with the characteristics of no risk, limited quantity, and low cost. In some Western developed countries, many SMEs have adopted this method, such as 68% in the UK and 83% in the US. In addition, Japan is 50%, while China is only 30%. It is not difficult to see that the situation of SMEs in China using this method is far from that of developed countries.

## 3. The Difficulties Encountered in The Financing Environment of SMEs and The Reasons

### 3.1. Difficulties in financing due to their own conditions

SMEs have a low level of creditworthiness and require sufficient collateral security for borrowing, making financing difficult. With the deepening of China's financial system reform, banks, and commercial institutions are providing more and more borrowings to large enterprises, which is not conducive to SME financing. Most financial institutions tend to adopt a safe management model and focus on the

creditworthiness of enterprises when granting loans. SMEs' low level of creditworthiness and the substandard operation of some enterprises prevent banks from funding them. Most banks focus on the safety, liquidity, and profitability of borrowing, while SMEs have high borrowing frequency, low demand, and increased risk. It is difficult for banks to smoothly issue loans to SMEs. The instability of SMEs affects the creditworthiness of SMEs and reduces the possibility of borrowing. SMEs have slow development speed, poor capital readiness, low economic efficiency, backward technology and equipment, single product structure, and poor development capability.

### 3.2. Commercial banks' interests hinder SME financing.

Currently, it is mainly commercial banks that supply borrowing services for SMEs in China, but the economic strength of commercial banks is weak. Commercial banks have a low proportion of assets among financial institutions and can supply a need for more borrowings. Small and medium-sized enterprises obtain less lending from commercial banks. Compared with other banks, China's state-owned commercial banks borrow less from SMEs and cannot supply good economic services for them. With the change in China's financial system, banks have become independent financial enterprises, pursuing economic interests and operating needs and paying more attention to economic security. Because the state does not act as the security of bank loans, under the influence of the traditional financial system, banks pay more attention to credit-borrowing enterprises and the operation status of enterprises, so it is difficult for banks to trust SMEs and give loans. Some banks need to pay more attention to the development of SMEs in China and ignore the importance of SMEs. They think SMEs have a small business and small capital needs and pay more attention to the collaborative relationship with large enterprises. In virtual collaboration with enterprises, banks need help to grasp SMEs' development rules and directions, accurately identify the dangers of SME borrowing, and meet the financing needs of SMEs.

### 3.3. Lack of national attention to SME financing

China needs to establish perfect guidelines for SME

borrowing guarantees, which restricts the development of SME financing. China's market economy could be better, and SMEs have long sought loan guarantees. The state's measures in this regard are not perfect enough to enable the normal development of SME financing. SMEs have few ways to finance, have difficulty finding third-party guarantees, lack real estate and movable property pawning, and need financial support. The social service system in China needs to be better, and guarantee companies have high guarantee conditions; property pawning procedures are complicated, touching many parts, long cycles, high assessment costs, and high hidden costs. Small and medium-sized enterprises are mainly in the primary stage of development, with less property available for pawning, higher borrowing conditions, lack of policy support, lack of financing channels, lack of opportunities to create funds, and relatively little actual borrowing for SMEs.

## **4. Endogenous Optimization Strategy of Financing Environment**

### **4.1. Improving the situation**

The business management of the enterprise is the criterion for the bank to evaluate the loan. The enterprise should strengthen its governance, clarify the account registration, strengthen internal fund management, improve employee requirements, set internal business management standards, and strictly require employees to develop their work under the rules and regulations. By enhancing their business management, they win the financial support of the enterprise. SMEs should solve their credibility problems, improve the attractiveness to SMEs, standardize the financial management of SMEs, provide reliable financial information to enterprises and relevant parts, and ensure a good reputation of SMEs. The management part of SMEs has a better understanding of the management status of their employees. Small enterprises can obtain financial support from large enterprises through collaboration with large enterprises, collaborate with customers through subcontracting and agency, and collaborate with customers through installment payment and sublet to establish a good reputation.

### **4.2. Improve bank credit evaluation mechanism.**

Commercial banks should face up to SMEs' current situation and development, treat all enterprises equally, and provide financing support for SMEs. China's state-owned banks should change their operating philosophy, adjust their credit review mechanism, improve the credit review requirements for SMEs, pay more attention to the role of SMEs in China's economic development, and increase their financial support for SMEs. Commercial banks can set up local commercial banks and people's livelihood banks to severely investigate the production and operation management of SMEs and provide exceptional financial support and professional financial services for the development of SMEs. In addition, commercial banks should simplify the borrowing procedures of SMEs, improve the management mechanism and enhance the borrowing rating ability of SMEs. Our commercial banks should pay attention to formulating corresponding management procedures based on the characteristics of SME borrowing affairs, optimizing the operation procedures of experiences, reducing bank management costs, and promoting the economic development of SMEs.

### **4.3. Strengthen the government's attention to SME financing.**

Firstly, the government should establish a credit system to supply policy support for the financing environment of SMEs. The problem in the financing process of SMEs is the use of SMEs themselves, and the credit system of SMEs needs to be built to supply related services for the benefit of SMEs themselves. To solve the credit problem of SMEs, the state should set up credit guarantee guidelines to reduce the risk of guarantee and bank danger. The national government should establish a perfect credit system, loan system, credit rating system, and perfect evaluation system for enterprises and individuals and deal with them separately. The national government should modify our laws and regulations, promote financial units to establish creditworthiness guidelines, modify bank lending guidelines, guarantee guidelines, etc.

Secondly, our government should encourage the establishment of SME associations and set up credit guarantee centers so that weak SME organizations can form intense competition. At the same time, they can share resources and information, promote the training of business talents, advance cooperation among SMEs, and improve their competitiveness. The national government can provide financial support for social service organizations, conduct legal supervision, and reduce the financial burden of SMEs.

## **5. Conclusion**

In recent years, China has been implementing the private economic development plan, trying its best to improve the growth environment of private SMEs, of which the optimization of the financing environment is also an important aspect. However, the difficulty of SME financing is a worldwide problem. Although there have been a series of research results at home and abroad, more is needed to solve the problem of complex funding for SMEs. Thus, only a better development of SMEs can promote faster growth of China's economy.

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