Chinese SMEs Brighter Future To Easier Financing

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Although fundamental to the Chinese economy, the SMEs have been having difficulty obtaining loans and financing. In an effort to relieve SMEs finance burden, the government is issuing a credit guarantee system and is offering other incentives to financial institutions to loan to SMEs.

SMEs as Economy Growth Fundamentals

Small and medium enterprises or more commonly referred to as SMEs is often viewed by experts as an important stepping stone for economic growth and advancement. This is especially evident in the Chinese economy where the SMEs is responsible for 80% of urban employment and 65% of workforce. Furthermore, SMEs contribute to 50% of fiscal and tax revenue and 60% of the countryâ€™s GDP. Therefore, it is undeniable that SMEs is an important element to economy advancement, especially to an economic powerhouse like China.

SMEs Financial Constraints

Although SMEs is an important fundamental to economy growth, they are often denied of their loans and other financing options. This is due to both SMEs weak financial position as well as the lack of credit assessment for SMEs and Start-ups in China.

Because SMEs are usually at the beginning stage of their business, they lack qualified collateral and credit repayment track record. This coupled with inadequate accounting system and bill management make them unfavorable loan candidates in the eyes of the banks. On the contrary, large enterprises often have an established accounting department to oversee the companyâ€™s income and expenses. This provides banks and other financial institutes with transparent financial records. In addition, historical accounts can further strengthen the companyâ€™s position in obtaining loans from banks. In fact, state-owned enterprises are 75% of total loan lend by state-owned banks.

Another important factor constraining SMEs from easy access to financing is the lack of SMEs credit assessment in China. No government or non-government organizations have been established to overlook SMEs to produce credit assessment for them. The absence of the credit assessment only further discourage banks and other financial institutions to loan to SMEs.

As a result of these constraints, many SMEs turn to non-conventional financial options such as online P2P (peer-to-peer), microfinance institutions or non-banking financial institutions (NBRIS), which requires a different set of criteria and processes in obtaining them.

Government Encourages SMEs Loans

Because SMEs is fundamental to economic advancement, the Chinese government is seeing methods for easier financial access to SMEs. In the twelve 5-year plan, the government plans to issue a credit guarantee system for SMEs. In addition, the Chinese government has been increasing relending quota for SMEs and encourage insurance companies to provide capital to SMEs through risk management options. As a medium-term strategy, the government is establishing a credit guarantee platform, which usually consist of policy and commercial credit guarantee platforms. The former, policy guarantee, is operated mainly by the government with the objective of assisting SMEs financially while the latter, the commercial credit guarantee is operated by non-government entities with the objective of loaning to larger enterprises and earning profits. Since the government has no control over the commercial credit guarantee, it plans to incentivize them to loan to SMEs by providing tax allowance.

Impact of Government Policy

Because of government efforts in providing financial assistance to SMEs, loan to SMEs grew by 2.6 billion RMB to RMB 1030 RMB in 2014 when compared to the same quarter last year. Additionally, loans to SMEs in fraction of the total loan granted grew by 2% to 32.5%. The Chinese government sees this as a positive step toward giving SMEs an easier access to financing. However, the PMI, which signifies firm development, for the SMEs is still lower at 50.1 and 48.8 than large enterprises at 51.4. PMI lowers than 50 means contraction while PMI higher than 50 means expansion. Therefore, along with improving access to financial options for SMEs, the Chinese government now also has to improve the SMEs growth, development and expansion.

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