

The Influence of Private Lending to Solve the Financing Difficulties of SMEs in China

Jing Ping

School of Public Affairs & Law, Southwest Jiaotong University, Chengdu 610031, P. R. China

*Corresponding Author:

Jing Ping

Email: p.jing@foxmail.com

Abstract: Since thirty years of reform and opening up in China, the number and size of small and medium-sized enterprises (SMEs) to achieve leapfrog development, it's an important part of China's social economy and has great contribution to the economic development of China. However, in recent years the development of small and medium-sized enterprises are also facing many constraints, especially the financing problem of SMEs is an important obstacle to the healthy and rapid development of SMEs, in formal finance can not effectively solve this difficult situation, this is a good positive role to solve the private lending flexible lending to small and medium-sized enterprises financing dilemma. In the study of private lending to solve the plight of small and medium enterprises beneficial effects at the same time, we must also pay attention to the adverse effects of the small and medium-sized enterprise, put forward reasonable suggestions of private lending market norms, help small and medium-sized enterprises of comprehensive and rapid development.

Keywords: Private lending, Small and medium-sized enterprise (SMEs), Financing dilemma

INTRODUCTION

In recent years, with the development of market economy in China, small and medium-sized enterprises of their own development needs of the demand for capital is increasing in volume, so the size of the market demand of private lending is expanding. While private lending as an effective supplement of China's official formal financial system, plays a positive role in improving significantly both to our country small and medium-sized enterprise financing difficult problem, and contributed for the construction of social economy in our country. In affirming the positive role of private lending to SMEs, we should pay attention to the negative impact of private lending on the development of SMEs. Over the years, small and medium-sized enterprises is no substitute for the state-owned enterprises to the economic development of our country, it provides a lot of jobs, the liberation of the rural labor force. However, with the continuous development of small and medium-sized enterprises, the lack of funds and financing difficulties have seriously restricted the development of SMEs. Although in recent years of banking financial institutions for SMEs to increase financial services in China it's also made a series of important progress, but the financing difficulties of SMEs is still one of problems which need to solve at present.

Private lending to help solve the financing difficulties of SMEs, it has great positive significance to the development of SMEs. Due to the small and

medium-sized enterprises from the formal financial institutions to obtain financing difficult, coupled with the current small and medium-sized enterprises direct financing market higher threshold and no real development and growth, therefore, small and medium-sized enterprises in order to survive and develop their own, obtain funds through private lending is the inevitable choice[1]. The private lending service, information and cost advantages in small and medium-sized enterprises than large commercial banks have more prospects. Therefore, the financing of small and medium-sized enterprises will naturally and long-term and private lending together is an inevitable trend.

In recent years, the state has strengthened the macro regulation and control, and the increasing of the financing pressure makes the enterprises feel the financing difficulty, the single channel for SME financing, therefore, in the financing of the increasing pressure to face greater financial pressure than the large state-owned enterprises, the financing difficulty is the more difficult. In this difficult to obtain funds under the background of small and medium-sized enterprises, the nature of private lending by this channel to obtain financial support, to solve the financing difficulties. However, private lending itself has a positive and negative role in the financing of small and medium enterprises, it is on the one hand for some SMEs to solve the plight of the lack of funds to achieve a healthy development of small and medium enterprises; on the other hand, borrowing high interest rates to enable

enterprises to bear high financing cost, at the same time, lack of laws and regulations of the state, make SMEs face a lot of social problems, illegal fund-raising, usury and other illegal acts, serious damage to the lending market order [2].

Financing situation and problems of SMEs in China

Direct financing is not smooth

Direct financing refers to the capital supply and demand for funds by certain financial instruments directly from the relationship of debt financing behavior. Direct financing is divided into equity financing (stock) and debt financing (bonds), in terms of direct financing, SMEs have their own disadvantages, it's unable to get their own funds to scale [3].

Bond financing, on the one hand, due to the strict control on the size of the countries to the small and medium-sized enterprise bond issuance, so small and medium-sized enterprises want through the issuance of direct financing to obtain funds to support is more difficult. On the other hand, the state began to levy income tax on the investors, is bound to affect the investors to buy corporate bonds enthusiasm, small and medium-sized enterprises have low profit, credit is not stable, imperfect system and other unfavorable factors, the small and medium-sized enterprises through the issuance of corporate bonds financing cannot achieve their expected goals.

Equity financing, small and medium-sized enterprises of our country through the issuance of shares of listed companies financing is more difficult, because the capital market of our country is not very developed with respect to the capital market of the European and American, and most of the small and medium-sized enterprises themselves are difficult to meet the requirements of the state for small and medium enterprises. Although, in recent years to promote the development of small and medium-sized enterprises, the opening of SME board to facilitate the financing of them. But in the SME board listed conditions, a listing of the program basically and the motherboard, this does not really solve the majority of small and medium-sized enterprises financed through equity financing this road to achieve the development of the plight of their own.

Discrimination indirect financing channels for SMEs

With the country issued various financial measures, in the small and medium enterprises financing requirements of the formal financial institutions to be paid attention to, improving the small and medium sized enterprises to the major commercial banks to finance. But before, in order to improve the vitality of state-owned enterprises, the governments make great efforts to support the credit of the large state-owned enterprises to ensure the smooth financing of large state-owned enterprises. Compared with the

decline in the importance of the financing of small and medium enterprises, the majority of small and medium-sized enterprise itself in small scale, the profit is not stable, failure rate is very high, prone to bad debts, increase the credit risk, so banks are generally in the small and medium-sized enterprise loan requirements must be more hesitant, small and medium-sized enterprises have secured mortgage, resulting in the traditional indirect financing channels for small and medium-sized enterprises credit discrimination [4].

Lack of credit guarantee

Small and medium-sized enterprises are affected by the size of their own small businesses, the fixed assets are less, there is no access to finance and mortgage assets, the risk of small and medium enterprises in obtaining commercial bank loans declined; On the other hand, some small and medium-sized enterprises appeared affect their credit behavior before financing activities, reduce SME credit, increased the difficulty of applying for a loan from the bank. At the same time, in the commercial bank its standardized operation and management system, commercial banks in order to guarantee the loan recovery, reduce loan risk, usually request loans of the enterprises to provide guarantee company jointly and severally guarantee or business property mortgage, especially for small and medium-sized enterprises, to commercial banks to apply for loans than other enterprises more stringent, mortgage assets are the essential conditions. Small and medium-sized enterprises because there is no effective assets for collateral, and the guarantee institutions are not willing to carry out credit guarantee for SMEs, so the lack of funds for SMEs has not been effectively resolved.

Lack of professional financial institutions

At present, China itself is the professional financial institutions to provide professional financial services for small and medium sized enterprises exist, but these professional financial institutions in the actual operation in business development gradually deviated from the nature of its own, for small and medium-sized enterprises have no basic service. For example, Minsheng Bank, the establishment of local city commercial banks, the original banking institutions is a professional financial institutions for small and medium enterprises, Because these banks in their own capital scale, loan returns, project risk factors, so that they gradually in the face of small and medium enterprises to finance the issue of more cautious[5]. The reduction of these professional financial institutions also reduced the financing channels for smes.

Limitations of the indirect financing channels

There are strict rules of formal financial institutions to apply for loans in small and medium-sized enterprises, small and medium-sized enterprises in the loan approval procedures, the relevant departments for a longer period of time, especially bank loans more

links and extremely cumbersome procedures. The demand of small and medium-sized enterprise development funds are generally short, frequent and urgent characteristics and the formal financial institutions loans can not meet these characteristics, this make the best time to allow SMEs to miss investment projects. Therefore, the formal financial institutions to obtain loans many procedures, longer financing has been difficult to meet the demand of funds for the development of small and medium-sized enterprises.

Lack of corresponding laws and regulations system support

Small and medium-sized enterprises to through financing for funds to develop and grow, requires countries to establish for SMEs to escort the laws and regulations, standardize the order of the SME financing market. At present, there is not a unified and standardized small and medium-sized enterprise legislation to protect the financing and development of small and medium-sized enterprises, to ensure the sustainable development of small and medium enterprises under the law of the law. At the same time, the existing laws and regulations in the process of making the positioning of small and medium-sized enterprises can not be completely fuzzy and effective for small and medium-sized enterprises, caused by small and medium-sized enterprises to obtain funds through formal financial channels and other state-owned enterprises cannot reach the same emphasis.

The influence of folk lending to solve the financing difficulties of SMEs

About private lending to solve the financing difficulties of small and middle enterprises, the following will analyze from two aspects of positive and negative.

Positive effect

Broaden the financing channels of small and medium sized enterprises

Private lending has the characteristics of wide range of sources of funding, so small and medium-sized enterprises access to capital is correspondingly wide small and medium-sized enterprises often encounter the problem of lack of funds in the management process, and this situation through the traditional indirect financing channels for financing, difficulty, required a long time.

Improving the financing efficiency of small and medium enterprises

Whether in the private lending between residents, or among enterprises, it is in a certain acquaintance circle, do not need to go through the tedious that commercial bank lending procedures and administrative approval process, the time is fast and the way is simple .While private lending is flexible and convenient, only need to write an IOU or verbal agreement can be both lending normally. Compared to private lending this way of

borrowing with the formal financial institutions lending, small and medium-sized enterprises to quickly and easily get their own business development funds needed to support. While the characteristics of small and medium enterprises, the funds needed for the efficiency, shortens the time required for the private lending to small and medium-sized enterprise financing is unmatched by traditional financial institutions [6].

Enhancing the credit consciousness of small and medium sized enterprises

Private lending is generally in a certain area, has a specific relationship between the debit and credit sides, including relatives and acquaintances, the credit is based on kinship and geographical center of the network interpersonal relationship. In the circle of friends and acquaintances relationship, everyone familiar with each other or both sides are more understanding, understanding, in order to maintain the interpersonal relationship network, are generally about integrity In the private lending market formed so a rely on interpersonal network of special credit guarantee mechanism, the guarantee mechanism is a kind of both lenders and borrowers, credit is a kind of social interpersonal relationship network, through this kind of relation network obtain desired social help, must maintain integrity in communication activities, especially in the private lending.

Strengthen the efficient use of funds for SMEs

In the financing process of private lending both lenders and borrowers can quickly reach an agreement, reducing the unnecessary idle funds, promote the social idle funds to the economic and social needs in the direction of the flow [7].At the same time, the private lending is a loan agreement loan lending transactions, borrowing lenders generally want their money in a stable return on investment companies or projects. For the borrower, the debit and credit sides know each other, the borrower can timely repay the loan funds for the protection, strengthen their credit, funds will make reasonable planning and efficient use of Therefore, private lending can be effective in the flow of funds needed to reduce idle funds, while improving the allocation of funds and the use of efficiency.

Negative influence

Although borrowing has become the support small and medium-sized enterprises to obtain funds for the development of an important way, through the folk lending market, small and medium-sized enterprises in financing have more choices, the small and medium-sized enterprises to better to business development. In recent years, the private lending market can be said to enter the era of rapid development, but in the context of rapid development, private lending to SMEs there is a huge risk.

Increase the cost of financing

With the emergence and development of private lending to today, private lending rate is the interest rate is too high, is the main problem, the folk interest rate higher than the official rate, some of them even produces usury. In recent years, the interest rate of private lending has been higher, according to the central bank survey and Statistics Department survey that corporate lending and financing rate of 15.6%, higher than the same period the benchmark interest rate bank loans nearly 3 times, some regions or even higher. The high interest rate of private lending will increase the cost of capital for SMEs, so that SMEs is afraid of the high debt risk management process.

Trigger a vicious circle of funds

Private lending too high interest rates will increase the debt of small and medium enterprises, resulting in further increase in its financial expenditure, increasing the pressure on the loan of small and medium enterprises[8]. Although private lending temporarily solve the small and medium-sized enterprise short-term financial pressure, but the negative impact of small and medium-sized enterprises to obtain financing through private lending economic benefits far below the high interest debt of small and medium sized enterprises. After the expiration of the loan funds, which brings to the enterprise economic value added benefits tend to be lower, and enterprises are unable to repay debts that are due, so small and medium-sized enterprises can only once again to other private borrowing funds to repay the debt due, on small and medium-sized enterprises such funds into the vicious circle, which will seriously affect the development of enterprises. At the same time, coupled with other factors, such as labor costs rise, decline in market demand, raw material prices rising, resulting in a substantial increase in the cost in the use of funds for small and medium-sized enterprises, which makes the already in a vicious cycle of enterprise funds of small and medium-sized enterprises, the more unable to support its huge debt pressure.

The shortcomings of private lending

The capital of private lending has some characteristics, such as profit driven, blindness, spontaneity and uncontrollable. Therefore, in the process of private lending in most private funds will flow to obtain economic benefits, lucrative industries and projects. Since the state did not statistically effective and accurate for private funds, do not always controls the amount of money, so the government departments can not accurately and timely grasp of private capital and capital flows, cannot fully make reasonable decisions on economic issues [8]. At the same time, private lending itself has a certain risk, high default rate, easy to be affected by the impact of various external factors. Private lending has attracted a large number of social idle funds, and no long-term national statistics and economic sector regulation, the formation of regulatory vacuum, will breed illegal financing,

money laundering and other issues. The small and medium-sized enterprises to obtain funds through private lending have a negative effect, increasing the risk of SMEs financing, small and medium-sized enterprises to combat the financing way of private lending confidence, the influence of folk lending market order.

Policy recommendations to regulate the private lending market

As an important way of private lending financing of small and medium-sized enterprises, in recognition of its contribution to the development of small and medium-sized enterprises at the same time, should also pay attention to its adverse effects on the development of small and medium sized enterprises Therefore, we should be in the light of its general trend, Hennessy nourishing, regulate the private lending market, play a positive role of private lending in small and medium sized enterprises.

Pay attention to folk loan interest rate

The core issue of private lending has been the interest rates, lending rates of financial sector face civil countries should attach great importance to strengthen the supervision of private interest, at the same time, small and medium-sized enterprises should consider carefully the interest rates to obtain funds through private lending during development [9].

First of all, to understand the interest of private lending Private lending interest to be divided by time, divided by interest calculation, on a quarterly basis, and calculated monthly by the day. Generally speaking, monthly and quarterly calculation is a very common way. Secondly, small and medium-sized enterprises should correctly treat their own solvency, do not be fooled by the money, do not blindly through private lending financing. Small and medium-sized enterprises of its own debt bear ability is limited, and through private loan financing, the amount of funds is best maintained at between 1 00000 and 1 million, to fund the best use of time not too long, preferably in between one to three months, if borrowed funds interest rate is not large, the small and medium-sized enterprise's ability to pay is capable of withstanding. Large scale, long time money, it is better not to use for small and medium-sized enterprises.

The proportion of enterprise control of private lending

Moderate debt, that corporate debt accounted for the proportion of total assets in a safe range, generally below 50% is the best, But excessive debt, for small and medium-sized enterprises is the enterprise debt behavior quite dangerous, has a destructive effect on the normal operation of small and medium sized enterprises. Generally relatively high interest rate of private lending to small and medium-sized enterprises, debt sustainability is not a small test, so small and medium-

sized enterprises to reasonable debt, private lending accounted for a decrease in the proportion of debt in the enterprise[10].

Strengthen industry supervision and improve the credit system

First, the regulatory agencies have to strengthen supervision of private lending; the state economic sector should be clear in the private lending of the prohibition of acts, penalties and legal liability. Suggested that the state provisions of the private lending rate range in the law, and regulatory agencies to strengthen private lending funds to the amount and sources of funds and capital flows and other regulatory changes, grasp the private lending market, adjust the corresponding measures, the folk loan market development direction to correct guidance. Second, improve the system of private lending, private lending market to encourage multi-level development Reduce private capital into the private lending market to set up a small financial institutions to meet the social requirements, diversified financing needs, the private lending service in the real not formal financial institutions play a role in the field of [11].Third, establish and improve the credit evaluation system of small and medium enterprises. Building an information exchange platform, allowing private lenders to use the bank credit system, and effectively solve the loan decisions, the borrower, and the credit information asymmetry problem, effectively reduces the risk of loans.

Accelerate legislative policy

On the one hand, professional laws and regulations for private lending recommendations promulgated by the state, to standardize the behavior of private lending and private lending laws, loan funds into the national economic statistics and the scope of regulation, private lending went to the front desk, supervision system and legal in the sunlight, a reasonable guide[12].On the other hand, in the law to clear borrowing the main rights and obligations, the funds to invest in private lending, borrowing, interest rate, risk prevention measures to regulate the private lending laws and rules.

Conclusion

The small and medium-sized enterprise is the vitality index of the market economy in our country, whose development is closely watched by the country and the society. But in our country, there are many problems in the management of small and medium-sized enterprises; the most important is the problem of financing of small and medium enterprises. But there are many reasons why small and medium-sized enterprises are facing financing difficulties, mainly in the operation of enterprises, the lack of perfect guarantee system, collateral capacity deficiencies and inadequate government support etc.

Facing the financing problem of small and medium-sized enterprises on the predicament, has a good improvement in the private lending financing channels, help the development of small and medium-sized enterprises to obtain funds in financing, loan and it has no formal financial institutions, is an effective complement to the formal lending. Small and medium enterprises by private lending specific credit system constraints, so relatively private loan repayment rate higher On the financing difficulties of small and medium-sized enterprises positive role in private lending, improve small and medium enterprises in the financing situation, should also see some negative effects can not be ignored, which requires the state to formulate relevant laws and regulations, in the system of the private lending market rational norms to guide, create health of private lending legal and social environment, for SMEs to achieve more comprehensive and orderly development.

In general, the positive role of private lending plays in solving the financing difficulties of small and medium-sized enterprises in terms of greater than its negative effects. To solve the financing problem of small and medium-sized enterprises, not only is the basic condition of China's small and medium enterprises a comprehensive and orderly development, but also the healthy development of our social and economic power.

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