

# The Current Situation and Countermeasures of Financing and Credit Guarantee System of Small And Medium-Sized Enterprises in Wuxi

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**Abstract:** The most common problems faced by domestic small and medium-sized enterprises in the process of development are the difficulty and high cost of financing, among which the imperfect guarantee system is an important obstacle to the financing of SMEs. There are various difficulties in the current financing guarantee system of small and medium-sized enterprises in China, such as the imperfection of laws and regulations, the imperfection of fund compensation mechanism, the preference of guarantee institutions for large enterprises, imbalance between risk and income, and the lack of guarantee professionals. Since the reform and opening up, Wuxi has made great efforts in the collective economy. Through years of development, SMEs have blossomed everywhere, evolving a typical representative of the "Suzhou Wuxi Changzhou" economic development model. According to the latest statistics in 2018, there are more than 100000 small and medium-sized enterprises registered in Wuxi, and the economic contribution to this region has exceeded 70%.

## 1. Introduction

The limited scale of small and medium-sized enterprises causes that they have few assets to mortgage. Their financing problem is also a problem in the world. The guarantee of financial guarantee institution is an important way to solve the financing difficulties of SMEs. In comparison with large enterprises, small and medium-sized enterprises generally have smaller production scale, but because of large number and many fields involved, they are mainly large enterprises as part suppliers, which is not available in the industrial chain, but also the most important way to solve the problem of national employment. Therefore, to solve the financing guarantee of small and medium-sized enterprises is conducive to the transformation and upgrading of industrial structure and the stability of employment, which is of great significance to the development of national economy and social stability.

Yunlong and hu xiulin (2018) believe that improving laws and regulations, strengthening risk prevention and control, and strengthening cooperation and self-discipline in the credit guarantee industry are the main ways to promote the construction of financing guarantee credit system for smes. Song hua and Yang xuan (2018) believe that relevant government departments and industry institutions should set up special credit guarantee institutions for smes to solve the financing problem of SMEs. Li zhihao (2018) proposed that it is an important way to perfect the credit guarantee system for SMEs to achieve dual national and regional supervision and establish a differentiated supervision model. Local governments mainly strengthen the supervision of financing guarantee institutions by establishing local financial supervision authorities. Zhu Jianji, Lin Zelan, Su Zhiwei (2018) pointed out that because of the characteristic of the commercial guarantee institutions with professional and flexible, the government should vigorously encourage the development of commercial guarantee institutions, innovating the mode of counter guarantee and risk sharing mechanism, through various channels to raise funding guarantee agencies, perfect the internal risk control system, so as to reduce the bad debt ratio, initiate collaborative guarantee agencies, finally solve the problem of financing difficulties of SMEs.

In a word, this is main point of view of domestic scholars on the current situation and countermeasures analysis of the credit guarantee system for financing of small and medium-sized enterprises and other similar issues. Some scholars have summarized the problems existing in the credit guarantee system for domestic small and medium-sized enterprises by using inductive methods, and proposed countermeasures. Some scholars have summarized the problems existing in the credit guarantee system of small and medium-sized enterprises in China through the method of case analysis, and proposed solutions.

## **2. International Credit Guarantee System**

### **2.1 Japan's Credit Guarantee System**

Japan has been summarized as a basic, three pillars of the credit support system to guarantee the normal functioning of the credit guarantee system. A foundation is the basic property system. It is made up of government contribution, financial institution assessment and accumulated balance of income and expenditure, and is used as a credit guarantee fund. The legal maximum amount of insurance is 60 times of the basic property. The national legislation clearly stipulates that each prefectural government shall provide supplementary capital to the credit guarantee association and include it in the budget. Financial institutions contribute to the burden of funds, credit rating agency amber to create the first brand of credit services, as a major part of the credit guarantee association's assets. The three pillars are (1) the credit guarantee insurance system. The government has funded the establishment of a public credit insurance bank for small and medium-sized enterprises to carry out guarantee insurance for the credit guarantee association. When the credit guarantee association implements the credit guarantee to the small and medium-sized enterprises, it automatically obtains the credit guarantee insurance of the small and medium-sized enterprise credit insurance public bank according to certain conditions. The association shall pay the insurance premium equal to 40% of the security fee income to the public Treasury. When the debt is compensated, the public Treasury shall pay the insurance premium equal to 70% of the compensation amount to the security association. If the creditor's rights eventually decline after the compensation, the association shall return the insurance premium to the public Treasury. In this way, can improve the credit security association's credit security ability and income balance ability. (2) financing fund system. The credit guarantee association can deposit the loans raised from the government through the SMEs credit insurance public Treasury into the corresponding Banks. Due to the magnifying power of the derived deposits of financial institutions, it can provide the source of funds for the guaranteed loans of Banks according to the multiplier effect. Credit guarantee association raises financing fund to carry out policy interest rate, transfer financial institution to carry out commercial interest rate, the difference between the two has further enhanced credit guarantee association income and expenditure balance ability. (3) compensation for losses. Loss which is not recoverable after the credit guarantee association has obtained the right to claim compensation, and is ultimately compensated by the government budget. Taken together, the credit guarantee fund system and the financing fund system address the strength and financing sources of the credit guarantee and provide the funds needed for the operation of the business through the deposit business. The credit guarantee insurance system and the loss compensation system share and ultimately bear the credit guarantee risk, which guarantees that the credit guarantee association, as an independent legal person, has strong public guarantee ability and unquestionable credibility.

### **2.2The Credit Guarantee System in the United States**

Government support for policy-based guarantee agency to encourage the export of domestic products and the development of small enterprises, both the export-import bank of the United States and the bureau of small enterprises carry out guarantee business to serve the government's policy objectives. In the event of difficulties in funding these institutions, the government will inject funds in a timely manner and provide strong support. Enterprises' code of conduct, legal system sound business owners and operators have a strong sense of legal system and credit, coupled with a

complete social supervision mechanism, the operation of American enterprises is relatively standard. The financial statements and other information of enterprises are relatively true, the analysis and evaluation reports provided by accountants and lawyers are generally reliable, the property right system of enterprises is relatively clear, the project evaluation conducted by guarantee agencies, and the business operation environment is relatively safe. In the United States, all credit-related investment, guarantee, securities, consultants, funds and other institutions engaged in business are subject to the credit rating of credit rating companies. The credit rating results of guarantee agencies directly affect the level of market financing cost of the guarantor, which plays a significant role. Developed financial system, government, enterprises and Banks are interconnected. Commercial Banks can sell government-guaranteed loans through capital to institutional investors such as pension funds.<sup>[2]</sup> Thus, through guarantees, SMEs isolated in the fund are linked to the huge financial market, and the interests of the government, Banks and enterprises are also unified through guarantees. Efficient consulting system and professional division of labour and coordination are well developed intermediary agencies engaged in fund, securities, guarantee, evaluation and accounting, legal, professional and technical advisory services, most of which have a group of experienced staff in the field and have effective professional information systems. The division and collaboration of these institutions not only increased the level of specialization but also contributed greatly to the improvement of the quality of national economic life. There are many financial enterprises in the United States. Their business scope is concentrated in a specific field, and the industry distinction is very clear. For example, credit rating agency amber has created the no. 1 credit service brand, and high-tech financing guarantees in China are not part of the guarantee category in the United States, where there are separate industries. They believe that high and new technology is not market-oriented technology, and the investment in such technology belongs to the investment of new concept, which should be done by professional venture capital companies, guarantee companies to undertake such business, bear the risk, and let others use borrowed capital to enjoy the benefits, not commercial behaviour, with policy tendency.<sup>[3]</sup>

### **3. Current Situation Of Financing Credit Guarantee System of Wuxi Small and Medium-Sized Enterprises**

In accordance with the latest data released by Wuxi Municipal Bureau of statistics in 2018, at present, there are more than 50000 industrial and commercial enterprises registered in Wuxi, and most of them belongs to SMEs. These small and medium-sized enterprises have contributed about 60% of Wuxi's GDP and more than 80% of Wuxi's employment. It can be said that small and medium-sized enterprises have played a crucial role in the development of Wuxi. However, in the process of domestic economic transformation and upgrading, the competition pressure of Wuxi small and medium-sized enterprises is increasing gradually and progressively. According to relevant data, in the first half of 2018, the output value of small and medium-sized enterprises in Wuxi reached 32.46 billion yuan, an increase of 21.2% year-on-year, 5.9 percentage points higher than the city's average, making a great contribution to the transformation of new and old driving forces of Wuxi's economy. From the beginning of township enterprises, to the tide of private enterprises, to today's technological innovation enterprises, the strength of small and medium-sized enterprises to enhance the competitiveness of Wuxi's economic development. According to the report of Wuxi economic and Information Commission, by the end of the 18th year, many small and medium-sized enterprises in information technology, biomedicine and other emerging fields had been listed on the main board of disaster relief planning.

#### **3.1 Analysis of Financing Channels of SMEs in Wuxi**

The development of establishments needs the support of funds. The funds for the development of an enterprise can be obtained from the profits over the years or from the financing of financial institutions. Therefore, the development of SMEs is inseparable from external financing. However, the current situation of Wuxi SMEs' external financing is not optimistic. First of all, for small and medium-sized enterprises, financing through the capital market is full of obstacles. According to the

data, most of the large-scale enterprises that can be listed on the main board of China and use the capital market for financing are large-scale enterprises. In addition, due to the low liquidity of the new three editions and the immature science and technology innovation board, it is difficult for SMEs to solve the capital demand through the capital market. Secondly, the development of private lending is slow. Wuxi small and medium-sized enterprises have a long history of private lending, such as the internal financing of employees at the end of the last century, and now through various kinds of private lending institutions. The most important factor that private lending is difficult to expand is the small amount of funds, high cost of financing, coupled with non-standard private lending, many developed into "usury" form, so it can not meet the normal loan demand of small and medium-sized enterprises in Wuxi. Finally, financial institutions are reluctant to lend. Financial institutions' loans have always been "icing on the cake" rather than "sending coals in the snow". Most of their customers are large enterprises or listed companies. <sup>[4]</sup>They are blind to or lack of enthusiasm for the loan demand of small and medium-sized enterprises, which leads to the failure of the most important financing channel of small and medium-sized enterprises to play its due role, which is the root of the financing difficulty of SMEs.

### **3.2 Introduction to the Financing Credit Guarantee System of Small and Medium-Sized Enterprises in Wuxi**

The guarantee industry in Wuxi started earlier. Its first financing guarantee institution was established in the early 1990s. According to relevant data, by 2017, the number of enterprises engaged in financing guarantee in Wuxi had exceeded 100, with a guarantee balance of 45 billion yuan and a total guaranteed loan of more than 100 billion yuan, which made outstanding contributions to the economic development of Wuxi. At present, the financing guarantee system of small and medium-sized enterprises in Wuxi has the following characteristics: first, the commercial financing guarantee institutions are becoming increasingly active. With the development of financing guarantee institutions, commercial financing guarantee institutions occupy the majority of the real financing guarantee system. Secondly, the amount of guarantee is constantly expanding. The initial guarantee amount of guarantee institutions in Wuxi is generally around one million yuan. Through the expansion of capital in recent years, it has been able to reach the level of ten million yuan. A few large financing guarantee institutions can guarantee more than one hundred million yuan, but they still can not meet the demand of financing guarantee amount of small and medium-sized enterprises. The purpose of the establishment of financing guarantee company is to solve the mismatch between the financing expectation of small and medium-sized enterprises and the loan willingness of financial institutions. The first financing way for small and medium-sized enterprises is still financial institutions, while the first choice for financial institutions is large enterprises or listed companies. Through the intervention of financing guarantee company, the three parties of small and medium-sized enterprises, financial institutions and financing guarantee institutions can be achieved win-win results

### **3.3 Problems in the Financing Credit Guarantee System of Small and Medium-Sized Enterprises in Wuxi**

#### **3.3.1 Imperfect Relevant Laws and Regulations**

Apart from the guarantee law of the people's Republic of China, there are no other laws and regulations to provide special legal support and guarantee for guarantee agencies at present. The local regulations of Wuxi can not adapt to the current business model of mixed operation, such as the combination of industry and finance. The local regulations themselves are not laws, only have guiding significance, and the effect in the actual operation will be greatly reduced. In addition, at present, there are few descriptions of guarantee institutions in the existing laws, and no normative documents have been issued, which leads to the lack of protection of guarantee institutions from the legal level, the lack of legal protection, guarantee institutions will only pay more attention to risk control, so as to reduce the proportion of guarantee for small and medium-sized enterprises. Due to the absence of upstream law, it is difficult to make a breakthrough in relevant regulations and

interim measures. In a modern society acting in accordance with the law, it is imperative to improve relevant laws and regulations to improve the financing guarantee system.

### **3.3.2 Imperfect Construction of Local Financing Guarantee Institutions**

At present, Wuxi's policy guarantee institutions and commercial guarantee institutions have made great progress, but the development of mutual guarantee institutions is slow, only in some industries. Therefore, it can be seen that at present, most of the guarantee institutions in Wuxi are policy and commercial ones, which are mainly initiated and pushed by the government, while the number of mutual guarantee institutions is relatively small. It can be seen that in recent years, the number of policy guarantee institutions in Wuxi has remained stable, and commercial financing guarantee institutions have developed rapidly. However, due to the lack of supervision, financing guarantee institutions can be said to be mixed, even the shadow of private lending. The financing guarantee institution itself is established to solve the financing difficulties of enterprises. If it is not developed properly, it will increase the burden of enterprises and deviate from the original intention of the development of financing guarantee industry. At the same time, the development of re guarantee institutions in Wuxi is not optimistic. Generally, financing guarantee institutions are more cautious for small and medium-sized enterprises.<sup>[7]</sup> If the re guarantee system is relatively sound, it can improve the risk tolerance of guarantee institutions, and then expand the amount of guarantee for small and medium-sized enterprises to support the development of these enterprises.

## **4. Countermeasures to Optimize the Financing Credit Guarantee System of Small and Medium-Sized Enterprises**

### **4.1 Improve Relevant Laws and Regulations**

In order to fundamentally regulate the development of financing guarantee institutions, it is necessary to establish laws and regulations to adapt to the new economic and social development situation. From the national level, first of all, we should formulate the modification opinions of the guarantee law as soon as possible, so as to seek opinions from the society as soon as possible, especially in the period of monetary policy tightening and real economic downturn, only by accelerating the development of financing guarantee companies can we meet the financing needs of small and medium-sized enterprises. Taking Wuxi as an example, it is necessary to formulate local policies and regulations, revise relevant rules and regulations, and make sure that there are laws to abide by. At the same time, it is necessary to make clear that the supervision and management organ of the guarantee institution is the local financial supervision and Administration Bureau, and strengthen the daily management of the financing guarantee institution.<sup>[5]</sup> On the other hand, it is necessary to study the policy documents of the Central Committee of the Communist Party of China to support small and medium-sized micro enterprises, and accelerate the establishment and improvement in line with Wuxi Through the establishment of re guarantee system, the risk sharing and compensation mechanism will be further improved. In addition, Wuxi Municipal government should promulgate local laws and regulations as soon as possible, and establish the access threshold, supervision mode, supervision process and punishment measures of guarantee institutions

To guide the healthy development of financing guarantee institutions in the form of laws and regulations, so as to solve the problems related to financing guarantee of small and medium-sized enterprises.<sup>[8]</sup>

### **4.2 Establish and Improve Local Financing Guarantee Institutions**

How to improve Wuxi local financing guarantee institutions, first of all, we need to carry out classified supervision. At present, Wuxi financing guarantee institutions are mainly divided into commercial and policy ones. Commercial financing guarantee institutions are set up spontaneously by market subjects according to their needs. They are for the purpose of making profits. For such financing guarantee institutions, the purpose is to control risks and maintain industry stability, so as to avoid regional industry risks caused by blind pursuit of profits by enterprises. Policy financing

guarantee institutions are mostly funded by the government to encourage the development of enterprises in specific fields. In order to ensure the maintenance and appreciation of state-owned assets, they mainly manage their legality and compliance. Secondly, we should strengthen the perfection of information disclosure, establish the credit platform and information disclosure system of financing guarantee institutions. Wuxi City should make full use of the function of "government cloud", break through the information bottleneck between departments as soon as possible, realize the information interconnection between people's Bank of China, public security and other departments, thoroughly solve the information asymmetry, realize the value of credit information, and finally let the potential SMEs get the strong support of financial hook to support the development of SMEs.

In the meantime, it is necessary to prevent risks, control and resolve them in time, in order to ensure the normal operation of financing guarantee institutions. However, considering the imperfection of market mechanism and credit system in China, the guarantee institutions can't deal with the debt repayment risk induced by the dishonest enterprises only by themselves. Therefore, it is necessary to develop re guarantee institutions to share risks and set up risk guarantee funds to help guarantee enterprises.<sup>[9]</sup> For the re-guarantee fund system of small and medium-sized enterprises guarantee institutions, it not only supports the guarantee institutions from the government level, but also effectively shares the risks undertaken by the guarantee institutions, thus arousing the enthusiasm of the guarantee institutions to serve SMEs, so as to solve the financing difficulties of SMEs

#### **4.3 Improve Risk Management System**

Wuxi City should propose a complete supervision system of credit subject from the government level, clarify the rights, obligations and responsibilities of credit subject, and formulate a clear restraint mechanism of reward and punishment to reduce the risk of financing guarantee institutions and accelerate the stable development of guarantee industry.

From the perspective of the government, first of all, we should improve the function of credit information system, increase the mining and utilization of basic data, in order to stimulate the demand of enterprises and financial institutions for the use of information system. Relevant government departments should actively promote the combination mode of "credit investigation + credit" and carry out special education actions to make enterprises and individuals understand that credit is money. Enterprises and individuals who actively participate in the collection of credit information should be given certain advantages in terms of loan amount, duration and comprehensive cost, so as to form a credit-oriented atmosphere in the society and promote the benign development of all parties in the capital chain such as loans and guarantees Cycle. Secondly, we should strengthen government guidance and expand the use of credit reports. In the past, credit reports of enterprises and individuals were usually used in financial institutions. So as to expand the influence of credit reports, the government can require enterprises and individuals to provide credit reports for participating in government bidding, policy guarantee, enterprise selection and evaluation, so as to promote the construction of the credit system of the whole society. Finally, we should strengthen the joint punishment of dishonest enterprises and individuals, highlight the value of enterprises and individuals' credit by exposing bad records, limiting consumption, and administrative punishment, and put pressure on dishonest enterprises through public opinion and legal measures to regulate their credit behaviour.<sup>[6]</sup>

From the enterprise level, first of all, we should strengthen and establish business internal control system, and carry out professional management of business. For example, set up a scientific and strict business process, and different departments are responsible for enterprise review, business handling and compensation in the later stage, forming a working rule of mutual restriction; strictly guarantee the enterprise investigation and review procedures in the early stage, expand the background and operation investigation of the enterprise and its owners, and check the bank flow, capital transactions, whether it is suspected of insider trading and other issues The mortgaged property and the guarantor shall fully investigate the market value of the mortgaged property and

the social credit of the guarantor; improve the professional and scientific risk resolution process, and timely conduct risk assessment according to the situation.<sup>[10]</sup>

From the perspective of guarantee industry, financial institutions transfer the risk that enterprises can't repay debts on time to guarantee institutions, and guarantee institutions get reasonable rewards by taking risks. Therefore, the risk of guarantee industry is ubiquitous. Generally speaking, guarantee institutions provide corresponding joint and several liability according to the proportion of investment, and their risk tolerance is limited, so it is necessary to improve the financing guarantee system to reduce the risk of industry development. On the basis of the existing re guarantee institutions, Wuxi City should continue to regulate the operation mechanism of guarantee and re guarantee institutions through the local financial supervision and Administration Bureau, and promote the healthy and stable development of the guarantee industry through regulating fees, repayment ratio, etc., and indirectly support the development of these enterprises.

## 5. Conclusion

In the current composition of the national economy, small and medium-sized enterprises make great impact on "stabilizing employment", "promoting reform", transforming old and new driving forces and stimulating market vitality. At present, there are financing difficulties in the development of SMEs. This paper studies the role of financing guarantee institutions in solving the financing problems of small and medium-sized enterprises, and further discusses how to support the healthy and stable development of SMEs by promoting the improvement of financing guarantee institutions. Recently, the State Council also issued guidance on giving full play to government financing guarantee institutions to support these enterprises. The document pointed out that according to the current situation, there are still some problems in the guarantee industry, such as insufficient focus on the main business, weak guarantee ability, poor cooperation between banks and carriers, imperfect risk sharing and compensation mechanism, etc. from the government level, it proposed to increase bonus and supplement strength, improve fund supplement mechanism, and implement support Policy and other countermeasures. At present, the small and medium-sized enterprises in Wuxi are also facing the problem of financing difficulties. The main problems restricting the financing of small and medium-sized enterprises are the poor financing channels, the imperfect guarantee system, the insufficient support ability of the government, and the lack of innovation awareness of commercial banks. Only by improving the relevant laws and regulations, establishing and improving the local financing guarantee institutions, improving the risk management system, promoting preferential policies, improving the compensation mechanism and encouraging the introduction and training of professional talents, can we truly alleviate the financing difficulties of SMEs.

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