The Problems, Methods and Solutions of Private Enterprise Financing

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Private enterprises play a significant part in the socialist market economic system. However, with the lasting impact of the global financial crisis and the economic slowdown of our country, private enterprises in China are faced with problems of financing and loaning. In this article, the author puts forwards his perspective and policy suggestions on the financing problems of private enterprises.

The current economy of our country has been steered to the 'new normal' state. Private enterprises are now exposed to a changing external development environment, featuring the growth slowdown, economic restructuring, diversified economic challenges and so on. Its financing problems are newly faced with structural differentiation. Under the circumstances of 'new normal', to solve the financing problems of private enterprises is conducive to the stability of economic growth, the promotion of reform, the adjustment of structure and the well beings of the people.

1. The primary causes of the financing problems of private enterprises.

1.1 the influence outside the financial industry: system and policy.

The uneven creditworthiness of private enterprises unbalanced and poor anti-risk capacity of small and medium enterprises have increased the probability of non-performing loans. Loans to private enterprises entail high risks, costs and low profits. To mitigate risks, state-owned commercial banks are more willing to issue loans to state-owned enterprises than to private enterprises. When private enterprises apply for loans,they often encounter cumbersome procedures, tough conditions, reduction of loan values, etc. what's worse, the current market system needs to be improved, making the financing of private enterprises even more difficult.

1.2 problems within private enterprises.

Many problems within private enterprises make commercial banks cautious about loaning them. The fiscal system of many private enterprises is unsound and these enterprises don't always abide by rules and obligations. In addition, in their capital structure, the debt ratio is high while equity ratio is accordingly low. Moreover, their production efficiency is poor and economies of scale are small. Also, the direct financing channel hasn't come into shape while the indirect financing system isn't robust and these companies lack a sound guarantee system. The financing of private enterprises features urgency, high frequency, small amount, and high risks and lenders multiplicity. However, the loan approval procedures of commercial banks are complicated and time-consuming. Besides, most private enterprises don't set up their business for a long time and lack credit histories. Their internal management system and fiscal system needs improvement so that they can't provide banks with its capital liquidity, profitability and safety in time. All of these influence banks to undertake credit assessment of these companies and hamper the lending to private enterprises.

2.The formulation of countermeasures: government guidance and financial innovation.

Financing is the lifeblood of every enterprise. To solve the financing problem, we have to strengthen government guidance and promote financial innovation.

First, strengthen government guidance and innovate financing models. To begin with, in the 'Internet Plus' era, private enterprises can make use of innovative financial instruments such as peer-to-peer lending service to meet their needs of credit amount and speed. In the meantime, asymmetric information is reduced and transaction cost lowered. The fund utilization rate accordingly increases. In the second place, private enterprises can increase its net asset value based on relevant fiscal statistics including current assets, market share, price-to-sales ratio and gross profit rate. They can also manipulate the leverage of stock equity. By means of the transfer, mortgage and replacement of stock rights as well as capital increase and share expansion, their financing channels can be expanded. Besides, private enterprises can utilize angle investment, venture capital, private equity, etc. to raise funds and further bring in advanced technology and outstanding management teams. Better still, the rise of NEEQ (National Equities Exchange and Quotations) provides timely help for the financing of small and medium-sized companies. NEEQ gradually becomes a cradle for small and medium-sized companies to start benign interaction. In this way, qualified private enterprises can even seek financing by listing on the stock market. In the third place, chattel mortgage loans in the banks should be innovated. For instance, qualified small and medium-sized companies can use private factory buildings and land usage right as the mortgage when applying for loans. If necessary, they could use immovable property of their shareholders as the mortgage to guarantee instant loans. Lacking of immovable property, private enterprises can use movable property to seek financing such as mortgage of mechanical equipment, the floating charge of intermediate products, inventory pledge and pawn. Technology-based enterprises can use intellectual property including patents and brands as mortgage. Production and processing enterprises can choose finance lease to purchase large and essential equipment. At last, PPP (public-private partnership) should be promoted and innovated. The government grants private enterprises franchise rights and usufruct to accelerate infrastructure construction and its effective operation. PPP enables both the government and private enterprises to make full use of their advantages. That is to say, it can combine government's social responsibility, long-range planning, coordination ability with private enterprises' entrepreneurship, private flow and management efficiency.

Second, deepen banking structural reform and offer comprehensive, dimensional and first-rate service to private enterprises. Bank loans should depend on risks of enterprise projects rather than the nature of their ownership. The central government and local governments of all levels should endeavor to develop small and medium-sized local financial institutions in order to provide vehicles for private flows. Credit checking systems for private enterprises should be established, especially those where enterprises and banks can interact and share their resources.

Third, private enterprises have to make up their inherent weakness. Private enterprises should deepen self-reform, improve corporate governance structure and establish modern enterprise management system. Based on their operational characteristics and advantages, enterprises can also formulate reasonable mid-and-long term management and development strategies to improve core competency. They should continuously bring in talents to enhance the overall quality of management teams and management levels. Besides, private enterprises should regulate fiscal systems, improve financial transparency and raise their credit rating step by step so as to make up their inherent weakness.

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