

Financing Guarantee of Small and Micro Enterprises in China under the Background of National Financing Guarantee Fund

Jiangyan Huang

*School of Economics, Shanghai University, Shanghai 200444, China
Corresponding author e-mail: 1749199408@qq.com*

ABSTRACT. *On the morning of September 26, 2018, the National Financing Guarantee Fund Co., Ltd. officially opened its business in Beijing. It marks the landing of another major policy measure to support the development of small and micro enterprises. In this paper, the development and general situation of China's National Financing Guarantee Fund and the current situation of financing guarantee for small and micro enterprises are taken as the starting point, and then the paper probes into the effective solutions to the problems existing in the financing guarantee of China under the Background of National Financing Guarantee Fund.*

KEYWORDS: *National Financing Guarantee Fund, financing guarantee, small and micro enterprises.*

1. The development of National Financing Guarantee Fund

Since 1993, small and micro enterprises credit guarantee system has achieved rapid development under the guidance of the government. The number of guarantee institutions and the balance of guarantee have improved significantly. The system is dominated by policy financing guarantee institutions and assisted by commercial, mutual guarantee institutions. But as the macro economic growth rate is slowing, small and micro enterprises do business difficultly, whose debt paying ability is obviously weaker. Small and micro enterprises' financing problems has been up in the air. In 2015, the State Council decided to set up National Financing Guarantee Fund to solve the small and micro enterprises' financing problems. And to promote that the provincial re-guarantee institutions dominated by government realise an almost complete coverage within three years. National Financing Guarantee Fund aims to share the business risk with the financing guarantee institutions. In August 2017, the State Council announced "regulations on the supervision and administration of financing guarantee companies" and make the formal implementation on October 1, 2017. The regulations require establishing governmental financing guarantee system and developing financing guarantee companies supported by government. Financial department of the governments at all levels provide financial support for financing guarantee companies that serve small

and micro companies by capital investment or establishing a risk sharing mechanism. The State Council decided to set up National Financing Guarantee Fund on March 28, 2018. National Financing Guarantee Fund is launched by the central government. And the financial institutions can participate in the fund if they want. The establishment of the fund is to carry out “regulations on the supervision and administration of financing guarantee companies” effectively, it will improve the financing guarantee system and improve the level of financing service for small and micro companies through the way of financial support for the financing guarantee companies, re-guarantee and so on.

2. The general situation of National Financing Guarantee Fund

On March 30, 2018, the Ministry of Finance clearly pointed out that “government financing guarantee institutions should operate in a market-oriented manner and carry out financing guarantee services according to law and regulations and operate and bear profits and losses independently. Local governments shall not be required or accepted to assume liabilities outside the scope of investment in any form.” The goal of the management of National Financing Guarantee Fund is to adhere to the quasi-public orientation and market-oriented operation and not to take profit as its purpose, and will implement the preferential re-guarantee rate.

National Financing Guarantee Fund mainly adopts the methods of re-guarantee and equity investment. And re-guarantee mainly disperses risk. Equity investment is the role of “blood transfusion”, which will improve the abilities of defending risk and business expansion of guarantee institutions. The business model of re-guarantee is to carry out business with provincial re-guarantee companies and establish a government guarantee chain consisting of National Financing Guarantee Fund, provincial re-guarantee institutions and financing guarantee institutions within their jurisdiction. And it constitutes a government-led guarantee system. The National Financing Guarantee Fund adopts the form of direct injection of capital into provincial state-owned and highly specialized guarantee and re-guarantee companies in equity investment.

3. The current situation of financing guarantee for small and micro enterprises in China

Since China's reform and opening up, China's financing guarantee industry has developed to a certain extent. Many systems and supporting facilities have been continuously improved to meet the requirements of small and micro enterprises' development, but there are still a lot of problems to be solved urgently[1].

3.1 High default rate of loans guaranteed by financing guarantee companies

The compensation risk of financing guarantee companies increases[2]. The

object that financing guarantee companies aim to service is mainly small and micro enterprises, but small and micro enterprises are easily pro-cyclical because they are greatly influenced by macro economy. Based on the data analysis in recent years, the compensation scale of China's financing guarantee industry is 1.925 billion yuan, 2.312 billion yuan and 2.797 billion yuan from 2014 to 2016, respectively. Compensation scale continues to rise with an average annual compound growth rate of 20.54%. By the end of 2017, the bond guarantee balance of financing guarantee companies was 577.576 billion yuan, and the annual compound growth rate was 72.05% from 2014 to 2017, showing a rapid growth trend. The expansion of compensation scale aggravates the risk of financing guarantee companies.

3.2 High costs of loans for small and micro enterprises through financing guarantee companies

Financing guarantee companies are mainly engaged in small and micro enterprises loan guarantee, the guarantee fee rate is linked to its operational risk, the benchmark guarantee fee rate can be implemented according to 50% of the bank's loan interest rate in the same period, the specific guarantee fee rate can fluctuate by 30%-50% on the basis of the base rate according to the risk degree of the project. It can also be negotiated by the guarantors if the supervisory of financing guarantee companies agrees. Financing guarantee companies' guarantee fee is usually not fixed, mainly determined by the level of the risk. The guarantee fee is usually different for different borrowers and different loan products. The service fee of the general guarantee companies is about 4% - 6% of the loan amount. The financing guarantee companies' default rate is high and small and micro enterprises' development is limited by their own shortcomings, so banks cooperate with guarantee companies cautiously, and almost never cooperate with private guarantee companies. Commercial banks is not willing to give loans to small and micro enterprises and check each step of the loan process strictly, which makes the small and micro enterprises get loans more difficultly. The risk margin that guarantee companies pay to banks is passed on to small and micro enterprises lastly, which increase the enterprises' financing costs.

3.3 Financing guarantee companies' weak risk control ability and low risk identification ability

In large financing guarantee companies, the managers are most government staff or shareholder representatives, they generally know little about the guarantee industry. The staff with non-professional knowledge about finance can not make professional decisions. The managers of small financing guarantee companies are generally private enterprises or individuals, whose primary purpose is to maximize the personal interests, which is inconsistent with the overall development goals of the companies. In the process of operation, decision-making may be too radical, so that high-risk and high-yield projects can be selected for investment, which increases the operational risk. At the same time, with the diversification of guarantee

varieties and mortgaged property, the risk identification, evaluation and control capabilities of financing guarantee companies are required to be higher[3].

3.4 Lack of effective credit rating system

At present, China has not yet established a credit rating system for small and micro enterprises. Small and micro enterprises generally set up late and have a small scale, and their development is restricted by various factors[4]. The problems of low credit level, backward credit concept and weak credit consciousness are prominent factors. Because of the limitations of small and micro enterprises themselves and the lack of an effective credit evaluation environment, the financing guarantee companies are afraid of taking too much financial risk, so they refuse to lend to small and micro enterprises. [5] Therefore, it's urgent to establish and improve the credit rating system of small and micro enterprises.

4. The future of financing guarantee for small and micro enterprises under the background of National Financing Guarantee Fund

4.1 Financing guarantee companies undertake high default rate of loans

Firstly, the establishment of National Financing Guarantee Fund can alleviate the worries of financial institutions by increasing government credit and solving the problems of insufficient loan mortgage and limited credit of small and micro enterprises. It is beneficial for enterprises to improve their operation ability and reduce the risk of default, so as to effectively solve the problem of high default rate of loans of financing guarantee companies. [6]

Secondly, National Financing Guarantee Fund mainly adopts re-guarantee and equity investment in its business model. Re-guarantee is a model that does business with provincial re-guarantee companies and constitutes the guarantee system dominated by government, which organized by National Financing Guarantee Fund, provincial re-guarantee agencies and financing guarantee institutions within jurisdictions. It is beneficial to disperse financing guarantee industry' risk, financing guarantee companies' operational risk due to the high default rate of underwriting loans will get reduced effectively. Re-guarantee can diversify the risk of financing guarantee industry by doing business with provincial re-guarantee companies, and reduce the operational risk of guarantee companies accordingly. Equity investment helps to enhance the capital strength of financing guarantee institutions, which can calmly cope with the high default rate of their insured loans.

Finally, although in the context of the National Financing Guarantee Fund, the problem of high default of loans underwritten by financing guarantee companies can be alleviated to a certain extent, the core problem of high default rate of loans is the development of small and micro enterprises themselves, whether small and micro enterprises can operate stably with sufficient capital, and whether the development

environment of small and micro enterprises can be obtained through the National Financing Guarantee Fund , and time will tell the truth.

4.2 The high costs of financing through financing guarantee companies for small and micro enterprises

Firstly, the National Financing Guarantee Fund is mainly operated by market-oriented way. The fund is the positioning of quasi-public goods, so the re-guarantee rate is lower than that of the market guarantee and taking the form of credit guarantee. The National Financing Guarantee Fund serves small and micro enterprises. It hopes to gradually meet the policy requirements. The financing guarantee amount is not less than 80% of small and micro enterprises' money demand. [7] And the financing guarantee amount of less than 5 million yuan is not less than 50% by a single household, which can effectively reduce the financing costs of small and micro enterprises.

Secondly, the re-guarantee business of the National Financing Guarantee Fund mainly shares risk for qualified provincial guarantee and re-guarantee institutions, and promotes the formation of a business linkage and risk-sharing mechanism jointly participated by the three-level institutions and banks, which can greatly reduce the loan interest rate and guarantee fee rate. The three-level institutions include the National Financing Guarantee Fund, provincial financing guarantee and re-guarantee institutions and within-jurisdiction financing guarantee institutions.

The chief of Ministry of Finance said "we require that guarantee fee rate collected from small and micro enterprises shall not be higher than approved level that the local government or regulators required". [8]

Finally, the equity investment of the National Financing Guarantee Fund is mainly to inject capital into the provincial financing guarantee and re-guarantee institutions, and support them to provide guarantee and re-guarantee to the financing guarantee institutions in the system. It can be enlarged on a large scale by the provincial level, thus effectively reducing the financing costs of small and micro enterprises.

4.3 Weak risk control ability and low risk identification ability of financing guarantee companies

Firstly, the National Financing Guarantee Fund takes the form of a limited liability company, and the financial department assumes responsibility within the limit of capital contribution. It establishes a risk-sharing mechanism with guarantee companies and commercial banks, and improves internal risk control to effectively prevent and control operational risk. [9] The fund is a limited liability company, the directors of the company come from the Ministry of Finance, the Banking and Insurance Regulatory Commission, the Ministry of Agriculture and Rural Areas and other government departments and major shareholder banks. The professional team is mainly recruited through market-oriented selection, which is conducive to giving

full play to the advantages of all parties, which can alleviate the weakness of the financing guarantee companies' lack of risk control ability to a considerable extent.

Secondly, the small and micro enterprises have less collateral assets, insufficient credit records and asymmetric information, which affect the market credit investment. But after the commercial banks join the fund, the banks can call on their powerful information base to play a good role as information collectors, provide corresponding information for the financing guarantee companies, and improve the risk identification ability of the financing guarantee companies.

Finally, on the one hand, the corresponding risk can be controlled through the efforts of all parties, and the risk of financing guarantee companies can be effectively dispersed. On the other hand, the National Financing Guarantee Fund serves small and micro enterprises, and has the policy requirement that the amount of financing guarantee under 5 million yuan from a single household should not be less than 50%, which limits the choice of the guarantor for the financing guarantee companies. Although the fund improves the risk identification ability of the financing guarantee companies, the risk they undertakes are not in our arrangement.

Looked from the reality, there are some provincial state-owned guarantee companies have received financial support from policy banks and policy banks fund such as Chongqing import and export credit guarantee co., LTD., Northeast small and medium-sized enterprises credit guarantee co., LTD. has obtained the import and export bank's financial support, but it has not been clear that the specific proportion of small and micro enterprises' guarantee fund.

4.4 Lack of an effective credit rating system

Financing guarantee companies are afraid of taking too much financial risk, so they refuse to lend to small and micro enterprises. The structure of the National Financing Guarantee Fund is conducive to strengthen the construction of social integrity system. The problem that financing guarantee companies fear to take on too much financial risk can be effectively alleviated, and small and micro enterprises will also get more loans.

In addition, the government, banks and financing guarantee companies can make full use of their respective advantages to work together which improve the credit rating system and create a good credit evaluation environment.

5. Conclusion

The National Financing Guarantee Fund is another important measure to solve the difficult financing problem of small and micro enterprises. On the one hand, the National Financing Guarantee Fund helps to make up for the shortages of the market. Over the years, the costs of financing guarantee industry in China is on the high side and financing guarantee industry present the characteristics of "small, scattered and weak". The number of guarantee institutions continues declining and

the scale of guarantee is falling in recent years. The establishment of the fund can improve the quality of financing guarantee system, support the development of financing guarantee industry and reduce the costs of financing guarantee. On the other hand, the National Financing Guarantee Fund provides more space for solving the financing problems of small and micro enterprises. At present, there are more than 7 million small and micro enterprises involved in all walks of life in China. Small and micro enterprises' output value accounts for more than sixty percent of gross domestic product (GDP). The taxes paid by small and micro enterprises account for more than fifty percent of gross taxes. Small and micro enterprises provide more than eighty percent of jobs in cities and towns. In conclusion, small and micro enterprises play an important role in Chinese economy. The establishment of the National Financing Guarantee Fund is to meet the needs of the society and is a good news for small and micro enterprises.

How does the National Financing Guarantee Fund really play a good role? Which requires the joint efforts of the government, banks, financing guarantee companies and small and micro enterprises. We should take effective supervision measures from all aspects to ensure that the fund can benefit small and micro enterprises, and establish good rules and regulations to ensure the operation of the fund in the sunshine.

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