

Research on the Development of Chinese SME Credit Guarantee System

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Abstract: Based on the analysis of the current status of Chinese small and medium-sized enterprise credit guarantee system, this paper finds that there are problems in Chinese small and medium-sized enterprise credit guarantee practice, such as insufficient supervision, imperfect risk prevention system, small guarantee funds, and immature development of guarantee institutions. It is further found that these problems are caused by the improper intervention of the government and the discontinuity of policies, the single source of guarantee funds, and the unequal rights and obligations of Banks and guarantee institutions. Therefore, to develop Chinese SME credit guarantee system, it is necessary to perfect the laws of the SME credit guarantee system, optimize the external environment of the SME credit guarantee system, standardize supervision and optimization services, and establish a risk reserve system.

1. Status of SME Credit Guarantee

1.1. The Background of the Establishment of Chinese SME Credit Guarantee System

At present, the proportion of economic output of SMEs in total economic output is extremely disproportionate to the proportion of bank loans they receive. According to statistics, as of November 2015, among the short-term loans of 14.65 trillion yuan of Chinese financial institutions, township and village enterprises were 900.4 billion yuan, and the private and individual economy was 689.6 billion yuan. On May 21, 2016, when analyzing the main problems of the current industrial operation, the "China Industrial Economic Operation 2016 Spring Report" also emphasized that in the case of a large increase in credit scale, the credit limit of SMEs is still generally small. The difficulty of corporate financing has not been effectively resolved.

1.2. Research Statistics on the Development Data of Chinese SME Credit Guarantee System

According to statistics from the Ministry of Industry and Information Technology, my country had 848 guarantee institutions in 2012, and by the end of 2016, the number had increased to 4,247, a year-on-year increase of 13.9%. By the end of 2016, a total of 233.4 billion yuan of guarantee funds had been raised. The amount of loan guarantees provided to 230,000 SMEs in the tax year amounted to 722.1 billion yuan, with revenue of 376.4 trillion yuan, tax payment of 3.05 billion yuan, and profit of 4.47 billion yuan. In 2016, nearly 147,000 small and medium-sized enterprises were insured, with an insured liability balance of 442.97 billion yuan and a profit of 4.47 billion yuan. At present, the cumulative guarantee amount of SME loans has reached 1.75 trillion yuan, and the cumulative guarantee enterprises are 907,000. Among them, there are 1,245 state-owned guarantee institutions, accounting for 29.3% of the total number of guarantee institutions in the country. Policy guarantee funds were 61.54 billion yuan, accounting for 26.3% of the total guarantee funds.

2. Problems Existing in Chinese SME Credit Guarantee System

2.1. Inadequate Regulation

At present, national laws do not clearly stipulate the market access and exit of guarantee

institutions, business scope and types, qualifications of employees, financial and internal control systems, operating rules, industries, and supervision. In particular, there is no access system for guarantee institutions, allowing guarantee institutions to be registered as a general industrial and commercial enterprise directly to the industrial and commercial registration department. Due to the low entry threshold, a large number of guarantee institutions simply cannot find cooperative Banks due to their weak strength, making it even more impossible to carry out guarantee business. At the same time, due to the lack of an exit mechanism, it is common for guarantee institutions to only open and not close.^[1] This phenomenon causes the number of institutions to increase continuously and there are a large number of guarantee institutions that have not carried out guarantee business for a long time. Some guarantee institutions took the opportunity to engage in illegal financial business in the name of guarantee, which made government supervision more difficult. As a supporting regulation of the "Small and Medium-Sized Enterprises Promotion Law", the Chinese regulations on credit guarantee management for small and medium-sized enterprises have not yet been issued. Due to the imperfect legislation of the guarantee industry, the establishment basis, market position, institutional functions, business activities, etc. of guarantee institutions lack effective legal support, resulting in the government being unable to effectively supervise guarantee institutions based on the legal regulatory system. The lagging of guarantee industry legislation has affected the sustainable development of guarantee institutions.^[2]

2.2. Imperfect Risk Prevention System

SME credit guarantee institutions generally lack effective risk management mechanisms. An effective risk management mechanism is an important guarantee for the healthy development of credit guarantee institutions. The guarantee risk management mechanism includes guarantee risk early warning mechanism, internal control mechanism and compensation transfer mechanism. Regarding the guarantee risk early warning mechanism, guarantee institutions generally lack a scientific risk identification and evaluation system. The investigation of the credit status of insured enterprises is mainly based on simple financial reports and superficial inquiries, and lacks a true and accurate judgment.^[3] On the internal control mechanism, many guarantee institutions have not established strict operation procedures and management systems. From the pre-guarantee investigation to the post-guarantee inspection, there is neither a corresponding post nor a corresponding staff. All operations are concentrated on individuals and lack transparency and checks and balances. Although some guarantee institutions have set up a board of supervisors, it is a mere formality and cannot play its due supervisory role. Regarding the risk compensation mechanism, most guarantee institutions are unable to withdraw risk reserves due to their short business operations or limited financial strength. On the other hand, due to limited financial resources and insufficient understanding, many local governments have not formed stable guarantee fund compensation system, the slow replenishment of the source of guarantee funds has brought great risks to the normal operation of guarantee institutions. In addition, the re-guarantee mechanism that can effectively diversify and transfer guarantee risks—the national and provincial re-guarantee institutions have not been sound and functioning, which has restricted the development of the credit guarantee industry to some extent.^[4]

2.3. The Size of the Guarantee Fund is Small

The capital scale of most guarantee institutions is still too small to be fully effective. Local finance guarantee fund is mostly one-time, and the government does not institutionalize the additional guarantee fund. Private capital is mainly private placement, but domestic listing is more difficult and financing channels are not smooth. In addition, my Chinese financial institutions have insufficient support for the financing of the credit guarantee industry. Many local governments set up guarantee funds by county, and some have only a few million. Because of the small size of the fund, it is difficult to gain the trust of banks, so it has no ability to attract bank funds to invest in shares. The small size of guarantee funds raises many related questions. First, the ability to resist risks is poor. Some guarantee institutions, because of the small size of the guarantee fund, have little capacity to compensate, and once there is compensation, it may lead to bankruptcy. The second is

that the scale of loans is small. ^[5] Due to the small size of the fund, the loan size of the guarantee institutions is also relatively small, making it difficult to meet the needs of the enterprise's production and operation. The third is the high financing cost. The fund is small in size and has limited ability to undertake compensation. Therefore, the guarantee institution raises the qualification requirements of the loan enterprise, resulting in a relatively high cost of financing through the guarantee institution. Fourth, the credit expansion function is limited. Some guarantee institutions, the total amount of guarantee compared with the size of the fund, did not play a role in the amplification of funds, some guarantee total amount is still lower than the total fund, failed to achieve the original intention of setting up institutions. ^[6] Fifth, the business type is relatively simple. Because of the small size of the fund, the credit guarantee business of SMEs is relatively simple and the scope of guarantee is relatively narrow. The business of most guarantee institutions is limited to short-term liquidity guarantees.

2.4. The Guarantee Institution is Immature

Due to the lack of effective supervision and a high level of professional operation and management, the operational risks of guarantee institutions have increased. First, the operation of some guarantee institutions is not standardized. Some guarantee institutions make false capital injections and transfer capital after registration. Some guarantee institutions deviate from the main business of SME loan guarantees and are keen on large projects and high-profit, high-risk investment projects. Some guarantee agencies charge a high percentage of the deposit and collect fees in various names. These problems have increased the operational risks of guarantee institutions. Second, some guarantee institutions lack a sound internal management system and do not specify the risk control of each guarantee business, the maximum guarantee limit of a single enterprise, the amplification ratio of the guarantee and the compensation rate, which may lead to disordered operation. The third is the lack of high-level professionals. The guarantee industry is a highly specialized industry, and its business personnel need not only knowledge in finance, guarantee, etc., but also a high degree of familiarity with the actions of each link of the enterprise. The lack of professional qualities makes business personnel inaccurate in judging the objects of guarantees and insuring the guarantee conditions, which artificially provides the possibility of credit risk. There are also a few practitioners who violate the regulations during the guarantee process, causing guarantee institutions to suffer losses. The lack of talents has had a considerable impact on the sustainable development of guarantees. ^[7]

3. Suggestions for the Improvement of the SME Credit Guarantee System

3.1. Improve the Law of My Chinese SME Credit Guarantee System

In countries where the credit guarantee system for SMEs in the world is relatively mature, the development of credit guarantee business has strict legal basis. The credit guarantee of the United States is based on the Law of Small and Medium Enterprises. In Germany, there are "German Banking Law" and "Lending Institution Law". Austria has the "Austrian Banking Law", "Guarantee Guidelines" and "Austrian Guarantee Law" Japan has the "Small and Medium-sized Enterprise Credit Insurance Public Treasury Law" and South Korea has the "Korea Credit Guarantee Fund Law." It is recommended to draw on the successful experiences of other countries, combine the current situation and future development trends, and revise and perfect the "Guarantee Law of the People's Republic of China" to further adapt it to development needs. Come as soon as possible and "SME promotion law" matching "small and medium-sized enterprise credit guarantee management approach". Provisions are made on the market access and exit of guarantee institutions, business scope and types, qualifications of employees, financial and internal controls, operating rules, industry supervision, etc. to promote the orderly and healthy development of credit guarantee institutions. At the same time, the outdated or inconsistent departmental management regulations should be cleared, the unity and integrity of the SME credit guarantee legal system should be maintained, the construction of the SME credit guarantee industry association should be

strengthened, and the development of the autonomy norms for the credit guarantee industry association should be promoted.^[8]

3.2. Optimize the External Environment of the SME Credit Guarantee System

First of all, it is recommended to supplement and revise the laws and regulations of the social credit system, such as regulating the opening of data sources, the scope of data confidentiality, the behavior of institutions and organizations involved in credit records and use, etc. In particular, the penalty clauses, such as property rights system, contract system, competition system, public opinion supervision system, should be improved and supplemented to provide a good legal environment for credit guarantee. Secondly, we should give full play to the advantages of accounting automation and network, according to the needs of credit risk control, establish an information file with a database to realize the real-time entry of information, provide a large number of high-quality information in a timely manner, and continuously meet the credit risk control system Dynamic demand for data information. Finally, to create a good social credit environment, we should reshape the social values of "honesty and trustworthiness" and establish a social trustworthiness reward and punishment mechanism. It is suggested to strengthen the punishment for various enterprises and individuals' dishonest behaviors, and make the bad credit record public legally and effectively. At the same time, through the exemption of industrial and commercial annual inspection, reduce the loan interest rate, increase the line of credit and other measures, the honest and trustworthy units and individuals are rewarded.^[9] In this way, a good credit atmosphere can be established and a good social credit environment can be created.

3.3. Standardize Supervision and Optimization Services

According to the "Small and Medium Enterprises Promotion Law", combined with the scale of special funds for the development of small and medium-sized enterprises, we will increase the support of the central government for qualified and strong guarantee institutions. At the same time, encourage and urge localities to implement the Law on Promotion of Small and Medium Enterprises, and organize and guide society to increase capital investment in the construction of credit guarantee institutions. Further increase tax preferential policies for credit guarantee institutions. The guarantee institutions included in the pilot of the national small and medium-sized enterprise credit guarantee system enjoy business tax reduction and exemption policies, but this does not fundamentally solve the problem of the imbalance between risks and returns of guarantee institutions.^[10] Taking into account the social function of SME credit guarantees, it is recommended to introduce more long-term and continuous preferential policies in terms of income tax and business tax relief, pre-tax withdrawal of risk reserves, etc. Implement the "SME Promotion Law", draft the "Measures for the Administration of SME Credit Guarantees", standardize the access, exit and internal control of credit guarantee institutions, clarify the industry positioning and functions of credit guarantee institutions. Further promote the national SME credit guarantee institutions the development of the norm. Set up a supervision committee composed of government departments such as finance, industry and commerce, and banks, and implement the financial institution's financial plan declaration and approval system, financial accounting statements and guarantee business statistical reporting system, total operating expenses or rate control system, and annual fixed asset purchase Absolute scale control system, risk compensation fund tracking system and guarantee institution performance evaluation system, etc., strengthen supervision of guarantee institutions from multiple angles and multiple channels. But at the same time, it is necessary to avoid interfering with its normal business operations. Improve the credit guarantee industry association, form industry code of conduct, and strengthen industry self-discipline. Improve the socialized service system for small and medium-sized enterprises. On the one hand, vigorously develop the technical support system, information consulting system, talent development system, and market expansion system for small and medium-sized enterprises, which can enhance the ability of small and medium-sized enterprises to resist risks. On the other hand, the credit guarantee system for SMEs is also part of the socialized service system for SMEs in nature. It forms a whole with its system and serves SMEs. Therefore, only when the entire SME's socialized service system

is perfected will the risks of credit guarantees decrease overall, and credit guarantee institutions can develop safely.

3.4. Establish a Risk Reserve System

First, the subrogation reserve fund, the size of which depends mainly on the size of the secured debt and the length of the guarantee period, which must be drawn according to a certain proportion that does not exceed the balance of the guarantee liability of the year. Second, the reserve for doubtful debts is drawn according to a certain percentage of the compensation amount, and the withdrawal ratio depends on the length of the compensation period. The guarantee bad debt reserve is mainly used to make up for the losses caused by the failure of recovery. The third is the general reserve, which is used to offset possible future losses of guarantee institutions.

Credit guarantee institutions' risk reserves should be deposited into bank accounts. In addition to drawing from itself, it can also fully absorb funds from other channels and expand the amount of risk reserves to increase the strength of the guarantee institution and the ability to resist risks.

4. Conclusion

The development of SME credit guarantees has played an increasingly important role in solving the financing difficulties of SMEs. Reviewing and summarizing the development of Chinese SME credit guarantee system, we found that Chinese existing system still has many aspects to be improved, such as the standardization of supervision, the strengthening of risk prevention and control, the stability of the source of compensation funds, the cooperation of cooperative banks Definition of guarantee object, choice of guarantee subject, etc.

However, whether the proposed countermeasures are feasible in practical applications, and building and improving the long-term nature of the SME credit guarantee system still require an empirical analysis of progress. In addition, new problems encountered in the construction of Chinese SME credit guarantee system, such as the construction of re-guarantee system, the construction of SME service system, the construction of social credit system, the construction of guarantee laws and regulations system, etc. are worth further Research.

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