ISSN: 2688-9323

Research on Financing Model of Small and Medium-Sized Enterprises under the Background of Digital Finance

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Abstract

With the popularization of a new generation of information technology such as the Internet and big data technology, China's development has entered the era of digital economy, and digital finance has become an important force to promote economic transformation. Small and medium-sized enterprises play an important role in economic and social development and employment in our country, and the choice of financing way of small and medium-sized enterprises is of great significance to its stable development.In this context, this paper explores the impact of digital finance on the financing mode of smes. First, it summarizes the concept, characteristics and development status of digital finance. Secondly, it analyzes the current financing mode, advantages and disadvantages of smes. This paper analyzes the financing difficulties faced by smes from three aspects, such as smes themselves, financial institutions and intermediary service institutions. Finally, it concludes that the benefits of digital finance for smes' financing lie in expanding the financing channels of enterprises, reducing the operating costs of smes and realizing diversified financing models.

Keywords

Digital Finance; Middle and Small-Sized Enterprises Financing Models; Benefits.

1. Introduction

With the rapid development of financial technology in our country, digital finance has gradually become an important force to promote economic transformation. Digital finance is a new form of financial business through the use of advanced technologies such as the Internet and big data to upgrade and transform the traditional financial services industry in an all-round way. Digital finance has the related advantages of low cost and high efficiency, which not only has a profound impact on the ecological pattern of the financial market, but also has injected new energy into the development of enterprises in traditional industries.

Capital is the continuous power of enterprise economic activities, and financing is an effective means to solve the problem of enterprise capital. The financing methods of enterprises are closely related to the stability of the capital chain and the long-term development of enterprises. Different types of financing methods have their own advantages and risks, including equity financing, debt financing, mixed financing and so on. Choosing different financing methods will significantly affect the capital structure, intelligent structure and market competitiveness of enterprises. Therefore, the choice of enterprise financing is of great significance to promote the stable development of enterprises. In addition, the choice of financing mode has an important impact on the development of enterprises. The choice of financing mode suitable for enterprises will help to optimize the capital structure of enterprises, enhance the core competitiveness of enterprises in the market, and promote the high-quality development of enterprises(Zheng hua LAI ,2024).

Small and medium-sized enterprises play an important role in economic growth and employment, and by the end of 2018, small and micro enterprises contributed 50 percent of the country's tax revenue, 60 percent of GDP, 70 percent of patented inventions and 80 percent of employment. However, in the process of development, smes face many financing difficulties such as single financing channel and high financing cost. By the end of 2022, the outstanding loan balance of China's smes was 5.97 billion yuan, an increase of 19.4 percent year-on-year.(long ji Wu,2024),Despite the growth of SME financing, the financing model is not perfect. Digital finance can solve the financing difficulties faced by enterprises to a certain extent with its unique advantages, and can provide strong support for enterprise financing through big data and artificial intelligence and other technologies.

Therefore, this paper studies the financing problems of small and medium-sized enterprises under the background of digital finance, explains the concept, characteristics and development status of digital finance, explores the current financing methods and financing difficulties faced by small and medium-sized enterprises, and puts forward the path of digital finance to solve the financing difficulties of small and medium-sized enterprises, so as to better play the core role of digital finance in the field of enterprise financing. It is conducive to enhancing the competitiveness of enterprises and further promoting the prosperity and development of regional economy.

2. The Concept, Characteristics and Development Status of Digital Finance

2.1. What is Digital Finance

Digital finance refers to a form of financial business and service using digital technology and Internet platform. Through digital means, it is more convenient, more efficient and more secure to provide people with financial services, and digital finance has been applied in electronic payment, Internet finance, blockchain technology, big data risk control, financial technology innovation and other fields,(jiang lai Fu,2024).

The inclusive performance of digital finance can break the geographical restrictions, realize that financial services can serve a wider range of regions and people, and provide unprecedented financing opportunities for small and micro enterprises in remote areas. The innovation of digital finance also shows a huge market space in terms of business model and product innovation. Digital finance can continuously introduce financial products and services that meet market requirements and are competitive,(yan qiong Zou,2024).

2.2. The Characteristics of Digital Finance

Digital finance has several characteristics: First, digital processing makes financial business and information digitized, improves the efficiency and convenience of financial services, and realizes comprehensive, accurate and real-time sharing and interaction. Secondly, the network breaks the restrictions of time and space, makes financial services available anytime and anywhere, and realizes the online and paperless financial services through the Internet platform. Third, intelligent provision of personalized, accurate financial products and services, the use of artificial intelligence, big data analysis and other technologies for intelligent analysis of financial data. Finally, it advocates open cooperation. Through open platforms and API interfaces, financial institutions, technology companies and other enterprises can cooperate and share to promote financial innovation and development.

2.3. The Development Status of Digital Finance

At present, the digital financial industry is in a stage of rapid development, According to the White Paper on China's Fintech Ecology (2023) released by the China Academy of Information and Communications Technology (CAICT), The scale of China's digital financial market continues to expand, ranking among the top in the world. The number of digital financial users

ISSN: 2688-9323

has reached 960 million, accounting for 68.6% of the total population. Various digital financial products such as third-party payment, online lending, and online insurance show a rapid growth trend. At the same time, financial institutions, especially large commercial banks, are actively embracing digital transformation, constantly increasing investment in science and technology, and promoting the intelligent and personalized development of financial services.

According to the research report "2024-2029 China Digital financial Industry Market Panorama survey and Development prospects Forecast Report", the size of China's digital financial market has continued to maintain rapid growth in recent years. Taking 2023 as an example, the market size will reach 41.7 trillion yuan, accounting for 15.6% of the global digital financial market size. With the continuous progress of technology and the continuous expansion of the market, it is expected that the market size will continue to maintain rapid growth in the next few years

3. Analysis of Financing Mode of Small and Medium-Sized Enterprises.

In the process of enterprise development, financing can make the enterprise sufficient capital supply and ensure the orderly operation of each operation link of the enterprise, which is of great significance for the enterprise to achieve the strategic development goal. First, financing is an important way for enterprises to obtain external funds and achieve rapid development. Second, financing helps optimize the capital structure of enterprises and reduce the financial risks of enterprises(Zheng hua lai2024).

3.1. Loan Financing

Loan financing refers to the way that enterprises obtain financing through bank loans. The advantages of this financing method are relatively simple procedures and low interest rate, which is suitable for enterprises in need of stable capital sources and has obvious advantages in ensuring the stability of enterprise development. However, bank loans require enterprises to provide guarantees or mortgages, and the approval cycle is relatively long, which may limit the speed and efficiency of enterprise capital acquisition.

3.2. Equity Financing

Equity financing refers to the financing method in which the shareholders of the enterprise introduce new shareholders by transferring part of the ownership of the enterprise, and increase the total share capital at the same time. Compared with equity financing, debt financing has lower cost, lower risk and higher financing flexibility. The introduction of new shareholders into the equity financing model will, to a certain extent, change the internal ownership structure of the enterprise and affect the decision-making power of the enterprise. This is mainly because the new shareholders, as one of the owners of the enterprise, have the right to participate in the major decisions of the enterprise, such as the selection of managers, the formulation of financial budgets and market plans.

3.3. Debt Financing

Debt financing refers to enterprise financing by issuing bonds. Debt financing also has advantages in capital utilization efficiency in the financing process of enterprises. By raising funds in the form of loans, enterprises can reduce their income tax burden by using interest expenses deducted before tax. At the same time, it can also prevent the problem of equity dilution in enterprises to a certain extent, so as to strengthen the control of enterprises. Debt financing will make enterprises pay more financial costs, and need to pay interest and repay principal on time, which means that this financing method has higher liquidity requirements for corporate funds.

ISSN: 2688-9323

3.4. Financial Lease Financing

Financial lease financing refers to obtaining the right to use the required assets through leasing equipment and sharing the rent expenditure. This financing method can not only promote the smooth development of the financing process, but also bring a wider range of financing channels to the Company. After the reform and opening up, with the gradual deepening of domestic industries, small and medium-sized enterprises have played an increasingly important role in domestic employment, stimulating domestic demand, and promoting the development of related industries. For enterprises in a stage of rapid development, a large number of working capital is an important prerequisite for enterprise survival. However, most of the small and medium-sized enterprises in our country are labor-intensive industrial structures. Therefore, the management of financial assets is not perfect, which makes the financing problems of small and medium-sized enterprises become very prominent. By virtue of its own advantages, financial leasing can realize the role of promotion and investment promotion to a certain extent, and is an effective way to solve the financing dilemma of small and medium-sized enterprises in our country.(xia wen zhang ,2022).

3.5. Asset Securitization Financing

Asset securitization financing refers to the future cash flow of enterprises into tradable securities products to raise funds in the capital market. This financing method can not only reduce the financing cost of enterprises, but also maximize the efficiency of the use of various funds.

It is of great significance and influence to promote the high-quality development of enterprises. If the market environment changes and the enterprise is faced with greater development opportunities, the enterprise can consider financing by issuing additional shares, issuing bonds and other ways to support the business expansion and innovative development of the enterprise. This can not only ensure the orderly process of enterprise financing, but also ensure the flexibility of enterprise financing strategy.

4. Small and Medium-Sized Enterprises Financing Difficulties

4.1. Small and Medium-Sized Enterprises Themselves

Due to their small scale and limited assets, small and medium-sized enterprises are more difficult to provide loan collateral and obtain guarantee. At the same time, small and medium-sized enterprises still have certain cognitive biases in financing. For example, some business owners tend to over-pursue development speed, blindly pursue scale expansion, and their operation is not stable enough. In addition, some small and medium-sized business owners have some wrong understanding of fulfilling their debt obligations, thinking that they can delay their debts, and even trying to escape debts through bankruptcy, which leads to the reduction of the credit of small and medium-sized enterprises to pay their debts, and the risk degree of bank loans is greatly increased, thus raising the loan threshold for them.

Secondly, the instability and high closure or failure rate of smes, as well as the vulnerability of smes to market changes and economic fluctuations, will further increase the difficulty of smes in obtaining financing from financial institutions. According to statistics, nearly 30% of smes withdraw from the market within two years, and nearly 60% of smes disappear within 4 to 5 years(hui ying ji,2011).

In addition, smes also have problems such as imperfect financial system and untrue statements, which lead to information asymmetry in the lending market, that is, the credit of borrowers, guarantee conditions, project risks and benefits, etc. Borrowers know more than borrowers and have information advantages. Lenders represented by banks and financial institutions try to avoid risks caused by information asymmetry. They set loan terms based on the information they have, which can disadvantage good borrowers, and the borrowers with credit risk are often the small and medium-sized enterprises that are most actively looking for loans, creating what is known as an adverse selection problem.

4.2. Financial Institutions

With the improvement of the economic market, the requirements of financial institutions for financing objects have also increased. Some small and medium-sized enterprises may fail to meet the financing requirements of financial institutions due to credit qualification or other factors, which will affect the capital turnover of enterprises and cause the phenomenon of insufficient funds(bin li,2024).

First, the operating costs involved in financial institutions lending to smes are much higher than for large enterprises. Since the loan issuance procedures and handling links of financial institutions are roughly the same, and the average size of loans obtained by each SME is much lower than that of large enterprises, the operating cost of each loan for smes is relatively high for financial institutions, and the high management cost of loans restricts the enthusiasm of financial institutions to lend to a certain extent.

As financial institutions obtain relatively low returns and bear relatively high risks from lending to smes, their returns are not commensurate with the risks borne by lending, resulting in banks and other financial institutions preferring large enterprises, objectively forming indicator discrimination against smes.

At present, there is a lack of private financing institutions in China's financial institution organization system, and special private financing institutions have not appeared in China at present, and China's private financing activities generally show spontaneous and irregular development, which also limits the development of small and medium-sized enterprises to a certain extent. Moreover, imperfect competition exists among financial institutions. In the game between financial institutions and smes, financial institutions can take advantage of the strategic equilibrium and gain greater advantages. As a result, smes cannot choose financial institutions according to their own conditions, which further increases the financing difficulty of smes.

4.3. Intermediary Service Agencies

The intermediary service institution system and its high quality service level are a good premise for smes to finance. However, the role of the existing social intermediary service organizations such as accountants and auditors in financing smes is very limited, and some of them provide false information for their own interests. This makes the problem of information asymmetry, integrity, communication between smes and financial institutions, transparency and other problems can not be effectively solved. Therefore, in order to solve the financing problem of small and medium-sized enterprises, it is urgent to improve and standardize the social intermediary service system.

5. The Help of Digital Finance for SME Financing

5.1. Expand Financing Channels for Small and Medium-Sized Enterprises

In the field of enterprise financing, digital finance has effectively alleviated the financing constraints of enterprises with its unique advantages. Digital finance through the use of big data, artificial intelligence and other technologies, digital finance can realize the collection, analysis and mining of massive data, change the excessive dependence of traditional financial institutions on mortgage assets, so as to more accurately evaluate the credit status, business status and repayment ability of enterprises, reduce the degree of information asymmetry, and make the financing process more convenient and efficient. At the same time, it has innovated financing products and services to meet the diversified financing needs of small and micro enterprises, and provided a broader financing channel for small and micro enterprises.

5.2. Reduce the Production Cost of Small and Medium-Sized Enterprises

By reducing operating costs and risk costs, digital finance effectively reduces the financing costs of enterprises, making more enterprises able to afford the cost burden of financing. Through cutting-edge digital technologies such as big science and technology credit and digital currency, digital finance accurately "portraits" science and technology enterprises, reduces the information asymmetry of market players, breaks through the spatial boundaries and quantitative constraints of traditional financial products, improves total factor productivity, and effectively reduces financing costs.

5.3. Diversified Financing Models Have been Realized

Digital finance provides enterprises with equity crowdfunding, supply chain finance and other financing channels. These new financing methods have the characteristics of low threshold and high flexibility, and can meet the financing needs of different enterprises. The financing products and services of traditional financial institutions are often difficult to meet the special needs of small and micro enterprises. Through innovative product design, the financing services provided by the dropper mode for small and micro enterprises are more flexible and personalized. For example, according to the operation characteristics and capital needs of small and micro enterprises, drip irrigation can provide tailored products and services for their diversified financing needs. This innovative financing product and service provides effective support for the development and growth of more small and micro enterprises and further expansion.

6. Conclusion

The new generation of information technologies such as the Internet and big data are profoundly affecting economic transformation, and digital finance is also playing an important role in the development of enterprises.The study first reviewed The concept, characteristics and development status of digital finance,Then the financing mode and financing difficulties of smes are analyzed.For example, debt financing refers to the financing of enterprises by issuing bonds; financial lease financing refers to the acquisition of the right to use required assets by leasing equipment and the allocation of rental expenses; asset securitization financing refers to the conversion of future cash flow of enterprises into tradable securities products to raise funds in the capital market. In addition, we also know the difficulties of smes and financial institutions. For example, due to their small scale and limited assets, smes are more difficult to provide loan collateral and obtain guarantees, and some smes may fail to meet the financing requirements of financial institutions due to credit qualification or other factors, On this basis, we summarize the financing help of digital finance for smes, On this basis, we summarized the financing help of digital finance for smes. First, digital finance can expand the financing channels of smes, second, reduce the production cost of smes, and finally achieve diversified financing models. This article makes us understand the importance of digital finance for the development of small and medium-sized enterprises

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