

Analysis of the Development and Financing of Small and Medium Enterprises

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Abstract: The number of small and medium enterprises (smes) in a country is huge, their impact on national development is also incalculable, is an important component of the rapid growth of GDP and a strong foundation, but the financing problem has been restricting the development of small and medium-sized enterprises, the analysis of small and medium-sized enterprises in the era of economic downturn financing difficulties how to solve, We should upgrade our financing capacity while improving our own construction. The government should also increase support for financing projects of smes, and introduce certain policies to help smes provide financing services, so as to enhance the financial influence of smes and improve the social environment while developing the economy, through several practical examples, this paper analyzes some problems that small and medium-sized enterprises may encounter in financing in real life, so as to help small and medium-sized enterprises improve the success rate of financing,finally, analyze the future development trend of small and medium-sized enterprises.

Keywords: SME, Financing difficulties, Government support

1. Introduction

This paper will analyze a series of problems arising from the capital demand, financing channels, enterprise credit, financing cost and return of small and medium-sized enterprises to analyze how to get rid of the dilemma. Small and medium enterprises (smes) are an important part of economic development and play a key role in creating jobs, driving innovation and fostering economic growth. However, smes often face the challenge of financing themselves in the process of realizing their potential and development goals. Financing problems can be a significant impediment to the development of small and medium-sized enterprises, limiting their ability to scale up, develop and innovate, and enter new markets. Smes often lack assets or credit endorsements that can be used as collateral, making it more difficult for them to obtain traditionally secured loans. In addition, the operating environment for smes is generally more volatile and uncertain, which further increases the risk awareness of investors and financial institutions. Sme financing is a complex and critical issue. Addressing these issues requires governments, financial institutions, and businesses to work together to create a more inclusive and innovative financing environment to promote the growth of smes and economic prosperity.

2. Conceptual background and characteristics of SME financing

2.1. Conception

Some financing can be divided into two concepts: SMEs and financing. The financing provides a business with the capital it needs to grow and can be used for a variety of purposes, including expanding its business, buying equipment, researching, and innovating, opening new markets, and covering operating costs [1].

The concept of SME financing covers different types of financing methods and channels, including but not limited to the following: Bank loans: SMEs can obtain loans from commercial banks or other financial institutions to meet their funding needs. This includes long-term loans, short-term loans, credit loans, etc. Bond financing: Small and medium-sized enterprises can issue bonds to raise funds, bondholders will provide a certain amount of borrowing for the enterprise, in return, the enterprise needs to pay interest on the bond. Equity financing: Small and medium-sized enterprises can sell some or all of their equity to investors in order to obtain capital. Government support and subsidies: Through various policies and programs, the government can provide subsidies, financial support, and guarantees to small and medium-sized enterprises to promote their development and innovation. Innovative financing methods: In recent years, with the development of technology and the Internet, small and medium-sized enterprises can take advantage of emerging financing methods, such as crowdfunding, business incubators, startup accelerators, etc.

The way and choice of SME financing depends on several factors, including the size of the enterprise, stage of development, type of industry, capital needs, risk appetite, and so on. Different financing methods have different characteristics and advantages, and small and medium-sized enterprises can choose the most suitable financing method to support their business development according to their needs and conditions.

2.2. Background and Features

Through Juying's work, we can have some definitions and analyses of the terms of the background and features [2].

Scale and resource constraints: Small and medium-sized enterprises are smaller and have limited resources compared with large enterprises. This means that they often face greater capital needs and underfunded challenges and need to find external financing to support business operations and expansion.

Start-up and Growth stage: Many SMEs are in the start-up or growth stage and need capital to start a business, expand, develop products, or enter new markets. These businesses may lack stable cash flow or capital reserves and therefore need financing to support their development goals.

High risk and uncertainty: The business environment of small and medium-sized enterprises is usually more unstable and uncertain, and they face higher business risks. This makes it potentially more challenging for them to seek funding, as investors may be more cautious and demand higher returns or greater sustainability.

Lack of assets and credit endorsements: Compared to the assets and credit endorsements owned by large enterprises, small and medium-sized enterprises may lack the assets or credit history that can be used for security. This makes it more difficult for SMEs to raise finance while making them more inclined to resort to other forms of financing, such as equity financing or unsecured loans.

Policies and support: The government pays much attention to new SMEs and is willing to introduce various policies and methods to help enterprises obtain financing opportunities. This could include support measures such as financial subsidies, financing guarantees, tax breaks, and venture capital funds to help SMEs access easier and cheaper financing.

Technology and innovation: small and medium-sized enterprises are different from mainstream enterprises in terms of technological innovation, which is not only novel but also can obtain more miraculous effects. Some innovative and technology-based enterprises may find it easier to attract venture investors or get government support to support their technology research and development and marketing.

These background factors together shape the status quo and challenges of SME financing. Understanding these contexts can help governments, financial institutions, and businesses create a more favorable financing environment to facilitate the growth and innovation of SMEs.

3. The Reasons for The Financing Difficulties of Small and Medium-sized Enterprises

Through the analysis of Yanping's work, the paper concludes the reasons for the financing difficulties of small and medium-sized enterprises [3].

Lack of security and credit history: Compared with large enterprises, SMEs often lack assets or credit endorsements that can be used for security. This has made traditional financial institutions cautious about their financing needs and pay more attention to risk control and rate of return, resulting in increased financing difficulty.

High risk and uncertainty: The business environment of small and medium-sized enterprises is usually more unstable and uncertain, and they face higher business risks. This has made investors and financial institutions more cautious about their funding needs, demanding higher rates of return or greater sustainability.

Capital demand and scale limitation: Small and medium-sized enterprises usually need financing to meet business expansion, research and development innovation, market promotion, and other capital needs. However, due to their relatively small size and resource constraints, they struggle to provide sufficient assets or earnings to meet the requirements of traditional financing institutions.

Information asymmetry: Small and medium-sized enterprises may not have the same disclosure and transparency as large enterprises, which leads to limited information on their business status and risk assessment by financial providers. The lack of sufficient information may make it more difficult for financial institutions to assess the credit risk of SMEs, thereby increasing the difficulty of financing.

Market competition and industry structure: Certain industries or markets may have intense competition and a high degree of concentration, which makes it difficult for SMEs to obtain financing opportunities in the competition. Financial institutions are more inclined to invest in relatively larger and more competitive enterprises.

Legal and regulatory environment: An imperfect legal and regulatory environment may bring certain uncertainties and obstacles to SME financing. Regulations and regulations may place restrictions or increase legal risks on the financing activities of SMEs.

These factors together lead to the financing difficulties faced by small and medium-sized enterprises. In order to solve these problems, the government, financial institutions, and enterprises can take a series of measures, including optimizing financing policies, establishing guarantee institutions, strengthening credit rating mechanisms, and enhancing the transparency of information disclosure, so as to improve the financing environment and increase financing opportunities for small and medium-sized enterprises.

4. Ways to Solve Financing Problems

Government support and policy guidance: The government can reduce the financing burden of small and medium-sized enterprises by formulating financing support policies to provide subsidies, financial support and guarantees. At the same time, the government can provide infrastructure such

as business incubators and technology transfer centers to promote innovation and development of small and medium-sized enterprises. [4][5]

Diversified financing channels: smes can find diversified financing channels, including traditional financial institutions, venture capital, angel investment, startup accelerators, crowdfunding platforms, etc. By diversifying financing channels, smes can increase financing opportunities and reduce their dependence on a single source. [4][5]

Innovative financing methods: Emerging financing methods such as crowdfunding, blockchain financing, digital currency, etc., provide new financing opportunities. Smes can explore these innovative financing models to attract more investors and community support. [4][5]

Develop equity and bond markets: The establishment of sound equity and bond markets can provide more financing channels for small and medium-sized enterprises. Small and medium-sized enterprises will be encouraged to go public or issue bonds to attract more investors and increase sources of financing [4][5].

Strengthen financial inclusion and fintech application: Fintech can provide smes with more convenient and efficient financing services. We will apply technologies such as the Internet, big data and artificial intelligence to develop financial products and services suitable for small and medium-sized enterprises, and promote financing facilitation and inclusiveness. [4][5]

Enhance the internal information management of enterprises: enhance the information transparency and effective support of enterprises, improve the credit record to obtain more investment attention and obtain more financing opportunities.

The above six methods can effectively solve the financing problems of small and medium-sized enterprises. However, solving the SME financing problem still requires all parties to work together to achieve the common goal and carry out a series of reforms and progress to achieve the real ideal financing.

5. Small and Medium-sized Enterprise Financing Experience Cases

Success story: Guangzhou ABC Electronic Technology Co., Ltd. is a small and medium-sized technology enterprise, dedicated to developing smart phone applications. Due to the fierce competition in the market, companies need financing to support product development, marketing and personnel recruitment.

ABC Technologies conducted a detailed capital needs analysis and assessed the amount of capital required for product development, marketing and operations. They also considered plans to scale up over the next few years and took these factors into account to determine the size and timing of the financing. They decided to pursue equity financing, approached venture capital firms and angel investors to explain their business model, market potential and competitive advantages, and successfully attracted investor interest. They prepare detailed business plans and financial statements to demonstrate the potential and viability of the company. They also work with professional advisors to improve the company's financial transparency and management strength, enhancing its credibility with investors. ABC Technologies recognizes that equity financing may have an impact on their ownership structure and control. Therefore, they have in-depth discussions with investors to ensure that the financing costs and returns are in line with each other. The two parties reached an agreement on equity allocation and return on investment, ensuring that the interests of the company and investors are aligned. Through the successful financing, ABC Technologies received financial support to accelerate product development and marketing. They managed to develop a popular smartphone app and quickly established a brand reputation in the market. This case highlights the importance of the analysis of capital needs, the choice of financing channels, credit and risk assessment, and the balance between financing costs and returns. Small and medium-sized enterprises should consider various

factors in the financing process and establish a good relationship of trust and cooperation with investors in order to maximize their own development goals.

Failure case: New Coordinate Clothing Co., Ltd. is a small and medium-sized fashion brand hoping to expand market share and increase production capacity through financing. The company did not conduct sufficient capital needs analysis to accurately estimate the amount of capital they would need to scale up. As a result, when communicating with investors, they failed to provide clear and specific funding needs, resulting in low investor interest in investment. There are problems with financial position and risk assessment. Financial statements are not supportive, or persuasive, and do not provide a clear picture of the company's solvency and profitability. In addition, the market environment is highly competitive, and the market share growth rate is slow. This has left investors with doubts about their short-term returns and long-term sustainability, reducing their appetite for financing.

Due to the accumulation of the above problems, this Company encountered many difficulties in the financing process and ultimately failed to obtain the required financial support. This case highlights the importance of capital needs analysis, financing channel selection, credit and risk assessment, feasibility, and return planning. Small and medium-sized enterprises should pay attention to details in the financing process and fully communicate and prepare with investors to improve the chances of financing success.

6. Future trends for small and medium-sized businesses

The rise of innovative financing models: With the rapid development of technology and markets, new financing models and platforms are emerging. For example, innovative financing models such as crowdfunding, P2P lending, and blockchain financing have provided more financing opportunities for small and medium-sized enterprises. These new models have more flexibility and convenience and may become the trend of SME financing in the future [6].

Strengthening government support policies: SMEs play an important role in economic growth and job creation, and many governments will strengthen support for SMEs. The government may provide more policies such as loan guarantees, risk compensation, tax relief, and subsidies to promote the financing development of SMEs.

The rise of green finance and sustainable financing: With the popularity of the concept of sustainable development, green finance and sustainable financing have become an important trend. SMEs that can relate to environmental protection and sustainable development may be more likely to receive attention and support from green financial institutions and investors.

The impact of digitalization and technological innovation: Digitalization and technological innovation are profoundly changing the financial industry and business models. In the future, small and medium-sized enterprises may use new technologies, big data analytics, and artificial intelligence to improve financial transparency, risk assessment capabilities, and financing efficiency, so as to better access to financing.

It should be noted that there may be differences in the development trend of SME financing in different regions and industries. At the same time, the world economic environment, the development of the market, and the government's policy support for small and medium-sized enterprises are advancing with The Times, and each company needs to adapt to the situation. Therefore, enterprises should be based on the current specific situation to specific analysis so as to get the most ideal results, to achieve the perfect solution of financing.

7. Conclusion

The economy of SMEs has become an important part of China's economic development, but the financing difficulties of SMEs have become the biggest constraint. In short, in order to build a more inclusive and innovative financing environment, promote the development and economic prosperity of SMEs, and solve the financing difficulties of SMEs, it requires the cooperation and joint efforts of the government, financial institutions, and enterprises. Only in this way can small and medium-sized enterprises develop into the backbone of our economic growth, and only small and medium-sized enterprises can play a greater role in the socialist modernization construction. China's economy will develop steadily and healthily with the rise of small and medium-sized enterprises.

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