

Research on Financing Constraints of Private Enterprises in Xi'an

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Abstract: Financial development lags behind the level of economic development, which will have many adverse effects on enterprises, the most prominent of which is the problem of financing constraints. Under the existing financial system, private enterprises are facing financial difficulties and high financing costs compared with state-owned enterprises, and they face extraordinary financial risks and are liable to fall into bankruptcy. Because high interest expenditure can not be recorded in the cost, they have to adopt tax evasion to offset the loss of tax baffle, and further increase the operational risk, so the development of private enterprises will inevitably be seriously shackled. With the further deepening of reform and opening up, private enterprises account for more and more of the total and increment of GDP, and play an increasingly important role in China's economic development. However, the difficulty of financing has become a key factor restricting its follow-up development. Firstly, the paper explains the current situation of financing difficulties of private enterprises through data, and then analyses the causes of this situation from three aspects.

1. Introduction

Enterprise financing constraints are ubiquitous in developing countries and are the inevitable result of poor financing channels. The main manifestations are insufficient accumulation of endogenous capital, difficulty in obtaining bank loans, and inability to issue stocks or bonds. The level of financial development, such as the degree of marketization of banking and securities industry, is an important factor affecting the degree of financing constraints of enterprises. That is to say, a country's financial development level is closely related to enterprise financing and investment. Many economists have proved that financial restraint will lead to a country's financial development level lagging behind, the lagging level of financial development will affect economic growth, and the most prominent problem is financing constraints.

The financing situation of enterprises is complex, and many factors lead to this phenomenon. Firstly, from the macro aspect outside the enterprise, the unbalanced development of regional finance, the implementation of macro-monetary policy and the financial ecological environment of the enterprise lead to the generation of financing constraints, also hinder the development of the enterprise, and restrict the investment of the enterprise.

2. Constraints in the Establishment of Private Enterprises

Private enterprises have high financing costs and are at the lowest point in the unfair market competition. The return rate of private enterprises is far lower than that of similar state-owned enterprises. Market competition is the motive force of economic development. If there is serious unfair competition in a society, it will stifle the innovation and vitality of the society. Compared with state-owned enterprises, private enterprises in China have serious unfairness under the condition of financing, that is, the so-called ownership discrimination. It is difficult for private enterprises to obtain loans from formal financial institutions in the process of development, and there is a serious lack of funds. When there are better investment opportunities or capital turnover difficulties, we have to resort to informal financial institutions, that is, underground finance. That is to say, private enterprises are not without liabilities, but can not be reflected in the financial aspects of enterprises. The cost of underground financial funds is much higher than that of formal financial

institutions. Therefore, enterprises have to pay high interest costs, and their actual return should be far lower than that of similar state-owned enterprises.

Private enterprises have lost the favorable tax baffle, the financial leverage risk far exceeds the income, and enterprises are more vulnerable to bankruptcy. Enterprises that cannot borrow funds from formal financial institutions but have to borrow from underground finance have high interest rates, so these enterprises often have high financial leverage. However, because borrowing funds from informal financial institutions, whether the total amount of borrowed funds or the resulting interest expenditure are not reflected in corporate finance, enterprises can not enjoy the benefits of the tax baffle brought by interest, so they can only face greater financial risks, but can not enjoy the leverage benefits brought by high financial leverage.

Private enterprises have to take tax evasion to offset the loss of tax baffle, and further increase operational risk. Because tax evasion and tax evasion may face the punishment of the government, and then affect the social integrity of enterprises, further affecting the analysis of enterprises by investors. The uncertainties in the operation of private enterprises have increased, which further leads to the increase of the overall risks in the operation of enterprises. Therefore, the social constraints on the establishment, operation and development of private enterprises are not only the problem of funds, but also the courage to face the loss of their own integrity and the government's punishment for tax evasion and tax evasion, which makes the operators or founders of private enterprises face greater uncertain operational risks. On the other hand, it also creates a huge space for corruption for relevant law enforcers.

3. Analysis of Financing Constraints of Private Enterprises

3.1 The Position of Private Enterprises in National Economy

Some data show that the higher economic efficiency of private enterprises makes them play an increasingly important role in the whole national economy. Attaching importance to the development of private enterprises is of substantial significance for promoting the growth of China's national economy.

3.2 Insufficient endogenous financing and constrained exogenous financing

For China's private companies, endogenous financing is still an important part of the initial capital of business start-up. When enterprises gradually grow and grow, limited endogenous financing is not enough to maintain the follow-up development of enterprises, so they have to seek other financing channels to further grow.

3.3 Lack of effective mechanism to protect the interests of private enterprises

The state-owned banks, policy banks, rural credit cooperatives and other banking and financial institutions in China, except the People's Bank of China, belong to the corporate units with the purpose of making profits. Therefore, once an enterprise can not create profits for it, the bank may withdraw its investment at any time, leading to the rupture of the capital chain of private enterprises, thus triggering the financing crisis of enterprises, or even bankruptcy. On the contrary, for state-owned enterprises, even if there are liabilities, the government will fill the loopholes for them, so banks need not worry about bad debts. Government support also provides a guarantee for long-term cooperation between banks and state-owned enterprises.

From the above analysis, we can see that the financing difficulty of private enterprises is a common problem. Breaking through the "bottleneck" that hinders the development of private enterprises is an urgent problem to be solved.

4. Analysis of the Causes of Financing Constraints of Private Enterprises

4.1 Immature Financial Market

In foreign financing, because of the lack of developed multi-level financial markets in China,

most private enterprises do not meet the requirements of entering the main board of Shanghai and Shenzhen stock markets. However, the amount of financing through small and medium-sized boards is limited, which can not meet the capital needs of private enterprises. Therefore, indirect financing can only be used to obtain the funds needed for the follow-up development of enterprises. Commercial banks account for 70% of the National Bank lending. State-owned commercial banks are the framework of the whole banking system.

Although our country has liberalized the control of entry and exit of most industries, and the non-state-owned economy has developed rapidly, the economic system of our country has not changed, and the competition mechanism among our enterprises is not perfect enough, which restricts the private enterprises to enter the industries related to national economy and people's livelihood, which are especially dominant in oil, communications, Finance and so on. The financial system, which dominates the state-owned enterprises and state-owned banks (especially state-owned commercial banks), determines that state-owned banks tend to invest in state-owned enterprises which can bring monopoly profits. However, the state-owned banks will set a higher threshold for private enterprises to lend, and it is difficult for private enterprises to obtain indirect financing from the state-owned banks.

Private enterprises which can not get enough funds from the state-owned banks can only turn to other financial institutions besides the state-owned banks. However, due to the short time of establishing the modern financial system and the imperfect development, although private financing has been developed to a certain extent, the state-owned banks still occupy the main position in the financial system. Nongovernmental financial institutions can not compete with state-owned banks in terms of capital strength, credit guarantee system and other aspects. The number of private financial institutions is far from meeting the needs of private enterprises. The extremely asymmetric number of them also explains the current situation of financing difficulties of private enterprises. Financing from private financial institutions is restricted by many factors, which is also the key reason for financing difficulties of private enterprises.

4.2 Reasons for Private Enterprises

The management system of private enterprises is not perfect enough and the risk of operation is high. There are many reasons for the loss of private enterprises, but most of them are because the management system of enterprises, especially the financial management system, which is one of the most important contents of the management system of enterprises, is the key factor to restrict the financing of private enterprises. The lack of either of the inaccurate financial budget, the imperfect financial system and the ineffective internal audit system will lead to the difficulty of financing for enterprises.

Short-term behavior of management. Although more than 80% of private enterprises in our country are family-run private enterprises, it does not exclude that some private enterprises employ professional managers to run management companies. This can make up for the insufficiency of the management ability of the owner of the enterprise, thus bringing higher economic benefits to the enterprise. But in these enterprises, the salary of the top management is determined by the profits created in that year. Because of the limited term of service of the management, personal interests are not tied up with the long-term development of the enterprise. In order to seek more benefits for themselves, the management is likely to make decisions that maximize the short-term interests of the enterprise, but not conducive to the long-term development.

Credit rating. In modern society, both the owners, investors and the public attach great importance to the reputation and image of enterprises. Banks also use credit ratings made by credit institutions as a basis for whether or not to lend to enterprises and how much. Private enterprises generally have low credit rating because of poor capital base, low management level, poor profitability and poor development prospects, which directly restricts the financing of enterprises. In addition, for some private enterprises, in order to obtain bank loans, special credit rating agencies are hired to rating their enterprises. High employment fees are also the main reasons why enterprises can not get third-party identification.

Innovation ability. College students and other senior intellectuals are more inclined to enter state-owned enterprises or large and medium-sized private enterprises with good efficiency and stable work, which directly leads to the low proportion of talents with high knowledge level in small and medium-sized private enterprises. The directional flow of talents and the unreasonable proportion of the flow structure restrict the innovation ability of private enterprises. In addition, due to the small scale of enterprises, weak capital base, low investment in product innovation and the low educational level of some private enterprise leaders, insufficient attention has been paid to enterprise innovation. All these affect the credit judgment of private enterprises by financial institutions and restrict the financing of private enterprises. Fig. 1 is the result of the questionnaire on the financing situation of private enterprises in Xi'an.

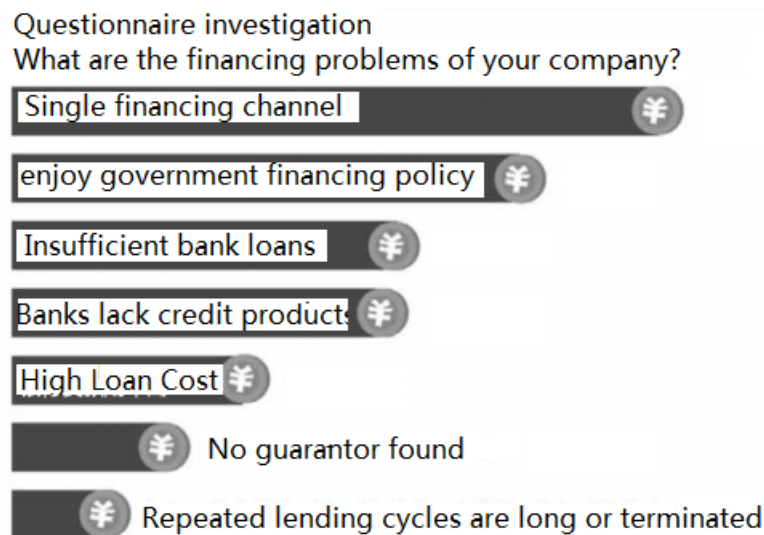


Figure 1. Questionnaire Survey on Financing Situation of Private Enterprises in Xi'an

5. Conclusion

As far as the financial market is concerned, due to the imperfection of the modern financial market in China, the supervision and management function of "one party, three meetings" has not fully played a role, and so far has not formed a financing environment conducive to the financing of private enterprises and their subsequent development. This is the primary reason for restraining private enterprise financing. Secondly, from the perspective of enterprises themselves, private enterprises generally have some shortcomings, such as small scale, weak capital base, opaque information, imperfect management system, and high operational risk, so that investors are more cautious in making investment decisions, and it is difficult to get public recognition and support. If we want to solve this problem effectively, we need the joint efforts of the government, enterprises and the public in the financial environment, private enterprises themselves and transnational private enterprises, so that private enterprises can make greater contributions to the future economic development of our country.

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