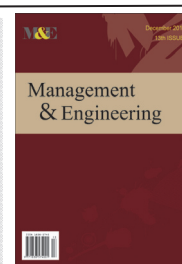




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The Study on the Financing Problems of Small and Medium Enterprises Under International Financial Crisis

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KEYWORDS

Small and medium-sized enterprise,
Financing system,
Ponder and countermeasure

ABSTRACT

Small and medium-sized enterprises occupy an important role in the modern market economy, but they have many insufficiencies in financing system, particularly under the international financial crisis, the macro economy downward pressure keep increasing, the financing system of SMEs encountered new difficulties, which seriously restrict the development and transformation of enterprises. Based on the analysis of the current situation and problems in SMEs, this essay explores the innovative financing countermeasures in the view point of preferential policies, legal system and financing institutions to optimize the financing environment, etc. Furthermore, provide analysis of effective measures to upgrade the financing abilities to promote the sustainable development of small and medium-sized enterprises.

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1 Introduction

Small and medium-sized enterprises are important economic units in national development, however, according to statistics, almost 92.35% SMEs have funding gaps in varying degrees. They lack of the proper access to information and external resources. Their average life span is about 2 to 3 years, nearly 66.67% SMEs cannot survive for the sake of capital chain ruptures or difficulties. With the European debt crisis deepening, the development of global economy is slowing down, the financial risk control elements increases, RMB is facing great pressure of appreciation, foreign trade exports suffocate, and external survival environment of SEMs is worsening. However, in the internal environment, operating costs keep rising, market demand is recovering slowly, and overall business condition is not optimistic. Although, the government has given some support to SEMs, they still have the problems of single financing way, high financing costs and big financing gaps.

2 Impact of the International Financial Crisis on Funding Profile of Small and Medium-sized Enterprises

2.1 Negative influence of financial market

The direct influence of financial crisis on China's banking industry is not serious, but the indirect damage still needs a transition period to surface. Two or three years later, we can explore the financial status from the balance sheets of the state-owned commercial

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banks. In addition, on the aspect of the export of textile and processing trade, banks' assets will be deteriorated. The proportion of non-performing assets in commercial banks arises frequently, and this situation will be more obvious. The decline in economic growth leads to deterioration of the quality of bank assets, and further causes negative effect on the funding situation of small and medium-size enterprises.

2.2 The foreign trades badly damaged

China's small and medium-sized enterprises, mainly to undertake "two out" of the trade, that means they put both ends of the production process, they import the raw materials and export the finished goods, most small and medium-sized enterprises are responsible for the domestic processing. Their management is rough and lack of innovation, brand advantage of technology and independent intellectual property rights. Under the financial crisis, their overseas orders reduce dramatically, and profitability is keeping declining. With the products accumulated, they cannot sell out in a short period of time, leading to a shortage of funds. Many small and medium enterprises suffer from less profitable or unprofitable. Small and medium-sized enterprises are in urgent need of the transition to the domestic market; the transformed enterprises not only need to seek the profitable industries and business, but also more financial support.

2.3 The subprime crisis increases the risk of exchange rate and capital market

At present the foreign exchange reserve has decreased from \$1.9 trillion to \$1.89 trillion dollars. Nearly 10%-20% loss makes adverse effects on capital market. This circumstances results many obstacles in main financing environments for small and medium-sized enterprises. In addition to the export volume reduces, affected by the financial crisis, the overseas corporate default rate also arises; The external credit environment of export enterprises further deteriorates. In the finance industry in China, the non-government credit industry suffers the greatest. Because of this credit system is tied firmly to the relationship between private credit and enterprises, once a business failure, may make mass bankruptcy among mutual guarantee enterprises.

2.4 Contraction of the credit policy

The states tighten the monetary credit policies to curtail inflation. Banks prefer to adjust key projects especially for the governmental investments. The compression of the loans to small and medium-sized enterprises, which makes the loans application slow down, especially the small and medium-sized enterprise loans declined sharply, many small and medium enterprises cannot survive for lack of funds. Because of the limitations of bank financing, the majority of small and medium-sized enterprises, especially in traditional family enterprises, they face the increase of cost and the reduction of profit, unable to crack the funds shortage, a large number of small and medium enterprises cannot endure the pressure to bankrupt.

2.5 Increasing economic pressures

The international financial crisis, quickly spread from the financial sector to the entity economy, China's economy as a part of the global economy, is also hard to be an exception. Our economic growth suffers varying degrees of damage. Under the financial crisis, by GDP, CPI and the factory price and retail price changes, China's real economy faces increasing pressure. In recent years, the employment situation has been strained; A large number of small and medium-sized enterprises closed down after the concussion of international financial crisis, then employment situation is becoming more serious. The government takes various measures to alleviate the severe employment situation. However, because our business management system is "the two element management system", the city implement the unemployment registration system, the state lack of rural management, the registered unemployment rate cannot reflect the whole employment situation, especially the rural labor employment circumstances. The enterprises must carry out social insurance fee in accordance with the law, then their operation cost increase. Small and medium-sized enterprises by the financial crisis face heavier burden, some small and medium-sized enterprises in order to survive, even through cutting outputs substantially, layoffs to reduce the cost of production. A period of time, capital flight occurred frequently, enterprises cannot withstand the economic pressure to bankrupt.

3 Analysis of the Financing Problems Existing in the Small and Medium-sized Enterprises

3.1 The unsatisfactory indirect financing system of small and medium-sized enterprises

3.1.1 The loan proportion from the four central banks continually decreased

The large commercial bank loans to small and medium-sized enterprises declined gradually in recent years. They concentrate on loan risk management. As a result, the credit approval authority has been tightened by commercial banks. Because the profitability of large enterprises is better and they have more mortgage assets, banks are willing to do research and marketing proposals for large enterprises, so it is difficult to fully understand the financing needs of SMEs and solvency. In the case of asymmetric information, the high quality guarantees or collaterals are key elements for the approval from large commercial banks. This is precisely the disadvantages of SMEs, so they have many actual obstacles to get the loan approvals. According to the statistics from 2011 to 2013, we

construct the following Table 1 to show the proportion of funding sources for small and medium-sized enterprises.

Table 1 The proportion of funding sources for small and medium-sized enterprises

Financing institutions	2013	2012	2011
Local commercial banks	34.62%	34.42%	32.79%
Four central banks	34.25%	35.09%	37.84%
Other banks	31.13%	30.49%	29.37%
Total	100.00%	100.00%	100.00%

Source: Statistical Communique on the 2013 National Economic and Social Development in P.R.C.

Since 2012, commercial banks become the backbone of the financing system for small and medium enterprises; they provided nearly 70% of the funding sources. In 2013, the loans of SMEs from the four central banks are 34.25%, and this proportion in 2012 is 35.09% and 2011 is 37.84%, the overall trend is declining. The bank financial products are lack of pertinence. Although the commercial banks can support various loan products, these financial proposals are mainly targeted to large enterprises. They have many serious requirements on enterprise's credit rating, assets scale, total production and liabilities, small and medium enterprises don't have enough competitive advantages in these areas. In view of the financial products for small and medium enterprises, they mainly concentrate on the short-term and small loans. As a result, from the view point of the four central banks and big commercial banks, the indirect financial system cannot meet the SMEs' financing needs.

3.1.2 High financing cost of commercial banks

In recent 5 years, all big commercial banks promote various financial saving products. A new force suddenly rises, these financial saving products make banks gradually accept market-oriented interest rates, and credit-based investments restrict the financing cost and decide the developing direction. Meanwhile, as the main reference, money and credit-based financing environment decide the elasticity and viscosity of financing cost. In statistics, there is big gap between financing cost and investment income. Due to high interest debt, the financing costs of commercial banks rise sharply, and ultimately affect the financing costs of enterprises. One of the most important conditions is the integrated deposit level, which should reach the relevant standard. In addition, the local commercial banks take the points system for SMEs, including credit cards, credit conditions and loan period, etc. According to the integrated points, loan interest rates will change from 4% to 10%. Besides the integrated deposit points, many commercial banks combine financial products with relevant loans, as a result, there is not enough actual funds available to SMEs, further push up the real financing costs. The common operational methods, if small and medium-sized enterprises apply for loans from banks, they are required to take 10% to 20% of loan amount to buy financial products, meanwhile, 20% to 30% of the loan amount as deposit reserve. Finally, the actual available amount of loans has been greatly reduced.

3.1.3 The development of small financial institutions is limited

Small financial institutions has many advantages in solving the financing issues of SMEs, but there are many obstacles, such as small scale, weak risk resistance, low credibility, shareholders' black case work, the overall risk is far higher than banks. Small financial institutions still have many problems. Firstly, the compensation mechanism is not satisfactory, so high credit risk exists in long-term; Secondly, the defects of institutions. Small financial institutions capital is mainly composed of shareholders' or members' share, the working capital is limited, even insufficiently. As the result from the unreasonable ownership structure, the rights and interests cannot be guaranteed and implemented. Thirdly, the small financial institutions have heavy tax burden. In accordance with the business tax, the small financial institutions enterprise should take 25% income tax; average 5.8%, business tax and 5‰ stamp duty. They are not satisfied in the scope of preferential tax policies. Heavy tax burden and high risk restricts the development of small financial institutions.

3.2 Inefficiency of direct financing system of small and medium-sized enterprises

3.2.1 Unsatisfactory direct financing environment

Compared with the indirect financing from banks and small financing institutions, in mature market economies, the direct financing can effectively alleviate the financing problems of small and medium-sized enterprises. But the development of China's stock market is not perfect, the bond financing is strict with complicated procedures, small and medium-sized enterprises need much professional finance knowledge and practical experience. Most enterprises lack of professional background, they should take fully into account the actual direct funding capacity, cost and risk of direct financing. As a result, less successful financing cases in medium and small enterprises.

3.2.2 High issuing and listing cost for small and medium-sized enterprises

The issuing and listing of enterprises need extensive sources and high cost, including the cost of intermediation, exchange cost and promotion of ancillary costs, etc. Agency costs include financial advisory fees, sponsor and securities underwriting fees, accounting fees, lawyer fees and assets assessment fees, all above expenditures lead the high cost of issuing and listing. Furthermore, these costs should be paid one time. In addition, enterprises also need to invest a lot of human capital and a long-term preparation. All these requirements are obstacles for small and medium-sized enterprises, so reduce the effectiveness of direct financing.

3.2.3 The number of favored enterprises by collection of instruments is limited

Collection instruments generally refers to 2 to 10 enterprises with corporate capacity, issued debt financing instruments in the banking bond market, by unified product design, unified certificate naming, unified credit enhancements and unified registration to solve the problems of the lack of liquidity and small scale of single enterprise. In addition to issuing cost, enterprises also need to pay certain underwriting fee, credit enhancement and rating and other expenses to relevant agencies, the overall issuing cost is higher than enterprises' expectation; the whole issuance program is complicated with many approval processes in a long-term duration, while only less than 10 enterprises can be benefited. An objective point of view, if enterprises are urgent of funds, this direct financing way is not attracted.

3.3 The limitations of medium and small-sized enterprises

3.3.1 Inferior credit rating in financing system

Many small and medium-sized enterprises have weak consciousness on credit worthiness. Once they have successful lending from banks or other financial institutions, they ignore the requirements claimed by fund sponsors. Or they defraud banks or investors by whitewashing financial statements. It is common that small and medium-sized enterprises manipulate on account. According to the statistics, about 8.76% of small and medium-sized enterprises have ever whitewashed financial statements. Although some enterprises have the regulations and accounting system, they just make different statements for each interest group: the managers, the investors and the creditors, etc. Except for having the formulated internal accounting control system, it is hard to work out in practice. For other enterprises, although they have the related accounting control system for practice, the lack of scientific and rationality, incomplete and uncoordinated system design, single accounting control methods, unclear post responsibility, weak asset security control, lack of corresponding auditing system. These behaviors take them in a worse financing condition.

3.3.2 The unreasonable organizational structure

Many small and medium-sized enterprises still follow the mode of family management. The institutional framework of many small and medium-size enterprises still carries on the mode of family. This kind of organization structuring only takes into account the family capital without noticing the public funds in the business organization. Many small and medium-sized enterprises formally establish the board of directors and the board of supervisors, and implement the general manager responsibility system. But in fact, there are many errors in the performance of the board of directors, and the true corporate governance structure hasn't been established. The direct financing channels have been restricted, only leaving limited capital. As a result, the imperfect organization causes confusion of direct financing channels.

3.3.3 Small and medium-sized enterprises generally lack effective collateral

For bank lending, the key reference points are whether or not the enterprise can provide valuable mortgaged property, which are easy to evaluate and monitor. As for the small and medium-sized enterprises, all these lending standards are very difficult. In fact, the depreciation rates of main collaterals are very high, such as production equipments and machines, meanwhile, the evaluation procedures are complex and expensive, most small and medium enterprises cannot endure. Small enterprise scale and overall strength is weak. Many small and medium-sized enterprises is still in primary stage, their brand awareness is week, product technology content is low, the lack of core competitiveness, the modern enterprise financial management system is not perfect, unable to resist the risks in the market competition. As a result, they are easily having more various business problems.

3.3.4 Lack of external information and resources

Small and medium-sized enterprises don't have sufficient and effective ability to acquire external information and resources in a short time. In recent years, the state has strengthened audit efforts and made constant improvement in audit environment. However, the three forms of supervision, namely, the government supervision, social supervision and internal supervision overlap their functions and have different criteria, lack of communication and decentralized management lead to fail to form effective external information and resources. With the expansion of small and medium-sized enterprises, the demand for labor force is also correspondingly increasing. Because of the peasant-workers and laid-off unemployment workers influx, small and medium-sized enterprises lack of labor resources during development. Therefore, many enterprises often use unequal clauses when signing labor contract, damage the lawful rights and interests of employees and ignore internal and external communication. Some small and medium-size enterprises develop extremely fast, the scale of the enterprise has expanded rapidly, but the economic interests of workers don't go along with the development, and because of the imperfect social security system and over strong capital strength, together with the lack of effective communication among the governments and enterprises. The obstructed information flow greatly affects implementation of effective financing projects of the enterprise. This situation increases the difficulty of indirect financing.

3.3.5 Weak consciousness of risk

With the development of the market economy and expansion of the enterprise scale, small and medium-sized enterprises encounter more and more uncertain factors. It also correspondingly increases the operational risk and the financial risk of small and medium-sized enterprises. In small and medium-sized enterprises, most of the managers still have weak consciousness on risk, and don't have enough risk identification and evaluation on the establishment for new project, new business and new organization. They can't fully and timely affirm and evaluate the new product and business as well as the off-balance-sheet risks. Risk management activities can not be immediately improved according to the change of management environment and operation state.

4 Financing Countermeasures of Small and Medium-sized Enterprises

Here we attempt some effective countermeasures to improve the efficiency of direct financing and indirect financing system, set up perfect guarantee mechanism, combined with the multilateral support from the government, small and medium-sized enterprises and society groups. According to our national conditions, promote the development of integrated financing system of small and medium-sized enterprises.

4.1 Scientific orientation of the government functions in financing system

4.1.1 The government set up policy banks for small and medium-sized enterprises

These banks form quality financial services brand, enhance the funding abilities of financial institutions. At the same time, the government should provide key support to the small and medium-sized enterprises in particular industries, such as furnish low, free or discount interest loan services for small and medium-sized enterprises, extend the terms of application conditions. Furthermore, the government should establish local development funds and absorb the civil society capital reasonably. Especially focus on the new industries, the government should adjust policy orientation, concentrate on the financial and policy support for the innovative development of small and medium-sized enterprises.

4.1.2 Strengthen the differential supervision of credit business

At the aspect of financial services for small and medium-sized enterprises, all levels of governments should strengthen differential regulation on various industries. According to the different needs of small and medium-sized enterprises, concentrate on the implementation of credit rating mechanism, supervision mechanism, and independent accounting mechanism, professional and technical training mechanism, strengthen the supervision from the pricing of risk assessment, and establish the financing agency service to small and medium-sized enterprises.

4.1.3 Implement risk compensation mechanism for commercial banks and other financial institutions

The levels of government increase tax subsidies and integrate resources on schedule, establish risk compensation mechanism for enterprise credit. All levels of government arrange special funds to provide support through policy guarantee, risk compensation, discount loans, grants and awards, etc. Encourage all kinds of financial institutions to support the development of small and medium-sized enterprises.

4.2 Develop the wide range of direct and indirect financing system

4.2.1 Perfect capital market system

The current capital market system of small and medium-sized enterprises is not perfect, this cannot meet the needs of SMEs financing and their development. Therefore, we should make efforts in the following aspects: Firstly, to reduce the company listing conditions, increase the proportion of small and medium enterprises listing and financing; Secondly, make great efforts to develop the bond market, improve the bond and credit rating system; Thirdly, vigorously develop small and medium-sized enterprise investment company, give full play to the role of government and civil social organizations, encourage the functions of venture capital firms. By direct financing system innovation and government policy support measures, vigorously develop the multi-level capital market system, thus effectively broaden the channels for direct financing of small and medium enterprises, such as the second board, the new Sanban Market or regional capital market. Provide wide range of financing platform for different size and development mode of small and medium enterprises, encourage enterprises to carry out debt, equity financing, such as trading center for small and medium-sized enterprises. By equity trusteeship, commissioned bidding, auctions and a series of transactions, emphasis on science and technology innovation of small and medium sized enterprises and establish equity trading market system.

4.2.2 Improve the indirect financing system and accelerate the regulatory role of financial instruments

Actively expand the scale of small and medium-sized commercial banks and local banks, which can be reorganized from urban and rural credit cooperatives financial institutions. Meanwhile, a number of new small and medium commercial banks should be engaged to set up and develop. Public policies guide these new small and medium commercial banks to provide financial service to small and medium-sized enterprises. Last but not least, explore the construction of civil service borrowing system, interest rates should be monitored and regulated in the extent published by government. Implement transparent finance transaction process, promote the abundant private capital into the real economy, and fully exploit the cost and information advantages of all kinds of financial institutions. By the government's policy support, commercial banks should use financial tools flexibly to decompress the financing of small and medium-sized enterprises. Commercial bill are mainly aimed at the large enterprises with high degree of credibility, these are just the defects of small and medium-sized enterprises. Therefore, bankers' acceptance bills as financial derivatives, are suitable for the financing of small and medium-sized enterprises, therefore, various flexible financial derivatives can solve the financing problems of small and medium-sized enterprises to a certain extent.

4.2.3 Enhance facilitation of small financial institutions

In terms of government, small financial institutions can play auxiliary functions in the financial system. They can exert advantages to solve the financing issues for small and medium-sized enterprises. The government should encourage small financial institutions to get rid of obstacles, such as rationalize equity structure, implement effective monitor and decrease their tax burden. From the aspect of public administration, all levels of governments carry out proper preferential tax policies. This is an effective way to increase their profitability. Then these small financial companies can attract more investors and develop for a long time.

4.3 Improve the credit guarantee system for small and medium enterprises

4.3.1 Establish and improve the credit checking system for small and medium enterprises

Integrate the information and resources from industry and commerce, taxation, customs, public security and other departments to promote the establishment of SME credit records, credit investigation, credit collection, credit rating and a series of evaluation system. In conformity with legal provisions, disclose of the behavior of breach of promise, effectively reduce the information cost and the transaction cost to make mutually beneficial to banks and enterprises, and effectively alleviate the indirect financing dilemma of small and medium sized enterprises.

4.3.2 Implement double financing reguarantee mode for small and medium enterprises

The government and other public departments provide double security guarantee for SMEs complied with conditions. Double financing reguarantee mode is a major characteristic of the financing system of SMEs in developed countries, such as Japan and USA, etc. The double reguarantee system is manipulated by local government and relative public institutions. This mechanism can provide guarantee for long-term funding needs of SMEs, meanwhile, the guarantee conditions are more favorable, especially oriented for many growing small and medium enterprises. Improve the credit guarantee system, banks are more assured to provide loans for SMEs, so as to improve the success rate of small and medium-sized enterprises financing. Adequate funding can support the development of small and medium-sized enterprises. Through the establishment of regional credit guarantee corporations, they can make full use of government credit market resources and provide more financing platform for small and medium enterprises, so they can help agencies to achieve integration of security policy at all levels. The government constructs the reguarantee mechanism to set up a layer of protective network for banks, various types of financial institutions and small and medium-sized enterprises. The government plays a role of risk compensation mechanism to enhance the guarantee ability of credit guarantee institutions.

4.3.3 Establish the joint guarantee mechanism for small and medium enterprises

First of all, when the small and medium-sized enterprises apply loans from banks and other financial institutions, they should also apply for credit guarantee from credit guarantee corporations and pay a certain amount of the guarantee fee. Secondly, the related banks and other financial institutions seek advice from the credit guarantee corporations. These organizations provide credit guarantee, and feedback information to between financial institutions and the small and medium-sized enterprises. Thirdly, banks and other financial institutions audit these small and medium-sized enterprises based on their credit rating and information to decide whether or not to authorize these loans.

4.4 Improve the financing capacity and optimize the financing environment

4.4.1 Enhance the financing capacity of small and medium enterprises

Small and medium-sized enterprises are generally lacking in effective collaterals, so the government departments at all levels should conscientiously implement relevant policies to clear the enterprise property rights and relevant documents. They can provide facilitation measures for enterprises to accelerate enterprise land property right confirmation and processing schedule. These procedures can standardize the assessment and registration. Furthermore, formulate the preferential policies for the assessment of enterprise assets, mortgage registration, notary fees and security fees to provide convenient services for mortgage financing of small and medium-sized enterprises.

4.4.2 Perfect the legal environment of credit

By the reference of financing experience in developed countries, on basis of relevant laws and regulations, the operation of guarantee system can effectively pledge normative financing behaviors, to the full extent of avoiding moral hazard and adverse selection caused by asymmetric information. Develop risk investments, expand short-term financing bills and collection bonds, these channels can alleviate the financing pressure in SME board and the GEM board. The precondition to the development of these financing channels is innovation and improvement of the credit rating of small and medium-sized enterprises. Standardization and legalization can bring greater financial support to small and medium-sized enterprises.

5 Conclusion

By effective direct and indirect financing system to extend business scale, small and medium-sized enterprises must concentrate the financing strategies in relevant financing environment. As for the limitations of small and medium-sized enterprises and unsatisfactory financing environment, the financing problems are diverse and complicated. Therefore, in the financing process, small and medium-sized enterprises can not just copy other business practices; They should combine with the specific financing conditions and requirements. For the construction of specific issues of financing system, government and other public departments should take effective measures to continuously optimize the financing environment by legal and regulations to support the development of small financing institutions and commercial banks to solve financing predicaments, and ultimately promote sustainable and healthy development of the enterprises.

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