Financing Issues of SMEs in China and Key Measures from the Government

TAGS Financing

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Small and medium-sized enterprises (SMEs) play an important function in motivating social and economic development, such as increasing the employment rate. However, it is also the reality that worldwide SMEs have been facing financing difficulties, specifically high financing cost and few financing channels/modes. Chinese SMEs also face the same problem.

Though there is a difference in classification standards for SMEs between EU and China, most foreign-invested enterprises ("FIEs") set up by EU SMEs in China are SMEs according to the Chinese standards. Therefore, financing in China is also an issue closely concerned EU SMEs who has or intend to set up FIEs in China.

In 2017 Chinese government took a series of measures trying to provide a better financing environment for Chinese SMEs. Below are three important ones among them.

1. Seven ministries jointly issued an action plan promoting online receivables financing business through **the Receivables Financing Services Platform of People's Bank of China (PBOC) Credit Reference Centre** and mobilizing supply chain core enterprises such as State-owned enterprises and private enterprises of large scale to join the platform.

2. The Law of the People's Republic of China on Promotion of Small and Medium Enterprises was amended in 2017 which tries to promote financing for SMEs from various aspects, such as:

- emphasizing the guidance of PBOC as the central bank;
- promoting business development of small and medium banks, non-deposit loaning institutes and internet financing companies as well as their services to SMEs;
- developing equity financing as well as bond financing encouraging diversity of SMEs financing modes.

3. **Tax preferential treatments –** Before the end of 2020 small and micro enterprises can enjoy VAT exemption in case their monthly sales are no more than 30,000 CNY and stamp duty exemption for the loan contracts with financial institutions.

However recently issued China's Social Financing Environment Report shows that financing channels/modes serving Chinese SMEs became shrunk. Part of the reasons given in this report is that many financing suppliers such as small amount loan companies, internet financing companies and private banks have changed their business from serving investment to serving consumption, and from serving SMEs to serving individuals and big enterprises.

Under such environment, it is better for EU SMEs that have financing need in China to learn the policy and practice of this issue closely. To learn more information in this aspect, take a look at our free guideline Foreign Investment Financing in China.

This guideline not only identifies key issues for EU SMEs to consider when looking for funding in China, but also provides a comprehensive overview of China's banking system and foreign exchange mechanism, with an analysis of the pros and cons of major financing options for FIEs in China. One section of the guideline – "**Solutions for SME Financing**" gives the detailed introduction on supply chain financing, which covers receivables financing encouraged by the government in 2017.