Advice on Financing in China for EU SMEs

TAGS Financing

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1. Build relations with Chinese banks, private investors and government authorities

In China, international and domestic banks are still the primary source of external channels of funding for European SMEs. It is important to maintain a strong relationship with banks in your home country so that they can give instruction to their China branch to open a credit line.

Many other financing institutions outside the banking system also offer funding solutions, including financial leasing companies, credit guarantee companies, and micro loan companies. Although the financing cost could be much higher, it does provide alternative channels to fill a funding gap.

The Chinese venture capital and private equity market is relatively challenging for foreign SMEs, as local investors tend to prefer pre-IPO cases with fast growth prospects, while SMEs usually do not have the required market position, contact networks and market knowledge to expand fast enough.

In some industries such as clean technology, energy, biotechnology and pharmaceuticals/medical equipment, where the Chinese government encourages technology transfer, opportunities are however more apparent and the investment scope can span into pre-revenue cases.

2. Look out for EU funding available in your home country

The European Small Business Portal offers a section dedicated to information on possible EU funding opportunities for SMEs. The European Commission does not make direct grants or loans to individual companies, but the Access to EU Finance website can help you find a local financial intermediary which manages EU loans/guarantees.

3. Check out alternative financing solutions

Other channels for funding include financial leasing, equity financing, government grants and crowd financing. For EU SMEs, family and friends, local and regional financing opportunities tend to be more realistic in the early stages of development.

For European SMEs engaged in online trading, major Chinese e-commerce platforms (for example Alibaba and JD.com) have started to offer micro-loans (typically a loan size between RMB 1000 to 10 million) to their existing merchandisers to finance their operation needs. The platforms use information instead of assets to be sure of their loans, so a proven record of strong online sales and satisfied customers will be essential.

4. A word on licensed credit guarantee companies (CGCs)

If you do not have fixed assets in China to pledge as collateral when applying for bank loans in China, a CGC may be an option. In China, CGCs were created to help SMEs get access to bank loans. A CGC will charge prospective borrowers a significant fee however, and, in exchange, serve as a guarantor to the bank, pledging to pay for any losses in the event of a default. In effect, the CGC had sold insurance, also known as a credit default swap (CDS) to the bank for a risky loan, with the borrower forking over the premium.

Make sure you approach a reliable CGC however. Talk to a credit officer from the main banks in China for references of credible CGCs that they do business with.

To get further advice on issues relating to access to finance for China, contact our experts here.