

Research on Financing Risk Control Based on Small and Medium Sized Enterprises

Sumei Zeng, M.Sc

*Sumei Zeng, Lecturer, Guangzhou Business College, Department of Economics and Trade, Guangdong, 510800, Guangzhou, China.
Correspondence Lec Zeng: xie2059449mou@163.com*

Objectives: Funds are important for the enterprises as blood for body. Sufficient ensure the enterprise to develop for the long time. What's more, sufficient funds can ensure the companies to do what it wants to do at any time. So fund management is still the core of the finance management for the companies. The companies financing is the process of the collecting funds. In China, according to the modern enterprise, among the registered enterprise, medium and small-sized enterprises are 99%. **Methods:** Medium and small-sized enterprises want to succeed facing the violent market competence. From native and alternative status, because of the small scale, resisting risk, limited management and loan ability, there are contraction and ownership barriers between the commercial banks and medium and small-sized enterprises. Government law and policy is not full. Capital market should be unblocked. **Results:** According to corporate financing theory, native and alternative financing status, financing channel in market and the example of middle-little company. The paper discount on notes, supply chain financing, application of floating, bank loan and alternative brand tactics union. **Conclusion:** At last the research financing tactics and risk management. I hope tossing out a brick to attract jade for medium and small-sized enterprises financing through the study.

Keywords: medium-small sized enterprise; financing channel; financing tactics; financing risk.

Tob Regul Sci.™ 2021;7(5-1): 2848-2853

DOI: doi.org/10.18001/TRS.7.5.1.52

In the past, China has made great success in the field of foreign trade, and with the promotion of China's international status, China has become one of the world's major trading powers¹. After the reform and opening up 30 years, China in the field of the foreign trade made remarkable achievements, now has gradually developed into a trade power². But in 2016, the US as the centre of the sub loan crisis has swept the global financial environment in a period of turmoil, which also led to China's foreign trade into a stagnant situation in recent recession and the financial crisis, so that the global financial is becoming better and better³. With the steady development of China's economy, China has gradually become one of the major trading

powers, and China's achievements in foreign trade have attracted worldwide attention in recent decades. However, under this brilliant achievement, there are also many risks in China's international trade, the most important part of which is the risk of international trade financing⁴. In this case, the international trade financing of small and medium-sized enterprises is the greatest risk⁵. A country, small and medium-sized enterprises account for nearly 9 into the enterprise market, the development and growth of small and medium-sized enterprises can directly affect a country's economic development, is a key point of a country can not be ignored⁶. Therefore, it is necessary and practical to study the risk control of international trade financing in small and medium-sized enterprises⁷.

This paper focuses on small and medium-sized enterprises in China, and analysis and studies small and medium sized enterprises based on actual situation and cases. The risk control of international trade financing under the current financial situation and the prevention of small and medium-sized enterprises⁸. The countermeasures of international trade financing risk should be provided to prevent the financing risk of international trade in small and medium-sized enterprises⁹.

METHODS

International trade finance also has several functions between international and domestic:

(1) All developed countries and developing countries in the world are more rely on goods import and export trade to the country's capital, can effectively help its economy market circulation and promote the development of economy and good and fast development .

(2) International trade financing is used to improve the competitiveness of the domestic foreign trade enterprises in the international market, thus helping to promote the country's international trade development (2016). No matter which side of the trade, money is always the most important one. Reasonable international trade financing, can guarantee the speed of a country's economic construction, helping

countries allocate money and resources reasonably, can also help foreign trade enterprises to solve the financial difficulties and successfully entered the international market.

(3) The use of international trade finance can also adjust the country's import and export trade structure so as to promote the national balance of payments. The balance of international payments is an important indicator of the economic development of a country, and the imbalance of international payments can have a very negative impact on the development of the national economy. The international trade finance has adjusted the allocation of domestic production data by improving the quantity of import and export, thus adjusting the structure of import and export and promoting the balance of international payment.

(4) Companies can also use the international trade financing to improve the enterprise vitality, to meet the market demand of worldwide, open and new markets quickly, help to improve enterprises, stability and development, and expand employment to provide more jobs and improve the country's employment.

The specific index of the project is empowered, and the scientific and reasonable analysis is carried out by Delphi method and AHP analytic hierarchy process, and the first level index is empowered as follows:

Table 1
Primary Index Meaning

| Scale | Meaning |
|-------|--|
| 1 | The comparison of two elements has the same importance |
| 3 | The former is a little more important than the latter |
| 5 | The former is obviously more important than the latter |
| 7 | The former is more important than the latter |
| 2、4、6 | Represents the intermediate value of the above adjacent judgment |

To make a decision on a project, it is essential to focus on the ability of the loan enterprise to repay the loan. The ability to repay the loan is more

important than the willingness to repay the loan, and the loan enterprise needs to be the subject of the financing project, which decides the final success or failure of a project. The characteristics

of the project can have an impact on the project decision. After the project is passed, as a part of

the loan enterprise, it must put the financing project feature in the end.

| Table 2 | | | |
|--|--|-----|---|
| The Importance of the Scale of the One - Level Index | | | |
| Primary index factor | Meaning | | |
| The ability to repay loans(A) | The degree of importance is gradually decreasing | | |
| The will to repay loans(B) | | | |
| Features of financing projects(C) | | | |
| Table 3 | | | |
| The Judgment Matrix of the Index Factors of the Primary Index | | | |
| M | A | B | C |
| A | 1 | 3 | 5 |
| B | 1/3 | 1 | 2 |
| C | 1/5 | 1/2 | 1 |

RESULTS

Value Chain Analysis Model

Commercial Banks conduct value analysis on the financing behavior of enterprises, mainly using customer risk analysis model. Because the bank's capital mainly comes from the bank's own customers, therefore when commercial Banks to provide loans to small and medium-sized enterprises, will first of all, from the perspective

of customers to assess the risk of financing trade practices. Common methods include LP analysis, 5C analysis and risk combination analysis. These methods have high requirements for the financial statements of the enterprises when they are used. Therefore, it is relatively easy for enterprises with moderate scale to get the favor of Banks. But most small and medium-sized enterprises still cannot pass approval and evaluation.

| Table 4 | | | |
|--|-----|---|---|
| The Judgment Matrix of the Index Factors of the Primary Index | | | |
| N | A | B | C |
| D | 1/2 | 2 | 3 |
| E | 1/2 | 4 | 1 |

Multivariate Discriminant Analysis Mode

The main body of investment and financing enterprises can according to the project financial evaluation to calculate the degree of financial benefit and efficiency, according to the scale of small and medium-sized enterprise own development and planning to loan payback period, according to the benchmark yield and benchmark payback period to decide whether to put in the project investment and financing. It is difficult to meet the requirements of the model and data in terms of the uniform distribution of the independent variables and the equal requirements of the total covariance matrix of each group. The first step in the model need to build an index system, in order to correctly and reasonably selected representative, large amount of information index, which is directly related to the result of evaluation results.

Whether to undertake some project construction. The evaluation of the project can be evaluated according to the economic benefit evaluation, and the content of the evaluation will be evaluated by the financial evaluation and the contribution rate of the national economy. In the preliminary evaluation, review of the project, should first review of project economic evaluation, then according to the investment main body of the project financial analysis to evaluate the current fiscal and taxation system of the state, as well as the conditions of the price system. According to its benefit and cost to analyze the project's solvency and profitability, to examine the financial viability of the project.

Set RI as an indicator of average random consistency. The indexes of average random consistency are shown in table 5.

Table 5
The Average Random Consistency Index (Ri) of the First 10 Order

| The matrix order | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|------------------|---|---|------|------|------|------|------|------|------|------|
| RI | 0 | 0 | 0.51 | 0.66 | 0.78 | 0.88 | 0.92 | 1.22 | 1.43 | 1.56 |

To set CR as the consistency ratio, the calculation formula is as follows:

$$CR=CI/RI \tag{1}$$

The CI = 0.0018 into the formula, RI is equal to 0. At 51, CR = 0.0018/0.51 = 0.0036.

Consistency ratio < 0. At 01, the consistency

of the matrix can be determined. 0.0036 < 0.01. Weight distribution through inspection.

In the weight distribution test, the different results of each index weight and the consistency test are required to be carried out in accordance with the above index level. The main reference table 5-6:

Table 6
The Weight Distribution and Consistency Test of All The Indicators Under the Primary Index

| M1 | A | B | C | Vector |
|----|-----|-----|---|--------|
| A | 1/2 | 3 | 5 | 0.9128 |
| B | 1/2 | 1 | 2 | 0.3287 |
| C | 1/5 | 1/2 | 1 | 0.1746 |

Secondary Indicators Empowerment

Ability to repay the loan is divided into enterprise internal financial factors and non-financial factors within the enterprise and enterprise external data of 4 small and medium

enterprises international trade financing risk assessment macro conditions, etc., USES AHP to establish priority target, according to the comparison of two indicators to analyze the degree of importance. Table 7 and table 8:

Table 7
The Importance of Each Scale of the Index of the Secondary Index

| Secondary index factor | The degree of importance |
|------------------------------------|--|
| The ability to repay loans(A1) | The degree of importance is decreasing gradually |
| The will to repay loans(B1) | |
| Features of financing projects(C1) | |

Table 8
The Judgment Matrix of the Index Factors of the Secondary Index

| M2 | A1 | B1 | C1 |
|----|-----|-----|----|
| A1 | 1 | 3 | 4 |
| B1 | 1/3 | 1 | 2 |
| C1 | 1/4 | 1/2 | 1 |

A multi-level model of the above analysis of the main indicators from the supplier for the enterprise supply chain, the enterprise marketing strategy and product life cycle is derived from three aspects, in view of the small and medium-sized enterprises rely on Banks or trade clearing the way for financing such as some of the risks were evaluated with scale, combined with the comprehensive score model research of small and medium-sized enterprises to the international trade finance to close to the assessment of risk and avoid mistakes of investment decision.

By using the method of comprehensive risk assessment can avoid the defects of the traditional rating standard and error, to help some potential small and medium-sized enterprises are more likely to get trade finance, through funding

situation, speed up the development.

DISCUSSION

According to this important problem, this paper from the basic theory of trade finance and account of relevant research, this paper introduces the concept of international trade financing, body, the object, this paper expounds the international trade financing has repaid sex, reflection, regulated, complexity, high risk of the five characteristics of international factoring, export trade, import trade, packing credit, delivery guarantee, such as the traditional way of trade finance, and part of our country's international trade financing innovation products is described, the development trend of international trade financing is discussed.

Different financial situation, for reasons of different risks and benefits, enterprise's financing decision and the financing demand will be affected, in bad financial situation, the international trade financing needs of small and medium-sized enterprises generally less, but its reduce the amplitude of than the reduction in the number of the financing provided by funding, lead to small and medium-sized enterprises international trade financing needs while reduced, but still not satisfied.

And different financial situation, the international trade business risk assessment of currency risk, interest rate risk, political risk, credit risk, fraud risk are different, the five risk is the main risk to the small and medium-sized enterprises in the process of international trade. Turmoil in the international financial environment makes the five risk, especially the credit crisis is very severe, let small and medium-sized enterprises in the international trade financing, have to face and take on more risk.

Human Subjects Approval Statement

This paper did not include human subjects.

Conflict of Interest Disclosure Statement

None declared.

References

1. Auwera V D, May F De and Malet L M. The use of the three-parameter model for estimating mean wind power densities. *J. Appl. Meteor*, 2013,19(7): 819 ~ 825.
2. B M. Jatzek A M. Robinson D O. Koval. Estimation of the Optimum Rated Wind Velocity for Wind Turbine Generators in the Vicinity of Edmonton, Alberta. *Proceedings of the 1999 IEEE Canadian Conference on Electrical and Computer Engineering*, Edmonton, 2015:1335 ~ 1338.
3. Berger A N, G F Udell. Amore complete conceptual framework for SME financial. *Journal of banking and financial*.2016:133-134.
4. David B. Financial Intermediation and Financial Innovation in a Characteristics Framework. *Scottish Political Economy*. 2013 : 45-50.
5. Huang K N, Liao J J. A simple method to locate the optimal solution for exponentially deteriorating items under trade credit financial. *Computers and mathematical with application*. 2014:47-50.
6. Hull J, White A. The pricing of options on assets with stochastic volatility. *The Journal of Finance*, 2015:33-34.
7. Jangamshetti S H, Rau V G. Site matching of wind turbine generators: a case study. *IEEE Trans. on Energy Conversion*, 2015,14(4): 1537 ~ 1543.
8. Richard B. The New Trade Financial Supply Chain Links Money, Technology, and more middle-market players. *Trade financial* 2013:33-34.
9. Swain A H. Commercial credit risks; export credits and credit insurance, 2014:47-50.