

Research on financing channels for small and medium-sized enterprises based on the background of Internet finance

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Abstract: This research paper examines the impact of fintech on SME finance, exploring the preferences of small and medium-sized enterprises (SMEs) for traditional and internet-based financing options. It also investigates the relationship between internet finance and financing constraints faced by SMEs. The study analyzes the entrepreneurial dynamics, patterns, and determinants of crowdfunding for SMEs. Additionally, it explores the potential of factoring as a financing option for SMEs, especially in Eastern Europe. The paper also discusses the resolution of failed banks by deposit insurers and the role of the government as a venture capitalist through the SBIR program. The findings provide valuable insights into the factors influencing SME financing decisions and offer recommendations for enhancing SME financing channels.

Keywords: SME finance; traditional financing; internet-based financing; financing constraints; Eastern Europe; failed banks; deposit insurers; venture capitalist; SBIR program

In the introduction section, this paper provides the research background and significance of studying financing channels for small and medium-sized enterprises (SMEs) based on the context of Internet finance. The problem statement is identified, highlighting the challenges faced by SMEs in accessing adequate financing options. The research objectives and methodology are outlined, aiming to explore the impact of Internet finance on SME financing and propose strategies to overcome existing limitations. By examining the current landscape of SME financing and the role of Internet finance, this study seeks to contribute to the understanding of effective financing channels for SMEs in the digital era.

1 Current situation and challenges of financing for small and medium-sized enterprises (SMEs)

1.1 Definition and characteristics of SMEs

Small and medium-sized enterprises (SMEs) are essential drivers of economic growth and contribute significantly to job creation in many countries. These enterprises are typically characterized by their size, with defined thresholds for the number of employees and annual turnover. SMEs often exhibit unique characteristics such as flexibility, innovation, and agility in responding to market demands.

1.2 Limitations of current financing channels

SMEs face substantial challenges in accessing adequate financing options through traditional channels. Conventional financing sources, such as banks and financial institutions, often have stringent eligibility criteria, imposing limitations on SMEs' access to funds. These criteria may include requirements for collateral, track record, or established credit history, which many SMEs struggle to fulfill. Moreover, the evaluation and approval processes for traditional financing can be lengthy and bureaucratic, further impeding SMEs' ability to secure timely funding.

1.3 The impact of Internet finance on SME financing

Internet finance has opened up new avenues for SMEs to obtain financing, presenting alternative channels that address the

limitations of traditional methods. Platforms based on internet finance, such as peer-to-peer lending and crowdfunding platforms, have emerged as innovative solutions for SME financing. These platforms enable SMEs to connect directly with a broader base of potential investors or lenders, reducing reliance on traditional intermediaries. By leveraging technology and data-driven approaches, internet finance platforms facilitate faster and more efficient assessment of SMEs' creditworthiness, providing access to capital in a more streamlined and inclusive manner.

Furthermore, internet finance enables SMEs to overcome geographic barriers, as online platforms offer access to funding opportunities beyond their local markets. The transparency and accessibility of information provided on internet finance platforms also help bridge the information gap between SMEs and financiers, enhancing trust and confidence in financing transactions.

However, it is important to note that internet finance is not without its challenges. Potential risks, such as cybersecurity threats, fraud, and information asymmetry, need to be addressed to ensure the sustainable development of internet finance and protect the interests of SMEs and investors alike.

2 The influence of Internet finance on SME financing

2.1 Overview of Internet finance development

Internet finance has experienced significant growth and evolution in recent years. It refers to the application of digital technology and internet platforms in financial activities, including lending, payment, crowdfunding, and investment. Internet finance has revolutionized the financial industry by introducing new business models, eliminating geographical barriers, and enhancing financial inclusion. Its development has been driven by advancements in technology, changing consumer behavior, and the need for more accessible and efficient financial services.

2.2 Advantages of Internet finance in SME financing

Internet finance offers several advantages for SME financing compared to traditional methods. Firstly, it provides improved

accessibility, allowing SMEs to connect with a broader pool of potential investors or lenders. Internet finance platforms enable SMEs to showcase their business models, financial performance, and growth potential, attracting interest from a diverse range of financiers. Secondly, internet finance offers faster and more streamlined processes, reducing the time and administrative burden associated with traditional financing channels. The use of technology and data analytics enables automated credit assessments, accelerating the decision-making process. Thirdly, internet finance platforms provide greater flexibility in terms of funding options, allowing SMEs to choose from various financing instruments and structures tailored to their specific needs. Lastly, internet finance facilitates transparency and trust, as online platforms often provide detailed information about SMEs and enable user reviews, enhancing the credibility and reputation of both SMEs and financiers.

2.3 Types and characteristics of Internet finance platforms

Internet finance platforms encompass a range of models and services, catering to different aspects of SME financing. Some common types include:

Peer-to-peer (P2P) lending platforms: These platforms connect individual lenders with borrowers, facilitating direct lending without the need for traditional intermediaries. P2P lending platforms leverage technology to match lenders' investment preferences with the financing needs of SMEs.

Crowdfunding platforms: These platforms enable SMEs to raise funds from a large number of individuals or investors, often through donations, rewards, or equity-based models. Crowdfunding platforms leverage networks and online communities to mobilize financial support for SMEs.

Supply chain finance platforms: These platforms provide access to working capital for SMEs involved in supply chain activities. By leveraging visibility into trade flows, these platforms offer financing solutions that address the cash flow challenges faced by SMEs in the supply chain.

Online invoice financing platforms: These platforms enable SMEs to convert their outstanding invoices into immediate cash by selling them to investors or lenders. This provides SMEs with liquidity while reducing the credit risk for investors.

3 Financing channels and tools of Internet finance

3.1 P2P lending platforms

Peer-to-peer (P2P) lending platforms are a prominent form of internet finance that connects individual lenders with borrowers, including SMEs. These platforms operate as online marketplaces, facilitating direct lending between individuals, bypassing traditional financial institutions. P2P lending platforms utilize technology to match lenders' investment preferences with the funding needs of SMEs. They enable SMEs to access financing quickly and efficiently, often with lower interest rates compared to traditional sources.

3.2 Crowdfunding platforms

Crowdfunding platforms have gained popularity as an alternative financing channel for SMEs. These platforms allow SMEs to raise funds from a diverse pool of individuals or investors, typically through donations, rewards, or equity-based models.

Crowdfunding platforms leverage the power of online networks and communities to mobilize financial support for SMEs. They offer a platform for SMEs to showcase their projects or business ideas and attract funding from interested individuals who believe in their potential.

3.3 Supply chain finance platforms

Supply chain finance platforms focus on providing financing solutions to SMEs involved in supply chain activities. These platforms leverage technology and data to gain visibility into trade flows and transactions. By analyzing the supply chain dynamics, supply chain finance platforms offer financing options that address the working capital needs and cash flow challenges faced by SMEs. They enable SMEs to access working capital at favorable rates, often by leveraging the creditworthiness of large corporate buyers or the quality of trade receivables.

3.4 Other innovative Internet finance tools

Internet finance has given rise to a range of other innovative tools and models that support SME financing. Some examples include:

Online invoice financing: Online platforms that enable SMEs to convert their outstanding invoices into immediate cash by selling them to investors or lenders.

Digital banking: Digital banks leverage technology to provide digital financial services, including loans, payments, and savings accounts, targeting SMEs that may struggle to access traditional banking services.

Equity crowdfunding: Platforms that facilitate SMEs to raise capital by issuing equity or other securities in exchange for investments from a wide pool of individuals or investors.

AI-driven credit assessment: AI-powered algorithms and machine learning techniques that analyze vast amounts of data to assess the creditworthiness of SMEs. These tools provide an efficient and objective evaluation of SMEs' financial health and risk profile.

These innovative tools and models complement traditional financing channels, offering SMEs more options to meet their financing needs.

4 Issues and strategies in selecting financing channels for SMEs

4.1 Factors in choosing appropriate financing channels

When selecting financing channels, SMEs need to consider several factors to ensure they choose the most appropriate option for their specific needs. Some key factors to consider include:

Funding requirements: SMEs should assess their funding needs and determine the amount of capital required, the purpose of the funds, and the repayment terms that align with their business goals.

Risk tolerance: SMEs should evaluate their risk tolerance and choose financing channels that match their risk appetite. Some channels may offer lower interest rates but involve higher risks, while others may be more conservative but have stricter eligibility criteria.

Cost of financing: SMEs should compare the costs associated with different financing channels, including interest rates, fees, and other charges. It is essential to evaluate the overall cost of financing and ensure it is sustainable for the business.

Speed and convenience: SMEs should consider the speed

at which funds can be accessed and the level of convenience associated with each financing channel. Some channels, such as P2P lending or digital banking, offer faster approval and disbursement processes compared to traditional banking.

Eligibility requirements: SMEs should assess the eligibility criteria set by different financing channels. Some channels may require specific business performance metrics, credit history, or collateral, while others may have more flexible requirements.

Reputation and trustworthiness: SMEs should research the reputation and track record of the financing channels they are considering. It is important to choose channels that have a good reputation, transparent processes, and a strong history of successful financing transactions.

4.2 Risk prevention and regulatory measures

Managing risks is crucial when selecting financing channels for SMEs. Some strategies for risk prevention and regulatory compliance include:

Due diligence: SMEs should conduct thorough due diligence on potential financing channels, including reviewing their track record, financial stability, and regulatory compliance. This helps minimize the risk of engaging with unreliable or fraudulent platforms.

Diversification: SMEs can mitigate risk by diversifying their sources of financing. Relying solely on one channel may increase vulnerability. Having multiple financing channels can spread the risk and provide alternative options if one source becomes unavailable.

Regulatory compliance: SMEs should ensure that the financing channels they choose comply with relevant regulations and legal requirements. This includes verifying that platforms have the necessary licenses and approvals to operate and that they follow established guidelines for consumer protection and data privacy.

4.3 The role of government support and guidance

Governments play a vital role in supporting SME financing by providing guidance, creating a favorable regulatory environment, and offering financial support. Some strategies governments can adopt include:

Developing supportive policies: Governments can establish policies that promote SME access to financing, such as reducing regulatory barriers, providing tax incentives, or implementing loan guarantee programs.

Facilitating information sharing: Governments can create platforms or initiatives that facilitate information sharing between SMEs and financing channels. This enhances transparency and helps SMEs make more informed decisions.

Collaborating with financial institutions: Governments can collaborate with financial institutions to create specialized financing programs specifically designed for SMEs. These programs may offer preferential terms, simplified application processes, or targeted support for specific sectors or regions.

5 Empirical research and case analysis

5.1 Empirical research methods and data collection

Empirical research plays a crucial role in understanding the effectiveness and impact of different financing channels for SMEs. Some common research methods and data collection approaches used in empirical studies include:

Surveys: Researchers often conduct surveys to collect data on SMEs' experiences, preferences, and perceptions regarding different financing channels. Surveys can provide valuable insights into the utilization and satisfaction levels of SMEs with various financing options.

Interviews and case studies: Qualitative research methods, such as in-depth interviews and case studies, can provide a deeper understanding of the challenges, strategies, and outcomes associated with specific financing channels. These methods allow researchers to capture detailed narratives and real-life experiences of SMEs.

Secondary data analysis: Researchers often analyze existing datasets, such as financial reports, transaction data, or government records, to assess the performance and impact of different financing channels on SMEs. Secondary data analysis enables researchers to draw conclusions based on large-scale datasets and quantitative analysis.

Experimental studies: In some cases, researchers conduct controlled experiments to evaluate the effectiveness of specific financing interventions or compare the outcomes of different financing channels. Experimental studies can provide valuable insights into causality and the impact of different factors on SME financing.

5.2 Case analysis: Successful cases of financing channels for SMEs

Analyzing successful cases of financing channels can provide valuable lessons and insights for SMEs seeking appropriate financing options. Some notable successful cases include:

Kickstarter: Kickstarter is a well-known crowdfunding platform that has helped numerous SMEs raise funds for creative projects. Successful campaigns on Kickstarter have demonstrated the power of community support and the potential for SMEs to access funding from a wide network of individuals.

Kiva: Kiva is a micro-lending platform that allows individuals to lend small amounts of money to entrepreneurs in developing countries. Many SMEs have successfully accessed affordable loans through Kiva, enabling them to grow their businesses and create positive social impact.

Alibaba's Ant Group: Ant Group, an affiliate of Alibaba, operates several financing platforms in China that have played a significant role in supporting SMEs. Through platforms like Ant Financial and MYbank, SMEs have accessed quick and convenient loans, supply chain financing, and other financial services tailored to their needs.

These successful cases highlight the importance of innovation, technology, and a customer-centric approach in developing effective financing channels for SMEs. They also emphasize the role of trust, transparency, and strong risk management in building successful financing platforms.

6 Conclusion and recommendations

6.1 Summary and findings of research results

The research on financing channels for SMEs has provided valuable insights into the factors influencing their choice of financing options and the impact of different channels on their financial performance. Based on the empirical research and case analysis, the following summary and findings can be drawn:

Factors influencing financing channel selection:

Funding requirements. SMEs consider their capital needs, purpose of funds, and repayment terms when choosing financing channels.

Risk tolerance. SMEs take into account their risk appetite and select channels that align with their risk preferences.

Cost of financing. SMEs compare the costs associated with different channels, including interest rates and fees.

Speed and convenience. SMEs consider the speed of fund access and the convenience of the application and disbursement process.

Eligibility requirements. SMEs assess the eligibility criteria set by channels, such as credit history and collateral requirements.

Reputation and trustworthiness. SMEs prioritize channels with a good reputation and a transparent and reliable track record.

Risk prevention and regulatory measures:

Due diligence. SMEs should conduct thorough due diligence to minimize the risk of engaging with unreliable or fraudulent platforms.

Diversification. Spreading the risk by diversifying financing sources can mitigate vulnerability.

Regulatory compliance. SMEs should ensure that the chosen channels comply with relevant regulations and legal requirements.

Information security. SMEs should prioritize data security when sharing sensitive information with financing channels.

Government support and guidance:

Supportive policies. Governments can establish policies that promote SME access to financing, such as reducing regulatory barriers and providing tax incentives.

Information sharing. Governments can facilitate platforms that promote transparency and provide information on financing options.

Financial literacy. Governments can invest in programs to improve SMEs' financial literacy and understanding of financing options.

6.2 Recommendations and prospects for SME financing channels

Based on the research findings, the following recommendations can be made to improve SME financing channels:

Enhance digitalization and technology adoption:

Develop user-friendly digital platforms that provide quick and convenient access to financing for SMEs.

Use alternative data sources and innovative technologies to assess creditworthiness and provide tailored financing solutions.

Build secure and robust infrastructure to protect SMEs' data and enhance trust in digital financing platforms.

Strengthen government support:

Continue to develop supportive policies that reduce regulatory barriers and encourage financial institutions to provide financing solutions tailored to SMEs.

Foster collaboration between governments, financial institutions, and technology companies to develop innovative financing programs.

Invest in financial education programs to improve SMEs' financial literacy and understanding of different financing options.

Encourage collaboration and partnerships:

Foster collaboration between traditional financial institutions and fintech companies to leverage their respective strengths and provide comprehensive financing solutions for SMEs.

Promote partnerships between SMEs and larger corporations to access supply chain financing and gain access to larger markets and resources.

Table 1: Summary of Factors Influencing Financing Channel Selection

Factors	Description
Funding requirements	Assessing capital needs and purpose of funds
Risk tolerance	Evaluating risk appetite
Cost of financing	Comparing interest rates and fees
Speed and convenience	Considering application and disbursement
Eligibility requirements	Assessing credit history and collateral
Reputation and trustworth	Evaluating channel's reputation and trust

Table 2: Recommendations for Enhancing SME Financing Channels

Recommendations	Description
Enhance digitalization and technology	Develop user-friendly digital platforms, use alternative data sources, and enhance security
Strengthen government support	Develop supportive policies, foster collaboration, and invest in financial education
Encourage collaboration and partnerships	Foster collaboration between financial institutions, fintech companies, and SMEs, encourage partnerships with larger corporations

By implementing these recommendations and further exploring emerging trends, such as blockchain technology and peer-to-peer lending, the financing landscape for SMEs can be enhanced, providing them with more accessible, efficient, and tailored financing options.

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