Innovation on Financing Models for Small and Micro Enterprises in the Context of Internet Finance

Shuang Wu, Muchun Chen
School of Economics, Guangzhou College of Commerce, Guangzhou, Guangdong, China

Abstract: Small and micro enterprises (SMEs), as a vital component of the national economy, play a significant role in promoting economic growth, expanding employment, and fostering innovation and entrepreneurship. However, the development of SMEs has long been constrained by issues such as difficulty in accessing financing and high financing costs. With the rapid development of internet technology and its extensive application in the financial sector, internet finance has emerged, opening new pathways for SMEs financing. Leveraging its broad accessibility and high convenience, internet finance is gradually reshaping the landscape of financial services, presenting unprecedented opportunities for SMEs financing. Based on this background, this paper conducts an in-depth analysis of the current financing status of SMEs, identifies problems in their financing processes, and proposes corresponding countermeasures and suggestions in line with the development trends of internet finance. The aim is to provide more comprehensive and efficient solutions for SMEs financing, thereby promoting their healthy and rapid development.

Keywords: Small and Micro Enterprises; Internet Finance; Financing Models; Innovation; Countermeasures

1. Introduction

With the development of economic globalization and the deepening of domestic industrial structure reform, Chinese small and micro enterprises (SMEs) are in a phase of rapid development. They play a crucial role in stabilizing employment, encouraging innovation, and promoting economic development, serving as a foundational force in the national economy. However, the financing difficulties of SMEs have consistently been a major constraint affecting their development.

With the development of technologies such as big data, AI, and block chain, internet finance has become a new channel to alleviate the financing difficulties of SMEs. Internet finance refers to an emerging financial model that relies on internet tools such as payment systems, cloud computing, social networks, search engines, and apps to facilitate capital financing, payment, and information intermediary. It is characterized by low cost, high efficiency, wide coverage, and rapid development. New financing models such as supply chain finance, e-commerce micro-loans, and crowdfunding have, to some extent, filled the gaps left by traditional financing, providing SMEs with efficient and flexible funding support [1]. How to better integrate the development of internet finance to provide more innovative financing models for SMEs is of great significance for their long-term development.

2. Current Financing Situation of Small and Micro Enterprises

2.1 Narrow Financing Channels

The financing methods for SMEs are primarily divided into internal and external financing, including specific channels such as retained earnings, financial institutions, equity, debt, and private fundraising. Relevant data indicate that, aside from internal financing, traditional bank lending is currently the most viable financing channel for SMEs. According to the "China Small and Micro Business Survey Q4 2024 Report" by the Enterprise Big Data Research Center of Peking University, traditional bank lending constitutes the highest proportion of SMEs financing sources, with business loans accounting for 20% and personal consumption loans or credit cards accounting for 17.2%, totaling 37.2%. This shows that traditional commercial banks remain the primary channel for SMEs financing.

Next is the internet lending channel, which has gradually emerged as a new financing method for SMEs. However, borrowing from non-traditional bank financial institutions through online channels accounts for only 17.2%, while offline channels account for 9.3%, and the interest rates are higher than those of traditional bank loans. Although internet lending serves as an important supplement to SMEs financing channels, its financing costs still cannot surpass those of traditional bank loans. Furthermore, among external financing channels, borrowing from relatives and friends also holds a relatively high proportion at 10.9%. Regarding internal financing, additional investments by owners and employee investments account for 13.2% and 8.4% respectively, totaling 21.6%.

Overall, from the perspective of financing channels, external financing for SMEs primarily consists of traditional bank credit, non-bank financial institutions such as internet platforms, and private lending. Internal financing mainly comes from additional investments by shareholders. Capital market financing channels are scarce, and the financing models are relatively singular.

2.2 High Financing Costs

Although the state continuously encourages large and state-owned banks to actively develop inclusive small and micro credit businesses, in practice, many SMEs still have to pay high borrowing interest rates. Relevant data from the Enterprise Big Data Research Center of Peking University show that in the fourth quarter of 2024, the institutional financing interest rate was 7.3%, up 0.2 percentage points quarter-on-quarter. Among them, the annualized interest rate for small and micro operators obtaining financing through online loans was 8.5%; the interest rate for institutional financing through offline channels was 6.6%, showing a quarter-on-quarter increase.

Regarding the cost of offline financing obtained by SMEs from different financial institutions, small loan companies have the highest loan interest rate at 9.6%, followed by joint-stock banks at 8.7%, then city commercial banks and rural commercial banks at 7.7%, with state-owned large banks having the lowest interest rate at 5.5%. Furthermore, informal financing channels such as private lending incur relatively higher financing costs, increasing the financial pressure on SMEs.

2.3 Lack of Effective Collateral

Effective collateral is one of the conditions for SMEs to successfully and quickly obtain loans. When applying for credit financing, SMEs are required to provide collateral. Financial institutions determine the corresponding loan amount based on the quantity and value of the collateral provided. Due to a lack of fixed assets, SMEs often find it difficult to provide sufficiently valuable collateral to meet bank loan requirements. The assets used by SMEs for collateral are often personal real estate, outdated machinery and equipment, inventory, etc., and the value of these assets is not recognized by banks as high-quality assets during the collateral assessment process.

Moreover, the total assets of SMEs are relatively small, and they often operate within a single link of the industrial chain. Changes in the external environment significantly impact their production and operation, greatly reducing their risk resistance capability [2]. Therefore, during the collateral valuation process, bank financial institutions often undervalue the collateral provided by SMEs through discounting, further reducing the amount of credit available to them.

2.4 Imperfect Credit Guarantee System

China's credit guarantee industry started relatively late, lacks a clear regulatory body, and has an underdeveloped market access system [3]. The development of credit guarantee institutions is greatly restricted, leading to an unhealthy credit guarantee market. Credit guarantee institutions are mostly government-owned, and third-party credit guarantee institutions are scarce. Although policy-oriented financing guarantee institutions have increased support for SMEs in terms of policy, optimized guarantee ratios and fees, many SMEs still cannot obtain effective guarantee support due to strict guarantee access thresholds and limited coverage. For instance, guarantee institutions set clear requirements regarding operating history, financial stability, and asset size, preventing some SMEs in the initial stages or those without sustained stable cash flow from obtaining guarantee qualification, thus hindering their access to necessary funding support [4].

The screening criteria for guarantee projects by government guarantee institutions are often based on the different characteristics of industries. In some emerging industries or technological innovation fields, guarantee institutions tend to be more cautious, manifested in lower guarantee ratios and stricter approval processes [5]. This is also a reason why some SMEs cannot benefit from the guarantee system, leading to financing difficulties for SMEs. Moreover, policy-oriented guarantee institutions rely on special fiscal funds and asset transfers, lacking an effective capital compensation mechanism, which limits their actual guarantee capacity. This further leads to insufficient credit guarantees for SMEs, and the imperfection of the credit guarantee system remains one of the key factors constraining SMEs financing.

2.5 Inadequate Improvement in Policy Environment

The inherent nature of SMEs leads to inherent disadvantages in their financing. Relying solely on market adjustments can hardly solve the fundamental problems, making government policy support and guidance very important. In recent years, the state has introduced a series of targeted policy measures to support the development of SMEs and promote their financing, but the effectiveness has been moderate.

Currently, the overall policy environment in this regard is inadequate in China, mainly manifested in the following aspects: First, the implementation strength of government policies is insufficient. There is a time lag from policy issuance to final implementation at the grassroots level. Due to the lack of corresponding implementation plans, many localities have insufficient understanding, and information diminishes layer by layer, resulting in discounted or failed policy implementation. Second, government policies lack systematization. China currently lacks a complete policy support system for SMEs. Policies are fragmented across different regions. Due to the absence of a unified functional department for SMEs information data and policy implementation supervision, the effectiveness of policy implementation is significantly reduced [6].

Therefore, while government policy support has provided significant assistance to SMEs financing, due to multiple concerns, there are still many restrictive conditions in the implementation process of financing support policies for SMEs. For banks, SMEs financing does not bring high profits; instead, it may lead to losses due to non-performing loans, among other factors. Consequently, banks are setting increasingly higher thresholds for lending to SMEs and becoming more cautious in their capital allocation.

3. Innovative Strategies for SME Financing Models

In the "Internet+" era, the diversified development of internet finance provides important innovative avenues for SMEs financing.

3.1 Constructing Diversified Financing Models

In the era of internet finance, the financing models for SMEs need to be more flexible and differentiated. This requires current financing models to continue exploring new financing paths, such as utilizing internet platforms along with big data and Internet of Things technologies to accurately grasp the operational status of upstream and downstream industries, and providing SMEs with services like loans secured by movable assets such as orders or inventory [7]. Simultaneously, the decentralized characteristics of block chain can be leveraged to enhance the traceability and security of the financing process, making it suitable for areas such as higher-risk companies and cross-border financing.

3.2 Establishing a Digital Credit System

In the development process of internet finance, there is a need to establish an information-based credit system. Utilize big data, AI, and other means to improve the accuracy of credit ratings, reduce reliance on traditional collateral and guarantee methods, and establish real-time dynamic credit scores for companies through online transaction data, payment history, and social behaviors, thereby overcoming the limitations of traditional credit rating methods. Secondly, establish credit sharing platforms that aggregate credit data from multiple sources to build a national resident credit scoring system, thereby enhancing the accessibility of loans for SMEs [8].

3.3 Optimizing Financing Processes with Financial Technology

Advances in Financial Technology provide convenient tools for SMEs financing, particularly artificial intelligence and block chain technologies, enabling more precise capital allocation and significantly reducing financing costs. Gradually develop intelligent risk control systems using big data and AI algorithms to monitor and assess the operational and credit risks of SMEs in real-time, thereby reducing default rates [9]. Establish trustworthy financing history records through block chain technology to ensure transparency and traceability in the loan process. Gradually improve technology to enable internet platforms to achieve real-time risk control, reduce manual intervention, and enhance the speed and accuracy of loan approval.

3.4 Scenario-based Financing Solutions

The financing needs of SMEs exhibit significant industry and regional variations. Internet finance platforms need to provide scenario-based financing solutions tailored to the characteristics of different industries and regions [10]. Internet finance should design corresponding financing products based on industry demands and regional characteristics, especially in sectors like agriculture and e-commerce where SMEs have unique funding needs. For specific industries such as agriculture, manufacturing, and e-commerce, platforms can design more closely matched financing products based on the actual needs of different enterprises. For agriculture-based SMEs, products like "order financing" or "agricultural product pledge financing" can be designed, flexibly providing funding support based on the production cycle and output value of agricultural products. For economically underdeveloped regions, public welfare financing projects can be launched, combined with local government support policies, to provide low-interest or interest-free loans to local SMEs based on their actual situations.

3.5 Promoting Inter-Platform Cooperation and Credit Data Sharing

The current issue of information silos cannot be ignored. If information resources can be integrated to promote cooperation between platforms and establish a unified credit data sharing mechanism, then SMEs can obtain more financing opportunities across different platforms. Such cooperation would break down existing information barriers and provide broader funding support for SMEs. Establish a national credit database to allow major financing platforms to share the credit data of SMEs, thereby reducing information asymmetry. Achieve resource sharing and cooperation among different internet finance platforms, particularly in areas such as risk assessment and capital allocation, requiring coordinated efforts from all parties.

4. Recommendations for Relevant Stakeholders

4.1 Recommendations for Government Departments

The government should expedite the formulation of laws related to internet finance, especially regulatory provisions for new financing methods such as crowdfunding and block chain finance, to ensure the standardized development of the industry. Establish a dynamic regulatory mechanism to standardize the operational behavior of internet finance platforms and prevent illegal fundraising, fraudulent financing, and other misconduct. Simultaneously, promote the internet finance industry towards standardized development through guidance and policy support. The government should introduce incentive policies for SMEs financing to encourage more internet finance platforms to provide funding support services for SMEs. Accelerate the construction of a nationally unified credit investigation platform for SMEs to achieve data sharing and transparency of credit information [11]. The government can take the lead in cooperating with internet platforms to improve the credit evaluation mechanism for SMEs using big data technology.

4.2 Recommendations for Small and Micro Enterprises

For SMEs, to achieve stable development in market competition, they must focus on enhancing their information technology capabilities. This requires them to intensify their efforts in information technology construction, utilize digital management methods for operations, and accumulate their own credit data. These will provide a solid foundation for the company to seek financing on internet platforms. Regarding the choice of financing channels, SMEs should be flexible and select the optimal financing model based on the actual needs of the enterprise. For example, innovative enterprises are more suitable for equity crowdfunding, raising funds from the public; e-commerce enterprises can choose order loans or traffic-based loans, obtaining financing based on total order volume or website traffic.

In addition, enhancing their own risk awareness is also essential for small enterprises. During the financing process, SMEs should enhance their risk prevention awareness, rationally plan the use of borrowed funds, clearly define the purpose of the loan, and guard against the risk of over expansion and capital chain rupture. Only in this way can these small and micro enterprises proceed more steadily and sustainably on their financing path.

4.3 Recommendations for Internet Finance Platforms

Against the backdrop of the rapid development of internet finance, to promote SMEs financing, financial service platforms need to play a significant role. Firstly, platforms must continuously deepen Financial Technology innovation, actively utilizing big data, block chain, and artificial intelligence technologies to assist in improving and optimizing the lending process, thereby enhancing service efficiency. To meet the funding needs of SMEs, financial service platforms need to develop different and distinctive financing products. For instance, for enterprises with significant development potential, customized fundraising plans adapted to different development stages can be designed to support their steady growth; for newly established enterprises, various flexible repayment methods can be provided to alleviate their financial pressure during the initial startup phase.

Promoting ecological environment collaboration is also an important part for financial platforms. Internet finance platforms should strengthen in-depth communication and cooperation with government units, traditional financial institutions, and other online platforms to build a comprehensive and multi-level system suitable for SMEs financing. Within this system, through the integrated use of resources and the complementary strengths and weaknesses of different parties, service quality can be continuously optimized, and service scope expanded, enabling more small enterprises to conveniently obtain the necessary funding, grow healthily, and develop rapidly.

5. Conclusion

Internet finance, with its pervasiveness, convenience, and efficiency, has expanded new channels for SMEs financing. However, SMEs still face multiple challenges such as relatively high financing costs, lack of collateral, and an imperfect credit guarantee system. These factors severely restrict their financing capacity. To address these challenges, this paper proposes five major innovative strategies: constructing diversified financing models, establishing a digital credit system, optimizing financing processes with Financial Technology, providing scenario-based financing solutions, and promoting inter-platform cooperation and credit data sharing. Furthermore, recommendations are proposed for the government, SMEs, and internet finance platforms. Through government policy guidance and legal construction, enhancement of SMEs' own governance capabilities, and deepened financial innovation, promotion of ecological collaboration, and construction of a multi-level financing system by internet finance platforms, it is hoped that the financing environment for SMEs can be effectively improved, assisting in the healthy development of SMEs.

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