

Effectively Settling SMEs financing Difficulty with Warehouse Receipt—a Case from China¹

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Abstract:

SMEs financing is a difficult problem in the world, and it is more difficult in China. The highlight of our paper is that it offers a route which could settle the difficult problem but loan on credit. There are three platforms which can effectively settle SMEs financing difficulty with warehouse receipt. Platform 1 is a warehouse receipt management platform which manages SMEs movable property. Platform 2 is a P2P platform, or warehouse receipt financing platform. Platform 3 is a transaction platform of warehouse receipt. Future works have been put in the end.

Key Words: SMEs financing Difficulty, Warehouse Receipt, P2P

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1. INTRODUCTION

SMEs (Small and Medium Enterprises) financing is a difficult problem in the world (Stiglitz, J. E. and Weiss, A., 1981; Bradford, W. D., 2004; Berger, A. N. and Udell, G. F., 2006), and it is more difficult in China (Zhang, H., 2015). The highlight of our paper is that it offers a route which could settle the difficult problem but loan on credit. ZYHG (Zhejiang Yongjin Holding Group) is the first enterprise which has past guarantee stock management enterprise qualification review in China. ZYHG works on SMEs movable property mortgage and pledge, takes part in making China's standards of movable property mortgage and pledge, such as 《Warehouse receipt fundamental element and form》 and 《Guarantee stock third side management norm》, will be founding three platforms which are both independent (each one is independent legal entity) and organically related. When three platforms work in coordination, they can give expression to inclusive internet finance, effectively solve SMEs financing difficulty, and effectively control risk. It will put forward to relative perfect research case for the practice and theory innovation of internet finance. Figure 1 shows the relationship between three independent platforms (Zhang, H., 2015).

2. THE OPERATING MECHANISM AND INTERRELATION OF THREE PLATFORMS

The operating mechanism and interrelation of three platforms are follows:

There is an enterprise name Desk A factory which manufactures desk. There is raw material wood which market values are 3 million RMB in Desk A factory's warehouse. Desk A factory needs 500 thousand RMB as circulating funds. Product circle of desk is one month. That is, if gets 500 thousand RMB, Desk A factory can return 500 thousand RMB and interest 4.2 thousand RMB after one month ($4.2 \text{ thousand RMB} = 500 \text{ thousand RMB} * 10\% / 12 \text{ months}$, according to comprehensive interest 10% per year). And get relative profits.

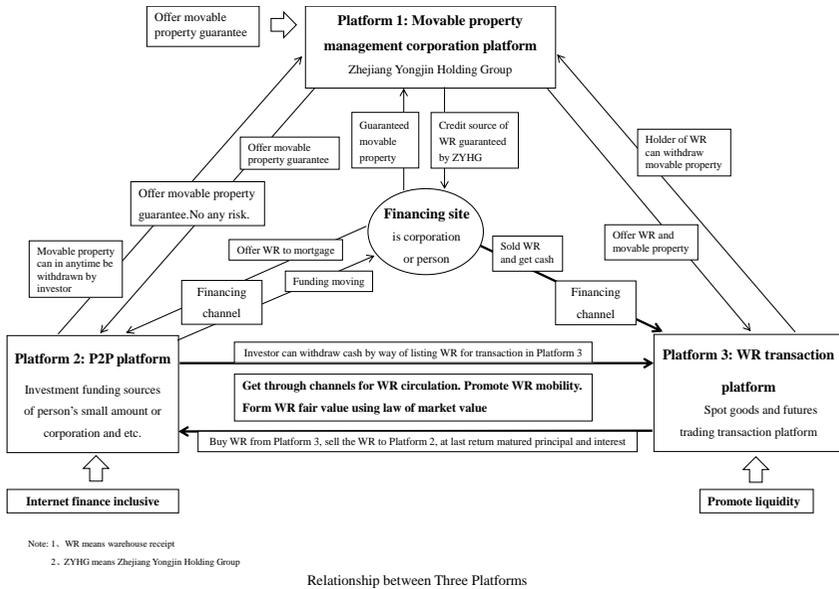


Fig.1 Relationship between Three Platforms

Platform 1 is a WR (warehouse receipt) management platform which manages SMEs movable property. In the case, platform 1 is ZYHG. Desk A factory gets a WR which value is 500 thousand RMB from ZYHG, in terms of carte blanche ZYHG managing Desk A factory's wood of value 3 million RMB. It realizes real time monitoring the wood in 24 hours by means of internet. It would not influence the production of Desk A factory. Because Desk A factory can take the wood anytime, so long as ZYHG can control no less than value 1 million RMB of wood. So, the risk control level of ZYHG is 200%.

Platform 2 is a P2P platform, or WR financing platform. The peculiarities of Platform 2 are follows:

First, its risk can be completely controlled. Former circumstance is that SMEs get financing from commercial bank after they get WR from ZYHG. The financing cost of Desk A factory is 10% (give 1% to ZYHG, give 9% to commercial bank (interest and relative expenses). Note: The average financing cost of issued SMEs private placement in Shanghai Stock Exchange of China and Shenzhen Stock Exchange of China is about 12%. In hope of issued private placement, credit has been promoted by way of third party guarantee, immovable property mortgage and pledge guarantee, and movable property mortgage and pledge guarantee due to information asymmetry.

Now, financing of Desk A factory is from P2P platform when it gets WR from ZYHG. Purchasers or investors are person, enterprise, commercial bank, and etc.

The risk of investors can be fully controlled because every movable property matches the relative risk. Investors can recover the cost of 500 thousand RMB after one month of buying the WR, and gain the interest of 4.2 thousand RMB.

Second, liquidity is quicker. The holder of WR can both hold and transmit it in Platform 3 getting what he invests.

Platform 3 is a transaction platform of WR. Under economic condition, the prices of wood what it holds and desk what it produces would be ups and downs. If Desk A factory pays attention to innovation, the market would look forward to further increase the price of desk what Desk A factory produces. So, platform 3 would encourage SMEs to innovate.

The peculiarities of Platform 3 are follows:

First, market automates to form fair price of WR. The WR bought by investor in Platform 2 can be hang out he`s shingle in Platform 3 for transaction. Its transaction price can be automatically to form fair price by market.

Second, withdraw spot goods or continue to hold WR. After one month, if the sale price of desk produced by Desk A factory is bullish, the holder of WR can **or** complete the transaction for getting principal and interest **or** continue to hold the WR in order to get interest (again sign a new contract, add and modify relative duty and obligation), or sells the WR in Platform 3.

Of course, we need to design relative mechanism in order to realize above. If there are various kinds of causes, Desk A factory is bad management, impossibility of performance of contract, then, holder of WR can withdraw spot goods from Platform 1 (sell out or make over, its value is greater than 500 thousand RMB)

At the same time, Platform 3 gives pay to function of spot and futures goods. If transaction of WR has been continuing in Platform 3, it can be found for market to automate to form fair price with WR. Platform 3 expresses a function of spot goods because WR can be picked up anytime. It is **the most different key** that delivery of entity, generally speaking, is lag phase, such as a month, in traditional futures market.

Other different viewpoint of our futures market is that what any traditional futures exchange deals variety of commodity is only single variety, such as oil futures, or cotton futures.

Generally speaking, it is impossible for people to deal **different dimensional** futures. **But**, it is necessary for people to deal **different dimensional** futures, such as, wood, cloth, and etc., because what Platform 3 deals is WR. It greatly reduces the cost of investing transaction platform.

It is innovation above for us to renew the definition of futures market, to deepen China`s financial market, to accelerate process of China`s financial marketization.

3. SIGNIFICANCE

Because what deals are financial product-WR, it is possible in future for China to realize follow aims:

①**Quicken the process of interest marketization.** They shall reflect the status of demand and supply, and information of price lever about interest based on high-density transaction of WR in the course of reflexing inclusive finance of internet finance market to solve SMEs financing difficulty in some place and some term with important side. It will quicken the process of interest marketization.

②**RMB internationalization of Boost.** If these platforms are opened to the world, and RMB is transaction currency, it will powerfully drive and quicken RMB internationalization.

It is necessary for RMB to be become international currency that China`s balance of payments should satisfy the follow conditions: current account will be deficit, capital and financial account will be surplus.

The deficit of current account indicates that purchase foreign commodity using RMB in order to make RMB moves out of China. The surplus of capital and financial account indicates that RMB moves back to China from overseas. That forms the circulation of RMB turnover in the world.

There are many varieties for RMB how to come back to China. Here is just one kind. Why RMB of overseas should come back to China? Because of the interest of RMB is higher than overseas.

Internationalization of the RMB loads bearing how many Chinese dreams? In order to realize these Chinese dreams, China has done many things, such as bilateral currency swap, RMB offshore market, border trade. If come through above mechanisms, would open China`s capital and financial account with health and order in the meantime boosting internationalization of the RMB.

③**Promote the depth of China`s financial market. The financial products-WR can be made more complicated financial derivatives, such as option, option futures, and etc. Promote the depth of China`s financial market.**

It is our further research work how to make indexation of the financial products-WR, and form more complicated financial derivatives, such as option, option futures, and etc. Please in reference to author`s relative papers and monographs.

It is a basic function of developing financial products for a city to become one of international financial centers. It is also necessary demand for a city to become ruler-making of financial standards. It is also important practice for China to occupy first rank in global internet finance, and drive RMB internationalization, master internet finance speaking right.

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