Background, Development Status and Impact of the Cooperation between Government, Banks and Guarantee Companies: A Literature Review

Silan Huang[1,*]

[1]Department of Accounting, East China University of Technology, Nanchang, Jiangxi,China

Abstract: The cooperation between the government, banks and guarantee companies plays a crucial role in solving the financing problems of SME, and the impact of this cooperation model on the financing activities of SME is also the focus of many scholars' research, but there is still a lack of literature review related to it. Therefore, this paper systematically sorts out the core journals related to them in recent years, and attempts to paint an overall picture of the background, development status and impact of cooperation between the Chinese government, banks and guarantee companies. It is intended to contribute to relevant research and point the way for other scholars to identify valuable research topics.

1.Introduction

In the face of the complex and severe domestic and international situation, the Party Central Committee has clearly put forward the policy orientation of "six stability" and "six guarantees" to promote the main body of the insurance market to a more prominent position. Micro, small and medium-sized enterprises are an important basic force for China's economic development, active market, expansion of employment and improvement of people's livelihood, so the main weight of the market is to ensure the large number of micro, small and medium-sized enterprises[1]. However, for many years, the problem of "difficult financing, expensive financing, and slow financing" has been restricting the development of small and medium-sized enterprises, and the financing problem is also considered to be the most difficult problem to solve in the development of small and medium-sized enterprises. In order to stabilize the basic market of micro, small and medium-sized enterprises, it is important to improve their financing environment. Zhang Qingfang[2] pointed out that how to improve the financing capacity of small and medium-sized enterprises and increase financial support for small and micro enterprises is a long-term systematic project, and it is also a topic that we need to constantly think about and continue to improve.

How to solve the financing problem of small and medium-sized enterprises has long become a hot issue in the research of theoretical circles at home and abroad. In foreign countries, in view of the reasons for the difficulties in financing of small and medium-sized enterprises, the academic community has roughly formed the following three representative views: First, the theory of credit rationing. In the credit market, banks choose to reject the loan needs of some enterprises at a certain interest rate due to adverse selection and moral hazard due to the asymmetry of information between borrowers and lenders[3]. The second is the scale matching theory. Like other industries, banks are characterized by economies of scale, and this characteristic is even more pronounced in the banking sector[4]. The third is the theory of financial repression. In developing countries, due to government intervention in financial activities, lending rates are deliberately depressed, stimulating the capital needs of large enterprises, and banks use credit rationing to allocate funds to industries and sectors closely related to the government, exacerbating the financing difficulties of micro, small and medium-sized enterprises[5].

In China, many scholars have analyzed the causes of financing difficulties for domestic small and medium-sized enterprises from various perspectives such as China's financial system, financial structure, and market structure. Lin Yifu and Li Yongjun[6] believe that the monopoly of the credit market and the imperfection of the system of small and medium-sized financial institutions are important reasons for the difficulty of financing small and medium-sized enterprises. The asymmetric information of banks and enterprises, the discrimination of enterprise scale and the imperfect credit system have made it difficult for small and medium-sized enterprises to obtain financing[7]. Shang Wei and Li Xiaolin[8] pointed out that factors such as information asymmetry, lack of collateral, and imperfect credit system have caused the financing difficulties of small and medium-sized enterprises in China. Che Anhua and Ma Xiaolin[9] believe that insufficient credit and guarantee are the main crux restricting the financing of small and micro enterprises.

[*] Corresponding author: 506147386@qq.com

2.Background of the cooperation

Although academics believe that there are many reasons why small and medium-sized enterprises fall into financing difficulties, the focus of solving this dilemma should focus on the supply of funds for financing difficulties for small and medium-sized enterprises, that is, whether banks are willing to lend. Factors such as information asymmetry, weak anti-risk ability, and insufficient guarantee determine the low willingness of banks to lend to small and medium-sized enterprises. This means that from the perspective of the relationship between banks and small and medium-sized enterprises, the problem of difficult and expensive financing may exist for a long time. Then, in order to solve the financing dilemma of small and medium-sized enterprises, it may require the intervention of the government and guarantee companies. The main ways for the government to support the financing of MSME include direct government subsidies and the establishment of a financing guarantee system, but less government subsidies should be adopted and more should be adopted to establish a financing guarantee system[10]. In this context, government financing guarantee institutions, one of the key measures, have developed rapidly in recent years.

As a bridge connecting enterprises and financial institutions, financing guarantee institutions are an important starting point for solving the financing problems of small and medium-sized enterprises. When micro, small and medium-sized enterprises cannot obtain loans through their own capabilities, they can better solve the financing problem and help them obtain loans from financial institutions by providing them with credit enhancement and realizing credit sharing and risk sharing. However, commercial guarantee institutions mainly aim to make profits, and while facilitating enterprises' access to loans from financial institutions, they inevitably increase the financing costs of micro, small and medium-sized enterprises. At present, the number of commercial guarantee institutions in China is large but the quality is not high, and the registered capital of the vast majority of guarantee institutions is low, the financial strength is limited, the business scale is small, and the magnification is limited [11]. In contrast, policy-based guarantee institutions have strong backing from the state, which can provide higher credit enhancement support for small and medium-sized enterprises, and are not for profit, which is more conducive to reducing the financing costs of small and medium-sized enterprises. Zhao Quanhou and Huang Rong[12] argue that the financing barriers of SME are quasi-public goods, and their natural disadvantages in accessing credit require government intervention to overcome "market discrimination". Jiangche Anhua and Ma Xiaolin[9] also believe that the government should increase the effective supply of policy guarantees, set up a government financing guarantee fund, encourage commercial banks to innovate guarantee methods, and effectively improve the financing capacity of small and micro enterprises.

The core of the policy-based financing guarantee system is to build a risk-sharing mechanism between the government, banks and financing guarantee companies, and improve the coverage, availability and convenience of financial services for small and medium-sized enterprises. Jiang Xiurong [13] believes that it is necessary to increase government support, implement a win-win cooperation mechanism between the government, banks and financing guarantee companies, and establish a risk sharing mechanism, risk management mechanism and information resource sharing mechanism for all parties. Luo Zhihua and Huang Yaguang[14] sorted out the literature on the operation mechanism of the financing guarantee system for small and medium-sized enterprises in Western developed countries, showing that only the policy-based financing guarantee system can solve the financing difficulties and expensive financing problems of small and medium-sized enterprises, and vigorously developing the policy-based financing guarantee system is an inevitable choice to solve the financing dilemma of China's small, medium and micro enterprises.

On August 31, 2015, the State Council issued the "Opinions on Promoting the Accelerated Development of the Financing Guarantee Industry", which proposed that it is necessary to vigorously develop government-supported financing guarantee institutions, accelerate the development of guarantee institutions, establish a cooperation model with the participation of the government, banks and guarantee companies, and effectively give play to the important role of financing guarantees in the development of small and micro enterprises. This not only means that a new round of reform of China's financing guarantee industry has been officially launched, but also marks the official opening of the cooperation model between the Chinese government, banks and guarantee companies. On September 26, 2018, the much-watched National Financing Guarantee Fund was officially established, jointly funded by the central finance and a number of banks and other financial institutions, raising 66.1 billion yuan in the first phase, mainly to carry out guarantee business, which marked the construction of a multi-level and wide-coverage policy-based financing guarantee system and the full rollout of the cooperation model between the government, banks and guarantee companies[15].

In fact, as early as the 30s of the 20th century, governments around the world have begun to build cooperation mechanisms between governments, banks and guarantee companies, and set up a policy-based financing guarantee mechanism for their own small and medium-sized enterprises, that is, a government credit guarantee system, to support the development of small and medium-sized enterprises. The cooperation mode of governments, banks and guarantee companies in the United States, Japan, Germany and France basically covers the typical models in the world, and has also achieved more significant economic and social benefits. The United States belongs to the direct government operation model, which is implemented by special government agencies, and its advantage is that the procedures for small and medium-sized enterprises to apply for guarantees are relatively simple, covering a wide range and diverse. The government itself is a guarantee institution, does not have to contribute capital in advance, so it can effectively reduce the pressure of current fiscal expenditure, under the protection of the developed financial system and legal system of the United States, the policy credit guarantee system works well.

Germany, France and Japan have adopted market-based credit guarantee systems. Credit guarantee institutions are commercial entities, and government departments do not directly engage in and interfere in specific guarantee business, but they provide strong support for guarantee institutions, such as the Japanese credit guarantee system, which has both credit and credit insurance functions under the strong guarantee of the government, which can effectively diversify risks; Germany has injected strong stabilizing factors into the entire guarantee system through the refinancing and guarantee functions of the Bank, the federal government and the state guarantee funds, ensuring the effective operation of the guarantee banks; France relies on the central policy guarantee institution to fully stimulate the power of private financial institutions, and adopts the model of coordinated financing and risk sharing to promote stable and lasting financial support for small and medium-sized enterprises[16].

3.The development status of the cooperation

Based on focusing on solving the financing problems of small and medium-sized enterprises, after years of efforts, China has built a government-bank-bearing financial ecosystem with government capital injection or establishment of guarantee companies, commercial banks undertaking loans, and small and medium-sized micro enterprises undertaking loans[17], forming a good guarantee environment for state-owned financing guarantee funds, policy-based guarantee institutions in various places, and commercial guarantee institutions in the market. For example, in June 2016, the Shanghai Policy Financing Guarantee Fund for Small and Medium-sized Micro Enterprises was officially established, approved by the Shanghai Municipal People's Government, focusing on the development of private enterprises and micro, small and medium-sized enterprises, and committed to solving the problems of difficult, expensive and slow financing for small and medium-sized enterprises. By the end of 2019, it had reached cooperative relations with 46 commercial banks in the city, and the cumulative guaranteed loans exceeded 43 billion yuan, which played an important role in promoting the accelerated development of Shanghai's private economy[18]. Wang Wei believes that policy financing is not only one of the contents of the great practice of socialist economy with Chinese characteristics, but also one of the important measures to effectively promote the rapid growth of China's economy and lead high-quality economic development.

Although many provinces have eased the financing problems of small and medium-sized enterprises in a certain degree by establishing cooperation mechanisms between the government, banks and guarantee companies, there are still many problems in the current cooperation mode between the government, banks and guarantee companies, such as insufficient business focus, weak guarantee capacity, poor cooperation between banks and banks, and the need to improve the risk sharing compensation mechanism. Zhao Tao[19] summarized the current cooperation status of the government, banks and guarantee companies in Huanggang City, although the financial strength and credit enhancement capacity of guarantee companies continue to increase, and the amount and coverage of guaranteed loans are expanding year by year, most of the cooperation agreements between governments, banks and guarantee companies have uneven risk sharing, large compensation amounts of guarantee companies, insufficient capital, and restrictions on business expansion. Wenzhou[20] studied the DEA efficiency values of 190 financing guarantee companies in Jiangsu Province and found that the average technical efficiency of policy-based financing guarantee companies in central Jiangsu was lower than that in southern Jiangsu and northern Jiangsu, mainly because their scale efficiency was not high and they failed to achieve optimal scale operation. Cao Yonghui and Lu Xingying[15] pointed out that the capital replenishment mechanism, risk compensation mechanism and premium compensation mechanism of cooperation between the government, banks and guarantee companies need to be improved. Lei Yao[21] found that due to many assessment targets, difficulty in guarantee compensation, high customer risk and other reasons, many government financing guarantee institutions are facing the dilemma of low magnification and continuous high compensation rate.

In view of the problems existing in the current cooperation mode between the government, banks and guarantee companies, the State Council and the Ministry of Finance have issued a number of circular documents, pointing out the direction for further improving the cooperation mechanism between the government, banks and guarantee companies. At the beginning of 2019, the General Office of the State Council issued the Guiding Opinions on Effectively Playing the Role of Government Financing Guarantee Funds to Effectively Support the Development of Small and Micro Enterprises and "Three Rural Areas", which requires regulating the operation of government financing guarantee funds, making up for market deficiencies, lowering the threshold of guarantee services, and focusing on alleviating the difficulty and high cost of financing in the inclusive field of small and micro enterprises. Na song[22] believes that it is necessary to explore the establishment of a sustainable development model of risk sharing and mutual benefit and win-win results among the government, banks and guarantee institutions, stimulate the endogenous motivation of banks in bank-burden cooperation, and realize the reasonable sharing of financing risks of small and micro enterprises between the government and banks.

In 2020, the outbreak of the new crown pneumonia epidemic made the financing difficulties of small and medium-sized enterprises more prominent. In order to help small and medium-sized enterprises fight the epidemic and tide over difficulties, the Ministry of Finance issued the Guidelines for Performance Evaluation of Government Financing Guarantee and guarantee Institutions, which standardizes the performance evaluation of local government financing guarantee and guarantee institutions at all levels, guides government financing guarantee and guarantee institutions to stick to their main business, actively serve small and micro enterprises, and provide support for small and medium-sized enterprises to obtain more policy-based financing[23]. In May 2022, the Ministry of Finance issued the Notice on Giving Play to the Guiding Role of Fiscal Policy to Support Finance to Help the Relief and Development of Market Entities, clarifying that local government financing guarantee institutions at all levels will provide financing guarantee support to eligible small, medium and micro enterprises, and promote financial institutions to lend as soon as possible, without withdrawing loans, not pressing loans, and continuously lending[24].

4.The impact of the cooperation

Liu Shangxi[25], president of the Chinese Academy of Fiscal Sciences, pointed out in an interview that in order to support small and medium-sized enterprises on a larger scale, the state has introduced intensive fiscal policies, which can be mainly divided into three aspects: tax and fee reduction, policy guarantee, and coordination and matching of fiscal policy and comparison credit policy. In the past, the government's support for small and medium-sized enterprises was usually based on "point-to-point" gratuitous subsidies, which had the disadvantages of less funds, low efficiency, and narrow benefits, which not only existed the phenomenon of "pepper noodles", but also led to a lack of openness and transparency in the use of special financial funds. In contrast, if it can be converted into the capital of guarantee institutions and the loan risk margin of small and medium-sized enterprises, it can play the leverage of fiscal funds and financing guarantees. Government financial support is an important factor in helping the development of SME. The role of policy guarantees will be much greater than the direct government subsidies or tax incentives for micro, small and medium-sized enterprises[26].

Therefore, policy support for the capital of policy-based guarantee institutions and the expansion and strengthening of provincial-level policy-based guarantee institutions have become effective attempts to alleviate the financing difficulties and financing costs of small and medium-sized enterprises in many regions under the situation of economic downturn and the slowdown in the growth rate of private investment. The financing model of "Caiyuan Credit Loan" in Jiangxi Province transforms special fiscal funds into loan risk guarantees through the cooperation of the three parties of government and bank, leverages 8 times the bank credit funds, and gives full play to the role of the government in enhancing credit[27]. Under the cooperation model of the "4321" government, banks and guarantee companies in Hubei Province, the provincial government used the limited guarantee fund to leverage more funds into the financing guarantee of small and micro enterprises, which greatly alleviated the financial pressure and psychological burden of the guarantee institution and made it more motivated to provide guarantee services for small and micro enterprises[28].

Du Shuang[29] concluded that government-controlled financing guarantee and re-guarantee institutions actively increase the credit of small and micro enterprises, and give play to the role of government financing guarantee, which can effectively alleviate the problem of insufficient loan collateral and credit credit of small and medium-sized enterprises, and improve banks' willingness to lend. Huang Huichun and Fan Wenjing[30] also believe that government intervention in the credit market for SME can compensate for shortcomings in the credit market, reduce the cost of loans and improve the availability of loans. Lv Jianglin and Ye Jinsheng[31] conducted an in-depth study of the cooperation model between the government, banks and guarantee companies launched by the Jiangxi provincial government, and found that the government's direct intervention in the SME credit market to provide guarantees for qualified SME played a role in enhancing government credit, alleviating the information asymmetry between banks and SME, and effectively managing adverse selection and moral hazard. Xiao Xia and Yang Xiao zhou[32] selected the credit bond data of private enterprises and local state-owned enterprises from 2015 to 2019, conducted an empirical analysis of the credit enhancement effect of private enterprise bond financing, and found that the higher the level of government financing guarantee institutions among professional third-party credit enhancement institutions, the better the credit enhancement effect, and the better the credit enhancement effect when choosing to jointly increase credit with market-oriented credit enhancement institutions.

5.Summary and outlook

Solving the financing difficulties and expensive financing of small and micro enterprises is a systematic project, which is difficult to reverse through banks or enterprises themselves, but through the cooperation of the government, banks and guarantee companies, a "combined fist" can be formed to resolve the information asymmetry between banks and enterprises and increase the credit of small and medium-sized enterprises. At present, the establishment of cooperation mechanisms between governments, banks and guarantee companies to provide policy-based financing guarantees for small and medium-sized enterprises has become a common practice of governments to support the development of small and medium-sized enterprises. This cooperation mechanism establishes a balance between the government, guarantee institutions, banks and micro, small and medium-sized enterprises in sharing credit risk responsibilities, effectively promotes the development of small and medium-sized enterprises, and achieves relatively significant economic and social benefits.

However, compared with other countries, China started late in establishing a cooperation mechanism between the government, banks and guarantee companies, so there are still deficiencies in the continuity of government capital injection and credit support, the balance of the relationship between the government and commercial banks and guarantee institutions, and adverse selection regulation. In order to support the development of small and medium-sized enterprises and innovation, it is necessary to learn from the industry experience of developed countries and regions, use structural reform and modern financial technology to transform the financing guarantee system, improve the cooperation mechanism between the government, banks and guarantee companies, give play to the government's support role in capital replenishment and risk control, improve the service capabilities of financing guarantee institutions for inclusive finance, and build a sustainable business cooperation model in which the government and the bank jointly participate. Banks should take the initiative to reduce the cooperation access conditions of government financing guarantee institutions, increase the lending quota of small and medium-sized enterprises and the risk tolerance of non-performing loans, and expand the coverage of new government bank business.

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