

Research on the Operation Mechanism of Small and Micro Enterprise Development Provident Fund from the Perspective of Inclusive Finance

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Abstract

Financing problem is a hot issue for small and micro businesses in china, which is caused, some scholars believe, by themselves match of small sizes and financing features of small and micro businesses with the existing financing system led by commercial banks. Although it problem Can,t be solved in the current financial system fundamentally, it must be solved in system innovations By referencing the operation mode of housing accumulation fund in our country, this paper puts forward that development funds of small and micro businesses are must be established.Firstly, the properties of development funds of small and micro businesses are defined. Then the operation mechanism is elaborated from four aspects:"self-help operation mechanism"theory,classification of loan repayment, interest rate system according to the arbitrage pricing theory, and risk prevention mechanism based on "incentive compatibility".The development funds of small and micro businesses can provide a general preferential nature of the financial platform for the financing of vulnerable groups and small and micro businesses.

Keywords

Development Provident Fund; Small and Micro Businesses; Operation Mechanism; Inclusive Finance.

1. Introduction

In view of the third Plenary Session of the 18th Central Committee of the COMMUNIST Party of China on the decision on Major Issues of Comprehensively Deepening Reform, the development of inclusive finance was formally proposed. We will encourage financial innovation and enrich the layers and products of the financial market." According to the spirit of the Third Plenary Session of the 18th CPC Central Committee, to build an inclusive financial system can effectively and comprehensively provide financial services for all social strata and groups, especially for vulnerable groups such as small and micro enterprises excluded from the formal financial system (Wu Jianbian, Nan Shijing, 2013). The root of financing difficulties for small and micro enterprises.The reason is institutional, that is, the characteristics and financing characteristics of small and micro enterprises are seriously mismatched with the current financing system dominated by commercial banks. The reform in the current financial system cannot fundamentally solve this problem, and it is necessary to find a way out in institutional innovation. The key is to use the concept of inclusive finance to establish a new, multi-level external financing system for small and medium-sized enterprises (Xing Lecheng, Wang Yanjiang, 2013).

2. LITERATURES REVIEW

Currently, scholars' research on small and micro enterprises mainly includes the following aspects:

2.1. Commercial financing

Some scholars believe that commercial financing occupies a dominant position in the share of financing of small and micro enterprises (Lei Yao, Jiao Qibin, 2012). Studies have found that there is a strong negative correlation between SME loans and the size of banks, that is, large financial institutions are usually more willing to provide financing services for large enterprises. And unwilling to provide financing services for SMEs “Stiglitz & Weiss} 1981. Small and micro enterprises have their own quality defects, such as low credit rating, chaotic financial management, lack of collateral, relatively poor credit, etc. Therefore, some scholars believe that innovation of bank credit system should be adopted to solve this problem.

It is to reduce information asymmetry through financial intermediary services such as relational credit model (Lin Yifu, Li Yongjun, 2001) and credit guarantee mechanism (Yin Mengbo et al., 2011). The second is to solve the problem of scale matching through local commercial small and medium-sized banks (Li Zhizan, 2002), community banks (Long Chao, Deng Gang, 2011) and folk commercial credit (Zheng Jiuge, 2012) (Luo Zhengying et al., 2003). Third, rural banks and small loan companies established in recent years based on the idea of inclusive finance can solve the system defects (Yang Weikun, Zhao Huijuan, Liu Bin et al., 2013). These theories and countermeasures have greatly enriched the enterprise financing theory and applied it in reality. However, the problem still exists, that is, different stakeholders of commercial financing have conflicting goals “(You Desheng, 2013).

2.2. Mutual assistance and cooperation

Some scholars believe that mutual assistance and cooperation can solve the problem of conflicting goals of different stakeholders. Lending relationship between cooperative financial organization and its members, and risk-sharing, benefit sharing cooperation relations, can by members to know each other and mutual restriction between the members and financial organization information cost internalization, solve the financing problem of asymmetric information and supervision in the high cost (phoebe, Wu Yuntao, etc., 2013). At present, mutual aid and cooperation financial organizations mainly include rural credit cooperatives and urban credit cooperatives, which have played a role in certain areas and to a certain extent. But there are questions. The topics are: misalignment of service objects and business direction of credit cooperatives “(Qu Xiaogang, Luo Jianchao, Kou Deguang, 2013) and alienation” (Zhang Dazhong, Jiang Xiaorong, 2013). Poverty alleviation economic cooperatives are short of funds for hunting and continuation because of their welfare nature “(Yang Weikun, Zhao Huijuan, Liu Bin, et al., 2013).

2.3. Policy-based finance

Some scholars believe that policy-based finance is the investment and financing preference and support for industries, regions, fields, projects or groups that are in a strong position and belong to a weak category and need special financial support “(Bai Qinxian, Wang Wei, 2010). Based on experience at home and abroad for reference, put forward to establish the small and medium-sized enterprise policy financial support system with Chinese characteristics “(Wang economist, 2006 >, initially formed positive stimulating fiscal, monetary and regulatory policy of combining the policy financial system, partly made up for the inadequacy of market allocation mechanism (Lei Yao, Jiao Qi Bin, 2012). However, the replacement of informal financial system by formal finance makes the non-agricultural use of rural funds become normal “(Zhou Li, 2007), and systematic negative investment appears” (Wang Shuguang, 2010, resulting in the further widening of the gap between urban and rural development level (Ye Zhiqiang, Chen Xiding, Zhang Shunming, 2011).

2.4. Mutual cooperation financing” and combining with the innovation of bank credit system

Some scholars solve the financing problems of small and micro enterprises from the perspective of integrating commercial financing “and mutual cooperation financing” and combining with the innovation of bank credit system. Scholars with this view put forward that cooperative alliances between rural banks and financing smes should be established (Li Rixin, 2012) to form a collective guarantee mode of government-assisted insurance, institutional guarantee and mutual insurance of enterprises, so as to alleviate the financing difficulties of smes. They provide a useful idea for solving the financing difficulties of small and micro enterprises. However, the existing problems are as follows: rural banks will have the problem of “leaving agriculture and sustainable development” (Cao Tan, 2012), and the financing sme cooperation alliance has the problem of “limited scope of service” and “unsustainable”. To sum up, commercial financing (such as commercial banks, community banks and small loan companies) has conflicts between inclusive policy goals and profitability goals of commercial finance. Mutual aid cooperation financing exists the shortage of funds “; Policy finance (such as agricultural development bank) can only serve “but not universal”, or welfare (such as poverty alleviation economic cooperatives) but not sustainable; It is a good idea to integrate commercial “and mutual assistance and cooperation” and combine the innovation of bank credit system to solve the financing problems of small and micro enterprises.

However, in reality, the lack of a public welfare micro-financial service platform that effectively integrates all resources cannot form inclusive finance. Starting from the guiding ideology of inclusive finance, and based on market operation, and drawing lessons from the operation mode of China’s housing provident fund, we should establish the provident fund for the development of small and micro enterprises, in order to provide a sustainable financial and public welfare micro-finance platform for small and micro enterprises to serve the vulnerable groups.

3. Concept and nature of provident fund for the development of small and micro enterprises

3.1. The concept of provident fund for small and micro enterprises

Small and micro enterprise development Provident Fund (hereinafter referred to as the development provident Fund) is a long-term enterprise savings fund voluntarily deposited by residents and small and micro enterprises under the guidance of the local government, which mainly provides annual, convenient and comprehensive financing for Chinese residents and small and micro enterprises. The development provident fund deposited by residents, small and micro enterprises shall be deposited in special accounts and shall be owned by the residents, small and micro enterprises that pay the funds. The development provident fund system is a public welfare system of entrepreneurial financing.

3.2. Nature of provident fund for the development of small and micro enterprises

Legitimacy. When the development provident fund is established, the local government will invest a certain amount of start-up capital. The management authority of the development provident fund is subordinate to the local government of the region, and the development Provident Fund management center is responsible for the daily management and specific business activities. The center is a public welfare cooperative economic organization set up under the guidance of the local government (prefecture-level), taking prefecture-level cities as a unit, and participating members must be local residents and small and micro enterprises. The development provident fund replaces the informal finance with the formal finance, which

makes the financing activities of Chinese residents and small and micro enterprises have the system and legitimacy.

Predictability. In China, although most residents and small and micro enterprises have strong entrepreneurial desire, they lack corresponding financial support, especially stable and reliable financial support from formal financial institutions. After joining the DEVELOPMENT Provident Fund, the members of the development Provident Fund can obtain reliable preferential financial support in the case of urgently needed financing, such as entrepreneurship, major technological transformation and expansion of reproduction, at the cost of a small amount of deposit. This is a very favorable thing. Even if members of the DEVELOPMENT Provident Fund do not need financing, they will not suffer economic losses because they can withdraw freely after a certain period of time and the funds paid will be returned with interest. The members who participate in the development provident fund can conduct convenient and fast financing through the development provident fund to meet the refinancing needs of residents' venture capital investment and small and micro enterprises. As the financing activities are institutionalized and routinized, they are predictable.

The mutual aid and cooperation of "self-help first, he helps second". "Self-help" means to zhu lai "mainly financing, that is, China's residents (or small and micro enterprises) only pay a certain amount of capital to finance, in the financing of the monthly dispersed loan principal and interest, which is equivalent to their own financing in the future. Since small and micro enterprises have limited funds, even if zhu lai "financing, can not completely solve the problem of shortage, so we must help each other and cooperation". According to the law of large numbers, since the venture financing of provident Fund members is not synchronous and dispersed to various industries, the surplus and deficiency can be complementary, that is, the more members participate, the better mutual aid effect.

Long-term. After pay accumulation fund, exceed certain fixed number of year ability can withdraw, the time that assures to attend so has long-term sex. Because the mutual cooperation is long enough, the participating members can stagger the pooling of financing over time, thus benefiting each member.

Restitution. After becoming accumulation fund member, after handing in time limit to fill certain fixed number of year, or retreat body, or member census register moves out original seat city to wait, the accumulation fund that capture puts will return worker individual.

Universality. As long as they are local residents and small and micro businesses, they can contribute to the DCPF and become members of the DCPF. Once a member of the DEVELOPMENT provident Fund, he or she can enjoy annual, convenient and comprehensive financing services, so it is equal and universal.

4. Operation mechanism of provident fund for small and micro enterprises

For the operation mechanism of the development of provident fund for small and micro enterprises, it mainly demonstrates the operation ideas, loan and repayment management mode, interest rate system and risk prevention mechanism of the development of provident fund for small and micro enterprises.

4.1. The development of provident fund for small and micro enterprises adopts the operation idea of "self-help is the main, other assistance is the auxiliary"

The development provident funds of small and micro enterprises can not only solve the problem of incentive and risk mismatch between different stakeholders to a certain extent, but also solve the problem of insufficient sources of the development provident funds of small and

micro enterprises, making the development provident funds of small and micro enterprises extensive and sustainable.

4.2. The classification of loan repayment management mode is adopted to standardize credit resources

Specifically, when providing loan services to residents and members of small and micro enterprises of the fund, differential interest rates are applied (Ma Jiujiu, Wu Benjian, 2013), that is, according to the amount of loans (mainly referring to the annual income of local residents), they are divided into two categories: credit loans and guaranteed loans.

Credit loans mainly target at short-term loans (such as less than one year), and are divided into daily liquidity small loans, venture investment and technical transformation loans. If you become a member, you can get a debit card for small loans. Up to a certain limit, members can recycle their overdrafts and settle on January 1 at a slightly lower interest rate than commercial current loans. For venture capital investment and technical renovation loan, residents or members of enterprises need only provide project plan and relevant investment qualification certificate (technical certificate, professional qualification certificate and business certificate). Do is good for both sides, for accumulation fund, low risk of short-term loans, although interest rates lower than commercial loans, but on the other hand because of the accumulation fund to take up membership pay membership fees, so the cost is relatively low, on the other hand through the loop overdraw the debit card system "to reduce costs, enhance liquidity, for long-term loans has strong financial support. For provident fund members, although paying the fund adds some burden, the advantage is that there is a convenient and stable financing channel available when starting a business.

Guaranteed loans are divided into first and second major venture capital investment and major technical transformation loans. For the first major loan, implement the project mortgage loan model. In addition to providing loan program and related investment data prove that, also needs to have at least 20% of the capital contribution certificate, the project investment or two without loan guarantees or qualified assurance company, its slightly higher than the commercial bank of deposit and loan interest rates, repayment for choosing (YiQiao, 2015) the monthly installment of return model, That is, loan members pay the repayment that needs to be apportioned in time to their own debit credit card ", and then deducted by the small and micro enterprise development provident Fund (of course, You can also pay back the loan early at interest rate based on the actual time). For the next major loan, it must be paid off after the first major loan, and there must be at least 40% of the investment proof of the project, and other funds shall be the same as the first major venture capital investment and the major technological transformation loan.

The reasons for this design are as follows: first, the project mortgage loan is adopted. The entrepreneur not only has a clear goal of operating the enterprise and has certain experience and skills in operating the enterprise, but also has a certain proportion of project assets as collateral to reduce the risk of bankruptcy of the enterprise. Second, in the same area, provident fund, members and banks are relatively familiar with each other, and information is easy to transfer, basically forming a certain range of acquaintance community. "These factors simplify financing risk assessment, thus reducing the cost of credit assessment. Third, each member has only two major venture capital investment and major technical transformation loans in his life, which not only ensures that everyone has the opportunity to get loan opportunities and ensures fairness, but also reduces repayment risks. Even if the member is in the maximum loan (for example: the maximum loan is set as the local annual average income) business bankruptcy, the risk is basically within the range of control, to ensure the security of the loan. For example, if CPF members can work for 40 years, 15 years of bankruptcy simply means a reduction in living standards by 37.5%} $15/40 = 37.5\%$). Since the repayment of the loan is paid in monthly

installments, he is still able to repay the principal and interest. To accumulation fund, as a result of the project mortgage loan of early days, and the fund member that has 2 above (or qualified assure company) assure, although appear loan member oneself cannot return the circumstance, its guarantor still has the obligation that joint and several return loan, this reduced risk of breach of contract on considerable level.

Small and micro enterprises have a vital position in the development of local economy, employment and fiscal revenue. However, due to limited financial resources, local governments cannot (and do not need to) meet their funding needs. The establishment and development of the venture capital provident fund cater to the needs of the government. The government can solve the problem of entrepreneurship financing for residents and small and micro enterprises, promote the development of local local economy, and enhance the performance of local governments without (or less) money. Therefore, the establishment and development of the actively promoted venture capital provident fund has considerable internal motivation for local governments.

4.3. Determine the corresponding interest rate system design according to the arbitrage pricing theory

The arbitrage pricing formula $E(r_i) = r_f + \beta_i (E(r_M) - r_f) + \alpha_i (z_1 - z_0)$, $z_1 + z_0$ { Based on this principle, the corresponding provident fund interest rate system is determined. Compared with the commercial loan interest rate, the short-term interest rate of provident fund loan interest rate is slightly lower while the long-term interest rate is slightly higher, as shown in the figure below. The dashed line is the commercial loan interest rate, and the solid line is the loan interest rate of small and micro enterprises. For short-term loans, small and micro enterprises development provident fund loan interest rate is slightly lower than commercial.

5. Conclusion

In summary, It is not only convenient but also fair for residents and business members to get unsecured credit cards that can be recycled. For the small and micro enterprise development provident fund “institutions, not only low interest can realize profits and more sales”, but also because of the occupation of provident fund “and the recyclable debit credit card system” and greatly reduce the cost, so that the fund gets rapid growth, and then provide support for long-term funds, that is, to achieve short to make up for long “.For medium - and long-term loans, the interest rate of small and micro enterprises' development provident fund is higher than that of commercial loans.

Acknowledgements

This work is supported by the 2022 year Key scientific research projects of colleges and universities fund of the Education Department of Henan China (project approval number:22B630012)

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