China MSME Finance Report 2018
(Compact Edition)

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Deeply appreciate the scholars and experts who patiently accept our research and consulting on MSME finance. Their study provides very professional advice and practice experience. This report condenses their wisdom.
Preface

The year 2017 was called the “Year of the Strictest Regulation in History” for the financial industry, “Strict Regulation and Risk Prevention” has become the main line of financial policies throughout the year. A strong contrast to this is that the inclusive finance, including small and micro finance, has drawn high attention from the administrative level, government decrees were frequently released in order to promote the development of inclusive finance.

The hotness of financial technology (Fin-Tech) is still not diminished, different from previous years, in 2017, when facing the sudden rise of internet financial institutions, the traditional financial institutions began to transform from passive defense to active attack, they have been continuously enlarging the investment efforts in Fin Tech, accelerating layout in the fields of big data, cloud computing, artificial intelligence, block chain, etc., the applications of Fin Tech in the small and micro enterprises’ financial service in traditional commercial banks have become wider. Meanwhile, the internet financial institutions that have first mover advantage in the aspects of scenario, data and technology also invariably started the strategic transformation of “De-financialization” in this year, stressed more on their own positioning of “Technology Enabling”, so as to promote confrontation to integration, the cooperation between traditional financial institutions and the transformed financial technology enterprises is getting better.

The return of finance to its origin of serving the real economy is still continuing, the path of return is not a smooth ride, various institutions are experiencing different extents of pain for restructuring. The development of small loans and pawn mortgage industry continued the downturn state, the polarization within the industry has gradually appears. The P2P online loans are experiencing the harsh test of “Strict Regulation + Crisis”, the progress of the industry returning to its origin of information intermediary accelerated, the weaker ones quit the market, the stronger ones are treading on the thin ice, their service to micro, small and medium enterprises has declined. With the increasingly strict industrial supervision, the channel businesses are subject to restriction, the financing lease enterprises have gradually returned to the essence of assets leasing, but the micro, small and medium enterprises are still the marginal clients of financing lease. Compared with the policy guarantee institutions that have been frequently benefited from the good development trend, promoting the development of moveable property financing of the micro, small and medium
enterprises by regulated development of the collateral management industry is the means that needs more attention from the administrative level and the more effective market-oriented means to solve the financing difficulty problems. In 2017, the investment progress of the venture capital investment market obviously accelerated, and the activeness has been enhanced, but the irrational behaviors of grabbing projects are still prominent, the inflated high valuation level of start-up enterprises, especially unicorns, and the price inversion phenomenon in the primary and secondary markets have promoted the industry to pay attention to the investment opportunities in the innovative enterprises at their early and middle stages. The service to micro, small and medium enterprises in the stock market and bond market in 2017, no matter if it’s direct or indirect, had nothing prominent.

It’s worth recognizing that in 2017, the construction of credit system continued to deepen, the unified registration system for movable property financing and the receivables financing service platform finally obtained clear policy promotion. Improvement of these financial infrastructures concerns the long-term and sustainable development of the financial services to micro, small and medium enterprises, this is also the more pragmatic and effective means than any campaign-style policy support.

This year is the 10th year to publish this Annual Report, the vertical tracking study and horizontal correlation analysis of main institutions/markets that have lasted for 10 years have enabled the development logic of China’s small and micro enterprise financial service market to be clearly reflected, we also hope that our studies that adhere to the “Spectator” neutral position could bring different references and inspirations for the practical fields, and to bring more rational and long-term layouts in the varied opinions and multifarious moves on the problem of “Financing Difficulty of the Micro, Small and Medium Enterprises”.

Thanks again to the frontier practitioners, industrial experts and scholars of small and micro finance, especially the friends who served as the experts of industrial copy editing, they provided very professional suggestions and practical materials for our research for free, this report also concentrates their wisdoms. Thank the publishing team of Director Wang Xiaorui in the China Finance Publishing House for their support as always, their strict editing and control enabled this report to be presented to readers in the best quality. Lastly, we would like to express our special gratitude to our dear readers, it’s your attentions, recognitions and higher expectations that made us not dare to relax, we hope that our efforts in this year could continue to obtain your recognition, welcome to follow the WeChat Public Account of “Mintai Institute of Finance and Banking (CUFE)”, and leave your valuable opinions and suggests!
1. Micro, Small and Medium Enterprise (MSME) Financial Service System

This report classified the financial service system of medium-sized, small and micro enterprises\(^1\) include five main categories, namely banking financial institutions, insurance institutions, other financial institutions/pseudo-financial institutions, financial market and informal finance (for further details, please refer to Figure 1-1).

**Fig1-1 MSME Financial Service System**

Among banking financial institutions, the institutions that were involved in the field of financial service of medium-sized, small and micro enterprises included policy banks, China Development Bank, Postal Saving Bank, large-scale commercial banks, joint-stock commercial banks, city commercial banks, foreign banks, rural small and medium-sized financial institutions and non-bank financial institutions, in which rural small and medium-sized financial institutions could be further classified into two types, namely rural cooperative financial institutions and new rural financial institutions.

\(^1\) The financial service system of medium-sized and small enterprises in broad sense include not only service institutions and markets, but include also other service intermediaries and service environments; in order to emphasize the key of this report, the system here will only include main service institutions and markets.
financial institutions, rural cooperation financial institutions include rural credit cooperatives, rural cooperative banks and rural commercial banks; new-type rural financial institutions are comprised of village or township banks (VTBs), lending companies and rural mutual cooperatives. In non-bank financial institutions, organizations involved in MSE financial services mainly include trust companies and financial leasing companies.

Besides banking financial institutions, those involving in MSEs financial service also included the other financial lease companies than the financial lease companies attributable to banking financial institutions, micro-loan companies, pawnshops, venture capital institutions, financing assurance companies, collateral security management companies and commercial factoring companies. In the aspect of financial market, there were over-the-counter markets and bond markets, in which over-the-counter markets include growth enterprise market, middle and small capital stocks market and street market. Besides, there was informal finance, including the financial service form other than formal finance. Lastly, besides the institutions focusing on providing financing services, there were the types of financial institutions, such as insurance institutions that don’t directly provide financing but provide risk management services.

2. Compositions of MSE Loan Types

Among MSMEs financial services, loan service is one of the major types. In pace with the practical development of MSEs financial services provided by financial services, especially commercial banks, compositions of MSE loan types are further specified. The summary and definition of our team are as follows, generalized MSE loans can formally be divided into two types, one incorporates MSE loans offered through the form of enterprise loans, namely, small enterprise loans and micro enterprise loans (collectively referred to as MSE loans in narrow sense), while the other consists of loans to individual business owners and loans to MSE owners, both offered through the form of personal loans (See fig. 2-1).

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1 Some of these institutions were not clearly defined as financial institutions by laws, or regulatory regulations, but considering the financial nature of their engaged operations, we refer to them as pseudo-financial institutions. In October 2015, the People’s Bank of China, CBRC, CSRC, CIRC and the State Statistics Bureau jointly issued the Regulations on Classification Standards of Financial Enterprises, which classified micro-credit companies, pawnshops, financing assurance companies, etc. as non-monetary banking-service-type financial enterprises.
3. Overview of Financial Service to Micro, Small and Medium Enterprises (MSME)

Chart 3-1 reflects the scale of MSME financial service provided by the main providers in the MSME financial service system. As we can see, banking financial institutions are still the biggest fund suppliers to MSME; the industries providing RMB-100-billion-level financing included small loans, financing lease, venture capital, and stock market; neither the pawn mortgage balance nor the bond market financing of MSME exceeded RMB 100 billion. Compared with 2016, the service scale of small loans and pawn mortgage had almost no growth; the growth of venture capital was the most significant; the financing scale of the stock market generally shrank, the financing from stock market by MSME was also affected; although the bond market financing scale grew, the ratio of that truly flowing to MSME was very little, and the absolute value even had obvious decline.
Chart 3-1 Overview of Financial Service to MSME (Year 2017)

Note: ①The circles besides banking financial institutions, financing lease, small loans and pawn mortgage represent the financing balances provided by various institutions in the year 2017, in which the yellow part represents the financing balance of MSME (the figures in grey color mean the overall financing balance, the figures in yellow color mean the MSME financing balance). The specific calibers are as follows: the statistical/estimating caliber for banking financial institutions and small loans shall be the balance of loans for the generalized small and micro enterprises (including the loans to small enterprises, micro enterprises and individual businesses and the personal business loans to the owners of small and micro enterprises); the estimating caliber for financing lease and pawn mortgage shall be the business balance of MSME. The circle of venture capital represents the increment of venture capital (including angle investment) investment in 2017, the figures in yellow color respectively mean the already disclosed investment amounts and beginning amount of investment, the actual scale would be higher than the already disclosed data. The circles stock market and bond market represent the increments of financing provided by the two markets respectively in 2017, in which the yellow part represents the financing amount of MSME (the grey figure means the overall financing amount, while the yellow figure means the financing amount of MSME).

②The number of small and micro enterprise loan accounts in banking financial institutions was 15.21 million (as of the end of 2017), the number of small and micro enterprises (including individual businesses) was sourced from the State Administration of Industry and Commerce, as of the end of July 2017, the number of small and micro enterprise included in the list of small and micro enterprises in China had reached 73.281 million.

3.1 Banking Financial Institutions

The year 2017 was called the “Year of the Strictest Regulation in History” for the financial industry, regulatory decrees were intensively released, big fine tickets were continuously issued, in order to prevent and control financial risks. The frequent issuance of ordinances by the government supported the small and micro finance, and brought fresh current for commercial banks to further deepen small and micro financial business. The various major banks returned to their origin of serving the real economy under the background of strong regulation, made business transformation, enlarged the effort of supporting small and micro enterprises, the balance of small and micro enterprises loans by commercial banks maintained the growing trend, and the growth rate somewhat increased compared with that in 2016, the polarization degree of growth for various types of commercial banks deepened, the balance of small and micro enterprises loans by the five major banks all realized positive growth, and still lead far ahead in absolute quantity with absolute advantage; while the joint-equity banks continued the strategic adjustment period in 2017, but the
growth rate had obvious rebound compared with that in 2016; city commercial banks maintained relatively high growth rate, and further exerted their own comparative advantage.

Facing the complex environment, while maintaining robust operation, commercial banks have been continuously exploring new means to serve small and micro enterprises by integrating their own advantages. The various major banks have all established inclusive financial business departments, and promoted the formation of new pattern of “Lineation” management and “Five Special” operation of inclusive finance that include the small and micro finance. In 2017, the banking industry has been continuously enlarging the investment efforts in financial technology, including strengthening IT infrastructure construction, investing in more Fin Tech start-up companies, acquiring Fin Tech companies with potential threats, establishing innovation laboratories, cooperating with Fin Tech companies, etc., and accelerating the layout in the fields of big data, cloud computing, artificial intelligence, block chain, etc.. The applications of Fin Tech in the financial services to small and micro enterprises by traditional commercial banks become even wider, specifically speaking, Fin Tech promotes commercial banks to strengthen smart banking infrastructure construction, improve business channel and process, upgrade financial products and services, enhance the efficiency of marketing and risk control, promote the “Online + Offline” integration, develop the crossover cooperation and advantage complementation with internet financial platforms. So as to further promote the innovation of small and micro enterprises financial products, optimization of service process, and enhancement of the efficiency of marketing and risk control. Besides, some banks have been deeply exploring the supply chain finance, expanding service platform and cooperation scope, promoting the supply chain finance to develop towards online, scenario and dynamic direction, and providing wider financing support to the MSME within industrial clusters. Generally speaking, the financial services to small and micro enterprises by commercial banks were further improved, facing the challenge by Fin Tech, the banking industry is not anxious and fearful any more, and has begun to transform from passive defense to active attack, such transformation will support the continuous improvement and development of financial services to small and micro enterprises.

3.1.1 Stable Rise of Loan Balance of Small and Micro Enterprises, Rebound of Both Loan Balance Growth Rate and Growth Rate of Loan Accounts

As CBRC data indicated, as of the end of 2017, the total balance of generalized small and micro enterprises loans by China’s banking financial institutions reached RMB 30.74 trillion (including small enterprise loans, micro enterprise loans, individual business loans and personal operation loans to small and micro enterprise owners, if not specially stressing narrow-sense caliber, those in the following text shall all mean generalized-caliber small and micro enterprise loans), which increased by RMB 4.04 trillion compared with that in 2016, the growth rate was 15.14%, increasing by 1.33% compared with that in 2016. Generally speaking, the growth rate of loans for small and micro enterprises has rebounded year by year after reaching the relative low
point in 2015. In 2017, the number of small and micro enterprise loan accounts across China reached 15.2092 million, increased by 17.279 million accounts compared with that in 2016, the growth rate was 12.82%, which extensively increased by 10.89% compared with that in 2016.


![Chart 3-2](chart.png)


3.1.2 The narrow-sense small and micro enterprise loans maintained the level of 80%, the growth rate of small and micro enterprise loans released in form of personal loans had significant increase

From the perspective of structural dimension, compared with 2016, the ratios of various small and micro enterprise loans in 2017 didn’t have any obvious change. The ratio of small enterprise loans was the highest, reaching 72.24%; the micro enterprise loans, individual business loans, and personal business loans of small and micro enterprise owners accounted for 9.94%, 10.36% and 7.46% respectively. Generally speaking, the “20-80%” trend of the small and micro enterprise loans released in form of personal loans and the narrow-sense small and micro enterprise loans released in form of enterprise loans didn’t have any obvious change yet.
From the dimension of growth rate, distinct from the growth trend in 2016, the small and micro enterprise loans released in form of person loans suddenly rose, the growth rates of the personal business loan of small and micro enterprise owners and the individual business loans were 14.11% and 10.28% respectively, which increased by 8.10% and 10.25% respectively compared with that in 2016. While the growth rate of small and micro enterprise loans released in form of enterprise loan slightly declined. Even so, among the four types of loans, the growth of micro enterprise loans was still the fastest, and reached as high as 24.80%.
### 3.1.3 Balances of small and micro enterprise loans by the five major banks, rural commercial banks and city commercial banks continued to rank the top three places, the ranking of balances of small and micro enterprise loans by various institutions maintained stable

From the balance of small and micro enterprise loans, the five major commercial banks (ICBC, ABC, BOC, CCB and BOCOM) were still in the first tier, their total balance of RMB 7.42 trillion accounted for 24.14% of the balance of small and micro enterprise loans by banking financial institutions; the second tier includes rural commercial banks, city commercial banks and joint-equity commercial banks, the ratios of these three types of banks were 19.51%, 17.54% and 13.94% respectively, in which the rural commercial banks ascended to the second place in 2015 for the first time, as of 2017, they had been ranked the second place for three years in a row, in 2017, the balance of their loans to small and micro enterprises was RMB 6.00 trillion; the rankings of city commercial banks and joint-equity commercial banks maintained the same as that in 2016, namely the third place and the fourth place respectively.

The combined ratio of the balance of small and micro enterprise loans by the four types of banks in the first and second tiers exceeded ¾, the rest ¼ was mainly contributed by policy banks, the CDB, city commercial banks and rural credit cooperatives, the balances of the two types of institutions were about RMB 3.60 trillion and RMB 1.57 trillion respectively, accounting for 11.71% and 5.12% respectively.

Compared with 2016, the ratios of the balances of small and micro enterprise loans by the five major commercial banks, joint-equity commercial banks and rural credit cooperatives in the total balance of small and micro enterprise loans by banking financial institutions slightly declined, the ratios of policy banks, the CDB, city commercial banks and rural credit cooperatives slightly increased, the one with the most increase in the ratio was policy banks and the CDB, which increased by 1.21%.
3.1.4 The growth rates of the balance of loans to small and micro enterprises by various major banks widely declined, the growth rates of the balance of loans to small and micro enterprises by joint-equity commercial banks and foreign banks obviously increased

From the dimension of growth rates of various banking financial institutions, private banks ranked the first place with their 36.25% of loans to small and micro enterprises, which was mainly caused from their relatively low base of the balance of small and micro enterprise loans compared with that of other banking financial institutions. Although the growth rate of policy banks and CDB declined, they still lead far ahead, and ranked the second place at 28.39%. Same as previous years, rural commercial banks, city commercial banks and village banks still maintained relatively high competitiveness in terms of growth rate. But compared with 2016, the growth rates of the three obviously declined in 2017, in which rural commercial banks performed the worst, the growth rate declined by 7.23%. In 2017, the growth rates of balance of small and micro enterprise loans by foreign banks and joint-equity commercial banks obviously accelerated, increased by 7.21% and 6.88% respectively, in which the growth rate of foreign banks increased to 15.26%.
The five major commercial banks were still able to reach the growth rate of 11.65% based on their high base of balance of small and micro enterprise loans, and slightly increased compared with the growth rate in 2016, which was particularly not easy. The growth of balance of small and micro enterprise loans by the Postal Savings Bank in 2017 dropped to the lowest, only 3.53%, declined by 8.44% compared with that in 2016.


Note: ① The figures in the brackets in this chart mean the change of growth rate compared with that in 2016, green figures mean the increase of growth rate, red figures mean the decline of growth rate.
② The dotted line value of 15.14% in the chart means the growth rate of the balance of generalized small and micro enterprise loans by banking financial institutions in 2017.

3.1.5 The ratio of the balance of small and micro enterprise loans in all loan balance slightly declined, the ratio of small and micro enterprise loans by rural commercial banks still maintained the level of over half

As of the end of 2017, the balance of loans to small and micro enterprises by banking financial institutions across China was RMB 30.74 trillion, accounting for 24.67% of the total balance of various loans, which slightly declined from 25.38% in 2016. The balance of small and micro enterprise loans by rural commercial banks still accounts almost half of its entire loan balance, at 53.14%, which was closely followed by city commercial banks. The ratios of balances of small and micro enterprise loans by other institutions in their total loan balances were still lower than the overall level of banking financial institutions.
3.1.6 Distinct Structure of Small and Micro Enterprise Loans by Various Banking Financial Institutions

By observing the ratios of the balance of small and micro enterprise loans by various banking financial institutions, more obvious differences can be seen, which also reflect the differences of various banks in the aspect of client positioning of small and micro enterprise loans.

The ratio of balance of small and micro enterprise loans by foreign banks is slightly higher than that of the five major commercial banks, reaching 83.87%; while the loans issued in form of personal loans only accounted for about 2%, which was the lowest ratio among all the banking financial institutions.

The balance of small and micro enterprise loans by the five major commercial banks accounted for 83.51% of its total balance of small and micro enterprise loans, which was only next to foreign banks. Besides, the loans issued by the five major banks in form of personal loans only accounted for about ten percent.

The ratio of the balance of small and micro enterprise loans by private banks was relatively few, but their ratio of the balance of micro enterprise loans was the highest, as of the end of 2017, the small and micro enterprise loan businesses of private banks were mainly in form of enterprise loans, the form of personal loan played subsidiary role.

Moreover, city commercial banks, rural commercial banks, rural credit cooperatives, rural cooperative banks and joint-equity commercial banks also released small and micro enterprise loans.
loans mainly in form of enterprise loans, and took the form of personal loans as the subsidiary role. Among the four types of banking financial institutions, in the aspect of personal loan, joint-equity commercial banks released the most loans, which were mainly small and micro enterprise loans, while the rural commercial banks, rural credit cooperatives and rural cooperative banks mainly issued individual business loans.

Village banks and postal savings banks were exactly the opposite, the small and micro enterprise loans released by the two in form of personal loans had exceeded half.

### Chart 3-8 Structure of the Balances of Small and Micro Enterprise Loans by Various Banking Financial Institutions (2017)

<table>
<thead>
<tr>
<th>Banking Financial Institutions</th>
<th>Small enterprises Loan</th>
<th>Micro enterprises Loan</th>
<th>Individual business Loan</th>
<th>Personal business loans of MSE owners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign banks</td>
<td>83.87%</td>
<td>14.19%</td>
<td>0.18%</td>
<td>0.06%</td>
</tr>
<tr>
<td>Five major commercial banks</td>
<td>83.51%</td>
<td>7.24%</td>
<td>6.89%</td>
<td>3.22%</td>
</tr>
<tr>
<td>City commercial banks</td>
<td>72.45%</td>
<td>13.22%</td>
<td>7.44%</td>
<td></td>
</tr>
<tr>
<td>Rural commercial banks</td>
<td>65.19%</td>
<td>10.73%</td>
<td>16.64%</td>
<td>7.44%</td>
</tr>
<tr>
<td>Rural credit cooperatives</td>
<td>63.64%</td>
<td>10.37%</td>
<td>19.74%</td>
<td>6.26%</td>
</tr>
<tr>
<td>Rural cooperative banks</td>
<td>59.63%</td>
<td>14.07%</td>
<td>18.68%</td>
<td>7.62%</td>
</tr>
<tr>
<td>Joint-stock commercial banks</td>
<td>58.33%</td>
<td>10.03%</td>
<td>11.85%</td>
<td>19.79%</td>
</tr>
<tr>
<td>Private banks</td>
<td>54.59%</td>
<td>30.73%</td>
<td>11.93%</td>
<td></td>
</tr>
<tr>
<td>Village banks</td>
<td>37.85%</td>
<td>6.80%</td>
<td>33.06%</td>
<td>22.29%</td>
</tr>
<tr>
<td>Postal savings bank</td>
<td>37.13%</td>
<td>5.06%</td>
<td>40.50%</td>
<td>14.31%</td>
</tr>
<tr>
<td>Banking industry</td>
<td>72.24%</td>
<td></td>
<td></td>
<td>10.36% 9.46%</td>
</tr>
</tbody>
</table>


### 3.1.7 Growth rates of the four types of small and micro enterprise loans by various banking financial institutions varied, directions of financial services for small and micro enterprises were also different

It can be observed by comparing the growth rates of the balance of the four types of small and micro enterprise loans by various banking financial institutions that the operating directions of financial services targeting small and micro enterprise by various institutions in 2017 were also different.

The type of loans among the four types of loans by the five major commercial banks was micro enterprise loans, but it still failed to reach the overall level of the banking industry. Compared to the small and micro enterprise loans that still maintained growing trend, the balances of individual business loans and personal business loans for small and micro enterprise owners had almost no growth. Similarly, the balance of individual business loans by joint-equity commercial banks also had no growth, but the difference was that the balance of its personal
business loans of small and micro enterprise owners maintained growing trend.

The balances of the four types of small and micro enterprise loans of city commercial banks and rural commercial banks both maintained growth, and the growth rates both exceeded or approached the overall level of the banking industry, in which the growth rates of micro enterprise loans by city commercial banks, the individual business loans and the personal business loans for small and micro enterprise owners by rural commercial banks were eye-catching.

Compared with other banks whose balances of micro enterprise loans all maintained growth, the growth rate of such type of loans by foreign banks somewhat declined.

The growth rate of the balance of small enterprise loans by private banks was as high as 56.67% (related to the low base of loan), while their individual business loans and personal business loans for small and micro enterprise owners had different extents of contraction.
3.2 Other Financial Institutions/Quasi-financial Institutions

3.2.1 Small Loans: Golds Appear after Great Waves Sweep Away Sands

In 2017, the small loan industry continued the downturn state, some indicators slightly rebounded, the regional development pattern was relatively stable. The quantity of small institutions and number of practitioners continued to decrease, the indicators of paid-in capital and loan balance appeared slight rebound. There were 8,551 small loan institutions across China, decreased by 1.41% compared with the same period in previous year; there were 103,988 practitioners, decreased by 4.49% compared with the same period in previous year. While the paid-in capital of the small loan industry in 2017 was RMB 827.033 billion, increased by 0.44% compared with the same period in previous year, the balance of loans was RMB 979.949 billion, increased by 5.68% compared with the same period in previous year.

The development of small loan industry faced pressure from various aspects, externally, the macroeconomic environment was in downturn, the financial regulation further strengthened, the financing channels were lacking, and the competitions with banks, P2P online lending platforms, consumer finance companies and private finance became increasingly fierce, meanwhile, internally, the operating risks further expanded, the weakness of small loan companies in lacking...
risk management capability became increasingly prominent under the background of economic recession, the non-performing loan rate was high. The relatively bad external environment accelerated the restructuring of small loan industry, the overall operating conditions was poor, so obvious polarization also appeared. The revenues and net profits of some enterprises extensively declined, a batch of enterprises that can’t adapt were phased out of the game; for those enterprises that accurately found their positioning and had stable development, the operating conditions performed well. The online small loan licenses became more valuable in 2017, and had become a major resource that various capitals competed for, but with the issuance of the Notice Regarding Immediate Suspension of Approving Online Small Loan Companies, the regulatory level continued to strengthen the control of financial risks, the development of internet small loan industry is not that promising.

3.2.2 Pawn: the road to revival is not a smooth path

In 2017, China had 8,483\(^1\) pawning enterprises in total, increased by 2.5% compared with the same period in previous year; the number of practitioners was 49 thousand, decreased by 4 thousand compared with the same period in previous year; the total amount of pawning continued to decline to RMB 289.97 billion, decreased by 8.7% compared with the same period in 2016, but the declining speed slowed down; the balance of pawning was RMB 96.37 billion, which basically leveled with that in the same period in previous year, and slightly increased by 0.7%, turned the negative growth in 2016. Affected by the pressure of declining macroeconomic growth rate, the operating situation of pawning industry continued to weaken, the polarization within the industry became increasingly obvious, and the industrial restructuring intensified. In 2017, the business revenue of the whole industry was RMB 9.12 billion, decreased by 5.1% compared with that in the same period in previous year, in which the main business revenue was RMB 7.92 billion, decreased by 8.2% compared with the same period in previous year, the degree of decline slowed down compared with that in 2016 but the declining trend continued. The overall profitability somewhat rebounded, in 2017, the whole industry realized business profit of RMB 1.7 billion, increased by 8.6% compared with the same period in previous year; the net profit was RMB 1.04 billion, increased by 3% compared with the same period in previous year. But it’s worth noticing that the scale of loss and amount of loss in the industry somewhat increased compared with that in previous year.

Real estate pawning is still the main business of this industry, the ratio of property rights and moveable property pawning business slightly declined, in which the moveable property pawning business had obvious retracement sign after the high-speed expansion in 2016, there are many innovations in the operating varieties of civil products and property rights, but it still needs time for the business to realize real growth. With the internet finance surging ahead in the small credit

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\(^1\) Source: National Pawning Industry Supervision and Management Information System.
loan field, the development bank retail finance and small enterprise finance, the convenience of internet has enabled more clients to try using online lending, which poses impact to the pawning and cashing, the inherent market shares of pawning industry has been squeezed. The economic environment is not great, the MSME owners who use real estate or motored vehicles for pawning financing for enterprise operation had diminished demands for pawning financing. Besides, the pressure of homogeneous competition and its own financing difficulty have posed challenges for the surviving room of pawning industry. In the process of returning to traditional advantages and the exploration and use of internet technology, the revival road of pawning industry will still be long rather than smooth. The formation of the legal system, regulations and rules to standardize pawning industry has long been an important issue to be faced for the development of pawning industry, in the year 2017, this issue still hasn’t been effectively solved, but there is a first light of morning.

3.2.3 Financing Lease: Adjustment and Regression under Strict Regulation

In 2017, the financing lease industry sustained the developing trend of 2016, but the growth rate further slowed down, the total number of financing lease enterprises in China reached 9,090, which increased by 27.38% compared with the same period in previous year; the registered capital was RMB 3.2031 trillion, increased by 25.27% compared with the same period in previous year; the contractual balance was RMB 6.06 trillion in total, which increased by 13.70% compared with the same period in previous year. Compared with 2016, the growth rates of the number of enterprises, registered capital and contractual balance further slowed down, the growth of the absolute value of the number of enterprises and registered capital had decline for the first time. It’s especially worth noticing that the growth rate of the number of foreign lease companies extensively declined, the growing extend of the number of domestic lease companies ranked the first place among the three types of financing lease enterprises for the first time, the structural change of financing lease industry began to show.

With the gradual tightening industrial regulation, the industrial transparency has been gradually increasing, the channel businesses of lease industry are subject to restriction, the profitability of shell companies encounters great obstacle, the financing lease enterprises are gradually returning to the essence of asset leasing. The permeability of financing lease industry is still at low level, the overall leveraging level falls back down, financing channels are having diversified development but the financing costs are rising, the enhancement of lease assets quality and profitability level is under increasing pressure. In 2017, the financing lease companies serving MSME still concentrated in manufacturers and independent third-party financing lease companies (the two types of financing lease companies only account less than half of the market share), some enterprises targeted MSME for main business development based on the broad prospect of MSME financing lease, and obtained good operating result. However, compared with large enterprises, the MSME financing lease business has its disadvantages in the aspects of risk control and cost
effectiveness, and still has difficulty to become the main business choice for most financing lease companies, but under the background of strict financial regulation, the financing lease industry is gradually being standardized, which may provide more opportunities and rooms for the MSME financing lease.

3.2.4 Guarantee and factoring: marching forward under storm, there is a long way to go

In 2017, the guarantee industry advanced hard under the pressure of bottoming and stabilizing external economy and increased efforts of internal correction within the industry. The volume reduction and quality enhancement continued, business scale kept declining, the overall compensation scale of guarantee institutions continued to enlarge, the restructuring of financing guarantee industry intensified, the industrial structural reform deepened. Financing guarantee still survived under the dilemma of decreasing guarantee balance, rising compensation rate, and lack of profitability in main business, the number of institutions kept decreasing, the scale of guarantee declined, and it reflected the characteristics of being “Small, Dispersed and Weak”. The Financing Guarantee Company Supervision and Management Rules was issued, the efforts of policy support further increased, the policy regression direction of financing guarantee became clear, this industry is expected to take the opportunity of preferential policy to downsize, enhance quality and take a path of standardized development. The policy re-guarantee institutions steps on standardized development, its quasi-public-goods property increasingly shows, but on the other hand, the characteristics of high risk and high leverage of re-guarantee, as well as a series of problems existing within the industry, such as both re-guarantee companies and guarantee companies engage in direct guarantee business, still need to be solved.

The regulatory efforts of collateral management industry further increased, the industry’s image is expected to be rebuilt. China’s collateral inventory management has begun to take shape, according to incomplete statistics, in 2017, over 1,500 enterprises engaged in third-party management of collateral inventory in China, the related practitioners were about 42 thousand people, the financing amount of collateral inventory managed by third parties was about RMB 3-5 trillion. With the stable development of collateral management industry, the moveable property financing model developed in form of financial warehousing has provided an effective means to MSME to solve the financing difficulty problem.

In 2017, after high-speed growth of the registering number and registration capital of commercial factoring enterprises for four years in a row, the growth rate extensively slowed down, after experiencing the test of market, the operation conditions of involved enterprises varied, the phenomenon of obvious increasing cancellation and revocation of commercial factoring enterprises appeared. Considering the strengthening financial regulation by the national government, the commercial factoring industry is expected to actively adapt to the new environment and set a new development pattern.

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2 The number of commercial factoring enterprises in China increased by 90 times compared with that at the end of 2012, Commercial
government, the industry may facing an adjusting period. Meanwhile, with the supply chain finance developing to the new stage of smart supply chain where the internet and the internet of things are deeply integrated, the environment of policies and regulations for commercial factoring is also continuously improving, the industry is also facing good development opportunities. The asset-backed bond innovation model initiated by commercial factoring companies kept appearing, the prospect of business development tends to be promising.

3.2.5 Venture Capital Investment: Market Recovering, Pressure Persisting

After experiencing the clear-up and rectification in 2016, the venture capital investment industry stepped into the stable development stage in standard operation page in 2017, new-born investment institutions and entities continued to join in, and brought strong growth potential to the industry. The release of “Combination Blow” of regulation, such as preferential taxation, ban lifting period for reducing shares by shareholders, provided more solid foundation of institution for venture capital investment to support MSME.

In 2017, the scale of newly increased fund raised by Chinese venture capital fund (including early-stage funds and VC funds) was RMB 367.605 billion, which slightly decreased compared with that in 2016, decreasing by 2.01%; but it’s worth noticing that the number of newly increased funds was 1,041, meaning the activeness extensively increased compared with that in 2016, the increase reached 36.44%; the single scale of newly established venture capital funds reflected obvious small-sum trend, the average fundraising scale declined from RMB 492 million per fund to RMB 353 million/fund. Generally speaking, the new funds entering the venture capital investment field were decreasing in 2017, but the number of new funds entering the field extensively increased, which reflects on the side that the competition in fundraising field tends to be even more fierce. The promoting difficulty of fundraising end is intensifying, acute investors have already smelled the incoming cold wave, but the investment end hasn’t been affected by the tightening fund yet, the investment progress obviously accelerated, the amount and cases invested set new record high again, throughout the year, there were 6,834 early-stage investments and VC investments in total, increasing by 19.18% compared with the same period in previous year; the disclosed investment amount was RMB 217.331 billion, which extensively increased by 51.45% compared with the same period in previous year; the average amount invested for each case was RMB 31.8 million, increasing by 27.05% compared with the same period in previous year. The large-sum tendency of early-stage investment became even more prominent in 2017. The hotness of internet field didn’t cool down, the irrational behaviors of grabbing projects is still prominent, the investment amounts brought by new generation of information technology and bio-pharmaceutical innovation followed closely behind. The fields of artificial intelligence, sharing economy, new retail, Fin Tech, etc. became the objects chased by capitals. In 2017, the
investment market began to recover, the overall performance throughout the year set new record high again. It can be seen that the investment progress of venture capital market obviously accelerated in 2017, its activeness was greatly enhanced compared that in 2016.

At the quitting end, VC institutions had 1,420 quitting transactions in total, which suddenly deceased by nearly 30% compared with the quitting number of 2,001 in 2016. Affected by the accelerating issuance review by the CSRC in the first three quarters of 2017, IPO became the most important quitting channel of VC institutions throughout the year, accounting for 33.1% of all the quitting ways; followed by equity transfer, accounting for 25.4%, which was significantly higher than that of 2016, reflecting that the second-hand share transaction market\(^1\) of private equity in China is quietly expanding; because the price discovery function caused from low liquidity in the new third board market hadn’t been fully exerted, in addition the regulatory level refined the financial standard for listing in the new third board and enhanced financial normative requirements in 2017, the intention of MSME to choose listing in new third board decreased, the ratio of new third board in VC quitting channel declined from the first place of 61.5% to the third place of 22.2%.

In 2017, the inflated valuation of start-up enterprises, especially unicorns, and the inversion of price in the primary and secondary markets promoted the late-stage funds to begin to pay attention to the investment opportunities in the early-stage or middle-stage innovative enterprises; Chinese investors and start-ups were passionate in “Go Overseas” and project introduction, which has great significance for China to expand global influence and attract innovative and start-up resources across the globe to concentrate in China; the rise of local VCs and appearance of diversified types of new VCs provided MSME with more possibility of obtaining high-quality venture capital funds that are closer to their demands.

### 3.3 Financial Market

#### 3.3.1 Over-the-counter (OTC) market: the Matthew Effect was still obvious, the financing structure needs to be optimized

In 2017, the financing prosperity of OTC market (including main board, SME board, GEM board and equity transfer system) declined, the financing between different boards varied a lot. Throughout the year, the number of enterprises that made equity financing in the OTC market

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\(^1\) In 2017, in the OTC market, Secondary Fund quietly emerged. At the closing of fund duration, fund managers faced the pressure of project quitting and repaying principal and profit distribution to LP. Among the various participants of transactions, the transferees had the demand for cashing the long-term project equities, while the transferors had the demand for obtaining project equities at discount and obtaining return from equity value adding in the future. Besides, the Secondary Parent Fund was also established on the market, the transaction object was the fund shares at quitting stage. At the fund quitting stage, the financial indicator forecast result of underlaying assets of fund investment portfolio is more reliable than that before investment, and the return of secondary fund investment is more considerable.

(initial offering, additional issue, allotment of shares, convertible bonds, preferred stock) was 3,336, decreasing by 5.01% compared with that in 2016; the total amount of fund raised was RMB 1.725605 trillion, decreasing by 24.85% compared with that in 2016. The funds in OTC market still concentrated in flowing to the large enterprises, the ratio of financing amount by MSME throughout the year in the total amount of financing in OTC market was 6.75%, which slightly increased from the ratio of 5.33% in previous year. From the disclosure in annual report, large enterprises had obvious growth in both revenue scale and profitability, the average net profit of medium-sized enterprises was meager, and the growth rate was slow, and the business revenue of small and micro enterprises was not only meager, but also had extensive decline, the average net profit was even in loss state, and the state of loss had become increasingly severe.

In 2017, the reform of equity market still continued, IPO accelerated and the review became stricter, the new regulation for refinancing was issued, unicorn enterprises opened IPO fast track, the new regulations of fund management promoted funds to transform from virtual economy to real economy, the equity transfer system entered the era of “Stock Gaming”, black swan events frequently emerged. Although the number of listing enterprises and transaction scale of equity transfer system both increased, the market liquidity continued to sink to dilemma. The long-term downturn of liquidity restrained the financing function of equity transfer system, so as to affect the strategic positioning of equity transfer system for serving the MEME. How to position and improve different market functions, optimize resource allocation efficiency, better serve the development of private enterprises and MEME enterprises, the reform of equity market still has a long way to go.

3.3.2 Bond Market: Cooling Financing Under Policy Tightening Balance

In 2017, the bond market changed the trend of surging ahead in previous year, and cooled down under the background of deleveraging and strong regulation. The financing of bond market throughout the year was RMB 40.80 trillion, increasing by 12.22% compared with the same period in previous year. The China Bond Total Wealth (Total Value) Index declined by 1.19% throughout the year, the 10-year national debt treasury bonds return rate extensively hiked compared with that at the end of 2016, increased by 86BPs throughout the year. Corresponding to the overall increase of secondary bond market return rate throughout the year, the face interest rate of newly issued bonds apparently increased, so as to raise the bond financing cost of enterprises, and reduced the willingness of enterprises to finance with bonds. In 2017, the financing amount of various newly issued bonds by the non-financial enterprises in the primary market reached RMB 5.21 trillion, the net financing scale of corporate bonds was RMB 0.45 trillion, decreased by 36.66% and 85.01% respectively compared with that in 2016.

Under the background of frequent occurrence of bond default events and declining risk preference of investors, the difficulty for MSME to directly finance through bonds was increasing. In 2017, the total quantity of bond issuance by MSME decreased by 50.93%, the face value of
bond issuance declined by 70.47%, the two accounted for 3.61% and 1.50% respectively in the total quantity of debt financing of general industrial and commercial enterprises, which decreased by 0.30% and 1.05% compared with that in 2016. Besides, only medium-sized enterprises realized debt financing in bond market, the number of issuance was only 105 with face value of RMB 48.644 billion. It can be seen that with the shrinking of bond market financing by ordinary industrial and commercial enterprises, the MSME couldn’t avoid reducing bond issuing quantity and bond issuing scale, their decreasing degree is generally even bigger than ordinary industrial and commercial enterprises, reflecting that in bond financing market, MSME have more vulnerability and sensitivity compared with other types of enterprises. The industrial monopoly situation of bond financing by MSME somewhat improved compared with that in 2016, but the three major industry of construction industry, real estate industry and comprehensive industry still occupied the dominant position, although the fund distributary ability of other industries was somewhat enhanced, the effect was minor. Although the innovative and start-up bonds grew in 2017 in terms of quantity and scale, the final flowing direction of their funds were still towards large enterprises, which still had limited help to MSME.

In 2017, the issuance scale of special financial bonds for small and micro enterprises throughout the year was RMB 107 billion, decreased by 42.93% compared with that in 2016, which was the first decline in nearly four years; the ratio of special financial bonds for small and micro enterprises in general commercial bank debts decreased by 23.66% compared with that in 2016, at 27.39%. Although the special bonds for small and micro enterprises somewhat decreased, with the increasingly diversified variety of special financial bonds on the market, the channels for commercial banks to provide MSME with financial services were somewhat widened. In addition, the issuance scale of other commercial bank debts continued to grow, the replenishment of funds provided support for commercial banks to better serve the MSME.

The asset securitization market maintained high-speed growth, its scale already had rapid development, but we still need to notice that because most of the vitalized storage funds didn’t flow into MSME, the benefit received by MSME financing from the scale expansion of asset securitization is still limited.

**3.4 Insurance: Seeking Innovation in Stabilization**

In 2017, China’s insurance market had stable development but tends to slow down, the business structure adjustment speeded up. The total asset scale of insurance industry reached RMB 16.75 trillion, realized original premium income\(^1\) of RMB 3.658101 trillion, grew by 18.16% compared with the same period in previous year. The premium income continued to grow, but the

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\(^1\) Excluding the premium income distributed into or from reinsurance income.
growth rate decreased by 9.34% compared with the same period in previous year. Affected by the improvement of national macroeconomic situation and positive fiscal policies, the traditional property insurance business recovered, which injected new dynamics to the development of property insurance business, the enterprise-related insurance market performed well, the growth rate increased again after years of continuous slowdown. At the end of 2017, the original insurance premium income of enterprise-related insurance was about RMB 231.393 billion\(^1\), grew by 25.9% compared with that in 2016, far higher than the growth rate of auto insurance. In 2017, the situation of insurance giving very limited support to MSME didn’t have fundamental change. Credit insurance continued to develop on the base of previous year, the insurance types such as guarantee insurance continued to innovate, but the growth of original premium income was still weak. The rural insurance service to agricultural-related MSME still continued to explore and had trial and error, the internet insurance was facing more challenges of market environment after rapid development in previous years.

It’s worth noticing that in the insurance field, technology advancement is enabling the industry to better identify management risks, return to the origin of insurance, enhance the insurance depth, density and insurance service width, and it is expected to help industry to overcome weaknesses in channel and cost, and enhance competitiveness. Technology driving could become the strong driving force for the continuous growth of insurance industry after the agent driving and capital driving. In 2017, multiple insurance companies relied on internet platforms to continue to release new products and serve the development of MSME. New-type internet platform is a product after introducing internet technology innovation, it could customize insurance product, make entire insurance processes online, and provide supporting solutions; the means of using big data technology to have precise insurance customization could deeply mine the potential insurance demands of MSME; the completion of entire insurance operation processes online could greatly save the cost and time of both parties of insurance; the means of providing supporting service measures and solutions could better attract MSME to participate in insurance. The year 2017 was also the year when China’s mutual insurance realized ice breaking, the operation of mutual insurance companies generally reflected the characteristics of being “Small and Boutique”, such development characteristics enables mutual insurance to reflect corresponding advantages in the scenarios involving MSME development.

3.5 Informal Finance: Restructuring Accelerating

In 2017, from chasing the trend of consumer loan to “Arbitrage” of the small and micro enterprise loan encouraging policies, then to the large-scale top-down “Deleveraging” actions, the

\(^1\) In the premium income of property insurance company, the ratio of auto insurance was very high. The enterprise-related insurance there doesn’t include auto insurance.
informal finance experienced the pain of period transformation again. Whether the informal finance suppliers could adjust risk control standards based on the situation of period transformation or not will directly decide their surviving state. The market hotness of private lending registration service center continued to decline, the service structure is expected to restructure and exert the “Local” and “Offline” advantages.

P2P online lending experienced the harsh test of “Strict Regulation + Crisis”, with the implementation of the P2P online lending “1+3” System, the progress of the industry returning to its origin of information intermediary was accelerated, compared with 2016, more platforms lost of contact or capital chain rupture were exposed in 2017, the restructuring was postponed again. For the mainstream P2P platforms, the beneficiary of the bankruptcy waves in history, the transaction amounts had decline for the first time, the bid cap reaching time climbed, weak platforms exposed risks even more frequently. The industrial restructuring accelerated, the stronger ones treaded on the ice, while the weaker ones quit the market, they became weaker in serving MSME. While reducing enterprise projects, many mainstream platforms also increased consumer loan projects, such trend was promoted mainly by three types of forces: firstly, only very few financial technology enterprises are currently able to evaluate the loan risks of MSME by relying on technology and data resources and at relatively low marginal cost (mainly reflected as MSME as the main credit granting objects, the credit line usually has the upper limit of RMB 200-300 thousand), the vast majority of P2P online lending platforms don’t have such a strength; secondly, the platforms that previously adopted the online + offline model (online or offline application, offline review, online fundraising) were mostly “Big Sum Platform”, because the P2P online lending regulatory rules in 2016 proposed the principle of “Small Sum and Dispersion”, which made some “Big Sum Platforms” reduce the quantity of enterprise lending projects; thirdly, the surging short-term consumer loan projects from the end of 2016 to 2017 enabled many platforms turning to this field to taste the sweetness of huge market demand and high profitability, and caused “Herd Effect” on the market, causing the platforms serving MSME to further diminish. The internet crowd raising was subject to pincer attack from market test and policy uncertainty, the industry reflected declining tendency, the “Matthew Effect” of mainstream platform further deepened, the function of internet crowd raising to serve the small and micro enterprises and to serve start-up and innovation received attentions from policies.