

# *Study on the Development of Micro and Small Enterprise Lending Business: Example of Agricultural Bank of Yunnan Branch*

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**Keywords:** Agricultural bank of Yunnan branch, Micro and small enterprises, Loan operations

**Abstract:** With the rapid development of China's economy, micro and small enterprises contribute nearly 60% of the value of China's GDP. Its development not only represents a certain trend in the future of economic development, but strongly supporting the growth of micro and small enterprises is an area that banks, as the most important providers of financial resources in China, need to pay attentions. This paper analyses the development of the micro and small enterprise lending business of the Yunnan branch of the Agricultural Bank of China. The significance of the study is to understand the problems and issues that exist in the micro and small enterprise lending business of the Agricultural Bank of China and to elaborate relevant solutions for them, and to provide certain suggestions and opinions for the development of the micro and small enterprise lending business of the Yunnan branch of the Agricultural Bank of China.

## **1. Introduction**

Our country is still a developing country and has just won the battle against poverty, our economic development has entered a new normal, and our development faces both important strategic opportunities and new challenges. In recent years, small and micro enterprises are crucial to China's economic development. They contribute nearly 60% of China's GDP and solve the livelihood problem of about 450 million people in China. The development trend of diversified financing channels has become a recent situation of small and micro enterprises in China. From reality, private self-construction is still the main source of financing for small and micro enterprises in China. Its characteristics are simple procedures, high interest and low reliability. The main reason why small and micro enterprises tend to private loans is that it is difficult for small and micro enterprises to obtain loans from commercial banks, but bank loans have the advantages of low and reliable interest. From within commercial banks, they need to implement not only China's current tight monetary policy, but also policies to support the development of micro and small enterprises, while controlling overall risk in order to be able to develop new business in the face of fierce competition. In this context, commercial banks need to consider the characteristics of local micro

and small enterprises and combine them with their financial business development plans in order to design loan products that are in line with the development of micro and small enterprises [1].

## **2. Analysis of the Current Situation of Small and Micro Enterprise Loan Business of Yunnan Branch of Agricultural Bank**

### **2.1. Opportunities for Banks in the Micro and Small Business Lending Business After the Epidemic**

Since the new crown epidemic in 2020, the financial system of Yunnan Province has increased its financial support for small and micro enterprises and certified the implementation of the downgrade policy, with three downgrades releasing funds of about 12.407 billion yuan for enterprises in Yunnan Province and increasing the strength of loans and rediscounts, with a total of 30.567 billion yuan of rediscounts and a total of 7.62 billion yuan of loans to support small and micro enterprises in the whole year of 2020. The total amount of rediscounted loans will be 30.567 billion yuan in 2020 and a total of 7.62 billion yuan will be released to support small and micro enterprises. With the effective results of the prevention and control of the new crown epidemic, the survival of micro and small enterprises also followed the momentum of the domestic economic recovery after the stabilisation of the epidemic and improved significantly, but still faced challenges such as low effective demand, difficulties in financing and slow recovery of production capacity. In this regard, according to the Statistical Report on the Investment of Loans by Financial Institutions in 2020 published by the People's Bank of China, at the end of 2020, the balance of RMB loans by financial institutions was 172.75 trillion yuan, an increase of 12.8% year-on-year; the annual increase was 19.63 trillion yuan, an additional increase of 2.82 trillion yuan year-on-year, which shows that the government, in order to prevent the breakage of the capital chain for the operation of small and micro enterprises, has increased financial support and provide targeted financial support to MSMEs according to their actual situation [2]. However, the government's support is only short-term. MSMEs can only seize the dividends of the government's policies and take advantage of them to accumulate a certain amount of raw capital to actively develop and innovate in order to transform as soon as possible.

### **2.2. Market Share of Small and Micro Enterprise Lending Business of Agricultural Bank of China Yunnan Branch**

According to the China Banking Regulatory Commission, the balance of commercial banks' loans to small and micro enterprises in 2020 was RMB 15.27 trillion, including RMB 4.83 trillion for large commercial banks, RMB 2.77 trillion for joint-stock commercial banks, RMB 2.22 trillion for urban commercial banks and RMB 5.19 trillion for rural financial institutions. Based on loan balance data, rural financial institutions ranked first with a market share of 33.99% and large commercial banks ranked second with a market share of 31.63%. As at the end of 2020, the balance of loans to micro and small enterprises of Agricultural Bank of China, one of the four major banks, was RMB 0.96 billion, with a market share of 6.29% in the national commercial bank market, of which the loan business in the southwest region accounted for 22.2% of the total loan business of the Bank, ranking second. As one of the most important economic development regions in southwest China, Agricultural Bank of China Yunnan Branch will always pursue the service tenet of "establishing business with integrity and steadiness", and strive to maintain the leading position of Agricultural Bank of China in various indicators.

## **2.3. Current Development of Small and Micro Enterprise Lending Business in Yunnan Branch of Agricultural Bank**

### **2.3.1. Product Opening of Small and Micro Enterprise Loan Business**

(1) E-loan series. The two loan businesses of asset e-loan and tax e-loan are Weijiedai. Asset e-loan is to meet the normal working capital required by small and micro enterprises in production and operation activities, and by referring to the data of assets or loans owned by small and micro enterprises and business owners in the Agricultural Bank of China, it is applied through mobile banking, online banking, etc. A product created with the funds required for this item [3].

(2) Chaijie Loan. Lianjiedai is that ABC chooses to cooperate with high-quality enterprises and provides batch, automatic and convenient online supply chain financial services for upstream and downstream customers of the enterprise's supply chain by analyzing the historical cooperation records of the target enterprise and judging the operation situation of the enterprise.

(3) Simple loan. Simple loan, also known as small business simple fast loan business, is a kind of financing aimed at solving the production and operation of small and micro entrepreneurs and the needs of sales, seasonal and temporary liquidity in various balance sheets. The products can be directly processed through various effective small and micro enterprise mortgage (pledge) methods, providing small and micro enterprises with various financing products for on- and off-balance sheet financing business up to 30 million yuan.

(4) Science and innovation loan. Science and Technology Loan means that the Agricultural Bank of China can provide a loan amount of up to 80 million yuan to support the capital needs of those technology-based small and medium-sized enterprises that are included in the support scope of government risk compensation funds at all levels.

(5) Industrial and commercial property loan. Industrial and commercial property loans can be divided into three types: home purchase loans, rental loans and business loans. The industrial and commercial property purchase loan can provide up to 30 million yuan to meet the needs of small and micro enterprises to purchase industrial and commercial properties by means of mortgages. Combined with the analysis of the company's own factors, it can provide a financing method of up to 10 years to alleviate the need for small and micro enterprises to purchase industrial and commercial properties. Difficulties in capital turnover caused by large-scale expenditures.

In addition to the above five loan business products, Agricultural Bank actively responded to the national call to demonstrate the demeanor of a big bank, and provided a series of special loan products to support small and micro enterprises to resume work and production in order to help small and micro enterprises overcome difficulties before and after the epidemic - "Reinstatement Loans". In 2020, the Agricultural Bank of China issued more than 170 billion yuan in loans to small and micro enterprises to support the resumption of work and production.

### **2.3.2. Target Market Selection for Small and Micro Enterprise Loan Business**

The target market is mainly composed of target enterprises, target regions and target needs. Agricultural Bank of China Yunnan Branch should make a choice on the target market by considering the development characteristics and advantages of the region based on the actual situation, such as:

(1) Wholesale of flowers and vegetables. The comfortable natural climate and abundant natural resources make Yunnan Province have a flower and vegetable trading market that cannot be underestimated, and a large-scale Chenggong vegetable planting and trading base and Dounan International Flower Industrial Park have been established in Chenggong District of Kunming. A large-scale production and trading environment has been formed, and Yunnan Branch of

Agricultural Bank of China can focus on developing one of the target markets for loan business with regional characteristics, such as providing targeted financial products such as "flower loan".

(2) Biopharmaceutical industry. Yunnan also has certain achievements in the biopharmaceutical industry, such as Yunnan's local biopharmaceutical brands: Yunnan Bai Pharmaceutical, Watson Bio, Winona and other companies have a good reputation in medical, health and beauty and other fields and have certain industries. Scale, Agricultural Bank Yunnan Branch should see that the loan business of upstream and downstream small and micro enterprises around these biopharmaceutical companies has certain development and mining value [4].

(3) Logistics. With the rapid development of the e-commerce economy, the related logistics industry with its core has also grown rapidly. The Agricultural Bank of China Yunnan Branch should also focus on this place to seize the opportunities in the rapid development of the logistics industry, so as to develop around the needs of logistics. The professional logistics of medicine, cold chain, and pets from Rise provides targeted financial loan products and establishes friendly cooperative relations.

## **2.4. Problems in the Development of Small and Micro Enterprise Loan Business of ABC Yunnan Branch**

### **2.4.1. The Ability of Small and Micro Enterprise Loan Business to Obtain Customers in Batches Needs to be Improved**

The online threshold of ABC Yunnan Branch is relatively high, and the availability of loans for some "long tail" customers is relatively low. For example, "Lianjiedai" has high qualifications, it needs to be recommended by core companies and its own conditions are relatively superior. In 2020, the Yunnan Branch of Agricultural Bank of China has only 69 new supply chain online loan customers.

### **2.4.2. The Qualification of Target Customers of Small and Micro Credit is Uneven**

At present, most of the small and micro enterprises in Yunnan Province are mainly in the secondary and tertiary industries, and the number is large and widely distributed. Most of the small and micro enterprises are concentrated in traditional handicraft industries such as rough processing of minerals and simple processing of agricultural and sideline products, among which wholesale and retail, manufacturing, leasing and commodity services account for 50% of the total number of small and micro enterprises in Yunnan Province. These industries are small in scale, high in substitutability and weak in profitability, resulting in small and micro enterprises' poor ability to resist risks. In addition, the regional differences of small and micro enterprises in Yunnan Province are obvious, and the development among different regions is uneven, which makes the Yunnan Branch of Agricultural Bank of China face the uneven qualifications of target customers of small and micro enterprises.

### **2.4.3. Incomplete Risk Assessment and Control Mechanism**

In recent years, although Yunnan Agricultural Bank has carried out a lot of analysis and exploration in terms of credit rating, credit method, and evaluation factors in the loan business of small and micro enterprises, in practice, the credit management mechanism and the loan amount of small and micro enterprises are small and time-sensitive [5]. There is a certain deviation from the characteristics of short financing cycle. The entire ABC system is not mature enough for the business model established by the credit system such as small and micro enterprises, and has not formed a good risk control system and established a professional small and micro enterprise credit

risk control team.

#### **2.4.4. The Credit Structure of Small and Micro Enterprises Needs to be Adjusted Appropriately**

Under the current small and micro enterprise loan system, the overall loan amount of the bank is biased towards those enterprises that can provide collateral, and it becomes difficult for small and micro enterprises to obtain financial support from the bank. Only by changing the proportion of non-collateralized credit methods such as credit and guarantee in the entire credit system, and adjusting the overall structure of loans in a timely manner, can banks and small and micro enterprises achieve a better win-win situation.

### **3. Challenges and Successful Experience of Small and Micro Enterprise Loan Business of Agricultural Bank of China Yunnan Branch**

#### **3.1. Challenges Faced by Small and Micro Businesses of Yunnan Branch of Agricultural Bank of China**

##### **3.1.1. It is Difficult to Assess the Credit Rating of Small and Micro Enterprises**

Due to the existence of information asymmetry and other problems, it will make it difficult for banks to fully obtain the credit information, asset status and other rating materials of small and micro enterprises, which makes it difficult for banks to accurately predict the real situation of small and micro enterprises and the problem of incomplete evaluation., so that the bank will face a great risk of bad debts and even the situation that the funds cannot be recovered.

##### **3.1.2. Increased Industrial Competition**

In the past, the focus of commercial banks' loan business was not small and micro enterprises, but medium and large enterprises and personal housing loans [6]. Medium and large enterprises, small and micro enterprises, have a certain scale, are relatively stable, and have relatively more mortgaged fixed assets. Therefore, commercial banks are more willing to invest funds in the loan business of medium and large enterprises. Under the influence of various market factors, commercial banks have begun to invest more human and financial resources in the development and development of small and micro enterprise loan business, which will make the small and micro enterprise loan business begin to become a new market for commercial banks. Competition is starting to intensify.

##### **3.1.3. Broad Market of Small and Micro Enterprises**

Small and micro enterprises occupy the leading position in my country's enterprises, and their development will greatly affect the development of my country's economy. Therefore, small and micro enterprises have very broad market prospects. At the same time, commercial banks are in a dominant position in the credit market, and the loan business they provide is less difficult to obtain from the perspective of micro enterprises. Great attraction. As one of the four major state-owned banks, the Agricultural Bank of China has a large scale and sufficient funds, which can provide a large amount of funds for the financing market of small and micro enterprises, thus establishing the leading position of the Agricultural Bank in the loan business of small and micro enterprises.

## **3.2. Successful Experience of Yunnan Branch of Agricultural Bank of China in Coping with the Challenge of Small and Micro Enterprise Loan Business**

### **3.2.1. Develop Regional Characteristic Loan Products [7]**

Agricultural Bank of China Yunnan Branch can launch targeted small and micro loan products for small and micro enterprises in Yunnan based on the actual situation of small and micro enterprises in Yunnan. For example, the Yunnan Branch of the Agricultural Bank of China has launched a series of loan products for small and micro enterprises in line with the characteristics of the Pu'er tea industry - "Colorful Yunnan Pu'er Loans". As of 2018, the ABC Yunnan Branch has loan balances of RMB 86.96 million, RMB 276 million and RMB 30 million to support Pu'er tea farmers, tea companies and tea merchants respectively. The credit is nearly 392.96 million yuan.

### **3.2.2. High business scale and market position**

In 2019, the Agricultural Bank of China overfulfilled the requirement in the "Government Work Report" that "the loans to small and micro enterprises of large state-owned commercial banks should increase by 30% or more in 2019", and achieved a growth rate of more than 58% in inclusive loans to small and micro enterprises. %, the amount is about 210 billion yuan. As of the end of 2009, the balance of various loans of Agricultural Bank of China Yunnan Branch was 136.5 billion yuan, ranking first among the four major state-owned commercial banks, accounting for 31.5% of the increment.

### **3.2.3. Grasp the development of big data**

In modern society, big data resources are one of the important resources in the network information age. Only by grasping big data technology can it have a positive effect on credit risk analysis, small and micro enterprise evaluation, and market analysis. Financial institutions can also collect customer-related information through big data to achieve precise recommendations to customers [8]. Only by actively occupying the high ground of the big data platform can ABC develop further and better.

## **4. Agricultural Bank of China Yunnan Branch's Small and Micro Enterprise Loan Business Development Countermeasures**

### **4.1. Expand High-quality Small and Micro Enterprise Customer Groups**

Due to the current unfriendly economic environment, a considerable number of enterprises have to bear the impact of rising costs of raw materials, energy, labor for upstream customers, etc., which increases the non-performing loan ratio, which will objectively cause banks to fear lending to them. Enterprise credit risk prevention and control work has brought enormous pressure. It is precisely to avoid the problem of non-performing loans that banks want to expand the customer base of high-quality small and micro enterprises has become a development strategy that must be done well.

### **4.2. Innovative Loan Products for Small and Micro Enterprises**

If banks want to gain an advantage in the fierce market competition of small and micro enterprise loan business, they can only actively improve the core competitiveness of small and micro enterprise loan business, properly adjust the loan model, and find a batch marketing model suitable for a large number of small and micro enterprise customer groups. Efforts will be made to

promote the rapid coordination and sustainable development of the loan business of small and micro enterprises; through the increase of the total number of small and micro enterprise customers, the market share will be continuously expanded, the scale effect will be formed, and the loan business will be carried out in a targeted manner based on the regional reality. Highlight regional characteristics, expand key products, and meet various financing needs of small and micro enterprise customers.

### 4.3. Improve the Financial Service Level of Small and Micro Enterprises

Financial institutions also need to make certain efforts to improve service levels, and at the same time intensify efforts to innovate loan products and service models for small and micro enterprise financing<sup>[9]</sup>. At the same time, it is necessary to further expand the scope of collaterals and pledges in the loan business of small and micro enterprises, increase a certain proportion of credit in loans, improve the institution's own risk identification ability and actively seek cooperation with financial technology enterprises. Technology means, and gradually expand the scale of small and micro enterprise loans.

### 4.4. Comprehensively Enhance the Ability of Small and Micro Enterprise Credit Team

Use online and offline "dual channels" to conduct all-round marketing and service of loan business, and set up a professional small and micro enterprise loan business team to improve the overall level of service [10]. At the same time, vigorously strengthen the talent training of small and micro enterprise loan business, allocate loan business to different business personnel in detail, realize the individual ability of training talents, and select strong business personnel for comprehensive training, strengthen the small and micro business personnel. The study of professional knowledge, marketing and service awareness of corporate loan business has cultivated a high-quality talent team with individual and comprehensive strengths.

## 5. Conclusion

In recent years, China's economy has developed rapidly, and small and micro enterprises have contributed nearly 60 percent to China's GDP. As the most important provider of financial resources in China, banks need to pay attention to the growth of small and micro enterprises. This paper analyzes the development of small and micro enterprise loan business of Yunnan Branch of Agricultural Bank of China. This paper analyzes the problems and problems existing in the loan business of small, medium and micro enterprises of Agricultural Bank, and puts forward the corresponding solutions to these problems. This study provides a series of important suggestions for the development of the SME loan business of Agricultural Bank Yunnan Branch, which will help the bank achieve sustainable development.

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