

China MSME Finance Report 2017

(Compact Edition)

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Mintai Institute of Finance and Banking

China MSME Finance Report 2017

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China MSME Finance Report 2017

Preface

In 2016, the downward pressure of China's economic development decreased, but the structural conflict was still very prominent, some regions had surfacing asset bubble problems, especially the financial "Virtualization" caused worries of the regulators. Investigation indicated that the development situation of micro, small and medium-sized enterprises (MSMEs) slightly improved in the fourth quarter of 2016, but the overall surviving environment and development situation were still not promising. Meanwhile, active changes were also happening, driven by the "Mass Entrepreneurship and Innovation (MEI)" and affected by commercial system reform, main market players have maintained the trend of prosperous growth, the number of newly registered enterprises grew quickly, the number of employees in individual and private enterprises grew stably, and newly established small and micro enterprises developed actively.

The two pure online banks that have no actual outlet at all realized services to massive number of small and micro clients and broke even within less than two years, which was a surprise in the industry, it has reflected the huge potential of technology in the field of micro financing. "Financial Technology(Fintech)" replaced "Internet Finance" and became popular in the business circle, the "Digital Inclusive Finance" was given high hope for solving the problem of difficult and expensive financing of small and micro enterprises. The application of technologies such as internet, big data, cloud computing, artificial intelligence and block chain in financial field not only derived to various emerging financial products and services, but also penetrated to traditional finance. After the transformation of the big elephant --- traditional financial institutions that are represented by commercial banks since 2015, in 2016, traditional financial institutions and financial technology enterprises joined hands to seek business cooperation, the steps of joint creation of commerce-finance ecology was further accelerated.

The loan balance of small and micro enterprises in commercial banks continued to grow, but at a lower growth rate compared that in 2015, especially for joint-stock banks that had the sign of weak growth in 2015, the growth rate further slowed down, some joint-stock commercial banks even had a double-digit negative growth. Although the credit risks of small and micro enterprises were mitigated in 2016, before the comprehensive macroeconomic recovery, the pressure of risk control of

small and micro enterprises is still considerable. But exploration and innovation had never stopped their steps, in 2016, we saw some banks deeply ploughed the supply chain finance, explored service platform and cooperation scope, promoted supply chain finance to develop towards the online, scenarized and dynamic direction, provided the medium-sized, small and micro enterprises within industrial clusters with broader financing supports; some banks have actively tried investment-loan linkage under policy supports, and explored new financing models for technology-type medium-sized and small enterprises; more banks further upgraded the "Internet+" model, accelerated their steps of placement in financial technologies, and took advantage of frontier technologies to seek transformation and development, they are poised for great development on the path of using technologies to enhance service efficiency, reduce service costs and get closer to clients.

Meanwhile, we saw that the development trend of industries returning to their origins became even clearer in 2016, the selection of the superior and elimination of the inferior still went on, and the effect of which further appeared. The micro credit company is undergoing a "Big Shuffle" under the competitions from traditional financial institutions such as banks and internet finance, both the number of institutions and loan balances had "Double Decrease" for the first time; Pawnshops had negative growth for the first time, while returning to the pawn of civilian goods and developing the unique advantages of pawn became a hot topic of the industry; The P2P online loans had the "First Year of Compliance", the internet crowd funding had market test and launched the process of rational return. In 2016, the amount and number of cases of entrepreneurial investments didn't have apparent increase, although the internet field ranked top of investments, the investment amount turned downwards for the first time in 2016 since its explosive growth in 2013, the voices advocating and following rational investment became increasingly clear and firm. Targeting the problems of financing lease cross-border channel businesses, the regulators increased the regulatory level, the tightening of financing lease cross-border channel businesses is expected to promote financing lease to return to the essence of assets leasing, to better serve the real economy and benefit the medium-sized, small and micro enterprises.

In 2016, the credit system construction continued to dig deeper, the unified registration system of movable asset finance further explored, the receivables financing service platform quickly developed, and the construction of multi-layer assets market accelerated. 2016 was also the year with the most regulatory actions in the capital market, "Strict Regulation, Lawful Regulation and Comprehensive Regulation" as well as "Protecting Lawful Rights and Interests of Investors" became a

clear regulatory direction. Out of the worry about the excessive expansion of financial system and the problem of the disjoint from the real economy, the regulators determined the policy keynote of "Returning to Essence, Promoting the Real Economy; Strict Regulation and Risk Prevention" for the financial industry, and required finance to return to the origin of serving the real economy, and distribute more financial resources to the key fields and weak links of the economic and social development. It was also in this year when the State Council formally issued the *Plan for Promoting the Development of Inclusive Finance (2016-2020)*, which set an important policy foundation for the development of inclusive finance, including small and micro finance. The improvement of financial infrastructure, the rebuilding of market order and the guidance of radical reform policy will generate important and far-reaching influences on the development of financial service to Chinese small and micro enterprises.

This year is the 9th year since we issued this annual report, the entire members of the research group made joint efforts, adhered to the principles of "Objectivity, Neutrality and Prudence", and formed basic judgments on various financial institutions/market-service small and micro enterprises through careful data collection, processing and analysis, in-depth industrial researches, and wide opinion collection. Years of vertical follow-up researches and horizontal correlation analysis across main institutions/markets enabled our researches to seize the most detailed changes, to observe internal causes under various surfaces, so as to better provide the development logics of the small and micro enterprises' financial service market. I think this is the biggest value of this report of ours.

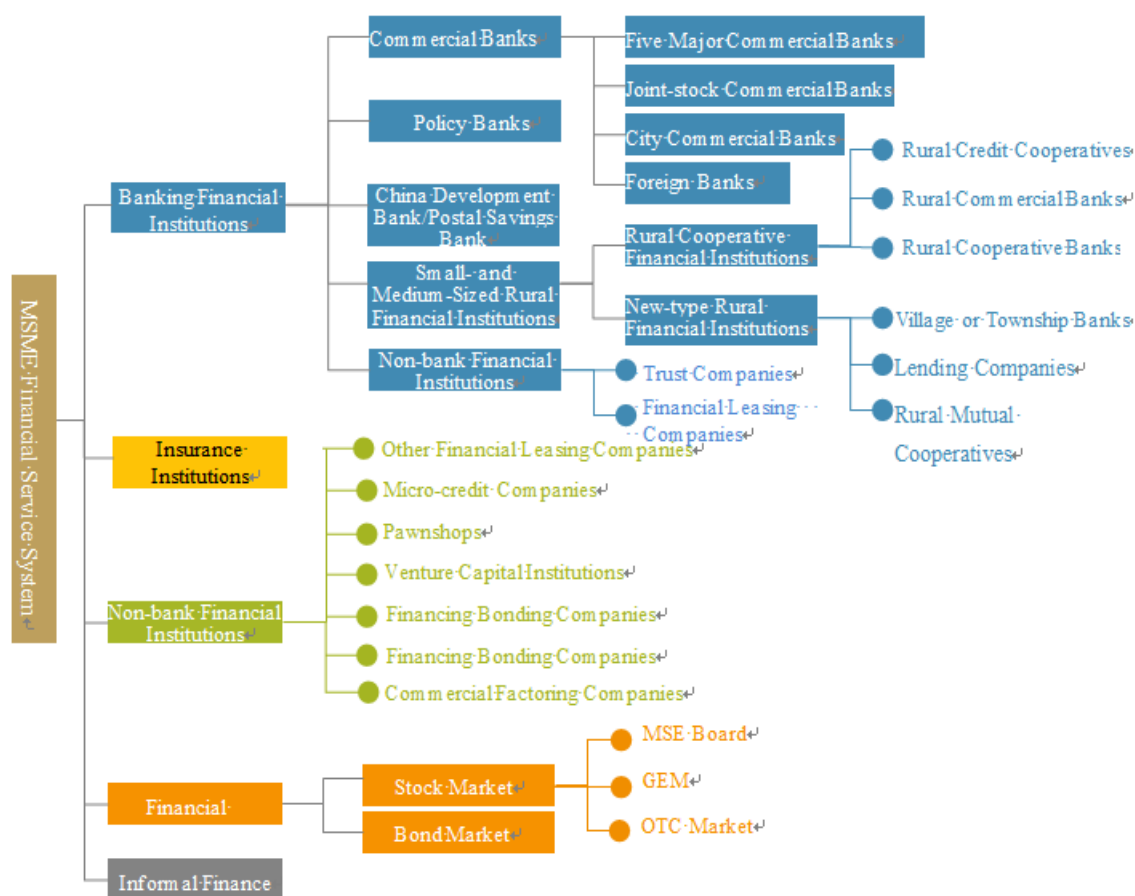
We would like to thank the frontier practitioners, business experts and scholars of small and micro finance, especially the friends who served as industrial editing experts, they provided our researches with very professional suggestions and practical materials for free, and this report is also a product of their wisdoms. We would also like to thank the publishing team of Director Wang Xiaoduan of China Finance Publishing House for their consistent supports, the strict editing and quality control enabled this report to be provided to everyone with the best quality.

Lastly, we would specially thank our dear readers, it's your attentions and recognitions that enabled our researches to last to these days, facing increasingly higher expectation, we also felt pressure, only continuous and better researches could worth the trust everyone put in us. We hope our efforts in this year could continue to be recognized by you, 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 enterprises¹ 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).

Figure 1-1 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

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.

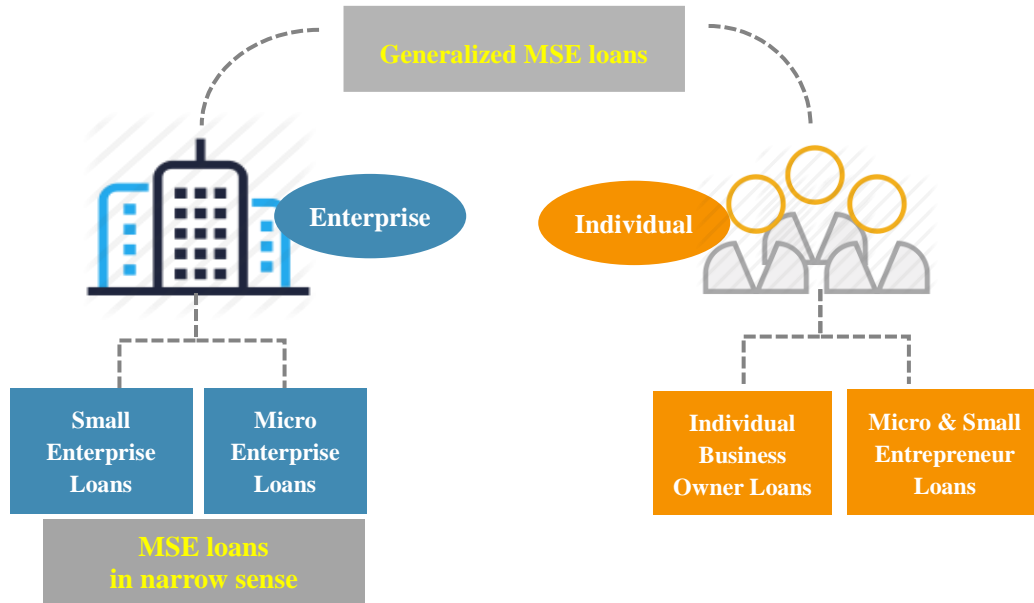
Besides banking financial institutions, those involving in MSEs financial service also included the other financial lease companies than the financial lease companies attributable to banking financial institutions, micro-loan companies, pawnshops, venture capital institutions, financing assurance companies, collateral security management companies and commercial factoring companies¹. 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).

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.

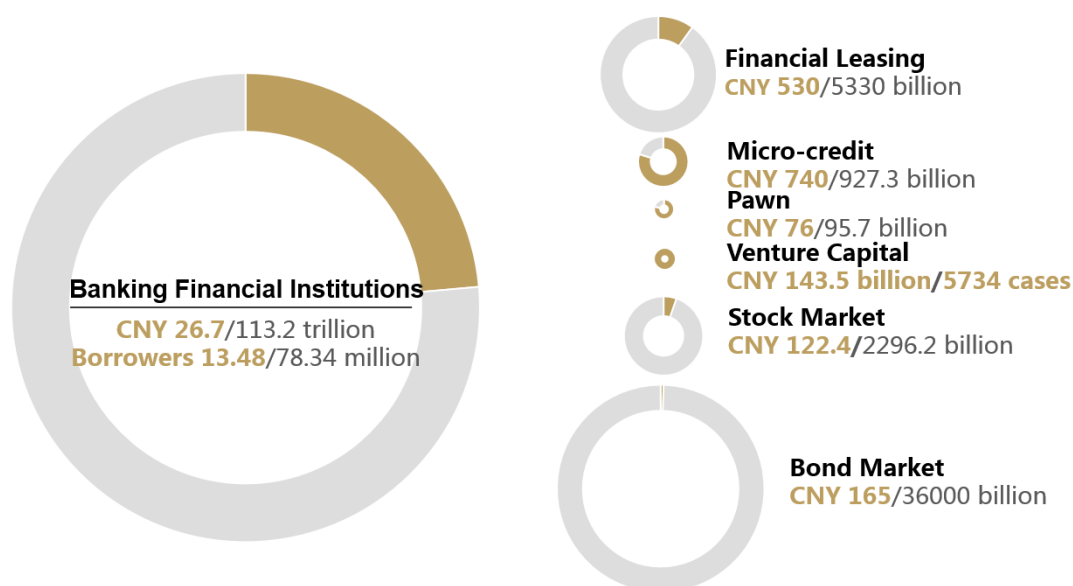
Fig 2-1 Compositions of Banking Financial Institutions' MSE loan types



3. An Overview of MSME Financial Services

Fig. 3-1 shows the scale of MSME financial services provided by major supply agents in the MSME financial service system. We can see that banking financial institutions were still the biggest funds suppliers of MSMEs, providing financing at the scale of trillion for tens of millions of MSEs; those providing financing at the scale of one hundred billion include micro-credit companies, financial leasing companies, venture capital investment, stock and bond markets; the balance of MSME pawn still had not reached one hundred billion. Compared with that in 2014, the service scale of small loans and pawns had almost no growth; the increase of venture capital investments was the most significant; although the stock market and bond market had massive growth of financing scale in 2015, the ratio of funds that truly flew into medium-sized, small and micro enterprises was still very limited.

Figure 3-1 An Overview of MSME Financial Services (2016)



Note: ①The circles of banking financial institutions, financing lease, small loans and pawns represent the balances of financing provided by various institutions in 2016, in which the yellow part represents the balance of financing for MSMEs (gray numbers area the overall financing balances, yellow numbers are the balances of financing for MSMEs). The specific calibers are as follows: the statistical/estimation caliber of banking financial institutions and small loans shall be the balances of loans for the small and micro enterprises in broad sense (including loans for SMEs and individual businesses as well as personal operational loans for SMEs owners); the calculation calibers of financing lease and pawn shall be the business balances of MSMEs. The circle of venture capital investment represents the increment of venture capital investments (including Angle investment) in 2016, yellow numbers were respectively the already disclosed investment amounts and investment cases, the actual scale would be bigger than the disclosed data. The circles of stock market and bond market represent the increment of financing provided by the two markets in 2016, in which the yellow part represents the financing amount of MSMEs (the grew number was the overall financing amount, the yellow number was the financing amount of MSMEs).

② The number of accounts of SMEs loans by banking financial institutions was 13.226 million (as of February 2017), the number of SMEs (including individual businesses) in China was according to the number released by the State Administration of Industry and Commerce, which was that as of the end of 2016, China had 87.054 million of various market entities, by estimating at the ratio of 90%, the number of SMEs (including individual businesses) in China was about 78.34 million.

3.1 Banking Financial Institutions

In 2016, China's economy gradually stabilized, especially the downstream industrial chain and export-oriented economy dominated by Jiangsu and Zhejiang regions began to have the sign of bottom up and recovery. The GDP in the fourth quarter of 2016 reached 6.8%, which was higher than expectation, the indicators such as PPI also recovered, banking asset quality improved compared with that in 2015. The annual commercial bank microfinance manager's questionnaire¹ result indicated that the performances of commercial banks in small and micro financial services in 2016 were recovered. Different from the words like "Just Passable" or "Tough Situation" that

¹ For investigation details, please refer to the Appendix: Investigation Report of Financial Service Managers for MSMEs in Commercial Banks (2007).

have occurred frequently in past a few years, the interviewees in this year were widely more popular about the evaluation of operation situations of small and micro enterprises, the frequency of words such as "Better" or "Advancement" was higher. Data indicated that the scale of loans for MSMEs by commercial banks generally maintained growth, but the growth situation of different types of banking financial institutions had differentiation, the growth of joint-stock commercial banks was still the lowest, while rural commercial banks, city commercial banks and village banks still maintained relatively high growth rates, but most institutions saw their growth rates slightly declined. The various banks controlled total volume and changed increment direction mainly by limit management, so as to adjust credit structure. Under the continuous influence from downward economic pressure, treatment of surplus capacity and radiation of security circle, etc., there was still considerable risk control pressure for the small and micro enterprises in manufacturing industry, wholesale & retail type, resource type and other circle-related industries.

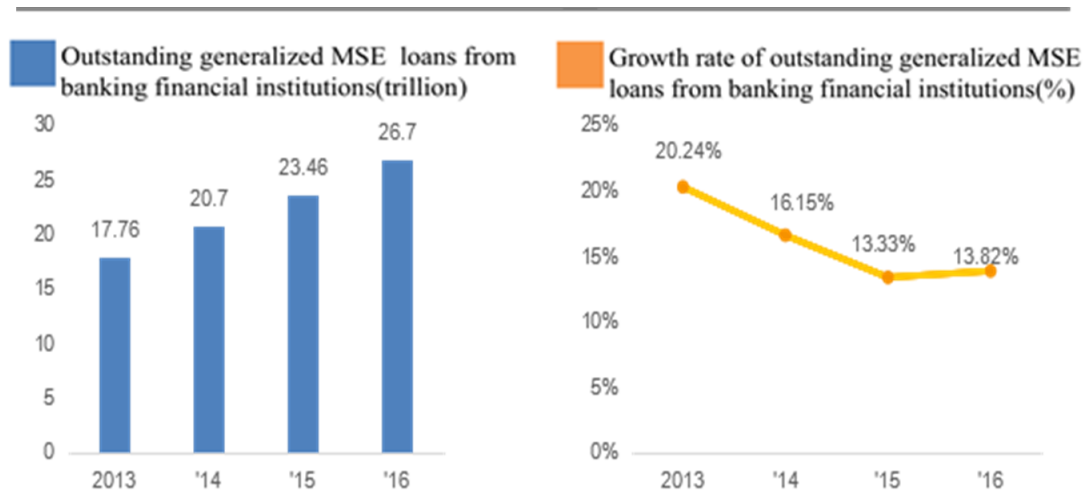
It's worth noting that in 2016, digital inclusive finance and financial technology became hot topics, the two internet banks, namely MY Bank and We Bank, had achieved surprising performances in the field of small and micro finance, the banking industry began to reach consensus about the role of financial technology in the aspect of promoting the development of small and micro finance, the "Elephant Turning Around" effect of commercial banks became more obvious, and the investments in financial technology field were widely enlarged, the four major banks, including ICBC, ABC, BOC and CCB, all developed multi-layer cooperation with BAT. It may become reality that commercial banks use financial technology to generally enhance the financial service efficiency of MSMEs, reduce costs, so as to enhance the availability of financial services of MSMEs.

3.1.1 Balances of MSE Loans Generally Maintained Growth with Slightly Higher Growth

Data from CBRC indicated that as of the end of 2016, the total balance of MSEs loans in broad sense by Chinese banking financial institutions had reached RMB 26.7 trillion (including small enterprise loans, micro enterprise loans, individual business loans and personal operational loans of small and micro enterprise owners, unless specified as narrow-sense caliber hereinafter, it shall be the loans of small and micro enterprises in broad sense), which increased by 13.8% compared with that in 2015, and the growth increased by 0.5%. The number of small and micro enterprise loans in China was 13.4813 million¹, which increased by 255.3 thousand compared with that in 2015, the growth was 1.9%, which decreased by 13.7% compared with the same period in previous year.

¹ The data was sourced from the CBRC as of the end of February 2017.

Figure 3-2 Balance and Growth Rate of Outstanding Generalized MSE Loans from Banking Financial Institutions (2013-2016)

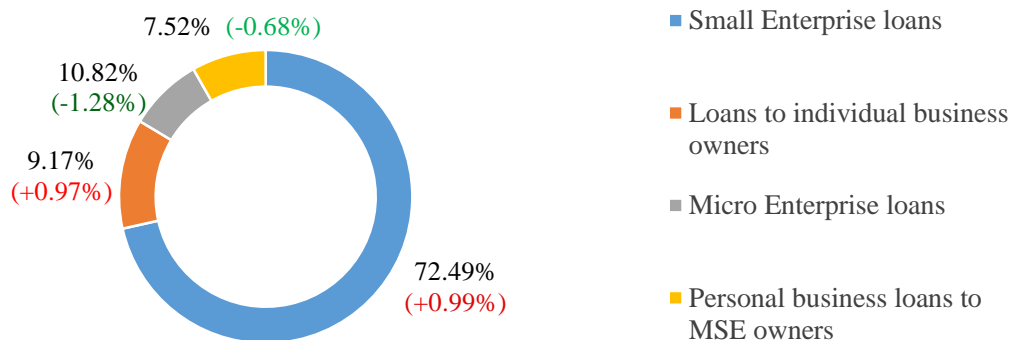


Source: The research team of China MSME Finance Report (2017) from Central University of Finance and Economics summarized the data obtained from CBRC.

3.1.2 MSE loans in narrow sense still accounted for over 80%; the balance of micro enterprise loans had a surprising growth

From the perspective of structure, in the balance of MSE loans released by banking financial institutions in 2016, 81.66% of them were MSE loans in narrow sense released in form of enterprise loans, this ratio slightly increased compared with the 79.7% in 2015. The rest 18.34% were released in form of personal loans, which decreased by 1.96% compared with that in 2015, in which small enterprise loans had the highest ratio, personal operational loans of MSE owners had the lowest ratio. The ratios of various loan balances were generally consistent with that in 2015.

Figure 3-3 Component Proportions of Outstanding Generalized MSE Loans from Banking Financial Institutions (2016)



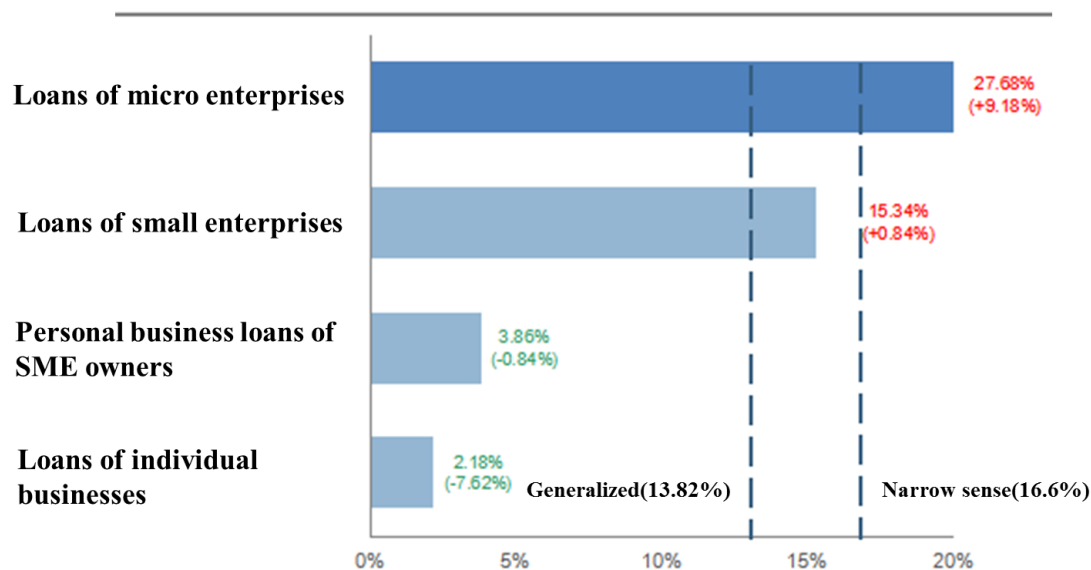
Source: The research team of China MSME Finance Report (2017) from Central University of Finance and Economics summarized the data obtained from CBRC.

Economics summarized the data obtained from CBRC.

Note: Data in the brackets shows the change of proportions compared with those in 2015.

From the perspective of growth rate, the balance of narrow-sense MSE loans grew by 16.6%, which was higher than the 13.82% growth rate of broad-sense MSE loan balance. The growth of MSE loan balance released in form of personal loans was relatively slow, in which the balance of individual business loans only grew by 2.18%, which decreased by 7.62% compared with that in 2015. Among the four types of loans, the balance of micro enterprise loans had the fastest growth at 27.68%, which was 9.18% higher than that in 2015.

Figure 3-4 Growth Rates of Four Types of Outstanding MSE Loans from Banking Financial Institutions (2016)



Source: The research team of China MSME Finance Report (2017) from Central University of Finance and Economics summarized the data obtained from CBRC.

Note: the data in brackets mean the changes of growth rate in 2016 compared with that in 2015. The dotted lines respectively meant the growth rates of MSE loan balances in generalized and in narrow sense.

3.1.3 The five major banks stably ranked the first place in the balance of MSE loans, rural commercial banks continued to rank the second place; city commercial banks surpassed joint-stock banks for the first time

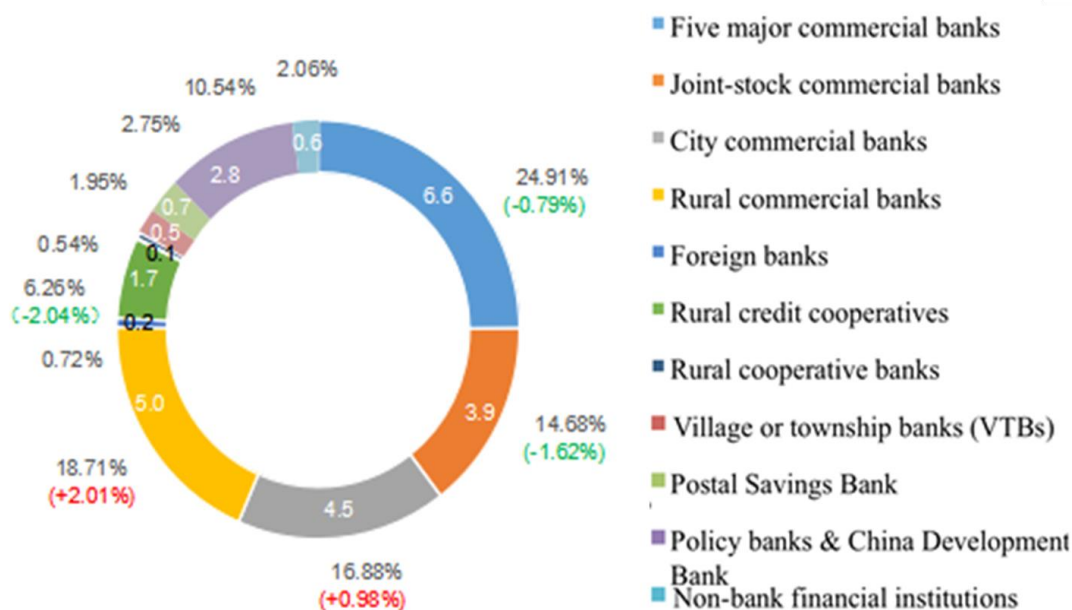
From the perspective of the balance of MSE loans, the five major commercial banks (ICBC, ABC, BOC, CCB and Bank of Communications) were still in the first tier, and realized the balance of RMB 6.6 trillion, which accounted for 24.91% of the balance of MSE loans released by banking financial institutions; the second tier included rural commercial banks, city commercial banks and joint-stock banks, the balance of the three types of banks each exceeded RMB 3.9 trillion, and accounted for 18.71%, 16.88% and 14.68% respectively. After becoming the second for the first time in 2015, rural commercial banks continued to rank the second place with RMB 4.99 trillion

of small and micro loan balance; the balance of MSE loans released by city commercial banks surpassed that of joint-stock commercial banks for the first time and took the third place.

The total loans of MSE of the four types of banks in the first and second tier accounted for nearly 3/4, the rest 1/4 was contributed by policy banks, the National Development Bank and rural credit cooperatives, the balances of the two types of institutions were RMB 2.8 trillion and RMB 1.6 trillion respectively, and accounted for 10.54% and 6.26% respectively.

Compared with that at the end of 2015, the ratio of the balance of MSE loans released by five major commercial banks and joint-stock commercial banks in the balance of MSE loans released by banking financial institutions slightly declined, while the ratio of that of city commercial banks and rural commercial banks increased, and the one with the biggest increase of such ratio was rural commercial banks, which grew by 2.01%.

Figure 3-5 Ratios of Balances of Broad-sense MSE Loans Released by Various Banking Financial Institutions (2016)



Source: The research team of China MSME Finance Report (2017) from Central University of Finance and Economics summarized the data obtained from CBRC.

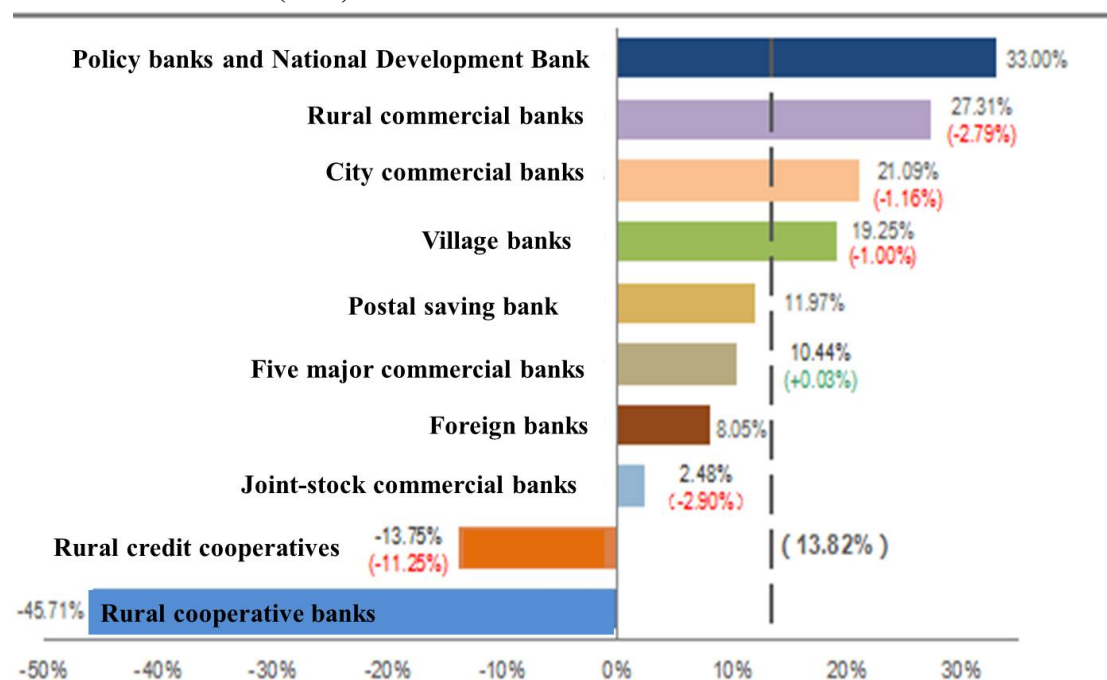
Note: Numbers on the left represent outstanding MSE loans (trillion), numbers on the right represent proportions; those in the brackets represent the change of proportions compared with those in 2015.

3.1.4 The growth rate of joint-stock commercial banks was still the lowest, and the growth rate of various types of institutions slightly declined

From the perspective of growth rate, other than the rural credit cooperatives and rural cooperative banks whose number decreased a lot in recent years due to reforms, we can see that the growth rate of the balance of small and micro enterprise loans of joint-stock commercial banks was the lowest at only 2.48%, which continued to decline compared with that in 2015. Rural commercial

banks, city commercial banks and village banks continued to maintain a relatively high growth rate, the one with the fastest growth rate was policy banks and National Development Bank, the growth rate of which reached 33%. Compared with the growth rate in 2015, the growth rates of the balances of small and micro enterprise loans released by multiple types of banking institutions declined, except for the five major commercial banks whose growth rate of the balance of small and micro enterprise loans was 0.03% higher than that of 2015, the growth rate of other banking institutions with statistical data all had slight decrease.

Figure 3-6 Growth Rates of Outstanding MSE Loans from Various Types of Banking Financial Institutions (2016)



Source: The research team of China MSME Finance Report (2017) from Central University of Finance and Economics summarized the data obtained from CBRC.

Note: ① Because some institutions lacked the data in 2015, only main institutions with the data of two years had comparison in growth rate. The numbers in brackets mean the changes of growth rates compared with that in 2015, green means increase in growth rate, red means decrease in growth rate.

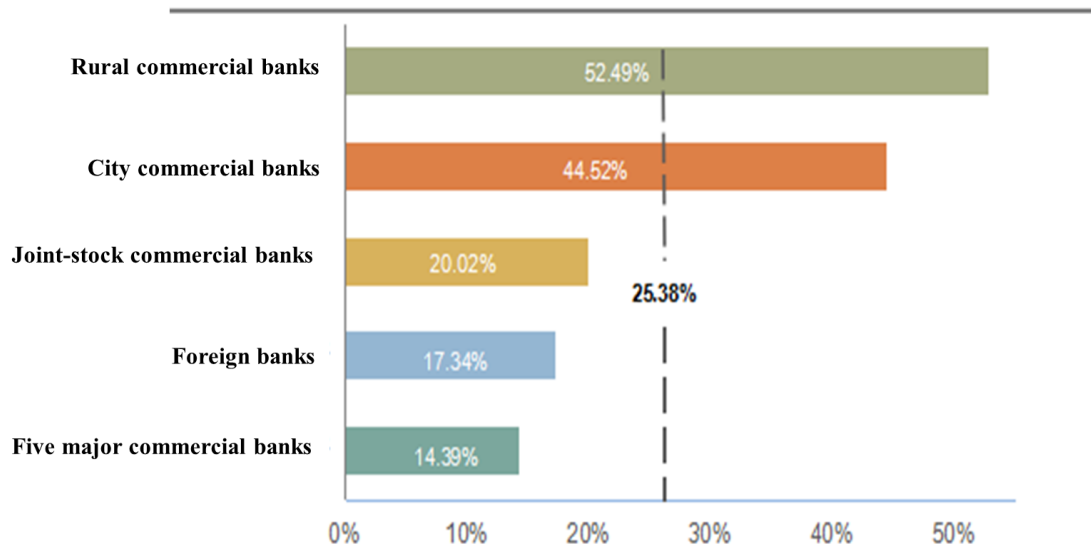
② The dotted line value 13.82% in the figure means the growth rate of balance of broad-sense small and micro enterprise loans released by banking financial institutions.

3.1.5 The ratio of MSE loans in the total loan balance slightly increased, the ratio of rural commercial banks in MSE loans was higher than that of other institutions

The ratio of MSE loan balance of banking financial institutions in total loan balance was 25.38%, which increased by 1.78% compared with the ratio of 23.6% in 2015. It's worth noting that the ratio of rural commercial banks in MSE loans was generally higher than that of other institutions, in which as many as 52.94% of the entire loan balances were MSE loans. The ratio of MSE loans

in city commercial banks was no more than half, but still far higher than that of the five major commercial banks and joint-stock commercial banks, and also higher than the general level of banking financial institutions.

Figure 3-7 Ratios of Generalized MSE Loan Balance Released by Various Types of Banking Financial Institutions in Total Loan Balance (2016)



Source: The research team of China MSME Finance Report (2017) from Central University of Finance and Economics summarized the data obtained from CBRC.

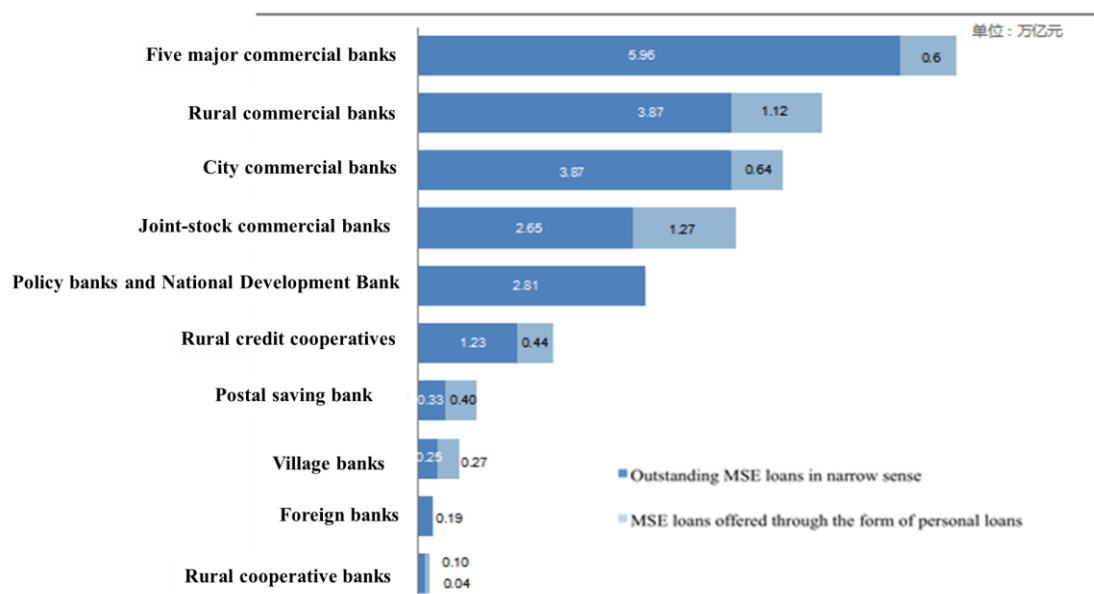
Note: ① The total loan balance of the five major commercial banks was obtained from the data of four major banks as released by the People's Bank of China and the data of annual report of the Bank of Communications; the total loan balances of joint-stock commercial banks, rural commercial banks, city commercial banks and foreign banks were obtained by calculating the bad loan balances and bad loan ratios as released by the CBRC;

② The dotted line value 25.38% in the figure means the ratio of broad-sense small and micro enterprise loans released by banking financial institutions in total loan balance.

3.1.6 Vastly Different Loan Structures of Various Types of Banking Financial Institutions

From the perspective of loan balance scale ranking, the five major commercial banks ranked the first place no matter it was broad sense or narrow sense of MSE loan balance. Except for policy banks and National Development Bank, the ranking of various banking financial institutions in narrow-sense MSE loan balance was consistent with their ranks in broad-sense MSE loan balance. The narrow-sense MSE loan balance of policy banks and National Development Bank was higher than that of joint-stock commercial banks.

Figure 3-8 Narrow-sense and Generalized MSE Loan Balances of Various Banking Financial Institutions (2016)



Source: The research team of China MSME Finance Report (2017) from Central University of Finance and Economics summarized the data obtained from CBRC.

Note: ① Rural cooperative banks released narrow-sense small and micro enterprise loans of RMB 0.10 trillion, and released RMB 0.04 trillion of small and micro enterprise loans in form of personal loans.

By observing the ratios of four types of MSE loan balances of various types of banking financial institutions, even bigger differences can be seen, which also reflected the differences between various types of banks in the positioning of MSE loan clients.

The type with the highest ratio of small enterprise loans was the five major commercial banks, the ratio was as high as 83.02%; while the ratio of balance in micro enterprises was only 6.64%, which was the lowest among all the banking financial institutions; the loans released in form of personal loans only accounted for about ten percent.

The type with the highest ratio of micro enterprise loans was foreign banks, the ratio was 17.14%; but foreign banks extremely rarely released individual business loans, and the ratio of operational loans by small and micro enterprises was only 1.67%, which was far lower than that of other types of banking financial institutions.

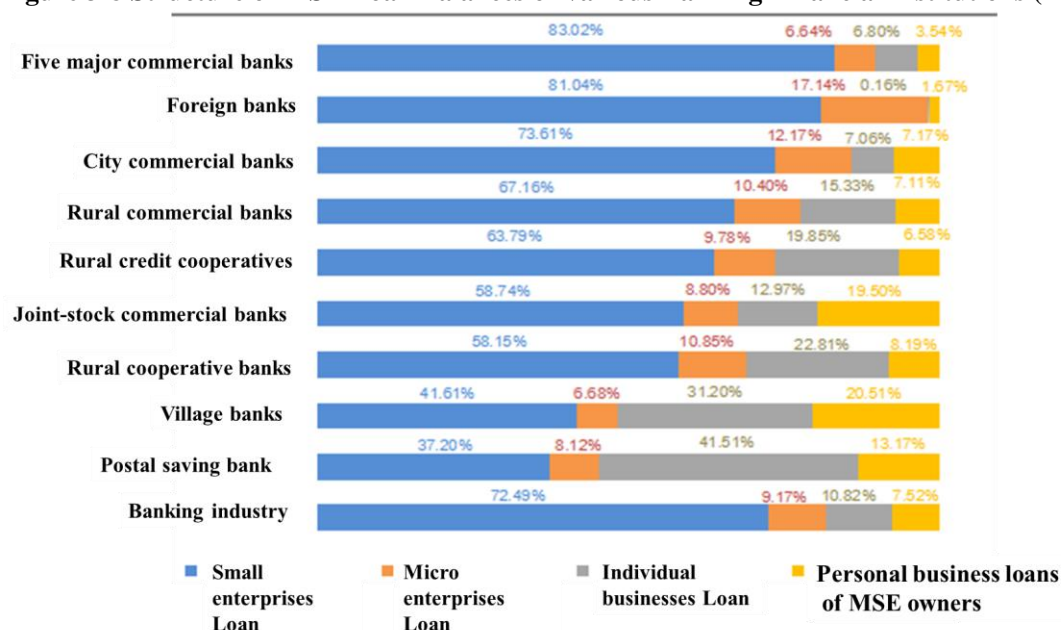
The type with the highest ratio of individual business loans was Postal Saving Bank, the ratio was 41.51%, which was far higher than that of various other types of banking financial institutions; the small and micro enterprise loans released in form of personal loans accounted for over 50%; but the loans of small enterprises only accounted for 37.2%, which was the lowest among various types of banking financial institutions.

The one with the highest ratio of personal operational loans of MSE owners was villager banks, the ratio was 20.51%, joint-stock commercial banks ranked the second place at 19.50%, but due to

the relatively big size of joint-stock commercial banks, they almost accounted for nearly 40% of the total personal operational loan balance of MSE owners of banking financial institutions.

Rural credit cooperatives, rural cooperative banks and village banks also had relatively higher ratios of individual business loans, which all exceeded the overall level of the banking industry, but the ratio of small enterprise loans of the three types of institutions was lower than the overall level of the banking industry.

Figure 3-8 Structure of MSE Loan Balances of Various Banking Financial Institutions (2016)



Source: The research team of China MSME Finance Report (2017) from Central University of Finance and Economics summarized the data obtained from CBRC.

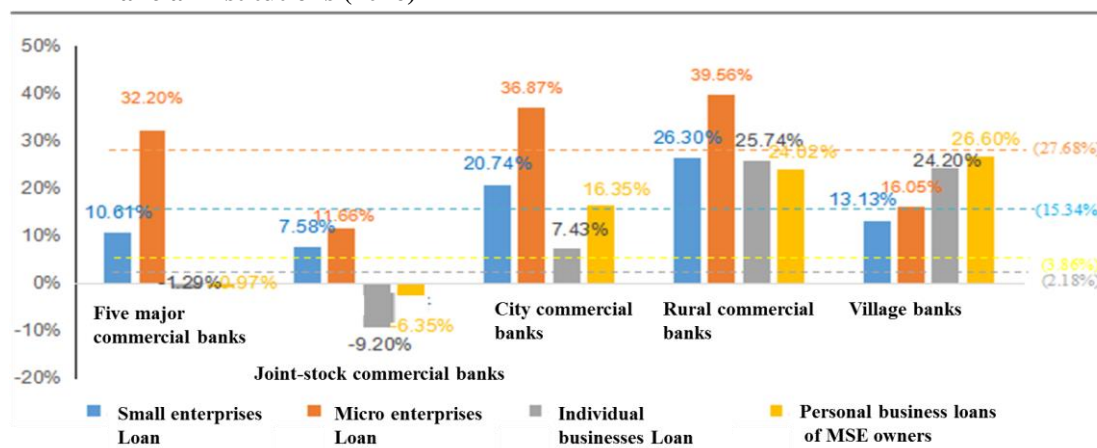
3.1.7 The various banking financial institutions performed differently in growth rate of loans released to four types of MSE enterprises

It can be seen from the comparison of growth rates of four types of MSE loans released by various institutions that different institutions had different focus on different types of small and micro enterprise loans in 2016.

Except ranking the second place in the growth rate of MSE owner loans, rural commercial banks' growth rates in other three types of MSE loans all surpassed that of other institutions, and they performed especially outstanding in the growth rate of operational loan balance of micro enterprises, which was as high as 39.56%. Among the four types of loans, city commercial banks had relatively faster growth rates in micro enterprise loans and small enterprise loans, which were higher than the growth rates of other two types of loans. On the contrary, village banks had relatively fast growth rates in the operational loans of individual businesses and MSE, which were higher than the growth rates of the other two types. It's worth noting that the micro enterprise

loans of the five major commercial banks had extensive growth compared with that in 2015; while the personal operational loans of small and micro enterprises and individual business loans released by the five major commercial banks and joint-stock commercial banks had negative growth, and the growth rates of the other two types of small and micro enterprise loans released by joint-stock banks were also relatively low.

Figure 3-9 Growth Rates of Four Types of MSE Loans Released by Various Banking Financial Institutions (2016)



Source: The research team of China MSME Finance Report (2017) from Central University of Finance and Economics summarized the data obtained from CBRC.

Note: ① The dotted lines mean the average growth rates of corresponding types

3.2 Other Financial Institutions/ Quasi Financial Institutions

3.2.1 Micro-credit companies: the naked swimmers began to appear after the fall of tide

In 2016, the challenges faced by microloan industry intensified. Following 2015 when the number of microloan companies and paid-in capital growth rate fell back to single digit for the first time, and the loan balance had negative growth for the first time, in 2016, the number of institutions and loan balance had “Double Decreases”, as of the end of 2016, there were 8,673 institutions, which decreased by 2.66% compared with the same period in previous year. The loan balance was RMB 927.3 billion¹, which decreased by 1.47% compared with the same period in previous year, the growth rate of number of institutions and the growth rate of loan balance decreased by 4.01% and 1.38% respectively compared with that in previous year.

The industry was facing huge internal and external competitions. Under the overall environment of macroeconomic downturn, on one hand, some traditional financial institutions that originally

¹ Source: People's Bank of China.

have high-quality big clients, such as commercial banks, began to “Sink” into the small and micro enterprise market, on the other hand, the internet finance that has been emerging in recent years by taking advantage of “Internet+” has been squeezing the market of micro-credit companies, under the competitions from banks and other traditional financial institutions and internet finance, the microloan industry is experiencing a “Big Shuffle”. Under the influence of slowing macroeconomic growth rate and intensified competition or other factors, the high-speed expansion period of microloan companies is already over, and the low-level operating trend gradually appears. Chinese microloan companies are at different levels in development, currently the companies that maintain profit, breakeven and loss each account for about one third¹. Due to the shrinking of surviving space, many microloan companies chose to quit the market, and the still persisting microloan companies began to seek transformation to gradually change from comprehensive companies that would do any business to the direction of specialty, to specify client positioning, and innovate products and services. Meanwhile, internet microloan has become a “Hot Industry”, in 2016, the number of microloan companies that received online microloan licenses rapidly increased; especially it has drawn great attentions that many some large enterprises with internet background directly established internet microloan companies to develop loan business. Under the economic new normal, the transformation and upgrading of traditional industry has accelerated; innovations such as technology innovation, internet+, and assets securitization keep appearing, the market demand gradually recovered, which has brought market opportunities for the microloan industry. The major trend would eliminate the bad and keep the good, the surviving microloan companies need to find a more suitable development path in the differentiated competition.

3.2.2 Pawnshops: Continuation of Returning Way

In 2016, the overall operating situation of the pawn industry was not promising. As of the end of 2016, there were 8,280 pawn enterprises in China, which slightly increased by 2.7% compared with that in previous year. The whole industry realized total pawn revenue of RMB 317.6 billion, which was a massive decrease compared with that in 2015, the decrease reached 13.5%, which expanded by 13% compared with that in 2015. The balance of pawn was RMB 95.73, which had decrease for the first time in recent year, the decrease reached 6.6%. It's worth noting that the decrease of business revenue and profit of pawn industry was even more significant, in 2016, the entire industry realized business revenue of RMB 9.61 billion, decreasing by 24.0% compared with the same period in previous year, in which the main business revenue (income from interests and comprehensive service fees) decreased by 27.9%, operating profit decreased by 41.8%, and net profit decreased by 60.2%². The once surging and “Expanding Era” of pawn industry is

1 Cited from the “Industrial Development Report of Chinese Microloan Companies (2005-2016)” released by the China Microloan Companies Association.

2 Source: National Pawn Industry Supervision and Management Information System.

already over.

The mainstream financial institutions paid more attentions to using technologies to enhance lending efficiency and coverage, and continuously lower the center of gravity for clients. Besides, many nonbanking financial institutions emerged and entered the financing market for MSEMs. Facing the increasingly fierce competitive pressure and economic transformation pressure, how the pawn industry to hold standpoint and develop has also become a common question in the industry. As the main business of pawn industry in recent years, the scale of real estate pawn business saw its first decrease in 2016, the loss of pawn industry when big-sum real estate pawn business has risks has made pawn enterprises more prudent when facing such type of businesses. In a sharp contrast with the declining ratio of real estate pawn, the performance of movable asset pawn was very prominent; pawn enterprises have been making efforts to seek opportunities in movable assets, especially in the field of civilian goods. Under the big background of hot real estate industry, civilian goods pawn, which has traditional advantages, was once ignored. With the increase of risks in the real estate industry, the advantages of the pawn enterprises that specialize in civilian goods business compared with other pawn enterprises that mainly engage in real estate business have gradually appeared, the industry's way of returning to its origin began to achieve preliminary results. In the process of returning to traditional advantages and discovering the utilization of internet technologies, the pawn industry has been making efforts to find the "Surviving" way. MSEs, as one of the main client groups of pawn industry, would also benefit from the pawn industry's way of returning.

3.2.3 Financial leasing: deep plowing is still needed

In 2016, the finance lease industry had sustained the development trend of high-speed growth in 2015, the total number of finance lease enterprises in China reached 7,136, which increased by 58.3% compared with the same period in previous year, the registered capital was RMB 2.5569 trillion, which increased by 68.8% compared with the same period in previous year¹, compared with the surging growth of the number of enterprises and registered capitals of the entire industry in 2015, the growth rate in 2016 slowed down, but the absolute growth was still higher than that in 2015, and the main promoting factor was still foreign-invested finance lease companies.

However, the high-speed growth of the number and registered capitals of finance lease enterprises didn't lead to simultaneous high-speed growth of lease businesses, the high-profile hollowing-out phenomenon of finance lease industry in recent years still exists. Compared with the growth of the total number and registered capitals of enterprises in the industry, the growth of contractual balance was only 20%. The foreign-invested finance lease companies had the most severe hollowing-out phenomenon, although the number and registered capitals of foreign lease companies has the growth rates far higher than that of the other two types of companies in 2016,

¹ Source: Wind News.

their ratio of business in the whole industry barely had any enhancement. It's worth recognizing that targeting the problems existing in the finance lease cross-border channel business, the regulators have enlarged regulatory efforts, the tightening of finance lease channel businesses would benefit the changing of the excessively high leaseback ratio and hollowing-out phenomenon in the industry, and would benefit for finance lease to return to the essence of leasing assets, so as to better benefit the MSMEs. In 2016, the "Internet + Finance Lease" got cold, while finance lease asset securitization had hot development, forward-looking finance lease companies were actively arranging in advantageous fields, and making efforts to walk on a characteristic and professional competition path. From the perspective of business type, the leaseback ratio of the finance lease industry in 2016 was about 80%¹. In the direct lease businesses that accounted for about 20%, considerable ratio of businesses was the lease of large equipment, ships and airplanes, as estimated based on which, the ratio of finance lease serving MSME was no more than 10%. MSMEs are difficult at the time of finance lease compared with larger enterprises due to small scale and large risk, finance lease companies still has very big room of enhancement when it comes to serving MSME.

3.2.4 Bonding and factoring companies: Hibernation for Rise

In 2016, bonding companies had stable operation, the decrease in volume and increase in quality started to have effect, the internal shuffle of industry continued, the number and scale of state-owned institutions reflected the trend of rising, and the industrial structure was somewhat optimized, but the balance of outstanding financing assurance decreased, the compensation rate increased, the dilemma of main businesses lacking profitability still existed. In the aspect of credit assurance for MSEs, the indicators including number of institutions, newly increased assurance amount, number of accounts, total revenue of assurance institutions, etc. continued to reflect year-by-year decreasing trend. The restoration of market confidence and the enhancement of profitability of the main business of financing assurance will accompany the entire structural adjustment period.

In 2016, in the field of movable asset financing, the development of supply chain finance was very massive, especially the exploration of large manufacturing industry and large e-commerce platforms in the field of supply chain finance was eye-catching in the industry. Among these typical cases, core enterprises and platforms (or their subsidiaries) undertook or partially undertook the function of receivables management and inventory collateral security management. But it's worth noting that the trading counterparties of many MSEs are not necessarily large core enterprises, and they are not necessarily within the ecological system of large e-commerce platform, which means the movable assets financing activities in wider sense need to rely on third-party collateral security management units to develop, therefore, the standard and healthy

¹ Source: 01 Finance Lease Brief.

development of collateral security management industry has irreplaceable significance for promoting movable assets financing, efficiently using the movable assets resources of MSMEs, and assisting medium-sized, small and micro enterprises in financing. In 2016, the collateral security management industry was further standardized; the industrial self-discipline model represented by industrial qualification evaluation and collateral security inventory management public information platform was improved, but the popularization of national standards still need the visible hand.

Under a series of favorable policies, China's commercial factoring industry has continued to maintain strong growing trend, the number of registered legal person enterprises and the number of newly registered enterprises had multiplying growth for four years in a row. In 2016, there were 5,548 registered commercial factoring legal persons and enterprises and branches in total, which increased by 102% compared with that in 2015, but nearly eighty percent of such factoring enterprises haven't opened for business yet, the registered capitals of all the commercial factoring enterprises when converted into RMB has exceeded RMB 400 billion in accumulation¹. In 2016, the commercial factoring industry stepped into the stage of standardized development, with the improvement of receivables financing infrastructure and the development of supply chain finance, the commercial factoring industry is playing bigger role in the aspect of serving the medium-sized, small and micro enterprises in financing.

3.2.5 Venture capital: Radically Reform and Interweaved Ups and Downs

The industrial reorganization and policy support have pointed out the direction of the sustainable healthy development and classified regulation of venture capital investment. Although the craze is still happening in partial fields, and although this round of extensive rise of fundraising would enlarge the bubble again, the voices of calling for and follow rational investment become increasingly clear and firm, the investments driven by technology and emphasizing on consumption upgrading have become the mainstream.

Strongly driven by the entrance of state-owned enterprises and the government's guiding fund, in 2016, the fundraising quantity and scale of venture capital investment funds sustained the rising trend since 2014 and made a new record high. Chinese and foreign venture capital investment institutions raised 764 funds, which increased by 5.83% compared with the same period in previous year; the newly increased capital volume that could be invested in Mainland China was RMB 375.156 billion, which increased by 70.56% compared with the same period in previous year; the fundraising scale of single fund increased to RMB 492 million, which was a new record high since 2009. Despite the affluent capital on fundraising end, restricted by the yet-to-recover overall economic environment, high-quality start-up projects were very rare, the amount and number of venture capital investments in 2016 didn't have obvious increase, and the growth rate

¹ Essential Interpretation of the "Development Report of Chinese Commercial Factoring Industry in 2016".

declined to certain extent. In 2016, there were 5,734 investments, which slightly increased by 3.88% compared with the same period in previous year; the disclosed investment amount was RMB 143.497 billion, which slightly increased by 2.87% compared with the same period in previous year; the average invested amount for each case was RMB 25.03 million¹, which slightly decreased by 0.97% compared with the same period in previous year. The internet field still ranked top of investments, but the investment amount had the first decline in 2016 after the explosive growth in 2013. The venture capital investment market began to return to rationality. In 2016, Chinese VC institutions had 2,001 quitting from transaction, which was 1.1 times of that in 2015. The improvement of NEEQ system and normalization of IPO have given venture capital investment institutions more confidence, and it is expected to adjust the phenomenon of excessive valuation in the primary market. The joint effect of incubation and venture capital investment reduced the establishing time of enterprise growth cycle, cross-field, platform, ecological circle and other platforms, and would drive start-up enterprises to have explosive growth. Large institutions explore business boundaries, small institutions specialize in their expert fields, while VCs explore cooperation with invested enterprises, etc., which would all explore more opportunities for the value creation and fast growth of MSEs.

3.3 Financial Market

3.3.1 Over-the-counter Market: In-depth Development under System Innovation

In 2016, the A-share market was generally at low position, the multi-layer capital market structure was further optimized, and the positive triangular form was further stabilized, the capital market is still playing important roles in providing enterprises with financing. In 2016, there were 3,512 enterprises that received financing in the main board, SMEs board, GEM board and equity transfer system, and the total of RMB 2.296222 trillion was raised in total², which increased by 43.22% from RMB 1.603271 trillion in 2015. But the funds in equity market still collectively flew to large enterprises, as of the end of 2016, among the enterprises listed in equity market, the number of medium-sized, small and micro enterprises accounted for 78.30% (medium-sized, small and micro enterprises listed in the equity transfer system accounted for the majority), but the financing amount of medium-sized, small and micro enterprises in the year only accounted for 5.33% of the total OTC financing amount. In the aspect of system construction, the multi-layer capital market is still under further improvement, multiple system constructions are underway, including slowing of registration system, IPO normalization, issuance of new re-financing regulation, formal opening of

1 Source: "Retrospect and Prospect of Chinese Equity Investment Market in 2016" of Zero2IPO Group.

2 Source: Wind News.

the Shenzhen-Hong Kong Stock Connection, formal implementation of the NEEQ layering system, listed enterprises in equity transfer system exceeding ten thousand, layering mechanism, and private placement market making, etc. But the liquidity problem and investment-financing conflict that troubled the market still exist; there is still a long way to go for market development. How to position and improve different market functions, optimize resource arrangement efficiency, and better serve the financing and development of MSMEs is a question to be further explored.

3.3.2 Bond Market: Further Strengthening of Market-oriented Trend

In 2016, the bond market continued to advance triumphantly, the financing from bond market in 2016 was RMB 36.37 trillion, which increased by 56.79% compared with the same period in previous year. Corresponding to the overall downturn of the yield of secondary bond market during most of the year, the face interest rate of newly issued bonds apparently declined, so it reduced the enterprise's bond financing cost, and promoted the expansion of enterprise bond financing scale, in 2016, the various bond financing amount newly issued by non-financial enterprises in the primary market reached RMB 8.23 trillion, and the net financing scale of corporate bonds was RMB 3 trillion, which increased by 23.39% and 2% respectively compared with that in 2015. On the other hand of the overall expansion of bond financing scale, under the background of frequent occurrence of bond default incidents and declining risk preference of investors, it is increasingly hard for MSMEs to directly finance through bonds. In 2016, medium-sized, small and micro enterprises collectively issued 215 various types of bonds (enterprise bonds, corporate bonds, medium term notes, short-term financing bonds, PPN) in total, and had financing scale of RMB 165.023 billion, which accounted for 3.93% and 2.56% respectively in the total issuing quantity. It can be seen that in the bond market, large enterprises occupy the absolute dominance in both issuing quantity and financing scale. It's worth noting that 96% of the funds received by medium-sized and small enterprises through bond issuance flew to the comprehensive (mainly subsidiaries of large shareholding groups), real estate industry, construction industry and financial industry, while in the two industries with highly concentrated medium-sized and small enterprises, namely manufacturing industry and wholesale & retail industry, there was few enterprises having bond financing or none at all, which reflected the weak position of MSMEs of traditional industry in bond market financing.

In 2016, in the aspect of providing MSMEs with financing services, the bond market generally sustained the overall trend that began to show in the year of 2015, and began to reflect new characteristics in certain aspects. Firstly, after the significant expansion of the scope of entities that may issue privately raised bonds, the specific name of "Privately Raised Bonds for Medium-sized and Small Enterprises" began to fade out. Besides, the SMEs' collection notes and SMEs' collection bonds had zero issuance in 2016, the SME-concept bonds have completely quitted the historical stage; secondly, the first batch of innovative and entrepreneurial enterprises' corporate

bonds were successfully issued, MSMEs had new channels for financing; thirdly, the yearly issuing volume of special financial bonds for small and micro enterprises reflected high-speed growth trend, national joint-stock commercial banks exceeded regional banks in the issuance of special financial bonds for small and micro enterprises for the first time; fourthly, the birth of the small and micro loan creditor's rights bad debt asset securitization product had groundbreaking significance, but the issuing amount of small and micro loan creditor's rights bad debt asset securitization was relatively small, so its assistance in the loans of small and micro enterprises was not obvious; fifthly, the issuing scale of microloan asset securitization still realized explosive growth in 2015, but the part that could truly serve MSMEs was limited, besides, there was the first asset securitization product that was based on small-sum re-loan creditor's rights. Generally speaking, in 2016, the bond market sustained the market-oriented trend in the aspect of providing financing services to MSMEs.

3.4 Insurance: Advance in Exploration

In 2016, China's insurance industry continued to maintain high-speed growth, insurance premium incomes and total industrial assets sustained rising trend. The total industrial asset scale reached RMB 15.12 trillion, which grew by 22.3% compared with that at the beginning of year. The original premium income¹ of insurance industry reached RMB 3.1 trillion, which grew by 27.57% compared with the same period in previous year. Insurance premium income and growth rate both made new record, and sustained the years of trend that insurance premium income maintain stable rise. But it's worth noting that although the government has issued many policies in promoting the development of enterprise-related insurance², the enterprise-related insurance market in China is still weak in growth, especially the degree of medium-sized, small and micro enterprises in using insurances is still very limited. The original premium income of enterprise-related insurance market was RMB 189.4 billion³, which increased by 8.1% compared with that in 2015, the growth rate of premium income of enterprise-related insurance market was slightly higher than the 7.16% in 2015, which stabilized the quickly sliding trend of premium income growth of enterprise-related insurances, but the growth was still very slow, and it was not promising.

Property insurance services of traditional medium-sized, small and micro enterprises stagnated, the development of insurances for MSMEs mainly face obstacles in two aspects: on one hand, from the perspective of insurance company, due to the big number and generally high risk level of

1 Excluding the insurance premium incomes cut in and out from reinsurance.

2 The enterprise-related insurances in this report include enterprise property insurance, liability insurance, project insurance, goods transportation insurance, ship insurance, credit insurance, guarantee insurance, special risk insurance, agricultural insurance, and excluding the personal insurance purchased by enterprises for their employees (life insurance, accident insurance, health insurance, etc.)

3 Auto insurance had very high ratio in premium income of property insurance companies. The enterprise-related insurance here doesn't include auto insurance.

MSMEs, insurance companies need to have strict review and risk control when processing related insurance contracts with MSMEs, which would greatly increase the labor and material cost of insurance companies; on the other hand, from the perspective of MSMEs, the related insurance products have relatively high prices, and the companies themselves don't have stable profitability, many MSMEs would be intimidated by expensive product prices even if they want to buy insurance. The pilot work of small loan guarantee insurance is still underway, but the development bottleneck is hard to break through, there was the phenomenon of insufficient demand and supply, it is difficult to realize market-oriented development without policy subsidies.

Fortunately, the rapid development of internet insurance and the launch of mutual insurance have brought new development opportunities for the insurance industry, and also provide new thoughts for the insurance industry to serve MSMEs. The application of big data is starting a bottom-up revolution in the traditional insurance industry, and expected to change the traditional actuarial pricing, it adopts different risk prediction and quantitative model to have precise pricing on the insurances for MSMEs, uses the speed and convenience of the internet to enhance service efficiency, reduce service costs and break the pain points in traditional insurances for MSMEs, and opens the door of insurance for MSMEs. Generally speaking, there are both opportunities and challenges in the insurance serving MSMEs, the insurance industry is advancing in the exploration of serving MSMEs.

3.5 Informal Finance: Trials and Hardships

Along with the transformation and deepening of economic transformation, in 2016 when the new growth momentums have yet to take shape, China's financial system faced more severe risks and tests, as a supplementation to formal finance, informal finance is difficult to take care of its own. The difficulty directly sourced from the real economy and the influence of the loose liquidity, virtualization and bursting of asset bubble resulted in high tightening of private loan chains in many places, the prevention and control of private financial risks have doubtlessly become an important content regional financial risk management, the lessons and experiences of the informal finance incidents in places such as Wenzhou had become the samples and references for local financial risk control. However, the *Money Lender Rule* that was highly anticipated as a fundamental legislation of informal finance still hadn't been issued in 2015, the open development of informal finance still has a long way to go.

P2P lending had the "First Year of Compliance", although under the heavy regulation and accelerated shuffling, the industry generally resisted the pressure, the trading scale strongly climbed against the trend, but how to precisely find the weapon that could cut into the big case of financial service for medium-sized, small and micro enterprises in the big wave of compliance, the industry still faces tests. After several years of sprouting and thriving, the internet crowd funding

has received market test and launched the process of rational returning. No matter if it was equity crowd funding or return crowd funding, services to innovation and entrepreneurship both need far-sighted and feasible systems for support.

4. Prospect of MSME Finance Development

In 2017, the global economy generally reflected the trend of recovery, with the deepened implementation of China's supply-end structural reform, decentralization and innovation driving strategy, the new economic momentum is forming, the favorable factors to stabilize the economy gradually increased. However, objectively, the endogenous economic growth momentums still need to be strengthened, the structural conflicts are still relatively prominent, and the balance between the stabilization of economic growth, the prevention of asset bubble, and the promotion of environmental protection still faces many challenges.

In the aspect of policy, the Fifth National Financial Work Meeting held in July 2017 set the keynote of financial regulation for the following period, it stressed again that finance should closely stick to the two mainlines of serving the real economy and preventing financial risks, and also proposed that we need to put the development of direct financing into an important position, and form the multi-layer capital market system that has complete financing functions, solid basic system, effective market regulation, and the lawful rights and interests of investors can be effectively protected. We need to build an inclusive financial system, strengthen the financial services to small and micro enterprises, the "Agriculture, Rural and Farmer" businesses, and remote regions. The implementation of the meeting's spirit would set excellent keynote for the development of financial services to medium-sized, small and micro enterprises.

The steps of financial technology innovation keep accelerating, and it has deeply integrated with financial businesses, financial technologies represented by big data, cloud computing, artificial intelligence and block chain will gradually become new momentums that drive financial development, and the small and micro finance will be one of the fields that receive the most benefits from the development of financial technology.

Commercial bank loans to MSMEs are still expected to maintain general growth, large and medium-sized commercial banks have established inclusive financial business departments that focus on small and micro enterprises as well as weak fields such as "Agriculture, Rural and Farmers", which would bring certain effect, but because the overcapacity treatment and elimination of security circle radiation would still need time, MSMEs, especially the small and micro enterprises in the cycle-closed industries such as manufacturing, wholesale & retail and resources still have considerable risk control pressure. Although it is difficult to have significant

breakthrough in loan scale, the optimization in structure would continue. Under the promotion of industrial competition, banks will set foothold in their own comparative advantages, and choose different types of small and micro enterprises markets for deep plowing, so as to generally realize a higher-efficient financial service pattern for small and micro enterprises. Under the background that financial technical development continues to deepen and its penetration into commercial banks further strengthens, using the internet and big data to develop precise marketing and risk control will become the choice and more and more commercial banks, and the competitions targeting the low-amount credit loan products for small and micro enterprises would become increasingly fierce, clients will further sink down, which is a blessing for the part of small and micro enterprises that were originally at the bottom of the corporate pyramid. For the enhancement of lending efficiency on the small and micro enterprise loans for bigger credit lines, it depends more on the continuous optimization of credit process based on the traditional relationship-type loans, supply chain finance and more scaled financial service model development. Under the guidance by the policies such as the *Instructive Opinions Regarding Using Finance to Supporting the Construction of Manufacturing Power* that was jointly released by five departments, and the *Special Action Working Scheme of Receivables Financing of Small and Micro Enterprises* that was jointly released by seven departments and commissions, the development of movable assets financing including receivables financing and the broader-sense supply chain finance is expected to be further accelerated. We are looking forward to the prospect that commercial banks, especially traditional commercial banks, achieve substantial effects in using technological innovations to enhance the financial services to small and micro enterprises, realize the win-win situation between banks and small and micro enterprises, finance and real economy, and promote the small and micro finance to be both “Popular” and “Inclusive”, enhance the coverage of the finance for small and micro enterprises, so more small and micro enterprises could obtain financial support at lower costs.

The industrial reshuffle of non-mainstream financial institutions such as microloans and pawns will continue, the structural differentiation will become increasingly obvious; the process of the finance lease, factoring and venture capital investment returning to the essence won't be necessarily quick, but the direction is already very clear. The situation where the ratio of insurance products of medium-sized, small and micro enterprises in overall property insurance market is still low won't have fundamental change in 2017, the penetration of financial technology into insurance industry is expected to bring some innovation highlights, but generally speaking, the insurance services to medium-sized, small and micro enterprises still have heavy tasks and a long way to go. Under the big background of shrinking macroeconomic liquidity and deleverage, the pain of informal finance adjustment is still not over yet, informal finance organizations may face the test of life and death, the reorganization of internet finance such as P2P that has informal finance nature will be continuously strengthened, the market chaos is expected to be controlled to certain extent, but whether the industry could start a path of sustainable development after the

great order will still depend on the establishment of the long-term mechanism of internet finance.

Capital market regulation will continue, the further improvement of market system construction will set foundation for the development of direct financing, and the trend of continuous enhancement of direct financing ratio will not change, but the situation of stock market and bond market mainly serving large and medium-sized enterprises will continue for a long time. The financial disintermediation effect of large and medium-sized enterprises formed from capital markets will continue to force the indirect financing system represented by traditional commercial banks to lower their gravity center of customer service. The normalization of IPO would help high-quality medium-sized and small enterprises to enter capital market, but multi-layer capital market still as a very big room of development in the aspects of serving technical innovation enterprises and promoting social innovation development. In 2016, the complete quitting of the SMEs-concept bond from the historical stage provided a footnote to the ineffectiveness of policy guidance that doesn't meet market rules, providing the subjects of financial services to medium-sized, small and micro enterprises with stable funding sources and providing stage to the asset securitization based on the credit assets of medium-sized, small and micro enterprises is the practical path for the bond market to indirectly serve medium-sized, small and micro enterprises, we are looking forward to that the two indirect paths get more attentions and strengthening in 2017.