
Research on the Impact of Financial Ecological Environment on SME Financing

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Abstract

With the progress of society and the rapid development of the economy, China's economy has undergone qualitative changes: the business mode has changed from the previous one that solely relied on the state-owned or collective enterprises to that dominated by small and medium-sized private enterprises. Nowadays, SMEs have become an indispensable part of China's economy; and they are the largest and most innovative organization group in China. Small and medium-sized enterprises not only promote the steady development of China's economy, but also provide more than 50% of the tax revenue for China's economic income and create more than 60% of the GDP; At the same time, it has made tremendous contributions to improving people's livelihood, relieving employment pressure, and promoting technological innovation. According to statistics, small and medium-sized enterprises accounts for 99% of the total enterprises in China, providing more than 80% of urban employment jobs in China, and completing more than 70% of patent inventions. However, as China is still in the transitional stage of economic development and its financial environment is still not perfect, which has led to the stagnation of SMEs in financing difficulties. In addition, with the impact of the international financial crisis, the international and domestic financial markets and their financial environment are in an unstable state, which has greatly affected the development of China's SMEs and made it more difficult to attract financing. This paper will take the financing difficulties of SMEs as the starting point. By combining the theory and case analysis, this paper analyzes and studies the meaning of the internal meaning behind the financial environment data and analyzes the influence of the financial environment on SMEs from five aspects. Finally, based on the results of theory and case analysis, this paper proposes to improve the financial ecological environment to accelerate the improvement of laws and regulations on financial support for SMEs in the financial environment, thereby promoting the healthy development of financial markets. In the end, the optimization of financial ecology will alleviate the big problem of financing difficulties faced by SMEs.

Keywords: SMEs, financing, financial ecology

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INTRODUCTION

As the main body in the market, SMEs play a central role in promoting the development of the national economy and promoting the harmonious development of society. Since the fifteenth conference, due to the rapid growth of SMEs, the Chinese Communist Party has paid more attention to the development of small and medium-sized enterprises. As the backbone of China's economic development (Turkson et al. 2015), SMEs' development status is related to the future direction of national economic development and the changes in the internal structure of the current national economy.

However, in recent years, China's SMEs have generally encountered some obstacles in their development: Since China implemented reform and opening up and actively implemented its own foreign policy, the golden development stage of China's small

and medium-sized enterprises has passed. Due to changes in the external environment, the competitive advantages of China's small and medium-sized enterprises have gradually disappeared, such as China's manufacturing enterprises. With the development of technology and the changing market demand of consumers, some manufacturing industries are facing a market with poor demand and are in a state of powerlessness. The cruelest argument is that most manufacturing industries may have to close down and withdraw in the next 3-5 years. Paulo and Paulo (2015) stated due to the disappearance of many small and medium-sized enterprises' competitive advantages and poor management, the financing difficulties of SMEs have become a "tough problem". Under the impact of the international financial crisis, the financing difficulties of SMEs have new features: on the one hand, with the improvement of the overall material life of the

society, which has led to an increase in the production costs of enterprises, and the overcapacity of some industries, SMEs need to maintain their normal operations, and the demand for liquidity by financial companies has become more urgent. On the other hand, under the constraints of credit scale, especially under the rigid agreement of continuously increasing the deposit reserve ratio, banks are more cautious about the financing needs of SMEs. To solve the long-standing problem of financing difficulties for SMEs, on the one hand, it depends on the improvement of the external environment in which SMEs survive, such as the reform of the financial system; on the other hand, it depends on the efforts of SMEs themselves.

In addition, since 2005, financial environmental issues have been one of the hot issues discussed by experts in the economic field. From a macro perspective, a good financial ecological environment plays a decisive role in the good operation of the market, the optimization of the economic structure, the liquidity of funds and the strengthening of security. Therefore, under the current economic conditions in China, Supriti and Damodar (2013) said that it is inseparable to solve the problem of financing difficulties for SMEs and the state of the external environment in which enterprises are located. China's current economic structure is coexisting in many forms. However, from the perspective of overall economic development, the financial ecological environment is not perfect, such as the irrational allocation of financial resources, the lack of innovation capacity of financial institutions, the imperfection of financial supervision systems and systems. These are the reasons for the asymmetry of economic structure and financial structure and the difference in credit supply and demand structure. At the same time, this has greatly increased the extent of its financing difficulties (Li 2011).

In summary, the impact of the existing defects of the financial ecological environment and the imbalance of the financial ecological structure on SMEs. We must combine the theory of financial ecological environment and SME financing related with the current financing situation of SMEs, and propose ways to solve this problem.

THE STATUS QUO OF AND PROBLEMS IN SME FINANCING

The Status Quo of SME Financing

Under the current economic situation in China, the potential functions of SME development are constantly

being stimulated. However, the road to SME development is not smooth. China is in the stage of transition from the planned economy to the market economy. Most SMEs still have many traditional colors. Therefore, Chinese SMEs will generally face difficulties in financing during the development process. The specific analysis is as follows:

Single financing approach

Since the reform and opening up, although the development of SMEs has become more diversified, the financing methods of SMEs are still relatively simple, and their financing methods are still based on financial institutions.

Small and medium-sized enterprises are still in the early stage of growth, and all business activities are still in the exploration period, which is extremely uncertain, so it is difficult to obtain assistance from relevant financial institutions. Not only that, because we implement a socialist market economy, the scope of government intervention is broader and has a profound impact (Luo et al. 2011). Therefore, the existing legal system of issuing bonds in China has adverse effects on its financing and the imperfection of the development of the capital market makes it difficult to obtain funds through other means.

The Cost is high

Since the implementation of the reform of the commercial bank market interest rate system in China's reform and opening up, the loan review work has been improved to a certain extent. At the same time, however, the loan review fee has been increased, which has greatly increased the loan cost and increased the financing cost, coupled with other financing costs. This has greatly increased the overall financing costs of SMEs and brought certain financing pressures.

The operating environment is poor with obvious differentiation

Small and medium-sized enterprises have weak foundations, small scale of production, relatively backward technology, unstable work performance, large employee mobility, weak anti-risk ability, difficult management in later loans, and relatively low credit. This has caused financial institutions such as banks to be reluctant to lend to small and medium-sized enterprises. At the same time, sometimes county-level governments and SMEs will choose to sacrifice the interests of banks for their own benefit, which makes them subject to enormous risk pressures, making banks more cautious in handling SME loans. Moreover, there

is still an imbalance in the development of small and medium-sized enterprises in China, and high-quality small and medium-sized enterprises have become active targets for loans from various financial institutions. Companies that are not very good will be left out of the cold because of the dangers of bankruptcy (Li et al. 2005).

Analysis of Financing for SMEs

Through the analysis of the above-mentioned status quo, it can be seen that the current situation of SME financing in China has seriously hindered the continued development of SMEs, and it is imperative to analyze the causes of the problems. The specific reasons are as follows:

The credit evaluation system and the credit guarantee system are not perfect

At present, China's credit evaluation mechanism and supervision mechanism are not perfect, and there is no national uniformity. And China has not yet clarified the issue of guarantee funds, and a unified guarantee system has not been formed. SMEs started late and have a weak foundation. When faced with these problems in front of China, they have greatly restricted the support of relevant financial institutions for SME loans. Therefore, there are countless examples of SMEs being unable to implement guarantees and being denied loans.

The financial system and the bank management system are inconsistent with the development needs of SMEs

Lin and Zhi (2013) proposed that small and medium-sized enterprises are currently in large numbers in China and are widely distributed. However, due to the limited credit capacity of China's small and medium-sized financial institutions and the relatively dense distribution of small and medium-sized financial institutions with strong capabilities, they cannot meet the needs of most SME financing. In addition, the bank sometimes cannot understand the actual operation of the lending company, resulting in a mismatch in information. Therefore, banks usually adopt a simple guarantee method, ignoring the future development of SMEs, which further increases the difficulty of financing for SMEs.

Laws and regulations supporting the development of SMEs are not sound enough

Small and medium-sized enterprises are in an environment of imperfect financial markets. In the face of market imperfections, government agencies must intervene on behalf of the government. Although China has promulgated many laws and regulations to adjust

the status quo of macro finance, such as: "Company Law", "Securities Law", etc., but there is still no provision for a unified guarantee evaluation system. Or even if laws and regulations have been promulgated, there are problems such as poor implementation, which seriously hinders the development of SMEs (Liu 2011).

The enterprise's own management system is not sound enough

SMEs are in the primary stage of development, and the overall level of productivity is still weak. The level of technological development is obviously weaker than that of listed companies. The financial data is less transparent and more prone to distortion. These factors are all manifestations of weak management concepts and business concepts. In addition, SMEs tend to pay more attention to their own interests and ignore other development factors, resulting in lower credit consequences, which makes it more difficult to use capital and financing (Guo 2014).

THE IMPACT OF FINANCIAL ECOLOGICAL ENVIRONMENT ON SME FINANCING

The financial ecological environment has been receiving much attention from researchers since its introduction. This complex system is like the natural environment, and its components are full of diversified elements. According to the analysis of Li Yang et al.: There are five major components that determine the quality of the financial ecology, including: economic foundation, financial industry development, legal environment, integrity culture and the independence of the financial sector. Moreover, it is not difficult to find that a high-quality financial ecological environment plays a significant role in improving the financing of SMEs. The specific analysis is as follows:

The Impact of Economic Base on SME Financing

The economic foundation is the cornerstone of the development of all things in society. It mainly includes: economic development level, industrial structure, economic activity, and infrastructure construction. These are all necessary conditions for the development of other elements. A good social and financial ecological environment can enhance economic activity, which is conducive to creating a relatively healthy social market economy, so that it can alleviate the financing difficulties of SMEs with the self-regulating power of the market economy. On the contrary, a relatively poor financial ecological environment, which will easily lead to market out of control, so that the government's intervention in market activities occurs, then other related factors will lose their meaning. In addition, a

good financial environment can attract more investors, make more external capital inflows, and improve their economic competitiveness. This not only drives the development of listed companies, but also benefits SMEs.

The Impact of Financial Development on the Financing of SMEs

When evaluating the state of financial development, we tend to consider financial industry contributions, financial intermediation and financial markets. A good financial environment will certainly have a prosperous financial market, which provides a more diversified financing channel for SMEs. Moreover, when the financial market is relatively perfect, the role of bonds and equity financing will be brought into play, and SMEs will develop rapidly.

The Impact of Legal Environment on SME Financing

The law is a way to maintain the order of the financial ecological environment, and it has a direct influence on the financial ecological environment. For the financing behavior of small and medium-sized enterprises, all SMEs want to minimize their own costs and expenses, and achieve their optimal free configuration. In a region with a sound legal environment, when financial institutions and SMEs cooperate, the law can serve as the most powerful basis for safeguarding the interests of both parties. Therefore, this can greatly reduce the cost of cooperation between the two parties, accelerate the overall progress of SMEs in financing, promote the virtuous circle of financial ecological environment, and resolve the financing risks of SMEs.

The Impact of Government Actions on SME Financing

The operation of the market cannot be separated from government intervention. Judging from the role of SME financing, the government's interference in the economy will help improve the financing environment for SMEs, alleviate the problems of poor regulation of the market economy and low level of social security. However, excessive government intervention will interfere with the good operation of the market economy, resulting in poor market regulation, causing unnecessary troubles for SME financing activities and curbing the financing efficiency of enterprises (Xue 2011).

The Impact of Credit Environment on SME Financing

Credit is the cornerstone of the establishment of cooperative relations between financial institutions and SMEs. It mainly includes four aspects: social security level, education development, resident education investment and social integrity. These factors can improve the credit rating of SMEs, reduce the various costs incurred in the financing process of SMEs, and improve the ability of SMEs to obtain funds. When financial institutions consider whether to handle loan business for a certain small and medium-sized enterprise, they will pay more attention to these four aspects, especially commercial banks (Xu 2007).

In summary, these five major elements that constitute the financial ecological environment are crucial to solving the financing problems of SMEs. A high-quality financial ecological environment can not only attract more funds to flow into it, but also reduce the cost of financing for SMEs, increase financial instruments that match their financing needs, and promote the continuous optimization of financial institutions. This will provide a richer financing path for their financing.

TAKING THE STUDY OF CHINA'S FINANCIAL DEVELOPMENT AS A CASE

As a province with good financial development prospects, Jiangsu Province has a certain proportion of the total number of SMEs in China. However, the problem of financing difficulties for SMEs has restricted the development of enterprises, and the regional financing difference in Jiangsu Province is more obvious. Below, we analyze the impact of financial development in Jiangsu Province on the financing of SMEs in various regions.

Data Source

The data in this paper mainly comes from the National Database of the National Bureau of Statistics of the People's Republic of China and the China Statistical Yearbook 2010-2015. This paper uses Excel for data statistics and plots and tables.

Financial Development in Jiangsu Province

Since the reform and opening up, along with the rapid development of China's economy, financial assets and economic development have been in an increasing trend, which has caused China's financial ratio to rise substantially. However, China's financial development is uneven across regions.

Table 1. Financial Related Ratio of Zhejiang Province in 2010-2015

	2010	2011	2012	2013	2014	2015
The entire province	365.83	353.14	364.02	370.18	375.07	373.25
Hangzhou	540.6	493.9	471.9	481.2	497.4	498.3
Ningbo	371.3	352.1	347.9	354	374.3	372.8
Wenzhou	410.7	407.8	388.8	371.2	363.9	361.07
Jiaxing	275.8	275.7	272.4	283.8	308	306.6
Huzhou	251	250.9	245.5	262	214.1	210.6
Shaoxing	317.8	299.3	295	297.8	292.8	293.02
Jinhua	335.7	342.8	350.6	376.4	385.8	386.05
Quzhou	230.5	227.5	242.1	257.3	244.7	244
Zhoushan	335.4	320.6	303.3	298.1	295.5	295.8
Taizhou	273.8	271.2	383.1	301.1	316.2	315
Lishui	293.9	282.2	275.1	292.1	312	312.2

Table 2. Deposit in Jinhua in 2010-2015 (unit: 100 million yuan)

	Deposit		Short-term loan		Medium and long-term loans	
	Unit deposit	Personal savings deposit	Personal loan	Ordinary unit loan	Personal loan	Ordinary unit loan
2010	1075.62	2011.95	565.84	1587.78	463.22	331.67
2011	2227.02	2314.15	755.21	1875.91	482.18	339.06
2012	2469.87	2684.35	905.49	2316.34	497.43	303.46
2013	2849.81	3022.28	1158.56	2708.52	593.46	362.13
2014	2979.11	3232.66	1261.76	2920.14	706.57	512.1
2015	3065.87	3468.75	1379.68	3030.62	743.79	633.07

The financial correlation ratio is the most commonly used indicator to measure the level of financial industry development in a country or region. By calculating the financial related ratio of Jiangsu Province from 2010 to 2015, we can understand the financial development of various regions in Jiangsu Province as shown in **Table 1**.

(1) From the table, it can be seen that the overall average value of Zhejiang Province during 2010-2015 is increasing year by year. That is to say, during the six-year period, the regions are generally in a state of financial deepening, and the overall differences are constantly shrinking. This phenomenon may be due to the local government's intervention in the rational allocation of resources, which makes the market allocate more space for financial resources.

(2) Comparing the financial ratios of the regions, it can be easily found that the financial-related ratio of Hangzhou for 6 years is far higher than the overall level. This shows that in the competition of all financial resources, Hangzhou has more financial resources than other regions, making it possible to turn to the competition for market financial resources, and the allocation of financial resources is no longer solely dependent on state-owned financial institutions.

Analysis of Financing Situation of Small and Medium-sized Enterprises in Various Regions of Jiangsu

Most of Chinese SMEs have relatively simple financing methods, and Jiangsu Province is no

exception. Therefore, it is necessary to analyze the distribution of SME loan balances. According to Loan Balance in Jiangsu Province in 2010-2015, the overall loan balance of Jiangsu Province in 2010-2015 is on the rise, indicating that the phenomenon of loans from SMEs in Jiangsu Province to relevant financial institutions has been on the rise for nearly six years. The main reason may be due to the better financial development environment in Jiangsu Province, which enables the rational allocation of resources and the increase in loan business. According to the statistics of relevant websites in 2010-2015, the best deposit and loan resources of Jiangsu financial institutions are in Hangzhou, which is closely related to the development of financial markets in various regions we analyzed above.

It is not difficult to think that where the financial market is more optimized, the financing threshold for SMEs can be reduced, a large amount of foreign capital is poured in, and SMEs are in an open, fair and just financing environment. On the contrary, the financial market that is not perfect is the proportion of medium and long-term loans of related units is low, and the financing of small and medium-sized enterprises is less. Jinhua is taken as an example for analysis.

It can be seen from **Table 2** that Jinhua deposit and loan institutions are relatively unbalanced in 2010-2015. The medium and long-term loans are relatively small, and the average of medium and long-term loans only accounts for about 20%. The average medium- and

Table 3. The Added Value of Jinhua Financial Industry and its Share of GDP in 2010-2015

	GDP (100 million yuan)	Value added of the financial industry (100 million yuan)	Proportion of the financial industry in GDP (%)
2010	2110.04	175.23	8.3
2011	2458.07	207.89	8.5
2012	2710.77	228.4	8.4
2013	2958.78	264.23	8.9
2014	3206.64	288.6	9
2015	3578.89	297.3	9.3

long-term loans of the unit is only about 10%, while the medium and long-term loans of small and medium-sized enterprises are often loans such as fixed assets. For the relevant financial institutions, in the case of relatively weak financial market development, considering that the size of small and medium-sized enterprises is too small, credit is generally not high, and loans have certain risks. Faced with the mortgage of real estate, they often reluctantly lend or fear. They will raise the threshold for financing and reduce the opportunities for SME loans. However, from a vertical perspective, Jinhua Deposits and Loans Since 2010, unit short-term loans have shown a gradual upward trend, and the increase rate is far higher than the medium and long-term loans. This shows that the financial development of Jinhua has been significantly improved, and the opportunities for SME loans have increased significantly.

It can be seen from **Table 3**: From 2010 to 2015, the financial added value of Jinhua City has increased by more than 10 billion yuan, and the proportion of financial industry in GDP has increased from 8.3% to 9.3%. This shows that the financial sector is constantly expanding, which will promote the continuous improvement of the economic structure and continuously drive the development of the financial market.

Based on the analysis, from the comparative analysis of the financial development situation of Jiangsu Province and the financing situation of SMEs, it is concluded that China's financial development has a great impact on the financing of SMEs.

SUGGESGTIONS TO IMPROVE THE STATUS QUO OF SME FINANCING

Through the above summary of the financing problems of existing SMEs in China, we will make recommendations on the issues from the perspective of the five components of the financial eco-environment. The details as follows:

Constantly Improve the Legal System

Inter-enterprise exchanges not only require the open and transparent implementation of the legal system, but also the integrity and practicality of the law to ensure the efficiency of law enforcement. The establishment of a sound legal system requires the establishment of a legal system with practical application value and the independence of work in addition to the actual situation of the region. It is also necessary to improve the regulatory regulations and systems, improve the means of supervision, reduce administrative interference, and transform into a regulatory mechanism based on legal supervision, and severely crack down on illegal financial activities. Relevant personnel who violate the law and maliciously evade debts shall be investigated for criminal responsibility according to law and strengthen cooperation between other departments and the financial sector.

Reduce Excessive Government Intervention and Maintain Market Independence

Government intervention is a direct means to correct market adjustment errors. The government's ability to improve financial market management and service enhancement can effectively improve the level of financial ecological environment. However, in the face of the current situation of financing difficulties for SMEs, this kind of intervention needs to be transformed into public service management and change the intervention method, as follows:

First, resource allocation is rationalized. China's financial ecological environment is in an unbalanced regional development. The government needs to balance fairness and efficiency, increase the promotion of policy adjustments to underdeveloped regions, and promote its development capabilities. Second, strengthen the government's behavioral restraint mechanism and establish a testing system, which will help strengthen the supervision of the government's administration, and try to reduce the development of financial markets by administrative means during the normal operation of the market.

Accelerate the Construction of Credit System

In China, with the increasingly close trade between enterprises, the credit issue has become another major obstacle to the financing of SMEs. In the face of this problem, we need to start from the following three aspects:

First of all, in China, one of the problems of financing difficulties for SMEs is information asymmetry. Banks and other institutions are often afraid to lend to relevant enterprises in the face of such status quo. However, with the development of technology, the Internet has become a daily tool for communication. Therefore, in the face of this problem, we should rely more on the power of the network. When enterprises want to finance, enterprises and individuals can send their credit records and financial transaction activities accurately and timely to relevant financial institutions through the joint credit information network platform. This can greatly reduce the cost of both parties and reduce the difficulty of financing for SMEs. Secondly, support the establishment and improvement of various types of loan guarantees and insurance institutions, diversify the risks of banks, and promote the healthy development of various types of loans; Finally, the cultivation of a trustworthy market entity should be severely punished for fraudulent acts such as fraudulently obtaining loans and maliciously evading bank debts, and maintaining a good external environment by law.

Optimize the Structure of the Financial Market and Enhance the Steady Development of the Economy

China is in the initial stage of financial market development, the financial development market is still unstable, and the economic foundation still needs to develop steadily. Faced with this situation, it is

imperative to optimize the structure of the financial market and stabilize economic development. The specific practices are as follows:

First of all, each region should broaden its own bond market to enable SMEs to obtain more financing channels here; In addition, accelerate the construction of the money market and enable SMEs to increase their trading tools in the money market. Secondly, it encourages financial institutions such as joint-stock commercial banks, securities companies and insurance companies to start diversified businesses, promote the competitiveness of financial institutions, improve their service efficiency, and promote the activeness of financial markets, thereby lowering the threshold for financing activities of SMEs and reducing financing costs. Finally, with the rapid development of science and technology, a large amount of information is used in our world, and innovation has become the spiritual pillar of economic development. Changing the development model of economic growth and optimizing the industrial structure have become the inevitable development path. We will use science and technology to drive productivity, use innovation to drive product value, use information technology to drive industrialization, achieve steady and steady economic development, and cooperate with each other in economic factors to maintain a virtuous circle of economic markets. Under such a good development situation, SMEs can find their own support points.

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