European Journal of Business and Social Sciences, Vol. 5, No. 08, **November 2016.** **P.P. 95 - 109**
URL: *http://www.ejbss.com/recent.aspx-/*
ISSN: 2235 -767X

EFFECT OF GUARANTEE FUND ON THE BUSINESS DEVELOPMENT IN RWANDA:
CASE STUDY OF GUARANTEE FUND BENEFICIARIES IN BANQUE POPULAIRE DU RWANDA Ltd

Clement Bizimana
Student at Jomo Kenyatta University of Agriculture and Technology, Kigali, Rwanda

Peter Mbabazi Mbabazize
Lecturer at Jomo Kenyatta University of Agriculture and Technology, Kigali, Rwanda

Daniel Twesige
Lecturer at Jomo Kenyatta University of Agriculture and Technology
Kigali, Rwanda

ABSTRACT

Business Development Fund (BDF) has created and come up with a special program of guarantee fund and other accompanied supports for helping SMEs, youth and women to access loans from banks to ensure that bankable projects can easily be implemented but there was an issue of their loan defaulting. The purpose of this study was to examine the effect of guarantee fund on the business development in Rwanda. It adopted descriptive research design. The targeted populations were 97 guarantee fund beneficiaries in BPR for a period of Five years (2012-2016). Slovin's formula was used to get sample size of 49 respondents. Quantitative and qualitative data were collected by using a questionnaire and documentary review. SPSSS 21 was used through tables, scales, correlation and descriptive statistics for data analysis. The study find that working capital guarantee fund ($r=0.395, p<0.01$), and investment guarantee fund ($r=0.06, p<0.01$) significantly correlated to the business development.

Key words: Guarantee Fund, Investment Guarantee fund, Working capital Guarantee fund, Business Development.

1. Introduction

1.1.Background of the study

The first credit guarantee funds were created in Europe as long ago as 1848. Strictly speaking, they were mutual guarantee associations: groups of entrepreneurs contributed their own funds to provide credit guarantees for each other. Such mutual guarantee associations are still an important vehicle for small enterprise finance in Europe. In the 1970s and 1980s, a new wave of guarantee fund experiments was tried in developing countries. Many of them were donor-driven initiatives. Some were set up to overcome weaknesses in the banking system or weaknesses amongst small entrepreneurs. Because this was unknown territory, there were many failures. Many development agencies became reluctant to experiment with guarantee funds again. In the 1990s, however, interest in credit guarantee funds revived. In particular, guarantee funds were created in the transitional economies of Eastern Europe and the former Soviet Union. Many of these have been quite successful (Deelen & Molenaar, 2004).

As well as every business need financial resources, Some people or sectors of the economy cannot access finance on the normal lending terms of financial institutions, either because the person does not have any credit record, has no collateral or because the sector is judged too risky to invest in. This is where guarantee funds intervene to help those people and sectors deemed risky. The aim is to promote financing to viable business/projects without enough collateral or regarded risky by banks. Guarantee funds are the fund mandated by state law. The fund is comprised of money from the insurers currently conducting business in that state, which is available to companies unable to cover debts or unpaid claims. These are sometimes called Insolvency Funds. A guarantee fund, in its most common form, is an independent entity that acts as a third party between a lending bank and a borrower who does not meet all of the bank‘s qualifications, but are otherwise considered a good credit risk. The guarantee fund provides the bank security, in the form of a guarantee for a portion of the loan, in order to enable the borrower to obtain a loan. In an international survey, guarantee programs in both developed and developing countries were rated as the government program that most influenced the bank‘s involvement with SMEs (Beck et al. 2008).

The business development (firm growth) is determined not only by the traditional characteristics of size and age but also by other firm specific factors such as indebtedness, internal financing, future growth opportunities, process and product innovation and organization changes. It is therefore imperative that governments need to pay increased attention to MSEs and try to create a business environment that will be beneficial to MSE development (Mateev & Anastasov, 2010).

In UK, the government works closely with businesses, financial institutions and other government departments to help make sure that the environment is right for UK businesses to start-up grow and succeed. The government contends that existing MSEs can be put off growing because of lack of access to finance and not being able to recruit people and lacking the right skills in new and existing staff. In trying to make UK an easier place to do business, the government has undertaken to: providing funding and programs to make loans available to more small businesses, provide funding and programs to encourage private sector investment in small businesses including investing in MSEs with government and private sector money through the Start-Up Loan Scheme, The Business Finance Partnership and Business Angel Co- I investment Fund. The government also funds and manages initiatives to encourage young people and give them skills to set up their own businesses and also providing support and advice to MSEs (Gov.UK, 2015).

Strengthening of the SME sector has been a successful tool in achieving economic goals in many countries. This section explored the experiences of: South Africa (Umsobomvu Youth Fund (UYF)), Tanzania (Women Entrepreneurship Development Program (WED)), New Zealand (Business Mentors New Zealand (BMNZ)) and two organizations in Malaysia (Medium Industries Development Corporation (SMIDEC) and (National SME Development Council (NSDC)). All of these countries governments have taken the lead in SME development to encourage economic growth.

In Rwanda, as part of the financial infrastructure to promote SMEs, Business Development Fund (BDF) was established in 2011 as a wholly owned subsidiary of the Development Bank of Rwanda (BRD), with the objective of assisting SMEs to access finance, particularly those without sufficient collateral to obtain credit from traditional financial institutions at reasonable rates. Given the privatization of BRD, a new ownership structure and strategic plan has been formalized for BDF to deliver on its mandate of supporting SMEs development. It is one of the institutions implementing the National Development Policy (NDP) of small and medium enterprise (SME) and has been mandated to implement the “Access to Finance” objective with the high lights of serves as the voice for small business, Facilitates SMEs with Access to Finance, Helping small businesses to start, grow & succeed. Moreover, with the introduction of the National Employment Program (NEP), BDF has been designated as the key implementing agency for NEP Pillar 2 (Entrepreneurship and Business Development), and its functions need to be aligned with this role (BDF, 2011).

1.2.Statement of the problem

Promoting entrepreneurship build the private sector that is expected to be the driving force towards further growth and development of the economy. To unlock the potential for sustainable job creation, the government has made innovative entrepreneurship, access to finance and business development a priority. This is to ensure that bankable projects can easily be implemented. Therefore Business development fund was created for helping guarantee funds beneficiaries whose most of them are SMEs, Youth and women to have access to finance through its different products and services including guarantee fund as well as was the crucial problem but there was an issue of their loan defaulting as show buy BDF annual financial position through the high rate of increase of Provisions on non-performing guaranteed facilities (BDF, 2015).

1.3.Objectives of the study

The general objective of this study was to examine the effect of guarantee fund on the business development in Rwanda, Case study of guarantee fund beneficiaries in BPR Ltd. And specific objectives were to determine the effect of investment guarantee fund on the business development, to determine the effect of working capital guarantee fund on the business development, and to determine the relationship between loan guarantee funds and the business development.

European Journal of Business and Social Sciences, Vol. 5, No. 08, **November 2016.** **P.P. 95 - 109**
URL: *http://www.ejbss.com/recent.aspx-/*
ISSN: 2235 -767X

2. Review of related literature

This study reviewed literature that related to the effect of loan guarantee funds on the business development in terms of accessing finance, start the business, grow & succeed and well-paying granted loans which leads to the sustainable job creation and economic development.

2.1.Theoretical Review

2.1.1. The theory of financial intermediation

Financial intermediaries exist because they can reduce information and transaction costs that arise from an information asymmetry between borrowers and lenders. Financial intermediaries thus assist the efficient functioning of markets, and any factors that affect the amount of credit channeled through financial intermediaries can have significant macroeconomic effects. There are two strands explain the existence of financial intermediaries. The first strand emphasizes financial intermediaries' provision of liquidity. The second strand focuses on financial intermediaries' ability to transform the risk characteristics of assets. In both cases, financial intermediation can reduce the cost of channeling funds between borrowers and lenders, leading to more efficient allocation of resources. Financial intermediaries are able to transform the risk characteristics of assets because they can overcome a market failure and resolve an information asymmetry problem. Information asymmetry in credit markets arises because borrowers generally know more about their investment projects than lenders do. Therefore, financial intermediaries play an important role in credit markets because they reduce cost of channeling funds between relatively uninformed depositors to uses that are information-intensive and difficult to evaluate, leading to a more efficient allocation of resources. Intermediaries specialize in collecting information, evaluating projects, monitoring borrowers' performance and risk sharing. Despite this specialization, the existence of financial intermediaries does not replicate the credit market outcomes that would occur under a full information environment. The existence of imperfect, asymmetrically-held information causes frictions in the credit market. Changes to the information structure and to variables which may be used to overcome credit frictions (such as firm collateral and equity) will in turn cause the nature and degree of credit imperfections to alter (Claus & Grimes, 2003).

Banks and other intermediaries (including BDF) are "special" where they provide credit to borrowers on terms which those borrowers would not otherwise be able to obtain. Because of the existence of economies of scale in loan markets, small firms in particular may have difficulties obtaining funding from non-bank sources and so are more reliant on bank lending than are other firms. Adverse shocks to the information structure, or to these firms collateral or equity levels, or to banks' ability to lend, may all impact on firms' access to credit and hence to investment and output (Claus & Grimes, 2003).

2.2. Access to external finance Theory

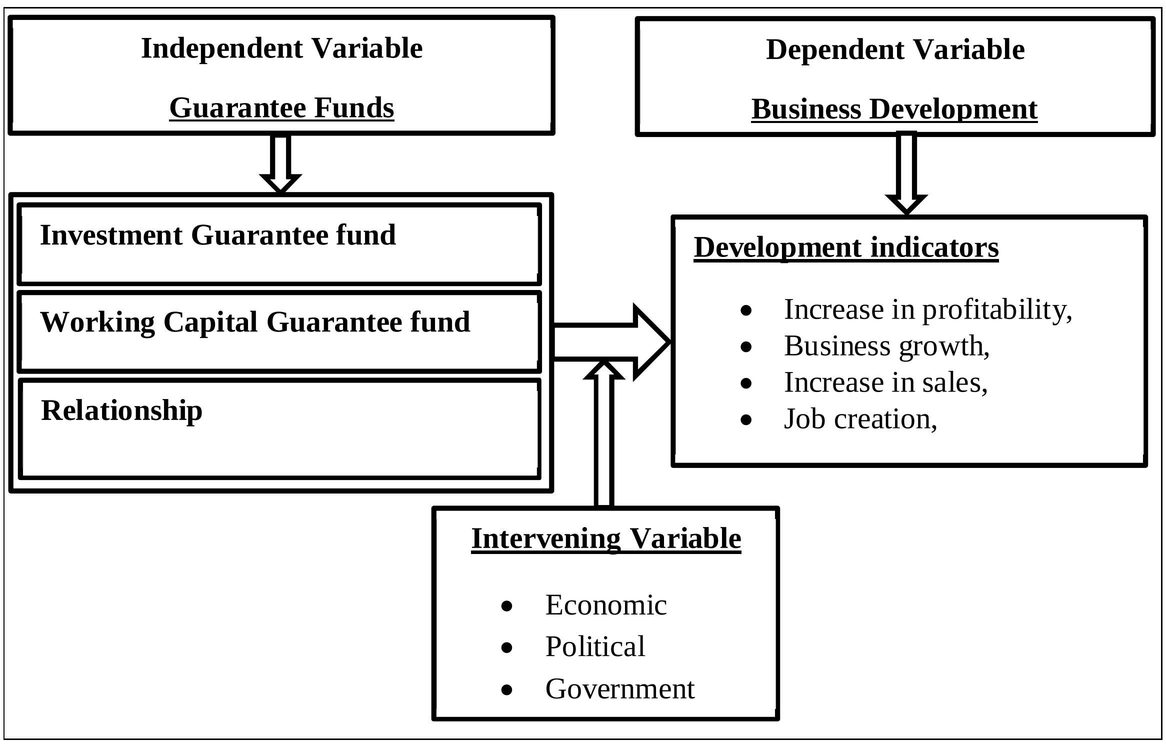
New projects require an initial investment F (project size) and generate financial payoffs kF ($k > 1$) with probability p and zero with probability 1 p. The projects are socially efficient, i.e. $pkF > F$. Firms need to raise external funds to finance new projects. All financial markets are competitive.

The opportunity cost of funds is given by the riskless interest rate r, which is also the operational variable of monetary policy used by the Banks. Monitoring the activities of firms allows creditors to verify the returns reported by firm owners, but monitoring is costly and only banks find it profitable to monitor their clients.

The firm own assets consist of tangible collateral assets (C) and intangible assets. The liability side of their balance sheets consists of equity and debt (DS). The latter is senior relative to any new (junior) debt (DJ), in the sense that it will be paid off first in the case of default. Since any new finance will be junior to all existing debt raised previously, at the margin the availability of market finance will rest on the likelihood that junior debt will be repaid.

When firms default on their debt obligations, creditors can liquidate their tangible assets. The liquidation value of these assets is uncertain at the time when liquidation decisions are taken. 6 More specifically, with probability p the value of tangible assets is equal to CH and with probability 1 p is equal to CL (<CH) . Let pCH + (1 p)CL = C (i.e. the expected liquidation value is equal to the value of the tangible assets at the time when the financial contract is agreed). Finally, when liquidation takes place firms also lose any expected discounted continuation payoffs V.7 (Bougheas et al. 2005).

*2.3. **Conceptual Framework***



1.1. *Figuar1.*

2.4. Empirical review

2.4.1. Guarantee Fund Fundamentals

Guarantee Funds (GF) are typically targeted toward a specific group of potential borrowers that are seen as being underserved by the formal credit markets, but whose success is deemed to be important to the development of a group of people, an industry or a region (Honohan, 2008).

A review of over 50,000 Italian loans found that smaller firms are typically required to post more collateral than larger firms. Unless they can overcome the missing requirements, the borrower must find financing elsewhere, often at an extremely higher cost, if it is available at all. A guarantee fund helps borrowers to overcome this credit gap by providing to the bank a loan guarantee as a substitute, or in some cases, in addition to, any collateral required by the bank (Pozzolo, 2004).

Banks seem to certainly recognize the potential value of serving the SME market; however, the potential profit is offset by the increased costs that come with serving this market, and, therefore, banks find it necessary to develop new mechanisms and structures to work with SMEs, as well as to adapt their business and risk models to reduce the risks and costs of serving SMEs. The most commonly cited problems for banks are the additional bureaucratic tasks, such as applications, and oversight, as well as difficulties in getting paid through the guarantee in 38 the event of a default. Smaller banks seem to have the most trouble with repayments (Torre et al. 2008).

On the other hand, the mechanism allows borrowers to utilize the formal banking sector, which not only lowers their costs, but as the bank and Guarantee Fund require more extensive reporting, it typically helps move the company toward more professional practices. Furthermore, the borrowers begin building a formal credit history which makes gaining future loans more likely. From the banks side, they gain new customers, as well as experience in lending to new sectors (Honohan, 2008).

2.4.2. Business development fund financial implications

BDF's sources of funds are a blend of equity and donated funds from Government, BRD and International Development Financial Institutions including, the World Bank, UNDP and IFAD. About 57% of BDF's funds are provided by Government and is not subject to specified repayment terms and, de facto, represents permanent capital. These funds are earmarked for financing specific projects with limited latitude to divert utilization. BDF has articulated the funding requirement to meet its enhanced mandate and move towards self-sufficiency within the NEP. In order to assure a stable and sustainable flow of funds to BDF beyond the BRD privatization, government through the National Employment Program has committed to finance BDF to the tune of Rwf 5.6 Billion per year for the period 2014 – 2019 upon which BDF will be elevated to a self-sustaining position. The Government also consolidated the different funds provisioned for SME financial support that had been spread across various ministries and agencies under BDF. These include the SME Guarantee Fund, the Agricultural Guarantee Fund, the Rural Investment Facility, the Women's Guarantee Fund and the Retrenched Civil Servants Guarantee Fund (BDF, 2011).

2.4.3. BDF's Guarantee fund working modality

BDF further revised the guarantees and altered their key features with an aim to make the facilities more attractive to the lending institutions while targeting women and youth to encourage increased utilization. In this regard BDF has established credit guarantees for fixed asset/ investment finance and working capital finance with a widened range of risk coverage to effectively cater for the women and youth segments. BDF works with the financial institutions (Banks, MFIs and SACCOs) for additional collateral required by the lending institution. The appraisal of the business proposal is done by the lending financial institution which determines the collateral needed and hence contacts BDF for Guarantee support in case the promoter does not have sufficient collaterals. Quasi Equity is the only BDF product that a client can access without going through lending financial institution. An annual guarantee commission is equal to 2% for banks and 1% for SACCOs, VAT excluded and this has to be paid on or before the first disbursement of the loan. This fee is not reimbursable. More over business development fund offers other varieties of products and services to its beneficiaries including Grant Management, Sacco Refinancing, Quasi –Equity, Advisory Services (Investment Advisory, Capacity Building, Microfinance Development), And Startup Toolkit Loan Facility (BDF, 2011). There are many forms of guarantee funds but were combined in two main types of guarantee fund as follows:

a) Investment guarantee fund

Guarantee for investment loan cover the loan for fixed assets that comprise of property, plant and equipment include but are not limited to land, buildings, motor-vehicles, furniture, fixtures and fittings, machinery and equipment for the purpose of business. Examples include cottage industries, livestock, refrigerators, and sewing machines. BDF provides 50% - 75% widened range of total risk coverage on fixed asset/investment loans of Loss or defaulting Loan for women and youth entrepreneurs. The loan, for which the cover is applied for, should be a term loan reimbursable over a period of more than one year. The maturity of investment guarantee fund is limited to 10 years. And the loan amount to be covered in agriculture sector is limited to Rwf 500 million while in other sectors (non-agriculture) is limited to Rwf 300 million and those include education, health care, leasing, manufacturing, and microfinance (BDF, 2011).

b) Working capital guarantee fund

BDF provides a 60% total risk coverage on working capital loans limited to Rwf 5 million for individual entrepreneurs while it provides 60% total risk cover on working capital loans for associations limited to Rwf 10 million. The loan for which the cover is applied for, should be a loan limited to a maturity of 3 years. The maturity of the guarantee is likewise limited to 3 years. BDF also provides a 30% total risk coverage on working capital loans for short term agricultural campaigns limited to Rwf 500 million. The loan for which the cover is applied for, should be a loan limited to a maturity of less than 1 year. This is under the agricultural Guarantee fund (BDF, 2011).

2.4.4. Business development

Business development comprises a number of tasks and processes generally aiming at developing and implementing growth opportunities between organizations. It is a subset of the fields of business, commerce, and organizational theory. Business development is the creation of long-term value for an organization from customers, markets, and relationships (Berrie, 2015).

Business development can be measured by financial and non-financial criteria. Traditional measures of business development have been based on either employee numbers or financial performance, such as profit, turnover or return on investment. However, other research has found that there are other factors that owners use to assess the success of their businesses (Walker & Brown, 2004).

(Simpson et al. 2004), have argued for the use of the owners' perceptions as a more meaningful measure of success for owners. There has been only a limited amount of research investigating the factors that underpin success in business. Thus, (Reijonen & Komppula, 2007), identified the 'importance of reliable suppliers', 'cooperation with other entrepreneurs' and a 'loyal clientele' as necessary factors that need to be in place if a business is to succeed. (Headd, 2003), has identified the importance of 'access to finance', and (Kess et al. 2008), have argued the importance of 'managing external knowledge'. In addition to factors necessary for the development of the business, previous research has identified the importance of the 'capability of the business owner and manager' to the business development. The manager and/or manager-owner have a key role to play in the success of any business. Important characteristics of these key personnel, which impact significantly on the development of businesses, include 'interpersonal skills' and 'self-efficacy' (Markman & Baron, 2003), 'having a university degree', and 'starting the business for personal reasons' (Headd, 2003).

European Journal of Business and Social Sciences, Vol. 5, No. 08, **November 2016.** **P.P. 95 - 109**
URL: *http://www.ejbss.com/recent.aspx-/*
ISSN: 2235 -767X

3. Research Design

The study used descriptive research design, basing on qualitative and quantitative approaches. It included surveys and fact finding enquiries of different kinds. The researcher used a questionnaire to correct primary data and facts or information already available for secondary data. Slovin's formula was used to calculate the sample size. With regard to the level of accuracy, we used a confidence level of 90% and this means that there were 90 chances in 100 (or .90in 1) that the sample results represent the true condition of the population within a specified precision range against 10 chances in 100 (or.1 in 1) that it does not. The slovin's formula was applied as follows:

$$\mathbf{n}= \frac{N}{1+N(e)^2} = \mathbf{n}= \frac{97}{1+97(0.1)^2}= \mathbf{49}$$

n= 49 (Number of samples or sample size),

N= 97 (Total population), and

e= 10% (Error tolerance)

One set of questionnaire was designed and it was included both open and closed ended set of questions that to be answered. It was written in a simple and clear language for the respondents to feel free while answering. In order to facilitate the primary data analysis responses were coded and given a numerical interpretation with the help of Statistical Package for Social Sciences version 21 (SPSS 21). Tables, scales, correlation and descriptive statistics have used to generate frequency and percentage in order to present the findings and draw conclusion.

4. Study findings

4.1.Investment Guarantee fund on the business development

The table 4.1 shows the perceptions of respondents on effect of investment guarantee fund on the business development and their responses were as follows:

Table 4.1: Investment Guarantee fund on the business development

Likert Scale Statement		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Investment loan repayment period (5years) according to the bank (BPR) policy is enough	Count	2	44	0	3	0
	Row N %	4.1%	89.8%	0.0%	6.1%	0.0%
Investment loan repayment period (10 years) according to BDF policy is enough	Count	46	3	0	0	0
	Row N %	93.9%	6.1%	0.0%	0.0%	0.0%
BDF investment Guarantee commission (2% per year) is affordable by the beneficiaries	Count	3	43	0	3	0
	Row N %	6.1%	87.8%	0.0%	6.1%	0.0%
According to the bank policy, Investment loan interest rate/cost (18%) is affordable by BDF beneficiaries	Count	0	43	0	6	0
	Row N %	0.0%	87.8%	0.0%	12.2%	0.0%
According to BDF policy, the investment guarantee fund amount limit for agriculture sector is sufficient	Count	2	44	3	0	0
	Row N %	4.1%	89.8%	6.1%	0.0%	0.0%
According to BDF policy, the investment guarantee fund amount limit for non-agriculture sectors is sufficient	Count	0	19	3	27	0
	Row N %	0.0%	38.8%	6.1%	55.1%	0.0%
Investment guarantee fund is suitable for start-up business	Count	46	3	0	0	0
	Row N %	93.9%	6.1%	0.0%	0.0%	0.0%
To expand the business require investment guarantee fund	Count	23	26	0	0	0
	Row N %	46.9%	53.1%	0.0%	0.0%	0.0%

The table 4.1 shows that most of the respondents have agreed on the statements of investment guarantee fund on the side of BPR and BDF in general at high percentage (more than 85%) except on the investment guarantee fund amount limit for non-agriculture sectors where 55.1% disagreed with this statement. And there are small percentage (6.1%) disagreed on the statement about bank repayment period for investment loan, interest rate and BDF commissions.

4.2. Working Capital Guarantee fund on the business development

Table4.2: Working Capital Guarantee fund on the business development

Likert Scale Statement		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Working capital loan repayment period (2 years) is enough according to the bank (BPR) policy	Count	5	41	0	3	0
	Row N %	10.2%	83.7%	0.0%	6.1%	0.0%
Working capital guarantee period (3 years) is enough according to BDF policy	Count	45	4	0	0	0
	Row N %	91.8%	8.2%	0.0%	0.0%	0.0%
According to BDF policy, Working capital guarantee fund amount limit for agriculture sector is sufficient	Count	46	3	0	0	0
	Row N %	93.9%	6.1%	0.0%	0.0%	0.0%
According to BDF policy, Working capital guarantee fund amount limit for non-agriculture sectors is sufficient	Count	3	43	0	3	0
	Row N %	6.1%	87.8%	0.0%	6.1%	0.0%
According to BDF policy, Working capital guarantee fund amount limit for individual is sufficient	Count	0	6	0	43	0
	Row N %	0.0%	12.2%	0.0%	87.8%	0.0%
According to BDF policy, Working capital guarantee fund amount limit for cooperatives, associations or companies is sufficient	Count	6	43	0	0	0
	Row N %	12.2%	87.8%	0.0%	0.0%	0.0%
Working capital guarantee fund is suitable for existing business	Count	47	2	0	0	0
	Row N %	95.9%	4.1%	0.0%	0.0%	0.0%
Working capital guarantee fund is needed by start-up business also	Count	46	3	0	0	0
	Row N %	93.9%	6.1%	0.0%	0.0%	0.0%
BDF working capital Guarantee cost (2%) is affordable by the beneficiaries according to the loan repayment period	Count	5	43	0	1	0
	Row N %	10.2%	87.8%	0.0%	2.0%	0.0%
According to bank (BPR) policy, Working capital loan interest rate/cost (19%) is affordable by BDF beneficiaries	Count	0	43	0	6	0
	Row N %	0.0%	87.8%	0.0%	12.2%	0.0%

The table 4.2 shows that most of the respondents have agreed on the statements of working capital guarantee fund in general at the high percentage (above of 87%) except on the statement of working capital guarantee fund amount limit for individual, where 87.8% disagreed. And small percentage at level of 6.1% of the respondents has disagreed with the statement of PBR repayment period, and working capital guarantee fund limit for non- agriculture sectors. 12.2% of the respondents also have disagreed on the statement of BPR interest rate and 2% of the respondents disagreed on the statement of BDF commission.

4.3.Preference of clients between BPR and BDF policies

Most of the respondents preferred the policy of BDF than one of BPR because it allows the extensive repayment period. And for them, wide period gives flexibility in repayment where periodic installment becomes small compare with the one of a short term repayment period. And these mostly have emphasized by the start-up businesses' owner where they show that at the first days, businesses not generating enough cash flows and profits to cover their business's costs including big loan installment. The small number of respondents preferred the policy of BPR for the reason of costs minimization even if it requires strong working effort. It means that the longer repayment period, the more or maximum interest you pay while the less repayment period, the less or minimum amount of interest you pay.

4.4.Importance of repayment period and amount limit

Based on the above statements in table 4.1 and 4.2, there is a big number of percentage of respondents who said that there is no importance of differentiate the repayment period and amount limits for different category of borrowers of investment and working capital loans under guarantee fund because are not favorable for them especially for the start-up businesses owner which most of them are not capable to generate enough cash flows and profit in their first days for covering all the businesses 'costs including regular loan installment.

On the other side there are a small percentage of respondents who agreed with the statements of differentiating the repayment period and amount limit in order to minimize the risks on both sides (borrower, lender and guarantor) as well as investment needs more money or funds for financing long term activities than working capital which needs less funds or money for financing a short term activities.

Guarantee fund Beneficiaries business plan implementation

Most of the respondents have implemented their business plans as planned but some difficulties have involved especially for the start-up businesses like; Inadequate planning of the business in general, Mistaken estimate of market demand for product or service, lack of appropriate professional advisors, poor timing of expenditures, and useful rather than reasoned decision-making. On the other side there are some respondents who have used the loan or fund in not allotted projects (deviated from the planned projects). Most of the respondent didn't receive any kind of additional support from guarantor and lender after getting the facility (funds/loan).

4.5.Relationship of guarantee funds and the business development

Table4. 3: Business development indicators

Business development indicators		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Increase in profitability	Count	8	37	3	1	0
	Row N %	16.3%	75.5%	6.1%	2.0%	0.0%
Business growth	Count	10	34	3	2	0
	Row N %	20.4%	69.4%	6.1%	4.1%	0.0%
Increase in sales	Count	9	35	5	0	0
	Row N %	18.4%	71.4%	10.2%	0.0%	0.0%
Job creation	Count	17	29	1	2	0
	Row N %	34.7%	59.2%	2.0%	4.1%	0.0%

The table 4.3 shows that 91.8% of the respondents agreed that with guarantee fund there is an increase in profitability, 89.8% of the respondents agreed that with the guarantee fund there is a business growth and increase in sales, and 93.9% agreed that with guarantee fund, there a job creation. In general, only a small percentage (≤ 6.1%) of the respondents do not agreed on the above statements. These show that, there is a positive significant effect of guarantee fund on the business development in different ways.

Business growth/assets value increase

Table4. 4: The range of respondents Assets value increase

Assets value		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	[Rwf 100,000 - Rwf 1,500,000]	21	42.9	42.9	42.9
	[Rwf 1,500,001 - Rwf 10,000,000]	22	44.9	44.9	87.8
	[Rwf 10,000,001- Rwf 30,000,000]	3	6.1	6.1	93.9
	[Rwf 30,000,001- Rwf 50,000,000]	2	4.1	4.1	98.0
	[Rwf 50,000,001 and above]	1	2.0	2.0	100.0
	Total	49	100.0	100.0	

Table 4.4 shows that 42.9% of respondent assets value has increased between [Rwf 1,500,001- Rwf 10,000,000], 44.9% is between [Rwf 100,000 - Rwf 1,500,000], 6.1% is between [Rwf 10,000,001- Rwf 30,000,000], 4.1% is between [Rwf 30,000,001- Rwf 50,000,000], and 2% is between [Rwf 50,000,001 and above]. These show that the more assets value increase is the more decrease in number of guarantee fund beneficiaries who are needs. Therefore, 87.8% of the respondents' assets value has increased in the range between [Rwf 100,000- Rwf 10,000,000] through the facility of guarantee fund. And the only 12.2% of assets value range between [Rwf 10,000,000 and above]. But the needs of high value assets depend on the type of Business. This means that most of the guarantee fund beneficiaries are not engaged in the business which needs assets of high value like production.

4.5.1. Increase in sales

Table4. 5: The respondents Sales increase per year

Sales		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	[Rwf 2,000,000 - Rwf 10,000,000]	18	36.7	36.7	36.7
	[Rwf 10,000,001 - Rwf 30,000,000]	24	49.0	49.0	85.7
	[Rwf 30,000,001 - Rwf 50,000,000]	4	8.2	8.2	93.9
	[Rwf 50,000,001- Rwf 100,000,000]	2	4.1	4.1	98.0
	[Rwf 100,000,001 and above]	1	2.0	2.0	100.0
	Total	49	100.0	100.0	

Table 4.5 shows that 36.7% of the respondents' sales increase is between [Rwf 2,000,001- Frw10,000,000], 49% is between [Rwf 10,000,001- Rwf 30,000,000], 8.2% is between [Rwf 30,000,001- Rwf 50,000,000], 4.1% is between [Rwf 50,000,001- Rwf 100,000,000], and 2% is between [Rwf 100,000,001 and above]. These show that 85.9% of the respondents' sales per year have increased in the range between [Rwf 2,000,000 - Rwf 30,000,000] through the facility of guarantee fund. This shows that most of the guarantee fund beneficiaries run businesses of very small size but shows the high positive impact of guarantee fund on the businesses development in terms of sales increase.

4.5.2. Profitability increase

Table4. 6: The respondents net profit increase per year

	Net profit	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	[Rwf 500,000–Rwf 2,000,000]	16	32.7	32.7	32.7
	[Rwf 2,000,001-Rwf 5,000,000]	20	40.8	40.8	73.5
	[Rwf 5,000,001- Rwf 10,000,000]	9	18.4	18.4	91.8
	[Rwf 10,000,001-Rwf 30,000,000]	3	6.1	6.1	98.0
	[Rwf 30,000,001 and above]	1	2.0	2.0	100.0
	Total	49	100.0	100.0	

Table 4.6 shows that 40.8% of the respondents' net profit increase is between [Rwf 2,000,001- Rwf 5,000,000], 32.7% is between [Rwf 500,000 – Rwf 2,000,000], 18.4% is between [Rwf 5,000,001- Rwf 10,000,000], 6.1% is between [Rwf 10,000,001- Rwf 30,000,000], and 2% is [Rwf 30,000,001 and above]. These show that 91.8% of the respondents' net profit has increased between [Rwf 500,000 – Rwf 10,000,000] per and this is a high impact of guarantee fund of the increase of business' profit.

4.5.3. Job creation

Table4. 7: The number of employees increases

Number of your employees		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	[1-5 employees]	25	51.0	51.0	51.0
	[6-10 employees]	21	42.9	42.9	93.9
	[11-20 employees]	2	4.1	4.1	98.0
	[21-50 employees]	1	2.0	2.0	100.0
	Total	49	100.0	100.0	

Table 4.7 shows that there is an increase of job creation through getting the facility of guarantee fund, where 51% of the respondents' employees increase is between [1-5 employees], 42.9% is between [6-10 employees], 4.1% is between [11-20 employees], and 2% is between [21-50 employees]. These show that 91.6% of the respondents have increased the number of employees between [1-10 employees] through the facility of guarantee fund.

4.5.4. Correlation of guarantee fund and the business development

Table4. 8: Correlation between guarantee funds and Business development

Correlations of Variables		Investment guarantee Fund	Working Capital guarantee Fund	Business Development
Investment guarantee Fund	Pearson Correlation	1	.568**	.067
	Sig. (2-tailed)		.000	.648
	N	49	49	49
Working Capital guarantee Fund	Pearson Correlation	.568**	1	.395**
	Sig. (2-tailed)	.000		.005
	N	49	49	49
Business Development	Pearson Correlation	.067	.395**	1
	Sig. (2-tailed)	.648	.005	
	N	49	49	49

**. Correlation is significant at the 0.01 level (2-tailed).

The table 4.8 shows that working capital guarantee fund is significantly correlated with business development (r=0.395, p<0.01). And it shows that investment guarantee fund also is significantly correlated with business development (r=0.06, p<0.01). Therefore, this implies that ensuring good policy of guarantee fund and its implementation would result to the high positive effect on the business development of guarantee fund beneficiaries.

4.6.Loan repayment

Table4. 9: Guarantee fund beneficiaries loan repayment

		Well-paying	Paying with difficulties	Defaulting
Loan Repayment	Count	16	18	15
	Row N %	32.7%	36.7%	30.6%

The table 4.9 shows that 32.7% of the respondents have been well paying their loans, 36.7% have been paying with some difficulties and 30.6% have been defaulting to pay their loans. According to the bank classification in terms of loan repayment; well-paying is equal be in class one (from 0-30 days of delay), difficulties came at the level of class 2 to 3 where starts with signs that borrower's future ability to service the account are in danger and end up with delay between 31-180 days while defaulting start at the level of class 4 (181 days of delay and above).

Follow up or monitoring of all loans granted by the bank fall under the responsibility of the bank employees, reason why there must be regular follow up on guarantee fund beneficiaries as a partisanship of the lender (banks) and guarantor (business development fund (BDF)). Therefore, these may imply that good policy of guarantee fund and being well implemented can reduce or minimize the guarantee fund beneficiaries' loan defaulting as well as they may result to the business development.

5. Summery, Conclusion and recommendations

Through the responses from the field during data collection, the study find that guarantee fund have been benefited by a significant number of BPR clients and helped them to have access to finance (bank loans) for running their businesses. According to the findings, working capital guarantee fund ($r=0.395$, $p<0.01$) has more relationship than investment guarantee fund ($r=0.06$, $p<0.01$) on the business development.

Therefore, in general findings have shown that there is a positive significance correlation of guarantee funds on the business development however challenges cannot miss. Thus most of the challenges of the respondents were based on the experience and business skills in terms of accurate planning and forecasting, lack of profession advisors and sometimes follow up of the business partners. They were in need of governmental support, political and economic issues in terms of having favorable environment for in order to access market opportunities and compete with others, which mostly cause their businesses not well running and their loans defaulting or not honor their obligations as planned.

Based on the findings, the study concluded that there was positive relationship and significant effect of guarantee fund on the business development. And politic of guarantee fund is good in terms of helping youth, women and SMEs which lack the capacity of having collateral in general for assessing finance in order to increase their businesses' sales, profitability, grow and create jobs for others and contribute to the economic development.

Based on the challenges sited above and in order to increase the positive effect of guarantee fund on the business development, the study recommended the followings:

1. To ensure good policy of guarantee fund as well as it has a relationship and positive effect on the business development,
2. To increase more effort in guarantee fund policy implementation especially by providing much more time for entrepreneurs trainings about accurate business planning, forecasting and implementation,
3. To create favorable business environment for youth, women and SMEs in order to be able to compete with experienced entrepreneurs,
4. Much more effort of business partners also is needed especially in terms of regular follow up during business plan implementation for more guidance and important advices.

REFERENCES

1. BDF. (2011). Business Developmet Fund Profile. Kigali, Rwanda: BDF. Retrieved from http://bdf.rw/wp-content/uploads/2016/03/BDF_Profile.pdf
2. BDF. (2015). Business Development fund 2014 Annual Report. Kigali, Rwanda: BDF. Retrieved from http://bdf.rw/wp-content/uploads/2014/11/Annual-2014.pdf
3. Beck, T., Demirgüç-Kunt, A., & Soleda, a. M. (2008, November). Bank financing for SMEs around. World Bank Policy Research Working Paper 4785.
4. Berrie, M. S. (2015). Understanding the Business Development Opportunity in Healthcare / Life Science. FFH2.0-Palermo, Sicily, Italy: TTS Ltd. Retrieved May 7, 2015
5. Bougheas, S., Mizen, P., & Yalcin, C. (2005). Access to external finance: Theory and evidence on the impact of monetary policy and firm-specific characteristics. Journal of Banking & Finance 30 (2006) 199–227, 5-6.
6. Claus, I., & Grimes, A. (2003, September). Asymmetric Information, Financial Intermediation and the Monetary Transmission Mechanism: A Critical Review. WORKING PAPER 03/19, 13-17.
7. Deelen, L., & Molenaar, K. (2004). Guarantee Funds for Small Enterprises. A manual for guarantee fund managers, ISBN 92-2-116033-5. United Kingdom: International Labour Organization (ILO).
8. Gov.UK. (2015). 2010 to 2015 government policy: business enterprise. Department for Business, Energy and Industrial Strategy (BEIS). Uk: UK.Gov.
9. Headd, B. (2003). Redefining Business Success: Distinguishing Between Closure and Failure. Small Business Economics 21, 51–61.
10. Honohan, P. (2008). Partial credit guarantees: Principles and practice. Conference on Partial Credit Guara. Washington DC: World Bank.
11. Markman, G. D., & Baron, R. A. (2003). Person entrepreneurship fit: Why some people are more successful as entrepreneurs than others. Human Resource Management Review, 13(2), 281-301.
12. Mateev, M., & Anastasov, Y. (2010, June 13). Determinants of small and medium sized fast growing enterprises in central and eastern Europe: a panel data analysis. Financial Theory and Practice, 34(3), 269-295.
13. Pozzolo, A. F. (2004). The Role of Guarantees in Bank Lending. Economics & Statistics Discussion Paper No. 21/04. Italy. Retrieved May 2004
14. Reijonen, H., & Komppula, R. (2007). Perception of success and its effect on small firm performance. Journal of Small Business and Enterprise Development, 14 (4), 689 - 701. Retrieved from http://dx.doi.org/10.1108/14626000710832776
15. Simpson, M., Tuck, N., & Bellamy, S. (2004). Small business success factors:The role of education and training. Education + Training, 46(8/9), 481 - 491. Retrieved from http://dx.doi.org/10.1108/00400910410569605
16. Torre, A. d., Pería, M. S., & Schmukler, S. L. (2008, December). Drivers and Obstacles to Banking SMEs: The Role of Competition and the Institutional Framework. World Bank Policy Research Working Paper 4788.
17. Walker, E., & Brown, A. (2004, December 1). What success factors are important to small business owners. International small business journal, 22(6), 577-594.