The Effect of the Investment Guarantee Funds on Growth of Entrepreneurship

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Abstract

Entrepreneurship development and employment stability are derived from investment security, and these two are interrelated. Accordingly, investment guarantee funds are formed in order to identify shortness and to strengthen the two approaches of economic security. Guarantee funds are effective measures of governments in creating and increasing of economic security and improving economic indicators, including employment, economic development and growth of entrepreneurs. This study is practical and examined the impact of the cooperative investment fund guarantees on venture rates and entrepreneurship in cooperatives. The population of this study is all the data from entrepreneurship projects in cooperative sector (credit, interest rate, amount of warranty) including 630 projects requesting guarantee between 2012 to 2015. Data were analyzed using E-views Software. Results revealed that the impact factor of guarantee is 0.644 and the impact factor of loans is 0.591. The result reflects the impact of the loans on entrepreneurship is more than guarantee. Finally, the regression equation was presented showing how guarantee in investment rates causes entrepreneurship.

Keywords: Guarantee Fund, Entrepreneurship and Guarantee Leverage

1. Introduction

Entrepreneurship development and employment stability can be achieved by investment security, and these two are interrelated. Accordingly, in some countries investment guarantee funds were established in order to identify gaps and to strengthen the two key approaches of economic security. Guarantee funds are one of effective measures conducted by governments to create and enhance economic security and to improve economic indicators including employment, economic development and growth of entrepreneurs. Today guarantee funds in different ways reflect the history and stage of socio-economic development of countries. Even countries that are in a similar stage of economic development and are geographically close to each other may use different systems. Therefore, providing a common definition of guarantee credit that can be applied in all countries is difficult. Banks and credit institutions are significantly strict in lending to small and medium-sized companies. That’s why it is costly to finance
companies. Credit guarantee system can facilitate the access of firms to financial resources (Vogel and Adams, 1997).

Guarantee funds and investing insurance are one of effective measures conducted by governments for establishment and rise of economic security and finally for improving economic indicators such as rise of employment, economic growth and development, rise of annual value and establishing welfare for all people of the society. Usually financial resources of these funds are provided by governments and with an appropriate management in risky times these financial institutions support those requested and seek to compensate losses and damages of those associated. Structure of these funds from financial and technical aspects in various countries is different but in total, they are designed in a way that simultaneously with protecting clients from risks seek to have coverage and tools required for reducing risks and possible losses. We can name accreditation, assessment and receiving security under the name of coverage coefficient.

In this research the effect of facilitating factors, guarantee and interest rates on rate of investment guarantee fund is measured. Plans guaranteed in guarantee fund are generally entrepreneurial and lead to development of work and entrepreneurship. Therefore, in this research, investment leads to entrepreneurship as a dependent variable.

2. Literature Review

The reason behind establishing investment funds in the world is to reduce risk and create a coverage for different risks faced by investors and producers, especially small and medium-sized industries, so that it provides the driving force and power necessary in economy for growth and investment. Guarantee for commitments as loans may reduce worries of beneficiaries and can facilitate and accelerate investment in societies and it has a substantial impact for leaving economic crisis, economic growth and making jobs in countries. Hence governments in developing and developed countries have the support of forming credit guarantee funds. In a research Porabha (2014) reviewed risky behavior of banks and business guarantee in three periods of economic crisis (2004-6), during crisis (2007-9) and after crisis (2010-12). The research was conducted in 73 banks in 45 countries including 86 banks from 19 European countries. They concluded that risky behavior of banks after crisis has changed and using guarantee funds and guarantee increased. Reviewing 76 credit guarantee cases in 46 developing countries Bartoli (2013) dealt with role of guarantee institutions during the worst days of economic crisis. He concluded that governments are able to have a key role in supplying business credits but they have a substantially weak role in risk management.

According to the definitions and benefits of small and medium-sized businesses and their importance mentioned, financing is one of necessary conditions for economic development and one of the major challenges for institution owners. (Nabavi Chashm and Mansourian Nezam Abad, 2010). The results of Ropega (2011) approve importance of financial signs in predicting failure of businesses. One of the obstacles that makes banks avoid from lending to medium-sized enterprises such as cooperatives is failure of submitting sufficient guarantees. Hence, the importance of ensuring in economy increases and different countries support guarantee fund. In Japan credit guarantee system was founded in 1937 when fund guarantee corporation in Tokyo had been established. The company was established by 156 members, including Tokyo city government, business and industry and financial institutions. In addition to monitoring of its local governments, the credit guarantee system of Japan is supervised by ministry of economy, trade and industry and the ministry of finance. Guarantees made in 2010 reached to 14200 billion Yuan and more than 4.2 million SME plans were covered. The fund has too many number branches and dealers across Japan. In 2010 branches (offices) of loan guarantee system in Japan reached to 137 companies located in 52 cities where 6016 employees had been deployed. During economic crisis,
Japan attempted to run a full-credit guarantee program to support small and medium-sized companies. In a research conducted by means of questionnaire in Ichicann credit guarantee corporation, it was suggested that Japan’s credit guarantee program resulted in a significant financial loss for the government but it highly prevented from falling of corporations, especially small and medium-sized industries. (Yamvry, 2014). Also in another research emergency credit guarantee program of Japan was studied and impact of this program was presented (Au et al., 2013).

In India guarantee fund to support small businesses in obtaining loans has been created in 2000. With regard to the mission of the fund, only companies with capital of less than 220 thousand dollars can use guarantee. 75 to 80 percent of loans required by qualified corporations can be guaranteed to 145 thousand dollars. In an article titled credit guarantee fund for micro and small companies, Das (2013) reviewed India's guarantee fund. In this article the necessity of guarantee for growing active companies in agriculture and development of rural investment was dealt and it was suggested that with regards to risks of such a business, guarantee funds play a key role in providing credit for the companies. (Das, 2013).

Also in 1976, Korea credit guarantee fund (KODIT) was founded with the aim of guiding development of balanced economic through credit guarantees for small and medium-sized businesses. Korean credit guarantee fund is a public financial institution, which provides comprehensive support for small and medium-sized businesses (Park, 2006). This fund with a capital of 6,329,101 million Korean Won, exports 11 types of public credit guarantees and warranties P-CBO 1 and 1.

The fund of Korea has actively supported small and medium-sized businesses, as it leads to economic vitality, facilitation of inequality in the economy and instilling the importance of credibility. In particular, Korean credit guarantee fund has a vital role in reviving the economy with running government policies in each financial crisis and it led to stability of the market. Its contribution in studies was approved which is credit guarantee service for making motivation, motivation for economic valued-added and creating job. (Boa, 2012). Also cooperative investment guarantee fund which is a successful institution in Iranian guarantee industry was founded in 2010 with the aim of supporting cooperative corporations and facilitating in providing their financial resources. In those years it was able to reach prosperity through guaranteeing loans and commitment of entrepreneurs in cooperative sector. Leftover of commitments in this fund with its 89-percent growth in 2014 was over 3300 Billion Rials at present. This amount of guarantee from commitment of entrepreneurs in cooperative sector with which is close to 4 leads to investment of nearly 13200 Billion Rials. With the impact of guarantee funds in different criteria and reviewing literature and through case study in cooperative investment guarantee fund, we seek to measure effect of guarantee in establishing investment and entrepreneurship.

3. Research Methodology

This study aimed to investigate the effect of guarantee on the growth of investment and entrepreneurship, so this is an applied research in terms of objective. Data collected data from 630 companies during 2012 to 2015 used warranties of cooperative ventures guarantee fund to ensure its obligations. These data were fitted using E-views. In this research variable investment is dependent and guarantees and lending rate are independent variables.
Hypothoses:
• Lending leads to growth of investment.
• There is a positive and significant relationship between investment and level of assurance and accreditation.
• Low interest rate increases investment.

4. Analysis of data

Table 1. The data of the research include 630 plans and companies which referred to cooperative investment guarantee fund and used guarantee services.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Sum</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td>4.58E+08</td>
<td>726968.5</td>
</tr>
<tr>
<td>Guarantee</td>
<td>73601024</td>
<td>116827.0</td>
</tr>
<tr>
<td>Rate</td>
<td>-0.032356</td>
<td>-5.14E-05</td>
</tr>
</tbody>
</table>

The data were analyzed by software E-views and were reported in Table 2. As it can be observed, according to the R-squared which is equal to 0.89, the model has a good fitness showing that the resulting output is reliable.
Table 2: Statistical analysis of the research variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Standard deviation</th>
<th>T statistic</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant value</td>
<td>1.13E+09</td>
<td>1.100923</td>
<td>0.2714</td>
</tr>
<tr>
<td>Loans</td>
<td>0.015131</td>
<td>39.06200</td>
<td>0.0000</td>
</tr>
<tr>
<td>Guarantees</td>
<td>0.053724</td>
<td>12.00235</td>
<td>0.0000</td>
</tr>
<tr>
<td>Rate</td>
<td>77122049</td>
<td>0.362918</td>
<td>0.7168</td>
</tr>
</tbody>
</table>

R-squared: 0.895880  Mean dependent var: 1.35E+10
Adjusted R-squared: 0.895381  S.D. dependent var: 2.43E+10
S.E of regression: 7.86E+09  Akaike info criterion: 4.841542
Sum squared resid: 3.87E+22  Schwarz criterion: 4.844364
Log likelihood: -15246.86  Hannan-Quinn criter.: 4.842638
F-statistic: 1795.425  Durbin-Watson stat: 1.774420

Hypothesis:

H0: The guarantee level does not have a significant positive relationship with investment.
H1: The guarantee level has a significant positive relationship with investment.
As it was observed in the first section of Table 2, Sig. level of loan variable is 0.00. Hence, H. is rejected with high confidence level of 95 and suggests level of guarantee has a positive and significant relationship with investment.

H0: Loan does not lead to investment growth.
H1: Loan leads to growth of investment.
As it was observed in the first section of Table 2, Sig. level of loan variable is 0.00. Hence, H. is rejected with high confidence level of 95 and it becomes clear that loan growth has a significant relationship with entrepreneurship investment.

H0: low interest rate does not lead to increase of investment.
H1: low interest rates lead to increase of investment.
As it can be seen in the first section of Table 2 significance level of variable rate is 0.716. Given to the significance level of more than 0.05, H. is confirmed with high confidence of 95 percent. Concluding observations indicate that interest rate does not have a significant relationship with investment and consequently with entrepreneurship growth.

The influence of each independent variable on the dependent variable where investment leads to entrepreneurship is shown in (Equation 1)
CAP = C (1) + C (2) *LONE + C (3) *ZEM + C (4) *RATE
CAP = 1244837182.04 + 0.591 *loan + 0.644 *guarantee + C (relation 1)

According to results, impact factor for guarantee is 0.644 and 0.591 for loan. These results reflect more impact of guarantee to loan in entrepreneurship.

5. Conclusion

One of the factors that support entrepreneurship and enterprise development is loan guarantees and obligations of entrepreneurs. The research was conducted in cooperative investment guarantee fund which presents a varied collection of guarantee services as a state and development organization believing in potential ability of cooperatives in establishing jobs and rising production. As a result of this investigation and on the basis of Tables 1 and 2, it was determined that guarantees and loans have a positive and significant relationship with entrepreneurial ventures. It was also found that interest rate does not have a significant relationship with this type of investment. Interest rate is usually less than the rate of inflation and there is a possibility of receiving loans due to continuity of inflation in the future years and consistency of interest rate. The relationship between the study variables in (Equation 1) shows the impact factor of is 0.644 and loans guarantee is 0.591. These results reflect more impact of the guarantee to loans in entrepreneurship.

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