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Small and Medium Enterprise

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Highlights

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Discovering Thoughts, Inventing Future

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Small and Medium Enterprise in Bangladesh-Prospects and Challenges

By Md. Alauddin & Mustafa Manir Chowdhury

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Abstract- Small and medium-sized enterprises (SMEs) are the backbone of the national economy in Bangladesh. This sector is playing an important role to develop the economy of our country. The role of SMEs sector is immense to alleviate the poverty from the country as well. Small and Medium enterprises are particularly suitable for the densely populated countries like Bangladesh where SME sector can provide huge employment opportunity with much lower investment. They are expected to create jobs, reduce poverty, and drive a resilient national economy. The International Monetary Fund (IMF) Country Report (2012)1indicated that SMEs in Bangladesh accounted for more than 99% of private sector industrial establishments and created job opportunities for 70%–80% of the nonagricultural labor force. In the paper a questionnaire has been constructed and used SPSS 20 version software to analyze the data This paper is, therefore, an attempt to analyze various issues, prospects and challenges of financing this particular sector and find out the ways to overcome these challenges. It will also survey various literatures and reports on the concerned field and recommend supporting actions to help this highly prospective industrial sector to operate in a fully yielding manner.

Keywords: *SME, financing, industrial sector.*

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SMALLANDMEDIUMENTERPRISEINBANGLADESHPROSPECTSANDCHALLENGES

Strictly as per the compliance and regulations of:

Small and Medium Enterprise in Bangladesh-Prospects and Challenges

Md. Alauddin [α] & Mustafa Manir Chowdhury [σ]

Abstract- Small and medium-sized enterprises (SMEs) are the backbone of the national economy in Bangladesh. This sector is playing an important role to develop the economy of our country. The role of SMEs sector is immense to alleviate the poverty from the country as well. Small and Medium enterprises are particularly suitable for the densely populated countries like Bangladesh where SME sector can provide huge employment opportunity with much lower investment. They are expected to create jobs, reduce poverty, and drive a resilient national economy. The International Monetary Fund (IMF) Country Report (2012)1indicated that SMEs in Bangladesh accounted for more than 99% of private sector industrial establishments and created job opportunities for 70%–80% of the nonagricultural labor force. In the paper a questionnaire has been constructed and used SPSS 20 version software to analyze the data This paper is, therefore, an attempt to analyze various issues, prospects and challenges of financing this particular sector and find out the ways to overcome these challenges. It will also survey various literatures and reports on the concerned field and recommend supporting actions to help this highly prospective industrial sector to operate in a fully yielding manner.

Keywords: SME, financing, industrial sector.

I. Introduction

In almost every part of the world, limited access to finance is considered a key constraint to private sector growth. This is especially true for SMEs of our country as they are facing different types of problems for availing institutional finance though SMEs play dominantly important role in the national economy of Bangladesh by making up over 90 per cent of industrial enterprises, providing employment to 4 out of 5 industrial workers and contributing to over one-third of industrial value-added to gross domestic product (GDP). The relative SME share in manufacturing value-added is much higher and estimated to vary between 45 to 50 per cent of totaling value-added generated by the manufacturing industries sector. Further as important sources of new business creation and developing new entrepreneurial talents, these industries provide the much needed dynamism and vitality to the national economy. Implementation of poverty alleviation action programs and strategies is a systematic and continuous effort in Bangladesh. For that purpose, the Poverty Reduction Strategy of the government has clearly identified some core principles and parameters both at macro and micro levels for reducing the existing poverty level at least half within 2015 as targeted in the Millennium Development Goals (MDGs). Rapid and sustainable growth of SMEs is undoubtedly one vehicle for accelerating national economic growth to the point of having a measurable impact in the way of reduction of poverty and unemployment, generation of more employment. More than 90% of the industrial enterprises in Bangladesh are in the SME size-class. Generally, SMEs are labor intensive with relatively low capital intensity. The SME also poses a character of privilege as cost effective and comparative cost advantages in nature. The SME policy strategies have been formulated to assist in the achievement of the goals and targets the MDGs set by the Government.

II. Rationale of the Study

From the sequence of our analysis it seems that for the economic development of Bangladesh SMEs can play a vital role. Small and medium Enterprises act as the most cost-effective and worthwhile means of providing employment and injecting dynamism into industrial growth, both for poverty alleviation and for contribution to the GDP. At present SME sector is facing a lot of problems. Bangladesh government is trying to develop the SME sector through different policy measures even though the rate of development is not up to expectations. There is a huge prospect to develop this sector.

III. Literature Review

Raihan (2001) observes that the 50.53 percent of SMEs have no access to formal source of finance. Only 35.79 percent of SMEs enjoy unrestricted access to the formal credit. The rest (13.68 percent) of them have restricted access to the formal credit. Bank credit is used by small percentage of entrepreneurs and provides financing of generally less than 20 percent of their total outlay. Majority of the SMEs (59.6 percent) seek finance for their working capital needs from banks, although only a half-of them get loan from banks.

Ahmed, (1999) pointed out that due to the lack of national quality policy and adequate support system, and also due to the lack of credibility of the quality certification authority, SMEs of Bangladesh have failed to ensure the quality of products and services both in

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domestic and international markets. He also argues that access to finance possess as one of the most important problems for the SMEs in Bangladesh. Lack of investment or operating funds remains as one of the most prominent complains of the SMEs in Bangladesh.

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Rahman and Mahmood (2007) mentions that Small and Medium Enterprises are the backbone of the economy in countries like Bangladesh. SMEs suffer from common constraints such as lack of capital, difficulties in procuring raw materials, lack of access to relevant business information, low technological capabilities, problems caused by cumbersome and costly bureaucratic procedures, and policies and regulations that generate market distortions. However, with proper domestic policy support from the government, and an eye towards global market trends, SMEs can build capacity and reap the rewards of globalization.

Hasan and Islam (2008) identifies that banks usually do not express interest towards SME financing. The reason behind this conservativeness is higher operational cost, less return and high risk associated with the SME financing. Due to small loan size the operational cost is higher and they require intensive monitoring and supervision. The main reason for higher risk is that the small and medium entrepreneurs are highly unlikely to comply with the collateral requirements as typically they do not have immovable properties. With the excuse of collateral sometimes banks and non-bank financial institutions are reluctant to finance SMEs.

Bangladesh Bank Report (2008) says, the key reasons behind the SMEs are not entering into manufacturing but are financial constrains, dismal state of utilities, technology and policy discriminations. On the other hand, Bank and others financial institutions generally prefer large enterprise clients because of lower transition costs, and greater availability of collateral. The SMEs also fall outside the reach of micro finance schemes, and thus are compelled to depend on formal sources of funds at much higher interest rates, the Bangladesh Bank report said. The BB report, however, said that other interrelated problems like shortage of short and long term finance, lack of modern technology and lack of promotional support services are major obstacles in the way of development of the SMEs sector. Higher growth of the Small and Medium Enterprises (SMEs) can help cut poverty to a satisfactory level by eliminating various prejudices against labour intensive and creating jobs for the skilled manpower in the SME sector.

Growth of SMEs in developing countries is certainly a desirable goal in view of their perceived contribution to decentralized job creation and generation of output *(Chen, 2011)*. In developing economy like Bangladesh, SMEs play a significant role in the development of the economy by creating employment opportunities and producing useful machine substitutes and machinery parts saving huge amount of foreign currency for our country (Chowdhury, 2008).

About 6.0 million SMEs are actively performing in Bangladesh which were contributing 25 per cent of the total GDP, employing about 31 million people and providing 75 per cent of household income. Various categories of SMEs together contribute between 80 to 85 per cent of industrial employment and 23 percent of total employment in Bangladesh (Chowdhury, 2008).

IV. Objective of the Study

To identify the present scenario of SME sector in Bangladesh.

To highlight the prospects of SME sector in Bangladesh.

To identify the problems of SME sector in Bangladesh and Recommend some suggestions to overcome those problems.

V. Methodology of the Study

Data mainly gathered from 50 respondents by conducting some interviews with SME Bankers and selected SME Entrepreneurs. In-depth interview technique has been used because through this approach, the deep rooted issues regarding the problems have come out plus many factors that could stimulate growth of SME were also figured out.5 points likert scale has been used in this paper. Data has also been collected from secondary sources. The study analyses published books, newspapers, magazines, different published research works, reports of various government authorities and websites.

a) Definition of SME

Small Enterprise refers to the firm/business which is not a public limited company and complies the following criteria:

Table 1 : Definition of Small Enterprise

Serial No.	Sector	Fixed Asset other than Land and Building (Tk.)	Employed Manpower (not above)
01.	Service	50,000-50,00,000	25
02.	Business	50,000-50,00,000	25
03.	Industrial	50,000-1,50,00,000	50

b) Definition of Medium Enterprise

Medium Enterprise refers to the establishment/firm which is not a public limited company and complies the following criteria:

Table 2 : Definition of Medium Enterprise

Serial No.	Sector	Fixed Asset other than Land and Building (Tk.)	Employed Manpower (not above)
01.	Service	50,00,000-10,00,00,000	50
02.	Business	50,00,000-10,00,00,000	50
03.	Industrial	1,50,00,000-20,00,00,000	150

c) Present Scenario of SMEs in Bangladesh

The Industry sector plays an important role in the socio-economic development of Bangladesh. According to BBS estimates (base year: 2005-06), the contribution of the broad industry sector to real GDP stood at 29 percent in FY 2012-13, which increased to 29.61 percent in FY 2013-14. Among the fifteen sectors of GDP, the broad industry sector includes four sectors namely mining and quarrying; manufacturing; electricity and gas and water supply; and construction. The contribution of the manufacturing sector is the highest in GDP. In FY 2012-13, the contribution of manufacturing sector in GDP was 19 percent which reached to 19.45 percent in FY 2013-14. The volume and growth performance of the manufacturing sector from FY 2006-07 to FY 2013-14 is shown in Table 8.1according to the base year 2005-06:

Table 1 : Volume and Growth Rate of Manufacturing Sector

(At constant prices of 2005-06)(In Crore Tk.)

Type of Industry	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Small & Cottage	16112.9 (9.48)	17264.6 (7.15)	18525.3 (7.30)	20039.5 (8.17)	21176.0 (5.67)	22569.1 (6.58)	24557.9 (8.81)	26179.8 (6.60)
Medium-Large	65499.6 (10.80)	70331.2 (7.38)	74933.6 (6.54)	79631.4 (6.27)	88475.3 (11.11)	97998.3 (10.76)	108436.2 (10.65)	118364.0 (9.16)
Total	81612.5 (10.54)	87595.8 (7.33)	93458.9 (6.69)	99670.9 (6.65)	109651.4 (10.01)	120567.4 (9.96)	132994.1 (10.31)	144543.8 (8.68)

*Source: Bangladesh Bureau of Statistics. * Provisional. Note: Figures in parentheses indicate rate of growth.*

VI. National Industrial Policy

In order to accelerate the pace of industrialization in the country, the Government announced the National Industrial Policy 2010. The important and underlying objectives of the policy include generation of productive employment, mainstreaming women in the industrialization process and poverty alleviation. Proper strategies have been set out in the industrial policy to implement all these aims and objectives. Combined efforts are being put in to implement the policy and necessary steps are being taken to preserve consumer's interest in consultation with concerned ministries and other stakeholders.

In the 'Sixth Five Year Plan (SFYP): 2011-2015' and 'Outline Perspective Plan of Bangladesh (2010-2021): Making Vision 2021 A Reality' pledges have been made to build a modern and vibrant industrial sector with the aim of reducing unemployment, hunger and poverty. Indications have been made in these documents to undertake short, medium and long term programmes to accelerate economic growth.

a) Quantum Index of Production of Manufacturing Industries

The Quantum Index of Production (QIP) is an important tool for measuring the production performance of manufacturing industries. Data available from Bangladesh Bureau of Statistics (BBS) shows that QIP (2005-06=100), representing medium to large-scale industries, rose to 195.19 in FY 2012-13 from 108.76 in FY 2006-07. In FY 2013-14, the QIP average index stood at 211.29. Table 8.2 shows the index during FY 2006-07 to FY 2013-14.

Table 2 : Quantum Index of Production for Medium to Large Scale Manufacturing Industries

FY 2006-07 to FY 2013-14 (2005-06=100)

Fiscal Year	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Medium to Large Scale Industries	108.76	117.5	127.47	135.01	157.89	174.92	195.19	211.29

Source: Bangladesh Bureau of Statistics.

VII. Prospects of SME's Financing

For LDCs like Bangladesh, SMEs may be a highly cost-effective source of employment too. The current new job seekers together with millions of inactive people are still looking for employment. SMEs may surely be a very good solution to this problem. To compare what it might cost to provide employment with new jobs in the large industries in relation to SMEs, one needs only to look at some of Bangladeshi large fertilizer factories. Chittagong Urea Factory Limited (CUFL) costs BDT 14 billion ($237 million) to build, and it employs 982 people. The Jumuna Fertilizer Factory (JFF) costs BDT 12.60 billion ($213 million) and employs 1,082 people. Thus CUFL and JFF required BDT 14.26 and 11.63 million ($241,000 and $198,000) respectively for every person to be employed. But, in case of micro-enterprises, set or encouraged by the NGOs for self-employment of the very poor, the investment required per employment is BDT 5,000 ($85) or less (SDC & BUP, 1998). The comparative scenario puts a very clear idea about the operation and potential contribution of SMEs in eradicating unemployment and reducing poverty together with yielding national economic development.

Numerous surveys have been conducted in Bangladesh on the impacts and prospects of SMEs. These surveys found that there were almost 6 million micro, small and medium enterprises (MSMEs), which included enterprises with "up to 100 workers" employing a total of 31 million people, equivalent to 40 per cent of the population of the country of age 15 years and above (ICG & MIDAS, 2003).

The survey also found that the industrial structure of SMEs consisted of primarily wholesale and retail trade and repairs (40 per cent), production and sale of agricultural goods (22 percent), services (15 percent), and manufacturing only (14 per cent). It reflects on the very fact that the large unused potential for expansion in manufacture and production could be exploited contributing significantly to the national economy. Another vital finding of the surveys under discussion was that SMEs contributed nearly to 25 per cent of the GDP in 2003 (ICG & MIDAS, 2003).

The study and other relevant observation identifies some concrete and unique features of SMEs that ensures us about its success in employment generation and the sector's suitability to be focused for ensuring sustainable economic development in the backdrop of poor countries like Bangladesh with poor population. Starting SMEs business requires a small amount of fund. So it is easy for the people to start this business. Growth of SMEs may have a positive impact on the overall economic development of Bangladesh. This sector can be diversified in many ways and it is considered as low risk organizations.

Being an over-populated nation Bangladesh needs labor-intensive organizations like SMEs.. This is a suitable for countries like Bangladesh where skilled labors are not available at all. SMEs can also create more jobs than large enterprises at lower costs. SMEs are providing a diversified range of products at a lower price in local market. People are getting SME products at a lower price. Government has established an independent SME foundation to help and encourage the people to join in this sector for the development of SMEs. Recently Asian Development Bank (ADB) has provided some fund for SME sector development in Bangladesh.

It has been observed that recently many commercial banks have opened separate specialized SME branches. It has created a new arena to expand this business. Some commercial banks have special SME loan schemes for women entrepreneurs and it will help them to be self dependent.

VIII. Findings and Analysis

Distribution of entrepreneurs whether or not they take bank loan to operate their SME

Table 1

Whether or not take loan by entrepreneurs from banks	Number	Percentage (%)
yes	30	60
No	20	40
Total	50	100

Source: Survey of SME entrepreneurs

60% that means a large number of SME entrepreneurs take bank loan to operate their SME business which is very remarkable. However about 4 out of 10 do not take bank loan to run their business.

Table 2 : The infrastructure facility Of SME is satisfactory

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	12	24.0	24.0	24.0
	Disagree	17	34.0	34.0	58.0
	Neutral	4	8.0	8.0	66.0
	Agree	16	32.0	32.0	98.0
	Strongly agree	1	2.0	2.0	100.0
	Total	50	100.0	100.0	

Source: Field Survey

From the above table it is found that most of the respondents are not satisfied about the infrastructure facility of SME and 32% of the respondents are agreed.

Table 3 : The products of SME are highly standard

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	17	34.0	34.0	34.0
	Neutral	16	32.0	32.0	66.0
	Agree	16	32.0	32.0	98.0
	Strongly agree	1	2.0	2.0	100.0
	Total	50	100.0	100.0	

Source: Field Survey

It is found that 34% of the respondents opine that they are disagreed about the statement and 32% of the respondents are agreed and neutral.

Table 4 : Training facilities are arranged regularly for SME workers and entrepreneurs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	12	24.0	24.0	24.0
	Disagree	19	38.0	38.0	62.0
	Neutral	4	8.0	8.0	70.0
	Agree	14	28.0	28.0	98.0
	Strongly agree	1	2.0	2.0	100.0
	Total	50	100.0	100.0	

Source: Field Survey

It is found that majorities (38%) of the respondents are disagreed about the statement and 28% of the respondents are agreed.

Table 5 : Workshops and seminars are organized regularly

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	9	18.0	18.0	18.0
	Disagree	18	36.0	36.0	54.0
	Neutral	4	8.0	8.0	62.0
	Agree	15	30.0	30.0	92.0
	Strongly agree	4	8.0	8.0	100.0
	Total	50	100.0	100.0	

Source: Field Survey

It is found that 18% of the respondents are strongly disagreed and 36% of the respondents are disagreed and 30% of the respondents are agreed about the statement.

Table 6 : Modern technology are ensured for the development of SME Sector

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	29	58.0	58.0	58.0
	Neutral	4	8.0	8.0	66.0
	Agree	16	32.0	32.0	98.0
	Strongly agree	1	2.0	2.0	100.0
	Total	50	100.0	100.0	

Source: Field Survey

Majority of the respondents opine that modern technologies are not ensured properly for the development of SME sector.

a) *Challenges for SME Financing*

The main driving force in SME promotion in Bangladesh is in the growth of agro-based processing and essential consumer goods products. Many institutions at the national level are providing assistance to entrepreneurs through SMEs in the country. Industrial credit in Bangladesh is financed through government-sponsored industrial banks; commercial banks and specialized financial institutions (ESCAP, 2003).

i. *Inability to Market SME Product:* The present and future growth prospect of any product depends to a large extent upon marketing activity. This requires having a well-planned marketing strategy including advertisement campaign as well as resources for implementing that strategy. Unfortunately, SME entrepreneurs are at the bitter end in this respect as they cannot make adequate investments in marketing and also lack necessary marketing skills.

ii. *Inability to Maintain Product Quality:* A major constraint to the sustainability of SME growth in Bangladesh is the inability to maintain the quality of SME products. At present Bangladesh produces mostly common consumer goods which are labor-intensive and require relatively simple technology. But due to poor quality these products cannot stand competition from imported products. The challenge for Bangladesh today is not in competing with high-tech products of developed countries but to make its SME sector survive competition from its rivals.

iii. *Lack of Skilled Technicians and Workers:* Lack of skilled manpower is a perennial problem in Bangladesh. This problem is particularly acute for small and medium scale export oriented enterprises. Bangladesh has made large inroads in the world's apparel market through commendable performance of RMG sector. However, the value addition of the products is low. Despite high demand, Bangladesh cannot make much entry into high value fashion wear exports due to dearth of trained workers. Supply capacity is thus constrained by non-availability of skilled workers.

iv. *Poor Management Skills of Entrepreneurs:* In the modern day economy, managerial skills for undertaking planning, marketing, and cash-flow management are vital for survival of an industry, small or large. SME entrepreneurs in Bangladesh are very much lacking in managerial skills and are not used to strategic planning. It is natural that they are unable to survive market failures. The concept of managerial training for SME entrepreneurs is yet to take root in Bangladesh.

v. *Lack of Quality Assurance:* Govt. has failed to frame a national quality policy, provide adequate support systems and establish a national quality certification authority. As a consequence SME of Bangladesh has failed to ensure the quality of their products and services both in local and international market.

vi. *Resource Scarcity:* In Bangladesh scarcity of raw materials hinder the ability of SME to be export oriented and limits its ability to reach more advanced stages of international business.

vii. *High Employee Turnover:* Due to limited growth of SME most of the skilled employees leave SMEs. Levy (2003) observed that SMEs are knowledge creators but poor at knowledge retention. High employee turnover is a major obstacle for the progress of this sector.

viii. *Absence of Modern Technology:* Many SMEs have failed to adopt modern technology. Handling operation of the business becomes difficult without using update technology. It cannot be imagine now competing around the world with the absence of modern technology. Without the proper use of modern technology, we will lag behind.

ix. *Poor Physical Infrastructure:* Inadequate supply of necessary utilities like electricity, water, roads and highways hinder the growth of SME sector. Moreover unfavorable geographical conditions increase the transportation cost.

x. *Lack of Entrepreneurship Skills:* Conservative attitude towards risk, lack of vision, ability to make plan and implementing those hinder the growth of SME in Bangladesh. Most of the people engaged in this business have no proper innovation skills.

xi. *Access to Market and Lack of Awareness Regarding the Importance of Marketing Tool:* For SME, owing a retail space is very expensive in the major cities in Bangladesh. As a result many customers are not interested to buy products and services from SMEs. Because they can't judge the quality until they physically examined the product. Most of the cases SMEs in Bangladesh are not able to use the Integrated Marketing Communication (IMC) tools. But these tools play the role of important stimulus to motivate the customers and retain them. The country does not have enough marketing capability and resources to invest in marketing.

xii. *High Interest Rate:* Most of our SME entrepreneurs are starting business by taking loan from banks. But there is high interest rate on such loans. It is not so easy to rise fixed and working capital from banks, since banks are not so willing to provide loan of small size for high monitoring cost.

xiii. *Lack of Commitment to Innovation and Customer Satisfaction:* Ernesto (2005) stated that to keep in pace with international competition, firms of all size are challenged to improve and innovate their products processes constantly. But in Bangladesh SMEs are still not relating the importance of satisfying and retaining customers by offering novel and desired benefits.

xiv. *Lack of Research and Development Facilities:* Most of the developed nations spend a lion's share in this sector to develop their industry but we do not invest huge amount in this sector for the development of our industry.

IX. Suggestions and Recommendations

SMEs will continue to be the major driving force for income and employment generation in Bangladesh. The future for entrepreneurship appears to be very bright. We are living in the age of the entrepreneur, with entrepreneurship endorsed by government, business community, educational institutions, society, and corporations. Development of SMEs in Bangladesh is the need of the hour to raise the standard of living of the people of our country. The modest suggestions and recommendations are given below:

a) *Enhancing Access to SME Finance*

Access to institutional finance for SMEs is still greatly limited. Less than 30% SMEs have access to institutional loans. Enhancing access to institutional finance by 50% of SME entrepreneurs may be a target within next five years through strengthening SME foundation, motivating institutional sources of financing to provide access to the deserving loan applicants.

b) *Development of SME Infrastructure*

Infrastructure development is a prerequisite to efficient development and financing of SMEs Currently, the most severe constraint that hinder the development of SMEs is the lack of infrastructure (e.g., roads, gas and electricity), limited access to market opportunities, technology, expertise and business information and communication. Providing appropriate infrastructure for SME growth should be given priority.

c) *Quality of SME Products*

Poor quality of products is a big setback for expansion of SME business and SME sector as a whole. Measures for quality improvement and standardization of SME products have to be one of the targets. The BSTI may be made more effective in monitoring quality of product both for domestic market and for exports.

d) *Training Facilities for SME workers and Entrepreneur*

Bangladeshi workers are very good at learning production skills and copying them. However, training facilities for SME workers and development of entrepreneurial skills are not adequate in our country. Some training Institutes like the Training Institute of BSCIC impart training but it is not utilized properly. Special programs are to be undertaken for the establishment of training institutes regarding entrepreneurship development.

e) *Organizing Trade Fairs, Symposiums, Workshops on SMEs on Regular Basis*

At present workshops and symposiums on SMEs are held by different organizations and think tanks, but these are held infrequently and not in any systematic manner. A plan for holding seminars, workshops, trade fairs, etc. on a regular basis should be formulated.

f) *Setting Help Desks in Banks and Business Promotion Bodies with Internet Facilities*

To extend the outreach of SME development particularly in respect of women entrepreneurs, a Help Desk with computer and internet facilities should be set up in bank branches dealing with SME finance as well as in all chambers of commerce and industry and other trade promotional bodies.

g) *Use of modern technology*

Product design and technology is a very important aspect of SME development. Most SMEs are characterized by indigenous technology and they are involved in improving their existing production techniques and processes. If there is no use of modern technology and innovation does not take place in an indigenous sector, enterprises become uncompetitive.

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h) Proper implementation of SME policy

Government has formulated SME policy to accept SMEs as an indispensable player in growth acceleration and poverty reduction. To this end government has introduced various strategies and provides facilities and incentives for development and growth of SMEs. So this policy must be implemented properly.

i) Role of NGO

Government, financial institutions and Non Government Organizations (NGOs) may take necessary steps to ensure uninterrupted financial support to the prospective SMEs in Bangladesh. In order to encourage women entrepreneurship govt. may; involve women entrepreneurs in policy formulation and implementation. Arrange funds for women entrepreneurs. Provide necessary training to women entrepreneurs in rural and urban area of Bangladesh.

In this era of intense competition continuous planning and quality improvement act as a prerequisite for the survival of SMEs. In order to improve the quality SMEs can follow the Just in Time (JIT) philosophy and use Total Quality Management (TQM) and can ensure the improvement of quality and productivity at a time. Restriction may be imposed on import of SMEs' products, which are available in Bangladesh.

X. Conclusion

Modern time is the golden time of business. Now a day the idea of SME business is also developed. So definitely it's a matter of thing that, how to established an idea-with different technique. The SME business in Bangladesh have a strong position in the to days competitive market. SME entrepreneurs are continuously upgrading themselves with a view to be competitive and to remain the best. As the experiences of SME finance in Bangladesh suggest, there is critical need for putting in place a credit delivery system that evaluates the credit worthiness of borrowers, on a basis other than fixed asset ownership. The evaluation may require examining transaction records of the borrowers, assessing the value of movable assets etc. There will also be the need for enhanced post disbursement monitoring. An effective SME finance policy will have to cover such enhanced cost of credit administration. In addition to credit guarantee or refinancing facility there will have to be adequate rediscount facility for the primary lender to accommodate these costs. Such credit line also needs to be made available to non-bank institutions such as the NGOs. The financing scheme should also include special provisions for women entrepreneurs. Indeed, the implementation of appropriate policies and strategies is a prerequisite to harness sustainable competitiveness of SMEs around the country. Suggestive remarks have been stipulated in this write up. With that paradigm, proactive policy is essential to enact them. The first step this regard is to make firm's filly aware of the competitive challenges they have to face. The next step is to help SMEs prepare to meet the challenge by understanding their strengths and weaknesses and providing the inputs they need to help them upgrade. The main inputs are finance, market information, training, infrastructure development, R&D, management tools, technology, skills and links with institutions for support services.

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Tax Regulation of Land Relations in Agricultural Economy of Ukraine

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Abstract- This article explores the problem of collecting land rent taxes in the agricultural sector of Ukraine's economy. According to the analysis, authors suggested ways of improving land tax' collecting mechanisms, payment for the state and municipal owned land's rent and single tax for agricultural business' subjects. In addition, the authors suggested the introduction of a tax on the land market transactions and the land resources' monopolization tax in Ukraine.

Keywords: tax regulation, land rent taxes in the agricultural sector, land tax, payment for the state and municipal owned land's rent, single tax on agricultural business.

GJMBR - C Classification : JELCode : B26

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Strictly as per the compliance and regulations of:

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I. Introduction

a) Formulation of the problem

Despite the financial adversity in the Ukraine's domestic economy, agrarian sector remains almost the only profitable, providing products for the population and enabling the agricultural business' subjects to conduct transactions for the sale of an agricultural and processed products for export. Therefore, an important task for the government in the conditions of WTO membership and the inevitability of the European integration course remains the tax regulation of an agrarian business' subjects activity. Considering that agricultural enterprises in Ukraine, first of all, pay rent tax payments, including land tax, single tax and state and municipal owned land's rent payment, it means that these, mentioned above tax forms and tax regulation problems of the agricultural purposes land usage deserves special attention from researchers.

b) Recent research and publications' analysis

Considering the mentioned above, it is natural that land taxation and its usage' issues in the agricultural sector are devoted to research of leading scientists, among which worth mentioning the works of V.Golyan [4], M. Demyanenko [5], V. Zayats [6], V. Synchaka [10] L. Tulusha [12], M. Fedorova [1; 13] S. Yushka [14] and R. Yarullina [15].

c) The allotment of unsolved aspects of the problem

Despite the significant number of publications relating to issues of land rental taxation and tax regulation of land usage, considering the shortcomings of modern mechanisms for collecting taxes for the use of agricultural land, taking into account changes in tax legislation have occurred in connection with the adoption of the Tax Code of Ukraine [9] and making a number of changes to the mechanism of calculation and payment of land rent tax, considering the fact that during the tax reform in the agricultural sector of economy the problem of farmland taxation not only been solved, but even exacerbated. Now there is an urgent need for further research ways to improve the calculation and payment mechanism of the land rent tax which was the root cause of this research.

d) Problem

The purpose of this article is to develop scientifically based proposals for improving the land rent taxes' collecting mechanism in the agriculture.

e) The main research material statement

Currently, land tax and state and municipal owned land' rent payment also, single tax for its collection subjects of the group IV are set land rent tax, which should regulate land relations in the agricultural sector of the economy and to ensure the formation of the partly local government revenue needed them to perform tasks related to the protection and improvement of agricultural land also, for the fulfillment of other local government functions and powers [1-6; 10-15] (Fig. 1).

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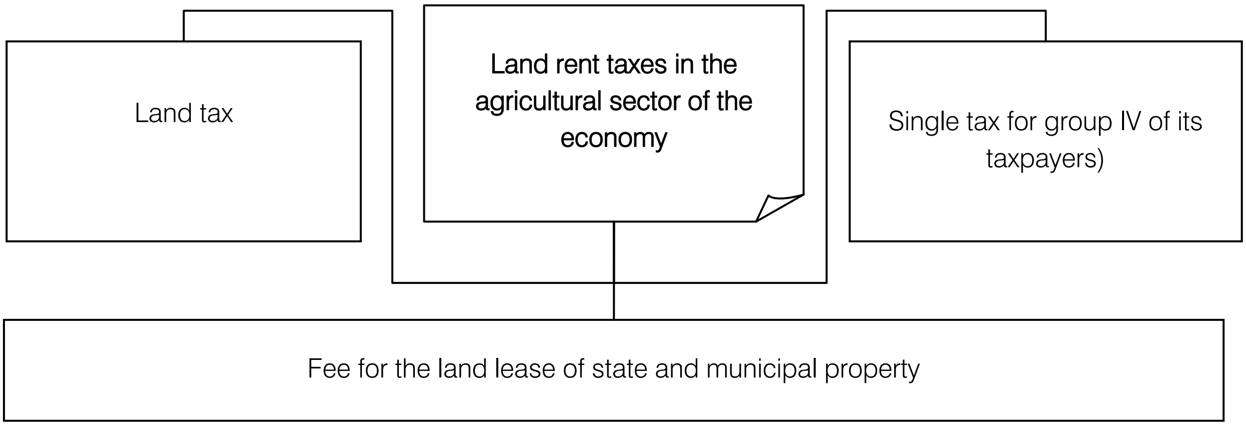

Fig. 1 : Land rent taxes in the agricultural sector of economy of Ukraine *

** Compiled by the authors according to the source: the Tax Code of Ukraine on December 2, 2010 № 2755-VI - [Electronic resource] // Access: http://zakon6.rada.gov.ua/laws/show/2755-17.*

Since the object of collecting these tax forms are land areas, and charging base is normative monetary valuation of land, performed as at 01 july 1995 and indexed at the beginning of this year (based on the estimated rental income from the productive use of land), so both they in the scientific publications are accepted as land rent tax [1, p. 215; 13, p. 118; 15, p. 45].

These payments are a set of taxes to regulate land relations in the agricultural sector of the economy and to ensure the formation part of local budgets incomes, they need to perform tasks related to the protection and improvement of agricultural land and fulfillment of other local government functions and powers [1-6; 11-15].

It should be noted that in the period to 2015 land rent tax, formed a small part of the consolidated budget and do not substantially followed in land rent relations in the agricultural sector [2-6; 11-15], which was the root cause of the transformation of this part of the tax system of Ukraine. During the reform of the of the land rent tax system the land tax rate has significantly increased and current fixed agricultural tax valid to 2015was changed to the single tax for its collection of group IV and slightly was modified the mechanism for land rent charging.

The most important in the system of land tax payments, no doubt, is the land tax, the main features of its charging mechanism are schematically depicted in Fig. 2.

Features of the land tax collection in Ukraine:

- Taxpayers are the owners of land plots, land shares and land users;
- The tax base is normative monetary valuation of land with a coefficient of indexation, the amount of which is affects by inflation, but also areas of land, monetary value of which are not conducted;
- The tax rate is less than 3 percent of their regulatory monetary value, and for agricultural land - less than 1 percent of their normative monetary value;
- Calculation of amounts of tax by legal entities is conducted independently annually by 1 January and 1 February this year, they served to State Tax Administrations at the location of land tax declaration for the current year, but they may choose month reporting on land tax, submitted to the 20 th month following the reporting one;
- Charging for individuals the tax amounts is held by the State Tax Service, which issue (send) the payer to July 1 this year the tax notice-decision to tax;
- Tax is paid: by legal entities - monthly for 30 calendar days following the last calendar day of the month and as individuals - within 60 days of service of their corresponding tax notification solution.

Fig. 2 : Features of levying land tax in Ukraine *

** Compiled by the authors according to the source: the Tax Code of Ukraine on December 2, 2010 № 2755-VI. [Electronic resource]. Access: http://zakon6.rada.gov.ua/laws/show/2755-17.*

In a land tax, a mandatory component of land lease land relations are relations (including in respect of the lease of lands of state and municipal property). Must consequence lease land relations with state and municipal lands are charging and paying another land tax - rent for the land state and municipal property.

It is Ukraine's only tax that can hectare land not specified in the Tax Code of Ukraine or other regulations on taxation, as determined by the lease of land (Fig. 3).

Taxpayers	• renters land state and municipal property;
Object collection	• leased land;
The amount and terms of payment	• the amount and conditions of payment is set in the lease agreement between the landlord (owner) and the tenant, but it can not be less than for agricultural land than the size of the land tax and for other categories of land - three times the amount of land tax, and can not exceed for areas provided for location, construction, maintenance and operation of energy facilities that generate electricity from renewable energy sources, including technology infrastructure of such facilities (production facilities, bases, distribution points (devices), electrical substations, electrical network), is 3% of the normative monetary value; other land plots leased is 12% regulatory monetary value;
The procedure of calculation and payment	• charging of legal entities the rent amounts is held itself every year on 1 January to 1st February of the current year, they have to serve to tax department at the location of land tax declaration for the current year, but they may choose month reporting on rental, submitted to the 20 th month following the reporting one; • charging individuals an amounts for the state and municipal owned land' rent is held by the state tax service that issue (send) the payer to July 1 this year the tax notice-decision to this tax; • payments: legal entities - monthly for 30 calendar days following the last calendar day of the month and as individuals - within 60 days from the date of delivery to them of the reporting posts solution.

Fig. 3 : Features of the mechanism of charging rent for the land state and municipal property *

** Compiled by the authors according to the source: the Tax Code of Ukraine on December 2, 2010 № 2755-VI. [Electronic resource]. Access: http://zakon6.rada.gov.ua/laws/show/2755-17.*

The third land tax payments in Ukraine is now the single tax on its collection of group IV (up to 2015 is the fixed agricultural tax). Since the object of taxation by single tax (for the group IV of its taxpayers) - lands for agricultural purposes, so its tax base is the monetary valuation of these lands and through the mechanism of tax collection, as well as through land tax and rent payments there is withdrawn of land rent' part then by its very nature, this tax is from renting the land tax payment. The main features of charging single tax' modern mechanism and its collection of group IV schematically shown in Figure 4.

Payers	• farmers that do not sell the excise goods have no tax debts, have farmland and in which the proceeds from the sale of agrarian and another own production for the previous financial year is at least 75% of the total gross income;
Collection object	• agricultural land and water areas fund owned by agricultural producers or given to him for use, including a lease;
Collection base	• normative monetary valuation of agricultural land, subject to indexation factor determined as of January 1 of the reporting year;
Tax rates are set as a percentage of base collection in the following sizes:	• for arable land, hayfields and pastures most species - 0,45%; • for arable land, hayfields and pastures located in mountain areas and the woodlands - 0.27%; • for horticlture trees (excluding located in mountain areas and in areas woodlands) - 0.27%; • for horticlture trees, located in mountain areas and the woodland area - 0.09%; • for land of water fund - 1.35%; • for arable land, hayfields and pastures, agricultural producers, specialized in the production and processing of crop production in greenhouses - 3%;
The procedure of calculation and payment	• tax period - calendar year (self-payers calculate themselfs the amount of tax each year on January 1 and no later than 20 February of the current year to submit the declaration state tax administration); • payable quarterly to 30th day after reporting quarter, but in the first and second quarters - 10% in the third quarter - 50% in the IV quarter - 30% of the annual amount of the single tax; • in case of a breach during the check calculation and payment of the single tax, payers are moving to general tax system from next month and the period in which a violation is found, it accrued taxes and fees, based on the general conditions of taxation and penalties; • single tax payer fourth group are exempt from corporate income tax, value added tax, property tax except land tax for land that are not used in the agricultural commodity production, rental fees for special use of water.

Fig. 4 : The main features of modern mechanism of charging a single tax on small business group IV *

** Compiled by the authors according to the source: the Tax Code of Ukraine on December 2, 2010 № 2755-VI. [Electronic resource]. Access: http://zakon6.rada.gov.ua/laws/show/2755-17.*

Despite the reform of land rent collection mechanisms taxes took place in Ukraine by amending the Tax Code [7; 8; 9], it should be noted that current mechanisms for collection of land rent tax payments are a number of disadvantages, the key of which include (Fig. 5):

Lacks of modern mechanisms of collecting land rent taxes in Ukraine:

1. Land tax:

- lack of communication between the size of the land tax per hectare of land and the actual value of rental income from land;

II. Fee for land lease of state and municipal property:

- the amount of payments per hectare of land is not specified in the Tax Code Ukraine or other legal acts concerning taxation, but is determined by an agreement of land leasing;

III. Single tax for Group IV of its taxpayers:

- makes it possible to optimize the tax burden of individual businesses through the use of the simplified regime of direct taxation by large firms (by creating several affiliated organizations);
- causes shortfall of money in the budgets of municipalities of an agrarian regions, they need to finance land protecting works;
- creates favorable conditions for direct taxation of greenhouse complexes;

- the lack of market transaction tax with agricultural land;

- no tax on the monopolization of land for agricultural purposes.

Fig. 5 : The key shortcomings land rent taxes' collection mechanisms in Ukraine*

** Overview sponsored by the source material: [1-8; 11-14].*

At the same time, optimal land rent tax' collection mechanisms should ensure the convergence of interests of an agricultural producers and municipalities during the formation of the local budgets' revenue base to ensure adequate funding for the protection and improvement of natural resources, stimulating the development of agricultural land market and full regulation of land relations through land tax [5, p. 20; 11, p. 156; 12, p. 42].

Therefore, given the shortcomings of modern mechanisms for collection of land rent tax payments, primary ways of improving the order of calculation and payment in Ukraine should be are as follows (Fig. 6):

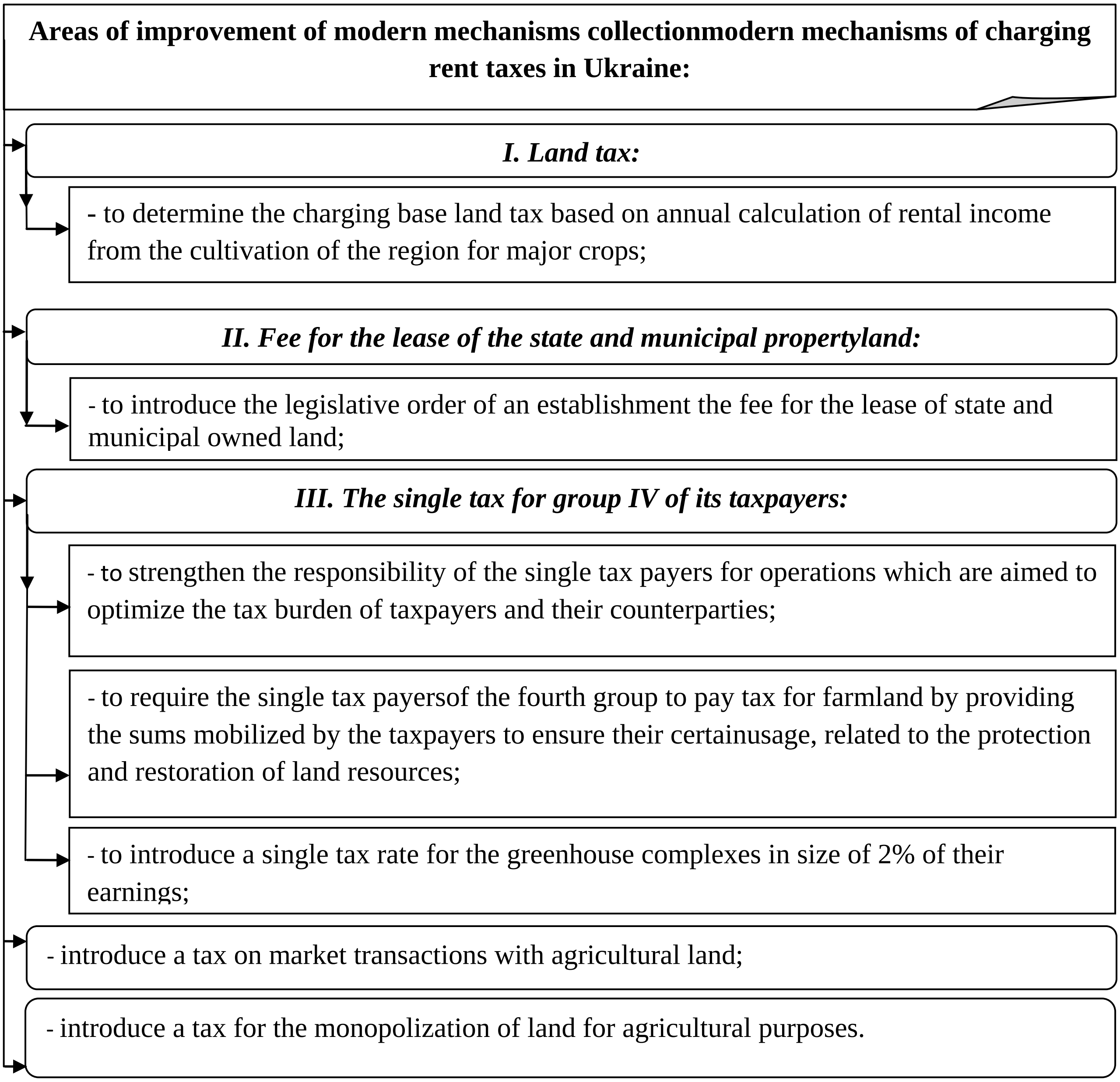

Fig. 6 : Directions of improving the mechanisms of taxation agricultural land in Ukraine *

** Developed by the authors.*

All the mentioned above will enhance both as fiscal measures and regulating properties of land rental taxation which is an important task at the present stage of the land relations' development.

II. Conclusions

Summarizing the results of the research, it should be noted that the modern mechanisms of land rent tax' collecting, operating in Ukraine have significant drawbacks due to insufficient fiscal and regulatory properties of these tax forms.

Ways to improve the procedure of land rent tax' collection payments, as shown by a research should be: the definition of the land tax' collection database based on annual calculation of rental income from the cultivation major crops of the region, establishment the fee for the lease of the state and municipal owned land but not in land lease contracts then in law order, also the single taxpayers' obligations of tax group IV to pay tax on farmland by providing the sums mobilized to ensure works related to the protection and restoration of land resources, the introduction of a single rate of tax for greenhouse plants of 2% of their revenue and the introduction of a tax on market transactions of agricultural land and tax for the monopolization of land for agricultural purposes.

Further scientific research in this field, in our opinion, should be dedicated to the development of the tax' collection mechanisms for the agricultural land market transformation.

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Estimation of the Islamic Banks' Competitive Structure VS Conventional Banks' One

By Asma Sghaier, Manelle Lahdhiri, Gilles Philippe & Mansouri Faysal
IHE Sousse (TUNISIA), Tunisia

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Keywords: *competition, achievement, IHH, CRK, islamic banking, risk management.*

GJMBR - C Classification : *JELCode : G21, D21*

ESTIMATIONOFTHEISLAMICBANKSCOMPETITIVESTRUCTUREVSCONVENTIONALBANKSONE

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Keywords: competition, achievement, IHH, CRK, islamic banking, risk management.

I. Introduction

Islamic banks follow certain ethics in their operations. Islamic banks are exposed to risks that differ from those that conventional bank are exposed; this is because of the constraints they impose and the specificity of their management which induces Unlike bank returns.

In this paper, we analyse the structure of competition (depending on concentration indices on one hand, and modelling Panzar and Rosse, on the other hand.

The objective of this study is to investigate the nature of the relationship of the structure of competition between the two types of banks.

II. The Literature Review

Based on the model of Panzar and Rosse (1987), Vesala (1995) several studies showed a monopolistic competition in the Finnish banking sector in 1985-1992. In the same study Molyneux et al (1994) show a monopolistic competition for the UK banking market compared to other markets its sample elements (the sample is composed of German banks, French, Italian, Spanish and British) for a period 1986-1989.

Bikker and Groeneveld (1998) found, for a sample of European banks and in the period 1989-1996, monopolistic competition for the majority of European banking markets. Bikker and Haaf (2002) confirmed the results proved by De Bandt and Davis (2000), the results show a monopolistic competition, which becomes weaker on local markets and stronger in international markets.

Al-Muharrami et al. (2006) estimate monopolistic competition GCC banks (Gulf countries) for a period of 1993 to 2002, using the Panzar and Rosse approach (1987). They showed that the banking market in Kuwait, Saudi Arabia and the UAE operate under perfect competition, while banks in Bahrain and Qatar operate in monopolistic competition, which is not the case in Oman. Saeed Al-Muharrami (2008) found a monopolistic competition in the banking market of Saudi Arabia during the period 1993-2006. The assessed value of H-statistic is equal to 0.23 during the period studied.

Saeed Al-Muharrami (2009) found a perfect competition in the Kuwaiti banking market in the period 1993-2002. He showed that bank mergers (= concentration) can improve bank services. He also suggested that the Central Bank of Kuwait has to stop allowing the opening of new branches because the country will eventually adjust. The following table summarizes what has already been treated:

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Authors	Countries	Period	Résultats
Shaffer (1982)	New York	1979	monopolistic competition .
Nathan and Neave (1989)	Canada	1982-1984	En 1982 : perfect completion 1983-1984 : concurrence monopolistique
Lloyd Williams et al (1991)	Japon	1986-1988	monopolistic competition .
Molyneux et al (1994)	Allemagne, Espagne, France, Italie et le Royaume-Uni.	1986-1989	Monopolistic competition France, l'Allemagne, l'Espagne and the Royaume-Uni.
Vesala (1995)	Finlande	1985-1992	monopolistic competition .
Bikker et Groeneveld (2000)	15 États européens	1989-1996	monopolistic competition .
De Bandt et Davis (2000)	Allemagne, France et Italie	1992-1996	- « Large "banks: monopolistic competition for all States. - "Small" banks: monopolistic competition and monopoly in Italy in France and Germany.
Bikker et Groeneveld (2000)	15 pays de l'UE	1989-1996	monopolistic competition .
Bikker et Haaf (2002)	23 pays de l'OCDE (dont 17 États européens)	1988_1998	monopolistic competition .
Hernpell (2002)	Allemagne	1993-1998	monopolistic competition .
Coccorese (2004)	Italy	1997-1999	monopolistic competition .
Perera et al (2006)	South Asian countries	1995-2003	monopolistic competition .
Al-Muharrami et al (2006)	Countries of the GOLFE	1993-2002	Strong competition between: Kuwait, Saudi Arabia, UAE. And monopolistic competition between Bahrain, Qatar and Oman Unspecified
Guralp and Celik (2006)	Turquie	1990-2000	monopolistic competition .
Yildirim (2007)	Countries of « Central andastrern EC »	1993-2000	monopolistic competition .

In the following, we will examine the differences between Islamic and conventional banking' structures. An important assumption in the theory of classical industrial organization regarding the profit maximization, it can be argued that the new empirical industrial organization techniques such as RA H-statistic (H-statistique Panzar & Rosse) and Lerner index can't be applied to Islamic banks. In our work we will study the art of IHH, CRk and H-Statistics PR. The objective of Islamic banks is to ensure social and economic justice rather than being primarily guided in principle, by the principle of profit maximization, and this can be achieved mainly through the promotion sharing of financing techniques risks (PLS). However, a close look at the balance sheet of Islamic banks shows that credit-based financing (Murabaha or cost plus sales) is the dominant form of funding applications while financing profit and loss (or sharing risks) as mudaarabah and Musharaka on average less than 10% of assets (Dar and Presley, 2000), this, in fact, could be an Achilles heel for Islamic banks, which have been criticized in the past three decades to ignore the social aspect of their mission, but rather the search for quick profits and safer thanks a Murabaha financing.

Traditional measures of concentration include concentration ratios and the Herfindahl Index - Hirschman (HHI). Using the rate of bank concentration n, especially CR3 index (the three largest banks concentration ratios) according to their share of the assets, deposits and loans in the banking sector. We also calculated the HHI index summing the squares of the market shares of all banks (using total assets, deposits and total credit). However, according to competitiveness indicators (eg Berger, Demirguc -Kunt, Levine, and Haubrich, 2004; Beck, Demirguc -Kunt, and Levine, 2006)these measures are ambiguous.

Some studies use statistical H- PR to assess the degree of competition in the banking sector (eg Claessens & Laeven., 2004; Schaeck et al, 2009) and the Lerner index (Jimenez et al, 2007; Berger, Klapper Turk Ariss, 2009 and Weill, 2010). In this study, we calculate the traditional measures of market structure, in addition to estimating the H Panzar and Rosse Statistics.

III. Estimation of the Competition' Structure

We analyse the structure of competition for conventional banks (BC) and non- conventional banks (BNC) in the MENA region. Our sample is distributed as follows :

Table 2 : Sample search by type of bank in MENA' countries

countries	Conventional banks	Islamic banks	Total
Bahrain	11	14	25
Egypt	23	2	25
Jordan	11	2	13
Kuwait	6	7	13
Qatar	6	3	9
Saoudi Arabia	9	3	12
Sudan	11	7	18
Tunisia	14	1	15
Turkey	19	4	23
United Arab Emirates (UAE)	17	6	23
Yemen	5	3	8
Total	132	52	184

"An important aspect to consider when evaluating efficiency is competition. All things being equal, a more competitive market generally means greater efficiency "(Allen and Engert 2006). In this section we present the results of a comparative study of the state of competition between 132 CB and 52 NCB in the MENA region. To conduct our study we will proceed in two steps, (1) we will conduct an analysis based on the evolution of the index of CRK concentration and Hirfindahl Hirshman Index (HHI), and (2) we'll try to validate the econometric model Panzar and Rosse (1987).

a) Measured by concentration indices

Traditional measures of concentration include CRK concentration ratios and Herfindahl-Hirschman IHH.

i. *The CR3 concentration' index*

CRk The index takes into account the market share of K first banks in the sector. Generally, studies take a value of k equal to 3 or 5. In our sample, some countries don't have more than three NCB, therefore, we will choose K = 3.

The concentration ratio CR3 consider the relative market share of the three largest banks. This share is approached to the case of banks according to their share of the assets and deposits and Net Loans.

The table below shows the evolution of the CR3 index in terms of total assets, total loans and total deposits during the period from 2005 to 2011 BC (Conventional Bank) and BNC (Non Conventional Bank) for the MENA region. It allows us to identify three main findings.

First, the BC market structure is not characterized by intense competition. In fact, between 2005 and 2011, the value of the CR3 index is quite high. It varies between 0.36 and 0.49 and it doesn't mark a significant downward trend. Considering the "total assets" criterion and "Total loans", the highest values are recorded in 2006. During this year's three overly banks (the largest) account for over 49% of allocations and capitalize more than 44% of total assets.

Second, NCB market structure isn't characterized by an intense competition. The three largest banks have over 33% of assets and provide more than 32% of loans. The market trend is for greater concentration. It peaked in 2011 considering the criterion "Total deposits".

Third, despite the trends of similar concentration, we note that the NCB market structure is more competitive than CB. This leads us to ask, if the difference in concentration of the BC market and BNC leads to efficiency difference.

Table 3 : Evolution of CR3 for BIC and NCB between 2005 and 2011

B.C	CR3 (BC)			CR3 (BNC)		
	Asset	Loans_Net	Deposits	Asset	Loans_Net	Deposits
2005	0.3941	0.4191	0.3978	0.3439	0.3261	0.3574
2006	0.4450	0.4906	0.4137	0.3494	0.3634	0.3819
2007	0.4229	0.4502	0.4219	0.3324	0.3548	0.3817
2008	0.4112	0.4363	0.4266	0.3453	0.3529	0.3839
2009	0.3892	0.4181	0.3824	0.3679	0.3655	0.3655
2010	0.4184	0.4486	0.3669	0.3639	0.3287	0.4194
2011	0.4215	0.4527	0.4015	0.3635	0.3325	0.4204

Countries of the MENA region don't have the same structures of banking markets. The table above shows the evolution of the CR3 index for each country throughout the period 2005-2011.

The CR3 index certainly allows to observe and to compare the state of the competition, but its use is followed by the fact that it does not account for all banks. The CR3 index can, indeed, hide a false competition or concentration. Thus, we continue our analysis by characterizing the state of competition in the banking market by HHI. We also allow the analysis of the state of competition in the country using section as the HHI is more complete and to avoid duplication of results.

ii. *The HHI concentration index*

In the following section, and based on the HHI index, we will analyse the state of competition that characterizes the market for BC and BNC. This index is used in several studies to analyse competition in the financial sector, particularly the banking sector in different countries. This in my study we include in particular the study of Nathan and Neave (1989) about the Canadian financial system, the study of Molyneux, Altunbas and Gardener (1996) relating to the Japanese banking sector during 1986-1988, the study of Rime (1999) of the Swiss banking system and finally that of Ben Ali. M.S and SGHAIER.A (2012) about the Tunisian banking system.

Our analysis with the HHI index has two parts. In the first we will meet the general trends in the entire region. In the second part, we will try to describe the state of competition in the MENA countries separately.

iii. *The state of the banking competition for MENA*

The HHI is calculated by summing the squares of the market shares of all banks. To improve this calculation banks must first be sorted in descending order of sales. In our application on the banking sector we will calculate the HHI by approaching the size of banks by three indicators: total assets (Asset), total deposits (Deposits) and total loans (Loans_Net). The following table indicates the evolution of the HHI 2005-2011 period for BC and BNC.

Table 4 : Evolution of indices IHH and n * for BC and NBC between 2005 and 2011

Années		BC			BNC		
		Asset	Loans_Net	Deposits	Asset	Loans_Net	Deposits
2005	IHH	0.217	0.2232	0.2133	0.4663	0.5276	0.5168
	n*	5	4	5	2	2	2
2006	IHH	0.2259	0.2461	0.2076	0.577	0.5996	0.6441
	n*	4	4	5	2	2	2
2007	IHH	0.2184	0.2367	0.2058	0.477	0.5314	0.5394
	n*	5	4	5	2	2	2
2008	IHH	0.214	0.2329	0.2058	0.4864	0.5307	0.543
	n*	5	4	5	2	2	2
2009	IHH	0.2661	0.2901	0.2957	0.4787	0.4998	0.5514
	n*	4	3	3	2	2	2
2010	IHH	0.2417	0.2641	0.2452	0.4806	0.4994	0.5767
	n*	4	4	4	2	2	2
2011	IHH	0.23	0.2517	0.2176	0.4811	0.4953	0.5753
	n*	4	4	5	2	2	2

The analysis of the above table allows us to address three key findings about the market structure of BC and BNC. First, among the 132 BC retained in our analysis, 3-5 banks dominate the market and lead the competition. Whatever the size of endpoint, the indicated trend is almost the same and shows a fairly stable market concentration between 2005 and 2001. In 2009, the market is in the closest state of the oligopoly. Indeed, only three banks account for the largest share of the votes and the largest share of deposits.

Second, among the 52 NCB included in our analysis, only two banks dominate the market throughout the period 2005-2011. This state of the concentration is indicated by the size of three evaluation criteria. Third, we note that the index and the CR3 HHI give conflicting results. The CR3 index indicates a false competition in the market and BNC false trend of concentration for the BC market for 2006. Given that the HHI is more comprehensive than the CR3 index, we will remember trends identified by the HHI.

The state of the banking competition for MENA

The structure of the banking market is not the same in all the countries of the MENA region. Thus, we share further our analysis by considering IHH each country separately and as shown in the table below. We found in our calculations that the size indicator "Total assets", "Total deposit" and "Total credit" all show the same trends. Thus, we will limit our interpretation that the evolution of the HHI index calculated on the basis of "total assets" for BC and BNC.

We note that the trends in competitive intensity was almost stable for most countries marking sometimes small changes they can be explained by the fusion acquisition movements knows that the banking market countries.

Indeed, in the case of Jordan and Qatar, it should be noted that they have the BC market most concentrated in the MENA region. Tunisia (9 banks out of 14), Saudi Arabia (7 banks of 9) and the United Arab Emirates (9 out of 17 banks) have the most competitive conventional banking market.

considering the case of Tunisia, in 2005, competition in the banking sector is not achernée and is led by nine commercial banks of similar size among the 14 commercial banks used in our sample. This result is similar to A.SGHAIER (2010). Indeed, "Since 1985, Tunisia, like many developing countries, introduced a structural adjustment program (SAP) for the restructuring and the total liberalization of all economic sectors of the country, including the banking system. This liberalization was seen by economic and monetary authorities, above all, as a strategic choice dictated by the need to step up investment, diversify the economy in view of the comparative advantages of the country, but especially to increase the efficiency of the banking sector, creating a more competitive environment among financial institutions and strengthening the capital base of banks. The axes of this strategy, initiated in 1987 and strengthened especially towards the 90s, focused on the removal of credit controls, liberalization of the banking business, the revision of the refinancing policy and strengthening the efficiency. Following these reforms, the situation has improved dice 2006 and remained the same until 2011. In fact, these reforms have been introduced mainly by the Tunisian monetary authorities to liberalize the banking system and to promote banking competition.

Table 5 : Evolution of IHH and No. BC market by country for 2005-2011

coutries	index	2005	2006	2007	2008	2009	2010	2011
Bahreïn	IHH	0.2322	0.217	0.2114	0.2018	0.2303	0.2349	0.2183
	n*	4	5	5	5	4	4	5
Egypte	IHH	0.1619	0.1475	0.1326	0.1418	0.1949	0.1722	0.178
	n*	6	7	8	7	5	6	6
Jordanie	IHH	0.3132	0.3128	0.3147	0.3254	0.3849	0.3614	0.3539
	n*	3	3	3	3	3	3	3
Kuwait	IHH	0.2408	0.2497	0.2658	0.2693	0.2379	0.224	0.2321
	n*	4	4	4	4	4	4	4
Qatar	IHH	0.3374	0.3383	0.3456	0.3332	0.3588	0.4011	0.3755
	n*	3	3	3	3	3	2	3
Saudi arabia	IHH	0.1422	0.14	0.1445	0.1384	0.1457	0.1491	0.1462
	n*	7	7	7	7	7	7	7
Sudan	IHH	0.2902	0.4546	0.3557	0.3094	0.3425	0.3499	0.337
	n*	3	2	3	3	3	3	3
Tunisia	IHH	0.1098	0.1096	0.1098	0.1096	0.3956	0.1319	0.123
	n*	9	9	9	9	3	8	8
Turkey	IHH	0.1842	0.1783	0.1722	0.1651	0.1708	0.1691	0.1682
n*	5	6	6	6	6	6	6	
IHH	0.1171	0.1088	0.1256	0.1229	0.22	0.2338	0.162	
n*	9	9	8	8	5	4	6	

IHH	0.2584	0.2282	0.2247	0.2371	0.2459	0.2318	0.2359
n*	4	4	4	4	4	4	4
	58	59	59	60	46	51	54

Regarding non-conventional banks analysing the chart below shows that the HHI index records for most countries rather large values. This shows that the NCB market is fairly concentrated and particularly in Tunisia, Jordan, Egypt and Saudi Arabia. The lowest values indicating a competitive market are raised for Bahrain, Sudan and the United Arab Emirates. In addition, we find that for most countries the value of the HHI is not stable. This could be explained by the fact that the BNC market has not yet reached a stage of maturity.

In the MENA region, the number of NCB influencing the market recorded a significant increase in 2006 and from 32 to 36. This number has decreased slightly from 2007 and remains almost unchanged up at the end of the period of our study. We note the same observation HHI calculated in terms of total credit. Indeed, in 2006 there was 34 of 52 dominant BNC and this number has been declining ever since the end of the period (2005-2011) to move to NCB 27 that have the same size and that engage in competition in terms of lending (as Murabaha, Musharaka ...).

Table 6 : Evolution of IHH BNC market by country for 2005-2011

Pays		2005	2006	2007	2008	2009	2010	2011
Bahrain	IHH	0.2409	0.227	0.2055	0.178	0.1475	0.2033	0.1908
	n*	4	4	5	6	7	5	5
Egypt	IHH	0.6129	0.6001	0.588	0.5765	0.6025	0.609	0.609
	n*	2	2	2	2	2	2	2
Jordan	IHH	0.6506	0.5949	0.6049	0.6576	0.5628	0.5628	0.5628
	n*	2	2	2	2	2	2	2
Kuwait	IHH	0.4294	0.4895	0.518	0.6084	0.4169	0.444	0.4628
	n*	2	2	2	2	2	2	2
Qatar	IHH	0.478	0.4895	0.5123	0.5399	0.5512	0.5078	0.5078
	n*	2	2	2	2	2	2	2
Saudi arabia	IHH	0.5984	0.5565	0.5515	0.5814	0.7721	0.7522	0.7522
	n*	2	2	2	2	1	1	1
Sudan	IHH	0.1474	0.1593	0.1618	0.1726	0.1932	0.1932	0.1932
	n*	7	6	6	6	5	5	5
Tunisia	IHH	1	1	1	1	1	1	1
	n*	1	1	1	1	1	1	1
Turkey	IHH	0.3042	0.2616	0.2633	0.2602	0.2615	0.2615	0.261
	n*	3	4	4	4	4	4	4
United arab emirates	IHH	0.1667	0.1088	0.3171	0.2638	0.2515	0.2467	0.2467
	n*	6	9	3	4	4	4	4
Yemen	IHH	0.5006	0.5258	0.5246	0.5122	0.5062	0.5062	0.5062
	n*	2	2	2	2	2	2	2
Total des n*		32	36	30	30	32	30	30

After calculating the concentration ratios in the period 2005-2011, we will now estimate the Panzar and Rosse H-statistic (1987) for the CB and NCB during the same period, according to a data panel.

IV. Analysis by Modeling Panzar & Rosse

In the analysis by the model of Panzar & Rosse, one can refer to the work of De Bandt and Davis (2000), where the estimated revenue function takes the following form (According to the work of Nathan and Neave (1989) Casu and Girardone (2006), Molyneux, Thornton, Lloyd-Williams (1996), Gelos and Roldós (2004) and Claessens and Laeven (2004) :

$$\boldsymbol{Ln\ (TR_{it}) = \alpha + \sum_{j=1}^{3} \beta_j Ln\ (W^j_{it}) + \sum_{k=1}^{2} Ln(Y^j_{it}) + \varepsilon_{it}}$$

$$\boldsymbol{Ln\ (TR_{it}) = \lambda_0 + \lambda_1 LnY_{1,it} + \lambda_2 LnY_{2,it} + \beta_1 LnW_{1,it} + \beta_2 LnW_{2,it} + \beta_3 Ln\ W_{3,it} + \varepsilon_{it}}$$

Based on the methodology of Panzar and Rosse (1982, 1987) and following the empirical strategy pursued by classes and Laeven (2004), we obtain the H-statistic by the following estimating equation (Gelos &

Roldos, 2004; Claessens & Laeven, 2004; Schaeck et al, 2009; Jimenez et al, 2007; Berger, Klapper and Turk Ariss, 2009, and Turk Ariss, 2010):

$$Ln\ (ROA_{it}) = \lambda_0 + \lambda_1 LnY_{1,it} + \lambda_2 LnY_{2,it} + \beta_1 LnW_{1,it} + \beta_2 LnW_{2,it} + \beta_3 Ln\ W_{3,it} + D_{\ it} + \varepsilon_{it}$$

Where ROA is the pre-tax return on assets, and since the ROA ratio can take negative values, we, therefore, calculate the dependent variable ln (1+ ROA). According Claessens and Laeven (2004), "the measure of ROA included in the above equation is equal to ln (1 + ROA) and thus adjusted for small negative values because of bank losses in any given year.

The H statistic is equal to β1 + β2 + β3, the sum of the inputs of price elasticity's of the total income. These statistics measure the sensitivity of bank earnings compared to the prices of inputs. A less than or equal to 0 H-statistic is interpreted as a sign of monopoly; by constante if the H statistic is equal to 1, this indicates a situation of perfect competition, and if the H value is between 0 and 1 the sector is monopolistic competition (Shaffer (2004 a, b)).

Maudos and Perez (2005, 2007) and Berger, Klapper and Turk-Ariss (2008) estimated the "total assets" output according to production approach which is calculated as the total income of banks on assets, d where the Translog cost function is:

$$\begin{aligned} Ln\ (C_{it}) = {} & a_0 + b_0 ln(Q_{it}) + b_1 0.5[ln(Q_{it})]^2 + a_1 ln(W_{1it}) + a_2 ln(W_{2it}) + a_3 ln(W_{3it}) + b_2 0.5\ ln(Q_{it}) * ln(W_{1it}) \\ & + b_3 0.5\ ln(Q_{it}) * ln(W_{2it}) + b_4 0.5\ ln(Q_{it}) * ln(W_{3it}) + a_4 ln(W_{1it}) * ln(W_{2it}) + a_5 ln(W_{1it}) \\ & * ln(W_{3it}) + a_6 ln(W_{2it}) * ln(W_{3it}) + a_7 0.5\ [ln(W_{1it})]^2 + a_8 0.5\ [ln(W_{2it})]^2 + a_9 0.5\ [ln(W_{3it})]^2 \\ & + \delta D + \mu_{it} \end{aligned}$$

We will follow the study of Gelos and Roldós (2002) in the estimate of the revenue function. The application of the model will be distributed in two stages: first, we will check the validity of the competitive balance in our sample. Second, we will assess the value of the index H.

Although there is a vast literature that uses non-structural measures to assess the competition in many developed countries and some developing countries, "throughout our research we found" only three papers that lead this type of analysis MENA. These three studies calculated the H-statistic as a measure of the competition.

Murjan and Ruza (2002) study the degree of competition during the period 1993-1997 in nine banks in the MENA region (Bahrain, Egypt, Jordan, Kuwait, Oman, Qatar, Saudi Arabia, Tunisia, and United Arab Emirates) they find that the banking sectors in the MENA operate in monopolistic competition.

Analysis of Al-Muharram et al. (2006) on banking competition in the Gulf countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) during 1993 to 2002, concluded that the banking sectors in these countries operate in monopolistic competition. Another more recent article, Turk Ariss (2010), analyzes the competition in 12 countries in the MENA region (Algeria, Bahrain, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, Turkey and UAE) during the period from 2000 to 2006. Consistent with previous research, Turk-Ariss notes that most of the banking sectors in the MENA region operate in monopolistic competition. In addition, their work found that indicators of market contestability and activity restrictions are important factors to determine the degree of competition between the countries of the region. Referring to previous studies and the study of Molyneux et al (1994), we must estimate our model for our entire sample and for both types of banks. Our estimate of the model, taking into account the two problems (hétérosédasticité and autocorrelation) gives us the following results:

Table 7 : Descriptive Statistics of the Panzar and Rosse model

Variable	Obs	Mean	Std. Dev.	Min	Max
w1	1288	1.731296	26.65433	-3.492754	888.8889
w2	1288	0.6036735	0.6606814	0	7.540467
w3	1288	0.0813828	0.7340037	-0.140088	13.40604
y1	1288	0.1924635	0.1880487	-0.125674	2.87398
y2	1288	0.5136035	0.3507693	-0.05805	5.786367
ROA	1288	0.0221594	0.0485944	-0.3007	0.5309

Table 8 : Correlation Matrix Model Panzar and Rosse

Variable	w1	w2	w3	y1	y2	ROA
w1	1.0000					
w2	0.0002	1.0000				
w3	0.1653*	-0.0154	1.0000			
y1	0.0285	-0.0446	0.0079	1.0000		
y2	-0.0243	0.3404*	0.0162	-0.2047*	1.0000	
ROA	-0.0328	-0.3098*	0.0109	0.2688*	0.1207*	1.0000

In the previous section, concentration ratios indicate that some Islamic institutions dominate the banking markets, the HHI index in the section above, also shows that the concentration on the Islamic world market is higher than for banks classics. The table (N°8) shows the evolution of the Herfindahl-Hirshman that the concentration is higher for Islamic banks than conventional banks, and all the HHI measures are almost twice as large.

To have a better clearer understanding of the conditions of competition between the two banking sectors, one should refer to RA H-Statistical which confirm the results.

According to the preceding table (the correlation matrix) although we can see there is a significant correlation between W3 and W1 ie between the price of financial capital and labour prices (measured in personnel costs related to the size of the bank i). As against the profitability ratio ROA was significantly correlated with almost all variables except the W3 and W1.

The following table shows the H-statistic for the countries of the MENA region during the period 2005-2011. In addition, the table shows our model of variable values for testing: if H is 0 so the market can be considered as a monopoly and if H is 1 so the market operates in pure competition perfectly.

Referring to Panzar and Ross model (H = 0.0116567) H (0.1), banks in our sample are monopolistic. Therefore, any increase in costs of inputs induced a disproportionately low increase in revenues. "In such a market structure, each firm seeks to differentiate its products from competitors' products, by make its unique product to escape the homogeneity and thus obtain a separate application from other competing products. In addition, several economic analyses and empirical research agree that a liberal and competitive economy type supports the efficient use of production factors, lower costs, diversification of risk, the growth of the national product and the emergence of creativity. This performance contrasts with that of command economy, cartelized or compartments. A market dominated by cartels or monopolies hinders productivity growth and growth of the national product. In addition, cartels or monopolies impede the implementation of macroeconomic policies. " (L.Daly 2006).

Table 9 : Estimated balance settings

lroa	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
lw1	0.0025342	0.0008208	3.09	0.002	0.0009235	0.004145
lw2	-0.0181163	0.0028697	-6.31	0.000	-0.0237475	-0.012485
lw3	0.0039254	0.0012393	3.17	0.002	0.0014935	0.0063573
ly1	0.0290414	0.0036047	8.06	0.000	0.0219678	0.0361149
ly2	0.0087969	0.0019446	4.52	0.000	0.0049809	0.0126128
cons	0.0982227	0.0085244	11.52	0.000	0.0814951	0.1149502
sigma_u	0.0210638					
sigma_e	0.03030193					
rho	0.32578499 (fraction of variance due to u_i)					
F test that all u_i=0:	F(180, 1009) = 2.11		Prob > F = 0.0000			

Table 10 : Total sample model estimation:

Estimated covariance's =	178	Number of obs =	1192
Estimated autocorrelations =	178	Number of groups =	178
Estimated coefficients =	6	Obs per group: min =	2
		avg =	6.696629
		max =	7
		Wald chi2(5) =	2027.60
		Prob > chi2 =	0.0000

lroa	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
lw1	0.0013442	0.000184	7.30	0.000	0.0009835	0.0017049
lw2	-0.0179604	0.0006173	-29.10	0.000	-0.0191702	-0.0167506
lw3	0.0050972	0.000288	17.70	0.000	0.0045327	0.0056618
ly1	0.015311	0.0006657	23.00	0.000	0.0140062	0.0166158
ly2	0.0017704	0.0005293	3.34	0.001	0.000733	0.0028078
cons	0.065578	0.0018515	35.42	0.000	0.061949	0.0692069

From this table, it appears a balance index E = 0.011519 nonzero, the banking system is therefore not studied in long-term equilibrium (we are in the situation where 0 <H <1). The H-statistics calculated are consistent with those reported by previous studies and suggest that monopolistic competition best describes the market structure in Islamic and conventional banking sectors worldwide.

The model results using ROA as the dependent variable indicate that the observations are in long-term equilibrium. These results could provide more clarity on the degree of competition. They show that the estimates of Islamic banks are more significant than their conventional counterparts, suggesting a high degree of Islamic financial market power.

To explain the differences in the levels of profitability between Islamic and conventional banks, we combined the two samples enveloping 1288 observations, and then we made multivariate regressions in the last equation, and finally present the results (following tables).

ROA ratio was used as a dependent variable, and then to determine the method of parameter estimation and after estimating the Hausman test (to get an idea about the behavior of random variables and the study of the structure variances and covariances of the errors), which confirmed that this is a fixed effects model (hypothesis H1 is accepted: fixed effect model [Prob> chi2 = 0.0001] there is no type coefficients estimated by fixed effects and those estimated by random effects), so the fixed effects were used. Second step we tested the existence of a problem of heteroscedasticity and / or correlation errors. After the Wald test was confirmed the existence of a problem heteroscedasticity, over the autocorrelation test errors gave us the following result:

F(1, 173) = 4.759	
Prob > F = 0.0305	

from the table below, we see that F = 0.0305 is significantly different from zero, the financial factor positively affects the total income of the bank, while the coefficient on the size (W2) is significant at 10% and a negative effect on income. This leads us to conclude that the errors are serially correlated between them. This encouraged us to estimate our model taking into account the two problems (heteroscedasticity and autocorrelation).

In the second stage, and to clarify the extent of our sub samples (Islamic banks and conventional banks), a dummy variable was induced in the previous model (As did R.Turk Ariss, 2010 and L.Weill 2010) and we get a random effects model because of the existence of the Dummy taking into account the two preceding problems (heteroscedasticity and autocorrelation).

One notices a linear relationship between competition and bank profitability. The results indicate that the coefficient estimated for all variables are positive, and that the relationship between the profitability of the bank and the labor price is negative.

Table11: Estimated taking into account the presence of a dummy variable (random effects model because of the existence of Dummy):

Estimated covariance's	= 178	Number of obs	= 1192
Estimated autocorrelations	= 178	Number of groups	= 178
Estimated coefficients	= 7	Obs per group: min =	2
	avg = 6.696629		
	max = 7		
	Wald chi2(6) = 2718.41		
	Prob > chi2 = 0.0000		

lroa	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
lw1	0 .0011243	0.0001901	5.92	0.000	0.0007518	0.0014968
lw2	-0.0188861	0.0006492	-29.09	0.000	-0.0201584	-0.0176137
lw3	0.0051093	0.000291	17.56	0.000	0.0045389	0.0056796
ly1	0.0154736	0.0006106	25.34	0.000	0.0142769	0.0166702
ly2	0.0028496	0.0004937	5.77	0.000	0.001882	0.0038172
dummy	0.0048856	0.0009114	5.36	0.000	0.0030994	0.0066719
cons	0.0645519	0.0018163	35.54	0.000	0.0609921	0.0681117

Given our study period (2005-2011), we are able to reject the null hypothesis that the banking sector is best characterized by a monopoly (H = 0). Also, we are able to reject the hypothesis of perfect competition in all countries.

The significance of the parameter PR - statistique H indicates a low degree of association between the two measures of competition and bank profitability, and that bank yields increase with increasing degree of market power.

The meaning of the parameters is maintained during the measurement of the bank performance. This has an impact on the general concept of the higher degree of market power. Thus, the strategies used to enter new market sectors where the level of competition is low, are likely to be rewarding for banks. However, this finding does not provide sufficient grounds to conclude that Islamic banks are more profitable than conventional banks. Although the coefficient on the dummy variable (or dummy) Islamic is positive in our model, it is more significant at 1%, the regression results do not provide evidence that Islamic banks can usually achieve a higher level profitability compared to their commercial counterparts. As a robustness test, an interaction term was added in all regressions, ie the Dummy variables and each provides measures of competition.

V. Conclusion

Our conclusion is almost identical with the results of the empirical literature: Islamic banks are more cost effective compared to conventional (Samad, 1999; Samad & Hassan, 1999; Iqbal, 2001; Hassoun, 2002).

Finally, the parameter estimates of the size of banks and market shares are significantly positive when considering the ROA as the dependent variable. The size of banks and market shares appear to be a significant determinant of bank profitability.

Diego Anzoategui, Maria Soledad Martinez Peria and Roberto Rocha (2010) in their article "Bank Competition in the Middle East and Northern Africa Region" concluded that, "Comparing the MENA region to other regions, we find that the H-statistic for MENA is much lower than that of the countries of Eastern Europe, the former Soviet Union, Latin America and South Asia in the most recent period (2002 2008), and the study period of 1994-2008. On the other hand, we find no difference in the H statistic for the MENA region, East Asia and sub-Saharan Africa, the two regions with the lowest level of competition in the banking sector by H Statistics.

In this part, we compared the market power of Islamic and conventional banks by concentration indices such as HHI and CR3 for a large sample of countries and banks where the two types of banks coexist. The studies do confirm that market power is more important for Islamic banks, this proven by the strong inelastic demand of these institutions.

Our results clearly reject this hypothesis. A comparison of the concentration indices showed no significant difference in market power between Islamic and conventional banks. In addition, the regression of market power indices even suggests a lower market power for Islamic banks.

We explain the lower market power of Islamic banks by their different religious and economic incentives. Islamic banks are expected to adhere to Islamic norms of behavior, such as the obligation to charge fair prices and sharing of loss and profit. Compliance with this rule could limit their ability to charge high prices. In addition, Islamic banks have an incentive to charge lower borrowing rates than conventional banks and a higher risk of moral hazard behavior of borrowers.

Thus, our results do not support the concerns of adverse effects resulting from the expansion of Islamic banks in terms of market power. Nevertheless, the results of this study should be taken with caution. Further work could help confirm or refute these findings and clarify our interpretations (L.WEILL 2010).

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Comparative Analysis on the Economic Impacts of Client's and Member based Microfinance Institutions in Ethiopia

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Abstract- Several evidences in the developing world argued that access to finance can help to substantially reduce poverty. Contrarily, proponents criticized that MC does not reach the poorest of the poor or that the poorest are deliberately excluded from the MC programs. Despite the apparent success and popularity of microfinance, no clear evidence yet exists that microfinance programs have positive impacts on the life of the poor. The main aim of this study is therefore, to assess the relative economic contributions made through the CBMFIs and SACCOs. The study applied DID approaches comprising of the FE and RE models and the t test statistics taken part from analysis of varying cross-sectional and panel data collected through Questionnaires and structured interview. To fulfill the stated research objectives, the researcher considered the income levels of individuals, of households and of businesses, as well as savings levels, expenditure, and asset accumulation as outcome indicators.

Keywords: competition, achievement, IHH, CRK, islamic banking, risk management.

GJMBR - C Classification : JELCode : G21, D21

COMPARATIVEANALYSISONTHEECONOMICIMPACTSOFCLIENTSANDMEMBERBASEDMICROFINANCEINSTITUTIONSINETHIOPIA

Strictly as per the compliance and regulations of:

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Abstract- Several evidences in the developing world argued that access to finance can help to substantially reduce poverty. Contrarily, proponents criticized that MC does not reach the poorest of the poor or that the poorest are deliberately excluded from the MC programs. Despite the apparent success and popularity of microfinance, no clear evidence yet exists that microfinance programs have positive impacts on the life of the poor. The main aim of this study is therefore, to assess the relative economic contributions made through the CBMFIs and SACCOs. The study applied DID approaches comprising of the FE and RE models and the t test statistics taken part from analysis of varying cross-sectional and panel data collected through Questionnaires and structured interview. To fulfill the stated research objectives, the researcher considered the income levels of individuals, of households and of businesses, as well as savings levels, expenditure, and asset accumulation as outcome indicators.

MC services were found to have positive and significant impact on the living standard of the poor and alleviating poverty in their household. Apparently, the SD estimates indicate that both MC modalities have brought substantial impact on the average monthly households income and expenditure, savings and assets level, business profits and working capital. Accordingly, each birr MC grant could generate 92.24 and 54.17 birr extra household assets for the client and member beneficiaries respectively. The log specifications reveal 3.3 and 1.3 percent growth respectively. The household monthly income and expenditure grows on average by 116 and 70 birr respectively. The result was slightly lower for the SACCO members. For instance, the average monthly household assets, income and expenditure growth contributed by the CBMFI reveal 40 birr, 120 birr and 48 birr higher than the SACCOs contributions respectively. In general, the DID estimates reveal a general tendency for higher economic contributions made through the CBMFIs. They have shown better outreach performance and were able to realize far-reaching benefits for its clients.

Keywords: household income, the daily per capital expenditure, microcredit, outreach and savings.

I. Introduction

The level of poverty in Ethiopia is both deep and widespread. According to the HDI report, more than 80 percent of the populations are living below the poverty line i.e. $1 a day (UNDP 2005), though the $1 poverty threshold is much larger than the amount of expenditure needed to purchase the absolute minimum basket in Ethiopia. Recent national estimates suggest that about 31million people live below the local poverty line, which is equivalent to US 45 cents or 3 Birr a day per person (MoFED, 2005).Although the level of poverty is higher in rural parts of the country; it also remains a serious problem in urban areas.

Several studies noted different causes for poverty in a country. Some argued that the cause of poverty in developing economies like Ethiopia among other things is that the poor does not have access to credit for the purpose of working capital as well as investment for its small business (Jean-Luc 2006). Since then, the formal establishment of MCIs for poverty reduction has gone more than a decade; yet the provision of informal financial services existed long before. Until recently, the role of MFIs has become widely conclusive not only for the Ethiopia's economy but also for the rest of the developing world. It appears that Microfinance services directly contribute to the betterment of standard of living and poverty alleviation by encouraging people, especially women to develop their own entrepreneurial ability, diversify and increase income sources and become more resilient to external shocks.

Bearing the aforementioned critical roles in to consideration, Microfinance sector have been rapidly growing in Ethiopia. In its effort to fight against urban and rural poverty, the government of Ethiopia has well recognized microcredit services as one of the major poverty reduction strategies and set a legal framework for establishment and operation of MCI to provide financial services to micro and small enterprises and poor rural and urban households (NBE 2005).

The interventions through the delivery of Microcredit1 service have been considered as one of the policy instruments by the current government and NGOs to enable poor increase output and productivity, induce technology adoption, improve input supply,

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[1]'Microfinance' can be interchangeably used as 'Microcredit' in this study paper for the reason that microfinance services and products are far less developed than the provision of microcredit in the study area.

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increase income, and alleviate poverty. The establishment of sustainable MCIs that reach a large number of poor who are not served by the conventional financial institutions has been the component of the new development strategy of the country. Financial services provided by the government banks and NGOs were not effective enough to bring impact on the life of the poor. The failure of the formal banks to provide banking facilities, on the one hand, and unsustainability of the NGO's credit scheme on the other hand, led the government to issue out a legal framework for the establishment of and operation of MCIs.

Though plenty scholars and researchers widely proclaimed that microcredit enhances pro poor growth and poverty reduction. The extent to which microfinance products and services directly impacts the poor (poverty alleviation, women empowerment, and eradication of unemployment) and the means through which this impact occurs have not yet been adequately researched. Jamal, (2008) reported that several theoretical presumptions and slanted justifications are made without adequate empirical data and precise evidence. Besides, Hermes and Lensilk, (2007) reported that most studies on the outreach and in-depth of microfinance services suffer from being subjective and case study driven. Hence, this study attempts to throw its own contribution towards filling the fore stated gap through thoughtful and thorough empirically investigation on the comparative economic analysis of the two alternative forms of MFIs.

II. Problem Justification

Microfinance2 is the provision of wide ranging financial products and services including loans, deposits, payment services, transfers payment and insurance. They are ultimately meant for extending markets, reducing poverty, empowering the poor and fostering social change (ADB, 2008). Microfinance institutions are classical instruments to serve the poorest of the poor in the developing countries like Ethiopia. They are considered as the fundamental weapons for poverty reduction and sustainable economic growth (Karlan & Zinman, 2009). Their ultimate goal is to expand the provision of credit to the poor who do not have access to credit and promote the growth of small scale enterprises so as to improve the wellbeing of the poor by empowering to be self-enterprise owner. They provide wider range of financial and non-financial services including savings, borrowings, deposit, and training on how to manage finance, record business transactions and deal with health provision. Now a day the latter services have been widely expanded and become very fundamental component of the microfinance sector.

Recently, there are numerous counter arguments and evidences produced on the impact of microfinance institutions. According to the MFI advocators (Littlefield et al. 2003; Dun ford 2006 and others) the ultimate aim of microfinance institutions is to fight against poverty and ensure long lasting increase in income of the poor by means of getting own income generating activities and business investments.

Micro credit enhances livelihoods diversification and accumulation of assets out of the profits earned through small scale investments, which are the fundamental guarantee against the vulnerable conditions of the poor and contribute to a better education, health and housing of the borrower (Hermes & Lensink, 2007). Besides, proponents also argue that microfinance is a tool for empowering women by means of addressing their dual folds social and economic problems. According to Pitt and Hacker (1998), women constitute very crucial role in reducing poverty with in households as they invest substantial part of their income for health and education of their children. In this connection, it is highly stressed that MFIs are key for the development of microenterprise operated by the poor as they allow them to become producer of marketable goods and earn a compensating profit out.

MFI advocators have proclaimed that microcredit is positively contributing to poverty reduction in Ethiopia. Despite the many positive findings that are reported in some feasibility and impact studies, many studies also reported the impact of MC programs being insignificant. Some even failed to find out the direct link between MC and poverty reduction. They proclaimed that the services are not reaching the core poor3 (Scully, 2004) as they are believed to be too risky (Hulme and Mosley, 1996), or the poorest are implicitly excluded from microfinance scheme (Simanowit, 2002), often marginalized by other group members because they are seen as a bad credit risk (Hulme and Mosley, 1996), the procedures and formalities required to grant the loan, for instance, saving requirement, stimulate exclusion of the core poor (Mosley, 2001) and hence the core poor value the loans to be too risky (Ciravgna, 2005) and vanish out.

According to Munir (2012), one of the main reason is that MFIs charge exorbitant interest rates thereby gain strong momentum to grow quickly and attract large international donors and hence, the loan is granted irrespective of the due socio economic return

[2] There are several definitions of microfinance. The one adopted for the purpose of this study is the CGAP definition gives as follows: 'Microfinance is the supply of loans, savings, and other basic financial services to the poor, those who do not have access in to the formal banking service.

[3] According to Hermes & Lensink, (2007), the core poor refer to 'the poorest of the poor'. According to the contemporary economic thought, it might also refer as 'pro poor'.

and costs a lot to the poor. At the outset, several evidences have shown that the extent to which microfinance services reaches the core poor in the two differing modalities substantially vary. However, there is no detailed and systematic study to explore the impact of alternative forms of microfinance services in Ethiopia. Thus, the study intends to achieve the following objectives.

a) Objectives

i. General Objectives

The overall aim of this study is to thoroughly investigate the economic impacts of the client's and member based microfinance institutions.

ii. Specific Objectives

1. To estimate the relative economic outcomes achieved through the clients and member based microfinance services to generate household income, accumulate assets, and meet the basic needs for its beneficiaries.
2. To assess the role of micro financing to empower the poor by means of expanding investment opportunities and maximizing business outcomes.
3. To analyze the overall effectiveness of micro-financing interims of outreach efficiency, organizational structure, governance, and institutional pitfalls.

b) Research Questions

- To what extent does microfinance contribute to generate income, accumulate assets, and thereby enable its beneficiaries to meet their basic needs?
- Does microfinance service would empower the poor by means of expanding investment opportunities and maximizing the business outcomes?
- What looks like the outreach efficiency, structural, governance, and institutional characteristics of the MFIs?

III. Review of Relevant Literatures

a) What is Microfinance?

Microfinance is a term used to describe financial services for those without access to traditional formal banking services. It incorporates the provision of loans, often at interest rates of 25% or more, to individuals, groups and small businesses – i.e. micro-credit. In other words, it is the process of lending small amount of money without collateral to help poor people to become entrepreneurs (Gebrehiwot2001 & Bamlaku 2004). In addition to this, it provides small scale financial services to the rural and urban poor people for self-employment and small business (Shete 1999). More recently, it has also been extended to include the provision of savings accounts, micro-savings as well as insurance and money transfer services.

Microcredit has evolved over the years and does not only provide credit to the poor, but also now spans a myriad of other services including savings, insurance, remittances and non-financial services such as financial literacy training and skills development programs; the now a day's microcredit is referred to as microfinance (Armendáriz and Morduch 2005).

b) Approaches to Microcredit Lending

There are two major approaches on MC lending: the financial system approach and the poverty lending approach (Gulli 1998).

c) The Financial System Approach

The financial system approach emphasizes large scale outreach to the borrowers– both borrowers who can repay microloans from household and enterprise income streams, and to savers. It focuses on institutional self-sufficiency and financial sustainability as a pre-condition for greater outreach and implies transition to for-profit mode. Proponents of this school argue that there is no justification for subsidies as future outreach critically hinges upon achieving financial sustainability of the MCIs (Robinson, 2001). Accordingly, the overall goals of MC are to provide sustainable financial services to low income people. But it does not necessarily mean to target the poorest. Furthermore, MC should proliferate in the context of competition because competition will insure high- quality and low-cost services. Thus, for them, the impact evaluation of MCIs should focus on financial indicators and efficiency.

They also state that NGOs do not have an important role in MC. This is because NGOs may deliver subsidized credits and may undermine the development of competitive financial system. They emphasize that MC shouldn't be integrated with other development services because specialization is necessary to reach financial sustainability and large scale outreach. In addition, luck of institutional capacity is perceived as a more binding constraint on the outreach of MC than availability of funds.

d) The Poverty Lending Approach

Under this approach donor-and government-funded credit is provided poor borrowers typically at below market interest rates. The goal is to reach the poor, especially the extremely poor – the poorest of the poor with credit to help overcome poverty and gain empowerment (Ibid). It believes that this commitment will be affected if stress is given to profit motive. The proponents of this approach claim that the goal of MC is improving the livelihoods and empowerment of the poor. Because of this, subsidies for institutional innovation and expansion are justified. For them, assessing the impact of MCIs should be their effect of the livelihoods and income generating activities of the poor.

e) Microcredit Modalities

i. *Minimalist vs. integrated approach*

MCIs operating on the minimalist model of poverty alleviation are concerned with setting up viable, financially sustainable credit delivery mechanisms. Herein the delivery of MC enables the program to meet the operational costs of the intervention. Client participation tends to take the form of mobilization of client skills and resources to reduce lenders' transaction and information costs (Wood and Sharif 1997). This approach emphasizes, often exclusively, on credit access, which it sees as the 'missing piece' for poverty alleviation. It assumes that credit access can unlock new economic activity and lead to income growth and employment, resulting in empowerment (Wright, 1999).

In contrast to the minimalist approach, the integrated approach, referred to as the 'credit-plus approach' (Johnson and Roglay, 1997) is grounded within the empowerment framework and attempts to deal with the structural causes of poverty through MC delivery. It is a comprehensive approach aimed at providing a long-term integrated support package, in which loans are combined with social mobilization, participation, training and education, so as to maximize the income, opportunities and empowerment impacts (McKee, 1989). In other words, it incorporates financial and social development issues under its mandate.

ii. *Individual Vs. Group Credit Model*

Most individual MCIs provide financial services only to entrepreneurs who are able to pledge collateral. Collateral - covering as a general both the loan amount and the interest payment signals the borrower's willingness to fully repay the loan. Therefore, it is seen as the main mechanism tackling all typical problems of a loan contract: adverse selection, moral hazard, and repayment enforcement. Borrowers with satisfactory repayment records may receive access to further loans of increasing volume. This gives sufficient incentives to all entrepreneurs who expect positive utility out of future investments (financed by future loans) to repay their current loan as scheduled.

One of the most serious weaknesses of the individual micro-lending contract is that in a high competitive environment the incentives created by progressive lending perspectives receive a severe limitation. As shown in Armendariz and Morduch (2000), "the greater the likelihood of refinancing by second lender, the weaker will be the incentive to repay the first lender".

Group lending model works in such a way that instead of lending directly to individual borrowers, the lenders lend to groups of borrowers, who are jointly liable for a single loan. It minimizes administrative and transaction costs for lenders by replacing credit checks and collateral processing with self-selection of groups by borrowers. Borrowers, who were jointly liable for the loans of their group, had a vested interest in choosing trustworthy partners.

The theoretical analysis of the group lending mechanism shows that the access to further loans as well as the access to higher loans, which is made conditional on the repayment of all borrowers in the group, creates an incentive for peer monitoring, peer support, peer pressure, and discourage default among the borrowers (Hulme and Mosley, 1996).As a result, the probability of moral hazard behavior is sufficiently reduced because a considerable part of the risk is transferred from the lender to the borrowing group. With joint liability, if any borrower fails to repay (or strategic default) his share of the loan, the whole credit group is considered as being in default and all peers lose access to subsequent loans (Critics, 1999). Therefore, the group is motivated either to repay for the delinquent partner, or by exerting social pressure to make him reconsider his repayment decision. As a consequence of these incentives, lenders are able to achieve with high probability of the repayment of the loans.

The main problem of the joint-liability mechanism is that, at the worst, one defaulting member may cause a domino effect when the fellow group members are not able (or willing) to cover his/her installments. These outcomes are disadvantageous for the MCIs (in particular in comparison to an individual lending scheme) because all other group members - except the defaulting borrower - could have repaid their loans. Moreover, according to Ledgerwood, weekly attendance at group meeting may also be required. More affluent clients usually see this as an inconvenience, which makes the credit attractive only to poorer clients. Client transaction costs are quite high as more responsibility is shifted from the MCI to the clients themselves (Ledgerwood, 1999).

IV. Data and Methodological Approaches

a) Study Design

The study was conducted on the basis of qualitative and quantitative data. It involves both exploratory and quantitative research approaches. The exploratory research approach is basically meant to deal with the individual beneficiary cases with varying socio-economic characteristics and circumstantial livelihoods condition. The quantitative research approach, along with the cross-sectional survey design, was sought to be the most useful empirical approaches to generate an in-depth quantitative data which would enable to draw thorough impact analysis. A mix up of both methodological approaches was employed to successfully generate full-fledged evidence sufficient enough to produce more conclusive results.

b) Unit of Analysis and Sampling Design

The study was conducted in Sidama Zone, (Dalle (Yirgalem) District and Hawassa town), the technology village areas of Hawassa University. The organizations, in which the study is wholly concerned comprises of the clients and member based microfinance institutions through which their relative economic impacts to its beneficiaries were assessed. Thus, the central unit of analysis for this study encompasses the client beneficiaries and member users of the respective microfinance institutions.

In choosing the sample unit, a multi stage random sampling technique was applied. Initially, three different geographical locations from each of the study town (Namely Menaharia, Haike-dar and Addis Ketema sub-cities from Hawassa town and three widen districts Hidda-kalite, Mesincho and Goyida in Dalle woreda) were randomly selected. Over-all, six diverse geographical locations were considered for the study. Secondly, one client and member based MFIs branches were randomly selected in each of the 6 sample study locations, out of which 10 client beneficiaries and 10 member users from each of the CBMFIs and SACCOs BRANCHES were randomly selected as a representative sample unit. Therefore, the total sample size is determined to be 120 individuals comprising of 60 member users and 60 clients beneficiaries. On the other hand, stratified random sampling was principally used to generate varying data and contextual observations in between the two alternative units of analysis (member users and client beneficiaries). Notable, the stratification was mainly sought to identify the varying economic impacts achieved through the two financial modalities. All respondents from both stratums were chosen using simple random sampling method.

c) Data Collection procedures and Instruments

The sources of data used for the purposes of this study were both primary and secondary data. Well-structured questionnaire surveys, key informant interview and FGD were used as tools for primary data collections. The study was conducted on the basis of wide-ranging surveying techniques along with comprehensive inquiry on the economic status of the beneficiaries and their business outcomes. It was administered from the 120 sample beneficiaries comprising of 60 client beneficiaries and 60 member users. The questionnaire survey containing both open and close-ended questions were mainly used to capture information about the socio-economic characteristics of the beneficiaries, financial services availed, economic benefits or gains accrued, business financing and investment gains, profit and earnings, employment, asset accumulation, and income generating activities.

The uses of other methods were primarily used to elicit information in qualitative terms about the relevance of MC, its operational inefficiencies, and the problems affecting outreach performances. The key informants were officials and team of experts from the trade and industry office, managers and operation officers of SACCOs and Omo MFIs. Data collected mainly includes information on financing mechanisms and its importance, outreach performance, and micro financing policies, regulations and implementation strategies. Two participatory FGD were held out of the two groups of financial beneficiaries. The discussants were composed of the type of enterprises which was considered as their primary occupation. The FGD is mainly sought to identify and collect distinct information from real life experiences and economic fulfillments of the beneficiaries.

Beside the primary source of data, secondary data were also used. The main sources of secondary data were statistical reports, official brochures, manuals and guidelines. Data collected mainly includes information into the overall effectiveness of each financial modality, outreach performance, and the business outcomes achieved etc. Relevant literature from existing empirical studies and reports, district or regional records on microfinance and its economic contributions were also carefully reviewed. Much emphasis was placed on the collection of accurate and reliable data so as to be able to come up with objective evaluations and to make informed conclusions and judgments. The data generated thus sufficiently permitted an in-depth analysis of the immense role of MSE and other related issues.

d) Model Specifications and Empirical Strategies

The data generated were analyzed by using both descriptive and inferential statistics. The descriptive approach entails the use of mean and standard deviations. Analysis of the descriptive and t test statistics was conducted to estimate the mean differences between the socio economic and household characteristics of the two groups of beneficiaries and their significance level. The Single Differences and Difference-In-Differences approaches were implemented after realizing that the clients and members of the MFI were homogeneous. The t test statistics verified no systematic difference between the two groups before using the MC services. The SD and DID specifications were separately made for evaluating the actual economic contributions made through each MFIs and business outcomes as follows.

$$\boldsymbol{Y_{it} = \alpha + \beta_{MC_i} + \sum_{1}^{2} \delta_t + \varphi_i + \varepsilon_i}$$

Where, Y_{it} = *Outcome variables (DPCE4, Household assets, income, savings and expenditure),* MC_i = *Micro credit effect,* δ_t = *Wave fixed effects,* φ_i = *Time invariant individual fixed effects and* ε_i = *Random error term*

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NB: As the microfinance beneficiaries (both clients and member users) were randomly selected from the among the recorded lists of beneficiaries by the MFIs, it is highly unlikely that the outcome variables are correlated with the unobservable characteristics in the error term like entrepreneurial ability, managerial talent and motivation, etc. that might in one way or in another affect economic status of the individual beneficiaries and business outcomes. Hence, endogeneity problem seems the bearable factor for estimating the MC effect on the outcome variables.

i. *ESTIMATING THE BUSINESS Outcomes*

The SD and DID approaches of the FE and RE models estimating the impact of Micro financing on the beneficiaries business outcomes were estimated based on the following specifications. The model intends to explicitly capture the time invariant and firm fixed effects.

$$\boldsymbol{Y}_{\boldsymbol{it}} = \boldsymbol{\alpha} + \boldsymbol{\beta}_{\boldsymbol{MC}_{\boldsymbol{i}}} + \sum\nolimits_{1}^{2} \boldsymbol{\delta}_{\boldsymbol{t}} + \boldsymbol{\gamma}_{\boldsymbol{i}} + \boldsymbol{\varepsilon}_{\boldsymbol{it}}$$

Where: Y_{it} = Business Outcomes (ROI, Profit, WC and Employment rate), MC_i = The effect of Micro credit, δ_t = Wave fixed effects, γ_i = Firm fixed effects, and ε_{it} = Random error term

V. Results and Discussions

This chapter covers systematic presentation of the empirical results and interpretation of the DID approach and Hausman test statistics taken part from analysis of varying cross-sectional and panel data collected by using Questionnaires and other supplementary data collection tools. So as to assess the economic impacts of MCIs, the researcher considered the income levels of individuals, of households and of businesses, as well as savings levels, expenditure, and asset accumulation as outcome indicators. The findings are grouped according to the type of microfinance evaluated.

VI. Descriptive and t-test Statistics

This section provides results of the descriptive and t_test statistical analysis of the household's socio-economic characteristics and associated outcomes on the dependent variables. The t-test statistics tells us about the significance level of the mean variances across each variables of interest between the two groups of beneficiaries.

According to the results of the descriptive statistics reported in table 1, the average years of education, age of beneficiaries and family size reveals 7 years, 21 years and 5 individuals respectively for the clients. The respective evidence for SACCO members reveals 6.7 years of education, 20.7 years of age and 5 individuals. However, the mean differences for these indicators are not statistically significant. The average monthly household income and consumption expenditures incurred by the clients reveal 891 and 938 birr respectively. On average, SACCO members earn 844 birr monthly income and incur about 886.9 birr consumption expenditures. The average daily per capita expenditures (DCPE) incurred reveal 6.4 (clients) and 6.1 (members) birr. However, both results are not statistically significant.

The average total household savings and assets on hand for the client beneficiaries reveal 1,046 birr and 8,223 birr respectively. While SACCO members could get hold of 1,000 and 7,894 birr total savings and assets on hand respectively. Both indicators reveal larger deviations from the mean. The average quarterly credit requirements indicate 5,018 and 4,980 birr for the clients and members respectively.

The result of the t-test confirmed that the mean differences for all the characteristics of the beneficiaries are not statistically significant meaning that we fail to reject the null hypothesis stating that both groups have equal mean in each variables of interest. This shows us that the two groups of beneficiaries were almost identical interims of the aforementioned household characteristics before becoming beneficiaries in their respective MFIs.

[4] DPCE is the daily per capita expenditure. This is generated by calculating all estimated expenditures of the beneficiaries over the year and divided by 365 and household size.

Table 1: Household Characteristics and Results of the T-Test Statistics

Ho: Both groups have equal Mean	Clients (CBMFI)		Members (SACCOs)		t-test P-value
	Mean	SD	Mean	SD	
Education	7.044643	3.854735	6.721739	4.266346	0.820
Age of the beneficiary	21.30804	6.11365	20.6870	7.32992	0.307
DPCE	6.445283	2.502508	6.07640	6.88825	0.813
Family Size	5.53125	1.9243	5.7130	2.08033	0.740
Household savings	1,046.23	804.45	999.67	741.34	0.274
Monthly income	891.12	760.01	844.43	630.50	0.202
Assets on hand	8,223.5	5,874.07	7,894.3	3,607.23	0.120
Monthly Consumption	938.17	687.638	886.91	455.69	0.314
Credit requirement	5,018.21	831.75	4,980.43	694.64	0.064

Source: Model Output

NB: The total sample sizes in the two groups of MFIs for the whole variables constitute 120 MC beneficiaries (50% from CBMFI and SACCOs each). The average household income and consumption expenditure were measured on monthly basis by virtue of the beneficiary's self-reported data. Household savings and assets on hand are reported as an aggregate amount owned at the time of doing the survey. DPCE is measured by total household expenditure divided by the total household size.

a) Economic Contributions of the Microfinance Institutions

This section presents the result of both the single and double difference estimates. The single difference (SD) estimates both in level and log specifications are reported in columns 3 to 6. It is meant to catch up the economic impacts of each MFI at present time. While, the result of the double difference estimates are reported in column 1 and 2. It helps to measure the differential economic contributions made through the MFIs, which revealed positive and statistically significant across all the variables of interest. According to the results of the DID estimates, CBMFI could realize extra economic gains for its beneficiaries across all the variables of interest. The coefficient estimates for these variables are highly significant.

Table 2 : Differential outcomes on the Economic Contributions of MFIs

	Double Difference (one tail t-test @t=2005)		Single Difference			
			CBMFI		SACCOs	
	Levels (1)	Logs (2)	Levels (3)	Logs (4)	Levels (5)	Logs (6)
Household Assets	40.10** (24.03)	0.0273** (0.0148)	92.24** (38.58)	0.033** (0.049)	54.17** (37.68)	0.0128** (0.0468)
Household Income	120.0*** (101.56)	0.0258*** (0.0171)	116.20** (97.07)	0.0254** (0.0137)	84.04** (48.026)	0.0037** (0.0119)
Household Expenditure	48*** (40.05)	0.0146** (0.0158)	70.21** (76.01)	0.0412** (0.0651)	57.52** (16.93)	0.0220** (0.0625)
Household Savings rate	.03601** (0.1645)	0.1487** (0.0171)	0.105** (0.02317)	0.0012** (0.00017)	0.1041*** (0.0026)	0.0025** (0.0119)
DPCE	4.10*** (1.0045)	0.0113** (0.0148)	6.20*** (2.0058)	0.0330** (0.0049)	3.430*** (1.0038)	0.0248** (0.00468)

Source: Model Outcomes

*NB: Significance level (*** p<0.01, ** p<0.05, * p<0.1). Values in parentheses are the robust standard errors. The single difference reveals the net economic contributions of the MFIs at present time. Whereas, the result of DID reveals the comparative economic contributions of the MFIs i.e. difference with respect to cross sectional and time dimension (before and after the loan).*

The Single Difference estimates in level specification reveal that each birr additional credit grant generates 92.24 and 54.17 birr extra household assets for the client beneficiaries and member users respectively. The log specifications reveal 3.3 and 1.3 percent growth respectively. Both results are statistically significant at 5 percent level of significance.

As far as the monthly households' income and expenditures are concerned, each birr additional MC grant by the CBMFI enables the client's household to maximize their monthly income and expenditure by 116 and 70 birr respectively. The result is slightly lower for the SACCO members, which are 84 and 58 birr on average respectively. Both results are also statistically significant at 5 percent level of significance.

The average daily per capital expenditure (DPCE) and the monthly household savings rate reveal 6.2 birr and 10.5 percent for the client beneficiaries, which is statistically significant even at 1 percent level of significance. While, SACCO members had the DPCE and monthly savings rate of 3.4 birr and 10 percent respectively. The log specifications in these economic indicators reveal 3.3 and 0.12 percent for client beneficiaries and 2.5 and 0.25 percent for the member users respectively. All the results are statistically significant at 5 percent level of significance.

The DID coefficient estimates across all the variables of interest are positive and statistically significant. Hence, it is possible to infer that client based MFI could realize better economic contributions than the member based SACCOs. For instance, the average monthly household assets, income and expenditure growth contributed by the CBMFI reveal 40 birr, 120 birr and 48 birr higher than the SACCOs respectively. The log specifications reveal 2.7%, 2.6% and 1.5% growth respectively. The clients DPCE and monthly savings rate in excess of the member users reveal 1.1 and 15 percent on average. Hence, CBMFIs had exceeding economic contributions in all the variables of interest. Even if, the extent of economic contributions varies, there is strong evidence suggesting that both MFIs are the engines for pro-poor growth and economic empowerments of the poor.

b) Microfinance Benefits for Business Outcomes

According to the SD estimates in level specifications, each birr MC grant provided by the CBMFIs could generate 9 birr monthly ROI, 101 business profits and 230.5 birr working capital on average, which are statistically significant even at 1percent significance level. The log specifications reveal 3.3 %, 2.5 % and 4 % growth in the ROI, Business profits and working capital respectively. The member users would be able to realize 2.3 percent, 1.6 percent and 3.5 percent growth in their monthly ROI, business profits and working capital respectively.

According to the DID approach, the coefficient estimates associated with the monthly ROI (6 birr), business profits (120 birr) and working capital (148 birr) reveal the additional economic impact realized by the CBMFIs. In other words, 1 birr additional MC enables the client beneficiaries to earn, an additional 6 birr return, 120 birr monthly profit and 148 birr working capital on average. Similarly, the impact coefficient associated with the same variable in the log specification verified 2.7%, 2.6% and 10% growth in the monthly ROI, profit and the working capital respectively. Both estimates in level and logs specification are highly statistically significant.

Table 3 : Comparative Economic Contributions on Business Outcomes

	Double Difference (DID) (one tail t-test @t=2005)		Single Difference (SD) 5			
			CBMFI		SACCOs	
	Levels (1)	Logs (2)	Levels (3)	Logs (4)	Levels (5)	Logs (6)
ROI	6.103** (4.30)	0.0273** (0.0148)	9.15** (2.58)	0.0330** (0.00499)	5.20** (3.68)	0.0228** (0.0468)
Monthly Profits	120.06*** (78.52)	0.0258*** (0.0171)	101.27*** (89.7)	0.0254*** (0.0137)	93.01*** (68.26)	0.0155*** (0.0119)
Working Capital	148.63** (93.5)	0.100** (0.0158)	230.45** (163.1)	0.0412** (0.00651)	119.32** (92.3)	0.0350** (0.00625)
Annual Employment	3.10*** (1.0035)	0.0107*** (0.0121)	6.20*** (1.0958)	0.0147*** (0.0425)	3.201*** (1.0900)	0.0106*** (0.00742)

Source: Model output

*NB: Significance level (*** p<0.01, ** p<0.05, * p<0.1). Values in parenthesis are robust standard errors. The Variable ROI was measured by dividing total monthly profits over the total investment. The Average monthly Profits earned was measured on the basis of revenue minus expense approach. The variable working Capital does not include the value of fixed assets such as land and buildings.*

[5] The Hausman test statistics result reveals that Prob>chi2 is higher than 0.7 for all the estimates (which is higher than the 5% SL). Thus, we fail to reject the null hypothesis stating that there is no systematic difference between the FE and RE model estimates. Under this condition, the RE model is worthy enough to get efficient and consistent estimates. Thus, the SD and DID estimates are outputs of the RE model.

In general, the positive signs on the DID estimates, indicates a general tendency for better economic impact achieved through the CBMFIs. The estimates provide satisfactory evidence to assert that CBMFIs had been performing better and were able to realize far-reaching benefits for its business clients. Access to finance contributes to a long-lasting increase in the beneficiaries 'income by means of a rise in investments in income generating activities and to a possible diversification of sources of income.

It also contributes to an accumulation of assets and smoothing out consumption and reduces the household vulnerability and also contribute to better education, health and housing (see also Morduch, & Hashemi, 2003). Hence, the study found that MFIs are the suitable economic instruments for empowering the poor by means of providing economic opportunities and facilities and improves their living standards sustainably.

c) Outreach Efficiency and Financial Sustainability

As shown in the table 4, the average number of active client beneficiaries and member users for the whole duration of the study reveal 382 and 215 respectively. As compared to the CBMFIs, active member users were lower and had shown significant deviations from the mean. The average loan size and duration of loan success reveals 3,123 birr and 37 days on average in the CBMFIs. However, SACCOs registered lower average loan size and relatively longer loan period, i.e. 2,150 birr and 45.7 days respectively. The quarterly lending and annual default rate reveal 27.5% and 5.7% respectively for the CBMFIs. The SACCOs registered relatively lower lending rate (12.6 %) and default rate (2.3%) on average.

Table 4 : Measuring outreach Efficiency and Financial Sustainability

NO	PARTICULARS	CBMFI		SACCOs	
		Mean	SD	Mean	SD
1	Active Beneficiaries	382	159.17	215	168.06
3	Average Loan Size	3,123	1670.3	2,150	1982.52
4	Quarterly Lending Rate	27.48	11.251	12.64	6.034
5	Duration of Loan Success	37.107	16.51	45.67	15.24
6	NPL: OSL	0.55	0.027	0.36	0.035
7	Estimated Market Share	33.12	17.23	19.21	14.67
8	Average Annual Default Rate	5.66	1.94	2.32	1.432

Source: Author's own computation

According to the representative sample MFIs, the main causes of the default rate were improper client scrutiny, ineffective repayment enforcement mechanism, absence of effective group pressure or collateral, negligence of clients, crop failure in rural areas, sickness of the borrower or family member, death and bankruptcy etc. In this case, the higher default rate might endanger the financial sustainability of the CBMFI. However, the sector had shown far-reaching progress over time interims of realizing better outreach efficiency despite the lower financial performances. This implies that the CBMFI The strong government commitment and support by the NGO have ensured sustainability of the sector by virtue of constantly financing the program.

Non-performing loan (NPLs) to loan outstanding ratio can also be an alternative indicator for measuring an outreach efficiency and financial sustainability of a MFIs. Using this indicator the study found out that MFI financial sustainability is in a comfort zone with average NPLs ratio of 0.55 percent on average. The rate is very low for SACCOs, 0.36 percent on average. This shows us that SACCOs are better interims of assessing credit risk and maintaining members' responsibility to repay their loan.

During the FGD with clients beneficiaries and member users, even if the MC Service was not constantly growing to the level best they demand, most agreed that their standard of living was improving over time. Accordingly, MC loans are providing a fundamental basis for planning and expanding their business activities. Apparently, the members 'users reported that lack of adequate credit facility was the most constraining factors against exceeding their business outcomes. Most declared that they were demanding extra credit for expanding their businesses and to purchase productive assets like livestock, sewing machine, wielding tools, rubber sharpening, deep freezers and beauty salon equipment etc. Only few of them reported to have used part of their loans for consumption and to defray debts. This result seems to support the argument that MC loans could be growth enhancing particularly where the loans are expended on productive means as against consumption goods.

Existing evidence also indicate that microfinance services, such as savings, insurance, money transfers, entrepreneurial training and so on, which are more attractive to the client beneficiaries or member users, are yet to be provided. Bureaucratic regulations and the non-systematic and irregular supervision was deemed to inhibit the operation of the market but in the case of rural microfinance provision a reasonable amount of regulation and supervision is discovered to be necessary, particularly to protect the mostly illiterate rural poor, from usury interest rates.

d) Key structural, Governance and Institutional Issues

One of the main reasons for the beneficiary's widen discontent on the microfinance services was the meager financial products and weaker financial market penetration. In this respect, MC loan and savings are the two most prevailing financial products and services provided by the MFIs. Plethora evidences affirmed that Micro financing has not yet performing well and expanding its service to the level best the market is virtually demanding in the region. For instance, the sector has not yet been offering money transfer, remittances, insurance and other non-financial and or social services. Hence, the sector has not yet gone far beyond offering MC services to the poor.

Table 5 : key Governance, Structural and Institutional issues

Institutions	Governance		Structure	Ownership	Organizational Network	
	Network	Basis			Services	Financing
SACCOs	Partially integrated	Equal voting	Participatory, collaborative	Mutualistic	Internalized	Partly independent
CBMFI	Integrated	Shares	Apex unit, hierarchical	Corporate	Externalized	Multilateral

Source: Author's own presentation

On the other hand, the SACCOs have been highly constrained by persistent financial deficiency and shortage of working capital due to lacking adequate support from the government and other development organizations. As the sector is believed to be independently grown and administered regardless of government interference, evidence has shown that the sector couldn't stand by itself and unable to show up radical economic contributions as was in the case of the CBMFI.

Despite the fact that SACCOs would benefit fairly mutualistic and participatory financial system to the poor, its services had not yet been adequately expanded; and of course internally restrained and missing well integrated and collaborating financial service development programs. In this respect, the sector is in need of pioneering attention and transformative institutional support by the government and other multilateral development programs working to empower the poor.

Unlike the SACCOs, the client based MFI had been performing other alternative financial and poverty alleviation programs like water pump development, HUB project, Rural Entrepreneurship, Fertilizer support, Glimmer, Women and children and Rural Financial Fund. Most importantly, the sector is constantly financed by the government and international development organizations like the Rural Financial Intermediation Programme (RUFIP). Therefore, as compared to the SACCOs, CBMFIs had been performing well and realizing far reaching economic contributions in the life of the poor. Their networks of services had been widely growing by virtue of highly integrated multilateral development programs involving many local and international stakeholders. Therefore, the sector remains to be the superior socio-economic means to empower the poor and ensuring exceeding business outcomes for its beneficiaries.

VII. Concluding and Policy Remarks

Throughout the developing world, there is a desperate quest for a way out of the financial predicament confronting the rural poor. In most countries of the developing regions, especially SSA countries, the rural population forms the larger proportion and poverty is prevalent among them. Despite the predominant claims on the critical role of microfinance service towards impacting poverty reduction and sustainable pro-poor growth, quite a lot of evidences also argue contrarily. Evidences have shown that the extent to which microfinance services reaches the core poor in a range of modalities substantially vary. In this regards, there is no detailed and systematic study to explore the impact of alternative forms of MC services in Ethiopia. Hence, this study intends to throw away its own contribution to fill the aforesaid gaps.

The study employed descriptive and Hausman test statistics to evaluate the mean difference between the economic status of clients and member beneficiaries. Aptly, the SD and DID approaches were employed to evaluate the differential economic effects of each financial modality. In order to realize efficient and sound outcomes of the DID approach, FE and RE models were separately estimated and found no significant difference between them. The model estimates were made on the basis of both level and log specifications. The study found no evidence to reject the null hypothesis stating no systematic difference between the socio-economic characteristics of the client beneficiaries or member users before the MC Service. The f-statistics indicates insignificant result on the mean differences across all the beneficiaries' characteristics. Hence, we firmly concluded that the two groups were almost identical before becoming client beneficiaries or member users in their respective MFIs.

The SD estimates reveal that 1 birr additional MC grant generates 92.24 and 54.17 birr extra household assets on average for the client beneficiaries and member users respectively. The log specifications reveal 3.3 and 1.3 percent growth rate respectively. Both results are statistically significant at 5 percent level of significance. As far as the average monthly households income and expenditures are concerned, each birr MC enables the client's household to maximize their monthly income and expenditure by 116 and 70 birr respectively. The results are slightly lower for the SACCO members, which are on average 84 and 58 birr respectively.

As far as the business outcomes are concerned, each birr additional MC grant could generate 9 birr monthly ROI, 101 business profits and 230.5 birr working capital for the client's business. The log specifications reveal 3.3 %, 2.5 % and 4 % growth in ROI, Business profits and working capital respectively. The member users were able to realize 2.3 percent, 1.6 percent and 3.5 percent growth in their monthly ROI, business profits and working capital respectively.

The DID estimates reveal positive for the CBMFIs and statistically significant across all the variables of interest. It appears that the client based MFI could realize better economic contributions than the member based SACCOs. Apparently, the average monthly household assets, income and expenditure growth contributed by virtue of 1 birr extra credit grant for the clients reveal 40 birr, 120 birr and 48 birr higher than the SACCOs contributions respectively. The log specifications reveal 2.7%, 2.6% and 1.5% growth respectively. The clients DPCE and monthly savings rate in excess of the member users reveal 1.1 and 15 percent. Even if the extent of economic contributions varies between the two alternative financial modalities, there is strong evidence suggesting that both MCIs are the economic engines for pro-poor growth and economic empowerments of the poor. The estimates provide satisfactory evidence to assert that CBMFI had been performing far better and were able to realize far-reaching economic benefits for its clients.

On the other hand, the coefficient estimates associated with the monthly ROI, business profits and working capital recorded by the CBMFI reveal 6 birr, 120 birr and 148 birr respectively. In other words, 1 birr extra MC enables business clients to earn, an additional 6 birr return, 120 birr additional monthly business profit and 148 birr working capital on average. Similarly, the impact coefficient associated with the same variables in the log specification verified that 2.7%, 2.6% and 10% growth respectively.

In general, the positive signs on the DID estimates, indicates a general tendency for exceeding economic gain and business outcomes for realized for the clients. One of the key factors is that it had been performing several alternatives financial and poverty alleviation programs constantly supported by the government and international development organizations like RUFIP program. Their networks of services had been widely growing by virtue of highly integrated multilateral development programs involving many local and international stakeholders. Hence, the sector had been flourishing superior socio-economic conditions to empower the poor clients and ensuring exceeding business outcomes for its client beneficiaries.

MC loan and savings are the two most prevailing financial products and services provided by the MFIs. Existing evidence indicate that microfinance services, such as insurance, money transfers, remittances, entrepreneurial training and so on, which are more attractive to the client beneficiaries or member users, are yet to be provided. Bureaucratic regulations and the non-systematic and irregular supervision is deemed to inhibit the operation of the market but in the case of rural microfinance provision a reasonable amount of regulation and supervision is discovered to be necessary, particularly to protect the mostly illiterate rural poor, from usury interest rates.

The average number of active client beneficiaries and member users reveal 382 and 215 respectively. As compared to the CBMFIs, active member users were lower and had shown significant deviations from the mean. The average loan size and duration of loan success in the CBMFIs reveals 3,123 birr and 37 days respectively. However, SACCOs registered lower average loan size (2,150 birr) and relatively longer loan period (45.7 days).The quarterly lending and annual default rate amounts 27.5 % and 5.7% respectively for the CBMFIs. The SACCOs registered relatively lower (12.6%) lending rate and default rate (2.3%) on average. This shows us that SACCOs need to expand its service and outreach capability. The CBMFI had shown far-reaching progress interims of better outreach efficiency despite the lower financial performances. Most importantly, the government commitment and NGO support by virtue of constantly financing the program have been flourishing better financial sustainability and sectoral growth.

Plethora evidences affirmed that Micro financing has not yet expanding its service to the level best the market is virtually demanding. Despite the fact that SACCOs would benefit fairly mutualistic and participatory financial system to the poor, its services had been mainly embarrassed through meager funding and weak institutional support from the government and other alternative development organizations; notably the sector did not entertain well integrated financial service development programs. In this respect, the sector necessitates pioneering attention and transformative institutional support by the government and other multilateral development programs working to empower the poor.

Even if, the MC Service was not constantly growing to the level best the market demands, evidence has shown that the standard of living of the MC beneficiaries were improving over time. Hence, the study proved that micro financing would remain to be the engines of growth and poverty reduction in Ethiopia. It is found to be a veritable development tool for the betterment of economic life of the poor. It contributes to a long-lasting increase in income by means of a rise in investments in income generating activities accumulation of assets and to a possible diversification of sources of income. Most importantly, in order to further excel up the sustainable sect oral growth and an immense contribution of the sector towards poverty alleviation, the government and other development actors should excel to hand over their financial support and regularly follow up the performance of the sector.

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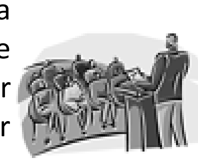

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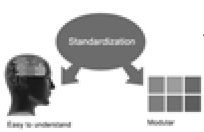

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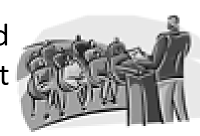

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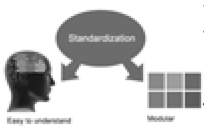

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Abstract, used in Original Papers and Reviews:

Optimizing Abstract for Search Engines

Many researchers searching for information online will use search engines such as Google, Yahoo or similar. By optimizing your paper for search engines, you will amplify the chance of someone finding it. This in turn will make it more likely to be viewed and/or cited in a further work. Global Journals Inc. (US) have compiled these guidelines to facilitate you to maximize the web-friendliness of the most public part of your paper.

Key Words

A major linchpin in research work for the writing research paper is the keyword search, which one will employ to find both library and Internet resources.

One must be persistent and creative in using keywords. An effective keyword search requires a strategy and planning a list of possible keywords and phrases to try.

Search engines for most searches, use Boolean searching, which is somewhat different from Internet searches. The Boolean search uses "operators," words (and, or, not, and near) that enable you to expand or narrow your affords. Tips for research paper while preparing research paper are very helpful guideline of research paper.

Choice of key words is first tool of tips to write research paper. Research paper writing is an art.A few tips for deciding as strategically as possible about keyword search:

- One should start brainstorming lists of possible keywords before even begin searching. Think about the most important concepts related to research work. Ask, "What words would a source have to include to be truly valuable in research paper?" Then consider synonyms for the important words.
- It may take the discovery of only one relevant paper to let steer in the right keyword direction because in most databases, the keywords under which a research paper is abstracted are listed with the paper.
- One should avoid outdated words.

Keywords are the key that opens a door to research work sources. Keyword searching is an art in which researcher's skills are bound to improve with experience and time.

Numerical Methods: Numerical methods used should be clear and, where appropriate, supported by references.

Acknowledgements: Please make these as concise as possible.

References

References follow the Harvard scheme of referencing. References in the text should cite the authors' names followed by the time of their publication, unless there are three or more authors when simply the first author's name is quoted followed by et al. unpublished work has to only be cited where necessary, and only in the text. Copies of references in press in other journals have to be supplied with submitted typescripts. It is necessary that all citations and references be carefully checked before submission, as mistakes or omissions will cause delays.

References to information on the World Wide Web can be given, but only if the information is available without charge to readers on an official site. Wikipedia and Similar websites are not allowed where anyone can change the information. Authors will be asked to make available electronic copies of the cited information for inclusion on the Global Journals Inc. (US) homepage at the judgment of the Editorial Board.

The Editorial Board and Global Journals Inc. (US) recommend that, citation of online-published papers and other material should be done via a DOI (digital object identifier). If an author cites anything, which does not have a DOI, they run the risk of the cited material not being noticeable.

The Editorial Board and Global Journals Inc. (US) recommend the use of a tool such as Reference Manager for reference management and formatting.

Tables, Figures and Figure Legends

Tables: Tables should be few in number, cautiously designed, uncrowned, and include only essential data. Each must have an Arabic number, e.g. Table 4, a self-explanatory caption and be on a separate sheet. Vertical lines should not be used.

Figures: Figures are supposed to be submitted as separate files. Always take in a citation in the text for each figure using Arabic numbers, e.g. Fig. 4. Artwork must be submitted online in electronic form by e-mailing them.

Preparation of Electronic Figures for Publication

Even though low quality images are sufficient for review purposes, print publication requires high quality images to prevent the final product being blurred or fuzzy. Submit (or e-mail) EPS (line art) or TIFF (halftone/photographs) files only. MS PowerPoint and Word Graphics are unsuitable for printed pictures. Do not use pixel-oriented software. Scans (TIFF only) should have a resolution of at least 350 dpi (halftone) or 700 to 1100 dpi (line drawings) in relation to the imitation size. Please give the data for figures in black and white or submit a Color Work Agreement Form. EPS files must be saved with fonts embedded (and with a TIFF preview, if possible).

For scanned images, the scanning resolution (at final image size) ought to be as follows to ensure good reproduction: line art: >650 dpi; halftones (including gel photographs) : >350 dpi; figures containing both halftone and line images: >650 dpi.

Color Charges: It is the rule of the Global Journals Inc. (US) for authors to pay the full cost for the reproduction of their color artwork. Hence, please note that, if there is color artwork in your manuscript when it is accepted for publication, we would require you to complete and return a color work agreement form before your paper can be published.

Figure Legends: Self-explanatory legends of all figures should be incorporated separately under the heading 'Legends to Figures'. In the full-text online edition of the journal, figure legends may possibly be truncated in abbreviated links to the full screen version. Therefore, the first 100 characters of any legend should notify the reader, about the key aspects of the figure.

6. AFTER ACCEPTANCE

Upon approval of a paper for publication, the manuscript will be forwarded to the dean, who is responsible for the publication of the Global Journals Inc. (US).

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The corresponding author will receive an e-mail alert containing a link to a website or will be attached. A working e-mail address must therefore be provided for the related author.

Acrobat Reader will be required in order to read this file. This software can be downloaded

(Free of charge) from the following website:

www.adobe.com/products/acrobat/readstep2.html. This will facilitate the file to be opened, read on screen, and printed out in order for any corrections to be added. Further instructions will be sent with the proof.

Proofs must be returned to the dean at dean@globaljournals.org within three days of receipt.

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Before start writing a good quality Computer Science Research Paper, let us first understand what is Computer Science Research Paper? So, Computer Science Research Paper is the paper which is written by professionals or scientists who are associated to Computer Science and Information Technology, or doing research study in these areas. If you are novel to this field then you can consult about this field from your supervisor or guide.

TECHNIQUES FOR WRITING A GOOD QUALITY RESEARCH PAPER:

1. Choosing the topic: In most cases, the topic is searched by the interest of author but it can be also suggested by the guides. You can have several topics and then you can judge that in which topic or subject you are finding yourself most comfortable. This can be done by asking several questions to yourself, like Will I be able to carry our search in this area? Will I find all necessary recourses to accomplish the search? Will I be able to find all information in this field area? If the answer of these types of questions will be "Yes" then you can choose that topic. In most of the cases, you may have to conduct the surveys and have to visit several places because this field is related to Computer Science and Information Technology. Also, you may have to do a lot of work to find all rise and falls regarding the various data of that subject. Sometimes, detailed information plays a vital role, instead of short information.

2. Evaluators are human: First thing to remember that evaluators are also human being. They are not only meant for rejecting a paper. They are here to evaluate your paper. So, present your Best.

3. Think Like Evaluators: If you are in a confusion or getting demotivated that your paper will be accepted by evaluators or not, then think and try to evaluate your paper like an Evaluator. Try to understand that what an evaluator wants in your research paper and automatically you will have your answer.

4. Make blueprints of paper: The outline is the plan or framework that will help you to arrange your thoughts. It will make your paper logical. But remember that all points of your outline must be related to the topic you have chosen.

5. Ask your Guides: If you are having any difficulty in your research, then do not hesitate to share your difficulty to your guide (if you have any). They will surely help you out and resolve your doubts. If you can't clarify what exactly you require for your work then ask the supervisor to help you with the alternative. He might also provide you the list of essential readings.

6. Use of computer is recommended: As you are doing research in the field of Computer Science, then this point is quite obvious.

7. Use right software: Always use good quality software packages. If you are not capable to judge good software then you can lose quality of your paper unknowingly. There are various software programs available to help you, which you can get through Internet.

8. Use the Internet for help: An excellent start for your paper can be by using the Google. It is an excellent search engine, where you can have your doubts resolved. You may also read some answers for the frequent question how to write my research paper or find model research paper. From the internet library you can download books. If you have all required books make important reading selecting and analyzing the specified information. Then put together research paper sketch out.

9. Use and get big pictures: Always use encyclopedias, Wikipedia to get pictures so that you can go into the depth.

10. Bookmarks are useful: When you read any book or magazine, you generally use bookmarks, right! It is a good habit, which helps to not to lose your continuity. You should always use bookmarks while searching on Internet also, which will make your search easier.

11. Revise what you wrote: When you write anything, always read it, summarize it and then finalize it.

12. Make all efforts: Make all efforts to mention what you are going to write in your paper. That means always have a good start. Try to mention everything in introduction, that what is the need of a particular research paper. Polish your work by good skill of writing and always give an evaluator, what he wants.

13. Have backups: When you are going to do any important thing like making research paper, you should always have backup copies of it either in your computer or in paper. This will help you to not to lose any of your important.

14. Produce good diagrams of your own: Always try to include good charts or diagrams in your paper to improve quality. Using several and unnecessary diagrams will degrade the quality of your paper by creating "hotchpotch." So always, try to make and include those diagrams, which are made by your own to improve readability and understandability of your paper.

15. Use of direct quotes: When you do research relevant to literature, history or current affairs then use of quotes become essential but if study is relevant to science then use of quotes is not preferable.

16. Use proper verb tense: Use proper verb tenses in your paper. Use past tense, to present those events that happened. Use present tense to indicate events that are going on. Use future tense to indicate future happening events. Use of improper and wrong tenses will confuse the evaluator. Avoid the sentences that are incomplete.

17. Never use online paper: If you are getting any paper on Internet, then never use it as your research paper because it might be possible that evaluator has already seen it or maybe it is outdated version.

18. Pick a good study spot: To do your research studies always try to pick a spot, which is quiet. Every spot is not for studies. Spot that suits you choose it and proceed further.

19. Know what you know: Always try to know, what you know by making objectives. Else, you will be confused and cannot achieve your target.

20. Use good quality grammar: Always use a good quality grammar and use words that will throw positive impact on evaluator. Use of good quality grammar does not mean to use tough words, that for each word the evaluator has to go through dictionary. Do not start sentence with a conjunction. Do not fragment sentences. Eliminate one-word sentences. Ignore passive voice. Do not ever use a big word when a diminutive one would suffice. Verbs have to be in agreement with their subjects. Prepositions are not expressions to finish sentences with. It is incorrect to ever divide an infinitive. Avoid clichés like the disease. Also, always shun irritating alliteration. Use language that is simple and straight forward. put together a neat summary.

21. Arrangement of information: Each section of the main body should start with an opening sentence and there should be a changeover at the end of the section. Give only valid and powerful arguments to your topic. You may also maintain your arguments with records.

22. Never start in last minute: Always start at right time and give enough time to research work. Leaving everything to the last minute will degrade your paper and spoil your work.

23. Multitasking in research is not good: Doing several things at the same time proves bad habit in case of research activity. Research is an area, where everything has a particular time slot. Divide your research work in parts and do particular part in particular time slot.

24. Never copy others' work: Never copy others' work and give it your name because if evaluator has seen it anywhere you will be in trouble.

25. Take proper rest and food: No matter how many hours you spend for your research activity, if you are not taking care of your health then all your efforts will be in vain. For a quality research, study is must, and this can be done by taking proper rest and food.

26. Go for seminars: Attend seminars if the topic is relevant to your research area. Utilize all your resources.

27. Refresh your mind after intervals: Try to give rest to your mind by listening to soft music or by sleeping in intervals. This will also improve your memory.

28. Make colleagues: Always try to make colleagues. No matter how sharper or intelligent you are, if you make colleagues you can have several ideas, which will be helpful for your research.

29. Think technically: Always think technically. If anything happens, then search its reasons, its benefits, and demerits.

30. Think and then print: When you will go to print your paper, notice that tables are not be split, headings are not detached from their descriptions, and page sequence is maintained.

31. Adding unnecessary information: Do not add unnecessary information, like, I have used MS Excel to draw graph. Do not add irrelevant and inappropriate material. These all will create superfluous. Foreign terminology and phrases are not apropos. One should NEVER take a broad view. Analogy in script is like feathers on a snake. Not at all use a large word when a very small one would be sufficient. Use words properly, regardless of how others use them. Remove quotations. Puns are for kids, not grunt readers. Amplification is a billion times of inferior quality than sarcasm.

32. Never oversimplify everything: To add material in your research paper, never go for oversimplification. This will definitely irritate the evaluator. Be more or less specific. Also too, by no means, ever use rhythmic redundancies. Contractions aren't essential and shouldn't be there used. Comparisons are as terrible as clichés. Give up ampersands and abbreviations, and so on. Remove commas, that are, not necessary. Parenthetical words however should be together with this in commas. Understatement is all the time the complete best way to put onward earth-shaking thoughts. Give a detailed literary review.

33. Report concluded results: Use concluded results. From raw data, filter the results and then conclude your studies based on measurements and observations taken. Significant figures and appropriate number of decimal places should be used. Parenthetical remarks are prohibitive. Proofread carefully at final stage. In the end give outline to your arguments. Spot out perspectives of further study of this subject. Justify your conclusion by at the bottom of them with sufficient justifications and examples.

34. After conclusion: Once you have concluded your research, the next most important step is to present your findings. Presentation is extremely important as it is the definite medium though which your research is going to be in print to the rest of the crowd. Care should be taken to categorize your thoughts well and present them in a logical and neat manner. A good quality research paper format is essential because it serves to highlight your research paper and bring to light all necessary aspects in your research.

Informal Guidelines of Research Paper Writing

Key points to remember:

- Submit all work in its final form.
- Write your paper in the form, which is presented in the guidelines using the template.
- Please note the criterion for grading the final paper by peer-reviewers.

Final Points:

A purpose of organizing a research paper is to let people to interpret your effort selectively. The journal requires the following sections, submitted in the order listed, each section to start on a new page.

The introduction will be compiled from reference matter and will reflect the design processes or outline of basis that direct you to make study. As you will carry out the process of study, the method and process section will be constructed as like that. The result segment will show related statistics in nearly sequential order and will direct the reviewers next to the similar intellectual paths throughout the data that you took to carry out your study. The discussion section will provide understanding of the data and projections as to the implication of the results. The use of good quality references all through the paper will give the effort trustworthiness by representing an alertness of prior workings.

Writing a research paper is not an easy job no matter how trouble-free the actual research or concept. Practice, excellent preparation, and controlled record keeping are the only means to make straightforward the progression.

General style:

Specific editorial column necessities for compliance of a manuscript will always take over from directions in these general guidelines.

To make a paper clear

· Adhere to recommended page limits

Mistakes to evade

- Insertion a title at the foot of a page with the subsequent text on the next page
- Separating a table/chart or figure - impound each figure/table to a single page
- Submitting a manuscript with pages out of sequence

In every sections of your document

· Use standard writing style including articles ("a", "the," etc.)

· Keep on paying attention on the research topic of the paper

· Use paragraphs to split each significant point (excluding for the abstract)

· Align the primary line of each section

· Present your points in sound order

· Use present tense to report well accepted

· Use past tense to describe specific results

· Shun familiar wording, don't address the reviewer directly, and don't use slang, slang language, or superlatives

· Shun use of extra pictures - include only those figures essential to presenting results

Title Page:

Choose a revealing title. It should be short. It should not have non-standard acronyms or abbreviations. It should not exceed two printed lines. It should include the name(s) and address (es) of all authors.

Abstract:

The summary should be two hundred words or less. It should briefly and clearly explain the key findings reported in the manuscript--must have precise statistics. It should not have abnormal acronyms or abbreviations. It should be logical in itself. Shun citing references at this point.

An abstract is a brief distinct paragraph summary of finished work or work in development. In a minute or less a reviewer can be taught the foundation behind the study, common approach to the problem, relevant results, and significant conclusions or new questions.

Write your summary when your paper is completed because how can you write the summary of anything which is not yet written? Wealth of terminology is very essential in abstract. Yet, use comprehensive sentences and do not let go readability for briefness. You can maintain it succinct by phrasing sentences so that they provide more than lone rationale. The author can at this moment go straight to shortening the outcome. Sum up the study, with the subsequent elements in any summary. Try to maintain the initial two items to no more than one ruling each.

- Reason of the study - theory, overall issue, purpose
- Fundamental goal
- To the point depiction of the research
- Consequences, including definite statistics - if the consequences are quantitative in nature, account quantitative data; results of any numerical analysis should be reported
- Significant conclusions or questions that track from the research(es)

Approach:

- Single section, and succinct
- As a outline of job done, it is always written in past tense
- A conceptual should situate on its own, and not submit to any other part of the paper such as a form or table
- Center on shortening results - bound background information to a verdict or two, if completely necessary
- What you account in an conceptual must be regular with what you reported in the manuscript
- Exact spelling, clearness of sentences and phrases, and appropriate reporting of quantities (proper units, important statistics) are just as significant in an abstract as they are anywhere else

Introduction:

The **Introduction** should "introduce" the manuscript. The reviewer should be presented with sufficient background information to be capable to comprehend and calculate the purpose of your study without having to submit to other works. The basis for the study should be offered. Give most important references but shun difficult to make a comprehensive appraisal of the topic. In the introduction, describe the problem visibly. If the problem is not acknowledged in a logical, reasonable way, the reviewer will have no attention in your result. Speak in common terms about techniques used to explain the problem, if needed, but do not present any particulars about the protocols here. Following approach can create a valuable beginning:

- Explain the value (significance) of the study
- Shield the model - why did you employ this particular system or method? What is its compensation? You strength remark on its appropriateness from a abstract point of vision as well as point out sensible reasons for using it.
- Present a justification. Status your particular theory (es) or aim(s), and describe the logic that led you to choose them.
- Very for a short time explain the tentative propose and how it skilled the declared objectives.

Approach:

- Use past tense except for when referring to recognized facts. After all, the manuscript will be submitted after the entire job is done.
- Sort out your thoughts; manufacture one key point with every section. If you make the four points listed above, you will need a least of four paragraphs.

- Present surroundings information only as desirable in order hold up a situation. The reviewer does not desire to read the whole thing you know about a topic.
- Shape the theory/purpose specifically - do not take a broad view.
- As always, give awareness to spelling, simplicity and correctness of sentences and phrases.

Procedures (Methods and Materials):

This part is supposed to be the easiest to carve if you have good skills. A sound written Procedures segment allows a capable scientist to replacement your results. Present precise information about your supplies. The suppliers and clarity of reagents can be helpful bits of information. Present methods in sequential order but linked methodologies can be grouped as a segment. Be concise when relating the protocols. Attempt for the least amount of information that would permit another capable scientist to spare your outcome but be cautious that vital information is integrated. The use of subheadings is suggested and ought to be synchronized with the results section. When a technique is used that has been well described in another object, mention the specific item describing a way but draw the basic principle while stating the situation. The purpose is to text all particular resources and broad procedures, so that another person may use some or all of the methods in one more study or referee the scientific value of your work. It is not to be a step by step report of the whole thing you did, nor is a methods section a set of orders.

Materials:

- Explain materials individually only if the study is so complex that it saves liberty this way.
- Embrace particular materials, and any tools or provisions that are not frequently found in laboratories.
- Do not take in frequently found.
- If use of a definite type of tools.
- Materials may be reported in a part section or else they may be recognized along with your measures.

Methods:

- Report the method (not particulars of each process that engaged the same methodology)
- Describe the method entirely
- To be succinct, present methods under headings dedicated to specific dealings or groups of measures
- Simplify - details how procedures were completed not how they were exclusively performed on a particular day.
- If well known procedures were used, account the procedure by name, possibly with reference, and that's all.

Approach:

- It is embarrassed or not possible to use vigorous voice when documenting methods with no using first person, which would focus the reviewer's interest on the researcher rather than the job. As a result when script up the methods most authors use third person passive voice.
- Use standard style in this and in every other part of the paper - avoid familiar lists, and use full sentences.

What to keep away from

- Resources and methods are not a set of information.
- Skip all descriptive information and surroundings - save it for the argument.
- Leave out information that is immaterial to a third party.

Results:

The principle of a results segment is to present and demonstrate your conclusion. Create this part a entirely objective details of the outcome, and save all understanding for the discussion.

The page length of this segment is set by the sum and types of data to be reported. Carry on to be to the point, by means of statistics and tables, if suitable, to present consequences most efficiently.You must obviously differentiate material that would usually be incorporated in a study editorial from any unprocessed data or additional appendix matter that would not be available. In fact, such matter should not be submitted at all except requested by the instructor.

Content

- Sum up your conclusion in text and demonstrate them, if suitable, with figures and tables.
- In manuscript, explain each of your consequences, point the reader to remarks that are most appropriate.
- Present a background, such as by describing the question that was addressed by creation an exacting study.
- Explain results of control experiments and comprise remarks that are not accessible in a prescribed figure or table, if appropriate.
- Examine your data, then prepare the analyzed (transformed) data in the form of a figure (graph), table, or in manuscript form.

What to stay away from

- Do not discuss or infer your outcome, report surroundings information, or try to explain anything.
- Not at all, take in raw data or intermediate calculations in a research manuscript.
- Do not present the similar data more than once.
- Manuscript should complement any figures or tables, not duplicate the identical information.
- Never confuse figures with tables - there is a difference.

Approach

- As forever, use past tense when you submit to your results, and put the whole thing in a reasonable order.
- Put figures and tables, appropriately numbered, in order at the end of the report
- If you desire, you may place your figures and tables properly within the text of your results part.

Figures and tables

- If you put figures and tables at the end of the details, make certain that they are visibly distinguished from any attach appendix materials, such as raw facts
- Despite of position, each figure must be numbered one after the other and complete with subtitle
- In spite of position, each table must be titled, numbered one after the other and complete with heading
- All figure and table must be adequately complete that it could situate on its own, divide from text

Discussion:

The Discussion is expected the trickiest segment to write and describe. A lot of papers submitted for journal are discarded based on problems with the Discussion. There is no head of state for how long a argument should be. Position your understanding of the outcome visibly to lead the reviewer through your conclusions, and then finish the paper with a summing up of the implication of the study. The purpose here is to offer an understanding of your results and hold up for all of your conclusions, using facts from your research and generally accepted information, if suitable. The implication of result should be visibly described. Infer your data in the conversation in suitable depth. This means that when you clarify an observable fact you must explain mechanisms that may account for the observation. If your results vary from your prospect, make clear why that may have happened. If your results agree, then explain the theory that the proof supported. It is never suitable to just state that the data approved with prospect, and let it drop at that.

- Make a decision if each premise is supported, discarded, or if you cannot make a conclusion with assurance. Do not just dismiss a study or part of a study as "uncertain."
- Research papers are not acknowledged if the work is imperfect. Draw what conclusions you can based upon the results that you have, and take care of the study as a finished work
- You may propose future guidelines, such as how the experiment might be personalized to accomplish a new idea.
- Give details all of your remarks as much as possible, focus on mechanisms.
- Make a decision if the tentative design sufficiently addressed the theory, and whether or not it was correctly restricted.
- Try to present substitute explanations if sensible alternatives be present.
- One research will not counter an overall question, so maintain the large picture in mind, where do you go next? The best studies unlock new avenues of study. What questions remain?
- Recommendations for detailed papers will offer supplementary suggestions.

Approach:

- When you refer to information, differentiate data generated by your own studies from available information
- Submit to work done by specific persons (including you) in past tense.
- Submit to generally acknowledged facts and main beliefs in present tense.

Please carefully note down following rules and regulation before submitting your Research Paper to Global Journals Inc. (US):

Segment Draft and Final Research Paper: You have to strictly follow the template of research paper. If it is not done your paper may get rejected.

- The **major constraint** is that you must independently make all content, tables, graphs, and facts that are offered in the paper. You must write each part of the paper wholly on your own. The Peer-reviewers need to identify your own perceptive of the concepts in your own terms. NEVER extract straight from any foundation, and never rephrase someone else's analysis.
- Do not give permission to anyone else to "PROOFREAD" your manuscript.
- Methods to avoid Plagiarism is applied by us on every paper, if found guilty, you will be blacklisted by all of our collaborated research groups, your institution will be informed for this and strict legal actions will be taken immediately.)
- To guard yourself and others from possible illegal use please do not permit anyone right to use to your paper and files.

Criterion for Grading a Research Paper (Compilation) by Global Journals Inc. (US)

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Topics	Grades		
	A-B	**C-D**	**E-F**
Abstract	Clear and concise with appropriate content, Correct format. 200 words or below	Unclear summary and no specific data, Incorrect form Above 200 words	No specific data with ambiguous information Above 250 words
Introduction	Containing all background details with clear goal and appropriate details, flow specification, no grammar and spelling mistake, well organized sentence and paragraph, reference cited	Unclear and confusing data, appropriate format, grammar and spelling errors with unorganized matter	Out of place depth and content, hazy format
Methods and Procedures	Clear and to the point with well arranged paragraph, precision and accuracy of facts and figures, well organized subheads	Difficult to comprehend with embarrassed text, too much explanation but completed	Incorrect and unorganized structure with hazy meaning
Result	Well organized, Clear and specific, Correct units with precision, correct data, well structuring of paragraph, no grammar and spelling mistake	Complete and embarrassed text, difficult to comprehend	Irregular format with wrong facts and figures
Discussion	Well organized, meaningful specification, sound conclusion, logical and concise explanation, highly structured paragraph reference cited	Wordy, unclear conclusion, spurious	Conclusion is not cited, unorganized, difficult to comprehend
References	Complete and correct format, well organized	Beside the point, Incomplete	Wrong format and structuring

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