

GLOBAL JOURNAL

OF MANAGEMENT AND BUSINESS RESEARCH: C

Finance

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VOLUME 15

ISSUE 8

VERSION 1.0



GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH: C
FINANCE



GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH: C
FINANCE

VOLUME 15 ISSUE 8 (VER. 1.0)

OPEN ASSOCIATION OF RESEARCH SOCIETY

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Research. 2015.

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GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH: C
FINANCE

Volume 15 Issue 8 Version 1.0 Year 2015

Type: Double Blind Peer Reviewed International Research Journal

Publisher: Global Journals Inc. (USA)

Online ISSN: 2249-4588 & Print ISSN: 0975-5853

A Study of Inter Linkages of Stock Exchanges of Islamic Countries and US

By Rupreet Kaur & Dr. S.K. Singla

Punjab Technical University, India

Abstract- In the present era of globalization the trade is also interdependent in between the countries. The investors want to diversify the investments so that if he faces the loss from one side, he may recover it from the other side. In the case of stock exchanges, the investor wants to invest in the global stock exchange where there is no correlation among the stock exchanges. The current study attempts to study the interlinkage between the USA and Islamic countries. The study had chosen the Jakarta Stock Exchange (JKSE) from Indonesia, TASE from Israel (TA100), Kuala Lumpur Stock Exchange (KLSE) from Malaysia, Karachi Stock Exchange (KSE) from Pakistan and NYSE from USA for the purpose of the study. The closing data from 1st April 2005 to 31st Marc 2015 has been taken as the sample. For the analysis study used Auto Correlation, Unit root test, Granger Causality and Vector auto regression.

Keywords: *trade, investment, interlinkage, regression.*

GJMBR - C Classification : *JELCode : H54*



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A Study of Inter Linkages of Stock Exchanges of Islamic Countries and US

Rupreet Kaur^α & Dr. S.K. Singla^σ

Abstract- In the present era of globalization the trade is also interdependent in between the countries. The investors want to diversify the investments so that if he faces the loss from one side, he may recover it from the other side. In the case of stock exchanges, the investor wants to invest in the global stock exchange where there is no correlation among the stock exchanges. The current study attempts to study the interlinkage between the USA and Islamic countries. The study had chosen the Jakarta Stock Exchange (JKSE) from Indonesia, TASE from Israel (TA100), Kuala Lumpur Stock Exchange (KLSE) from Malaysia, Karachi Stock Exchange (KSE) from Pakistan and NYSE from USA for the purpose of the study. The closing data from 1st April 2005 to 31st Marc 2015 has been taken as the sample. For the analysis study used Auto Correlation, Unit root test, Granger Causality and Vector auto regression.

Keywords: trade, investment, interlinkage, regression.

I. INTRODUCTION OF THE STUDY

Investment in the stocks becomes a popular choice for the investors in the recent decade. The investor wants to minimize the risk of losing the money. "To minimize this risk investor wants to invest his money in the different stock exchanges. In these days everyone wants to invest their money in shares. So the exchanges become important, which provides services for stockbroker and traders to trade, stocks, bonds, and other securities. Apart from this the stock exchanges offer a number of different facilities which includes reclamation of securities and financial instruments. "Securities traded on a stock exchange include shares issued by companies, unit trusts, derivatives, pooled investment products and bonds". A stock exchange is basically a market where you buy and sell stocks. The stock exchange works by companies buying and selling stock in their companies.

The investors want to diversify the investments so that if he faces the loss from one side, he may recover it from the other side. In the case of stock exchanges, the investor wants to invest in the global stock exchange where there is no correlation among the stock exchanges. The reason is this that if there will be a co-integration between the stock exchanges the result of increase and decline will impact all the exchanges. *Elyasiani et al. (1998)* supported the statement in his research and stated that the investor continuously look

to invest in the markets which has no relation with each other. The same findings has been generated by *Wong et al (2004)*, *Hoque (2007)*, *Menon, Subha, Sagarani (2009)* in their studies.

This study investigates the inter-linkage among the stock exchanges of USA and Islamic Countries (Indonesia, Malaysia, Israel and Pakistan). The study had chosen the Jakarta Stock Exchange (JSX) from Indonesia, TASE from Israel, Kuala Lumpur Stock Exchange from Malaysia, Karachi Stock Exchange (KSE) from Pakistan and NYSE from USA for the purpose of the study.

II. REVIEW OF LITERATURE

A number of researchers studied the topic of inter-linkage among the stock exchanges. *The studies of Chan et al. (1992)*, *Chaudhuri (1997)*, *Masih. Et.al (1997)*, *Elyasiani et al. (1998)*, *Pan et al. (1999)*, *Verchenko (2000)*, *Bala and Mukand (2001)*, *Sharma and Wongbangpo (2002)*, *Worthington et al. (2003)*, *Yang et al. (2003)*, *Hoque (2007)*, *Menon Et. al (2009)*, *MacDonald (2001)*, *Serwa and Bohl (2003)*, *Wong et al (2004)*, *Narayan et al (2004)*, *Chuang et al (2007)*, *Wang and Gunasekarage (2005)*, *Singh et al (2008)*, *Elyasiani, Perera, Puri (1998) & Nair and Ramanathan (2003)* studied the relationship amongst the various stock markets.

Scholars have done the studies in the different parts of the globe. *Masih. Et.al (1997)* investigates the linkage between the NSE and the stick exchanges of Taiwan, South Korea, Singapore and Hong Kong. The researchers took the closing data of these stock exchanges from January 1982 to June 1994 as the sample for the study. *Elyasiani et al. (1998)* study the linkage between the US market and the Asian markets includes Sri Lankan Stock Market. *Verchenko (2000) & Bala and Mukand (2001)* evaluates the inter-linkage between the USA and the Indian stock markets. *Noor. Et.al (2006)* investigates the day-of-the-week effect, month-of-the year effect and holiday effects in Australia, China, Hong Kong, Japan, India, Indonesia, Malaysia, Singapore, South Korea and Taiwan stock markets. *Hoque (2007)* study the impact of Indian and US markets on the stock exchange of Dhaka. *Menon. Et.al (2009)* study the relationship amongst the Indian, US and Hong-Kong market. *Wong et al (2004)* studies the long and short term relationship amongst the Indian and worlds developed countries stock exchanges. *Kwan.*

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Et.al (1995) evaluates the relationship amongst the stock exchanges of Australia, Hong Kong, Japan, Korea, Taiwan, the U.K. and the US on the base of monthly return. *MacDonald (2001)* evaluates the relationship amongst the stock exchanges of US, Germany and UK. *Serwa and Bohl (2003)* studies the cointegration between the European stock markets i.e., Germany, UK, France, Ireland, Spain, Portugal, Greece, Poland, Czech Republic, Hungary and Russia. Study selects the data of 1997 and 2000 as sample.

Researchers used various tools to analyzed the data *Wong et al (2004)* used the Granger causality for the analysis. *Bala and Mukand (2001)*, *Wong et al (2004)*, *Hoque (2007)*, *Menon. Et.al (2009)* apply co integration model for the evaluation of the data.

The researchers revealed a number of facts in their respective research. *Masih. Et.al (1997)* revealed that there is not significant impacts of three stock markets on each other and they operates freely. *Elyasiani et al. (1998)* uncovers that there if no relationship found between the US and Sri Lankan markets with the major Asian Markets. *Verchenko (2000)* *Bala and Mukand (2001)* finds that there is opportunities for the investors to diversify their funds in Indian and US markets as there was no co-integration found in these two markets. *Noor. Et. al (2006)* reveals that the existence of seasonality in stock markets and also suggested that this is a global phenomenon. *Hoque (2007)* argues in his study that the Indian and the US markets does not impacts the Dhaka Stock Exchange. *Menon. Et.al (2009)* depicts that there is no relationship amongst the Indian and the US markets. The study also reveals that the result is same in the case of Indian and Hong Kong stock market also. *Wong et al (2004)* finds that after the globalization the stock markets of the globe effect each other upto a certain extent. *Kwan. Et.al (1995)* reveals that there is a perceptible relation between the returns of Australian market and the markets of Hong Kong, Japan, Korea, Taiwan, the U.K. and the US. *MacDonald (2001)* finds in his research that there is a co-integration in the long term returns of US, Germany & UK. *Serwa and Bohl (2003)* reveals the fact that the emerging markets does not impacts the emerged markets.

The above studies that have been undertaken, a majority has studied the linkages with the stock markets in the developed world. Moreover, there is hardly any research that has studied the stock market linkages between the US and Islamic nations. The present study will attempts to find out the relationship amongst the US and the Islamic market which is a study highly called for.

III. OBJECTIVES OF THE STUDY

- To evaluate the inter-linkage between the USA and Islamic Countries Stock Market.

- To suggest the investors the best stock exchanges for investment.
- To study the interdependency of the stock exchanges on each other.

IV. RESEARCH METHODOLOGY

The current study evaluates the relationship amongst stock markets of the NYSE and Indonesia, Malaysia, Israel, and Pakistan. The study selected the one major stock market from each country and take their indices as the closing data. Study selected the Jakarta stock exchange (JCI), TEL-Aviv stock exchange Israel (TA-100), Kuala Lumpur stock exchange (KLSE), New York stock exchange (NYSE composite) and Karachi stock exchange (KSE-100). The indices are used for stock exchanges are JCI, TA-100, FBMT 100, NYSE composite and KSE-100. All Share Index has been used for the study purpose. The daily closing levels of the five representative indices for a period beginning on 1st April 2005 through 31st March 2015 has been considered as the reference period. In this way, data of total 60 months are taken for the purpose of the study.

For the evaluation of the data econometrics tools has been applied. For the basic understanding of Unit root testing, we may look at the following equation

$$y_t = \rho y_{t-1} + x_t' \delta + \varepsilon_t, \quad (1.1)$$

where x_t are optional exogenous repressors which may consist of constant, or a constant and trend, ρ and δ are parameters to be estimated, and the ε_t are assumed to be white noise. If $|\rho| \geq 1$, y is a non-stationary series and the variance of y increases with time and approaches infinity. If $|\rho| < 1$, y is a (trend-) stationary series. Thus, we evaluate the hypothesis of (trend-) stationary by testing whether the absolute value of $|\rho|$ is strictly less than one.

The Standard Dickey-Fuller test is carried out by estimating equation (1.2) after subtracting y_{t-1} from both sides of the equation.

$$\Delta y_t = \alpha y_{t-1} + x_t' \delta + \varepsilon_t, \quad (1.2)$$

Where $\alpha = \rho - 1$. The null and alternative hypotheses may be written as,

$$\begin{aligned} H_0 : \alpha &= 0 \\ H_1 : \alpha &< 0 \end{aligned} \quad (1.3)$$

In order to make the series stationary, we take the log of the five series and arrive at the daily return of the two series.

The Granger (1969) approach to the question of whether x causes y is to see how much of the current y can be explained by past values of y and then to see whether adding lagged values of x can improve the explanation. y is said to be Granger-caused by x if x helps in the prediction of y , or equivalently if the coefficients on the lagged x 's are statistically significant.

$$y_t = \alpha_0 + \alpha_1 y_{t-1} + \dots + \alpha_i y_{t-i} + \beta_1 x_{t-1} + \dots + \beta_i x_{t-i} + \epsilon_t$$

$$x_t = \alpha_0 + \alpha_1 x_{t-1} + \dots + \alpha_i x_{t-i} + \beta_1 y_{t-1} + \dots + \beta_i y_{t-i} + \mu_t$$

The reported F-statistics are the Wald statistics for the joint hypothesis:

$$\beta_1 = \beta_2 = \dots = \beta_i = 0 \tag{1.5}$$

for each equation. The null hypothesis is that x does not Granger-cause y in the first regression and that y does not Granger-cause x in the second regression.

V. FINDINGS & ANALYSIS

This chapter reveals the result of the analysis of the data. There is a difference in the real time data of the exchanges and a huge deviation observed in the data,

thus the return has been calculated for all the indices. Fig.1 shows the graph of the return for all the indices. The graph shows comparatively a high stationarity. The return for the indices named as RNYA for New York Stock Exchange, RTA 100 for Israel Stock Exchange, RKSE for Karachi Stock Exchange, RKLSE for Kuala Lumpur Stock Exchange and RJKSE for Jakarta Stock Exchange.

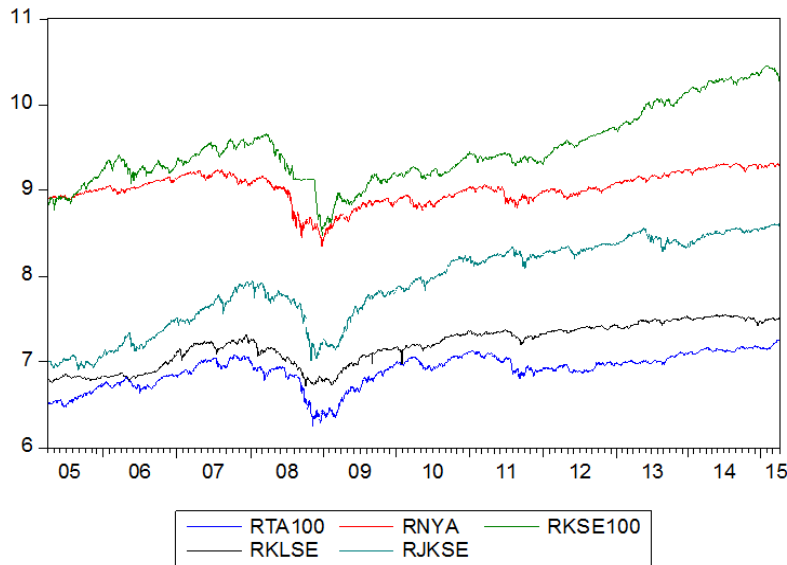


Fig. 1 : Chart of return (log) for indices

Further table 1 reveals the results of the descriptive statistics. The KSE shows the highest mean in return which 9.04 followed by the NYS 9.01 is. The deviation shows that the data is stationary in the nature

as the deviation is less than 1 in all the cases. The result of the Jarque-bera probability shows the normalcy of the data.

Table 1 : Descriptive Statistics

	RTA100	RNYA	RKSE100	RKLSE	RJKSE
Mean	6.901240	9.018974	9.475220	7.195857	7.897663
Median	6.937829	9.021328	9.385318	7.225714	7.928352
Maximum	7.259595	9.316690	10.45813	7.545733	8.615893
Minimum	6.249454	8.349085	8.479562	6.720715	6.902512
Std. Dev.	0.196122	0.182418	0.427684	0.243967	0.501428
Skewness	-0.884215	-0.662272	0.606847	-0.362975	-0.393119
Kurtosis	3.313461	3.463789	2.736547	1.867210	1.863964
Jarque-Bera	328.8768	200.8085	157.2667	184.5667	194.6127
Probability	0.000000	0.000000	0.000000	0.000000	0.000000

Table 2 reveals the results of the correlation analysis up-to the lag of 36. The results indicate that there is not much effect of the previous day trading on

the current day trading as the results of the correlation shows that the correlation is negligible right from lag of 2 and it continues up-to the lag of 36.

Table 2 : Correlation Statistics

	AC	PAC	Q-Stat	Prob
1	0.017	0.017	0.7334	0.392
2	-0.009	-0.009	0.9260	0.629
3	-0.039	-0.039	4.7208	0.193
4	-0.000	0.001	4.7209	0.317
5	0.012	0.011	5.0723	0.407
6	0.014	0.012	5.5341	0.477
7	-0.039	-0.039	9.3021	0.232
8	0.032	0.035	11.803	0.160
9	0.046	0.046	17.112	0.047
10	-0.007	-0.011	17.232	0.069
11	0.028	0.031	19.147	0.058
12	-0.046	-0.043	24.267	0.019
13	0.013	0.015	24.694	0.025
14	-0.000	-0.003	24.694	0.038
15	-0.012	-0.014	25.057	0.049
16	0.017	0.021	25.783	0.057
17	-0.006	-0.011	25.873	0.077
18	-0.011	-0.009	26.149	0.096
19	0.032	0.029	28.733	0.070
20	0.010	0.010	28.989	0.088
21	0.008	0.011	29.131	0.111
22	0.063	0.061	38.873	0.015
23	0.000	0.005	38.873	0.020
24	0.018	0.016	39.711	0.023
25	-0.011	-0.009	40.011	0.029
26	0.021	0.026	41.126	0.030
27	-0.013	-0.017	41.515	0.037
28	0.055	0.054	49.116	0.008
29	-0.052	-0.051	55.766	0.002
30	0.013	0.008	56.205	0.003
31	0.011	0.013	56.524	0.003
32	-0.027	-0.034	58.282	0.003
33	-0.005	-0.005	58.345	0.004
34	0.009	0.014	58.534	0.006
35	-0.012	-0.016	58.921	0.007
36	-0.008	-0.011	59.068	0.009

Though the results of the Group Unit root shows accept in the test. The probability value is more than that the data has a unit root as the null hypothesis is 0.05 in all the cases.

Table 3 : Group Unit Root Test

Method	Statistic	Prob.**	Cross-sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	0.00935	0.5037	5	12225
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	1.05537	0.8544	5	12225
ADF - Fisher Chi-square	4.15570	0.9400	5	12225
PP - Fisher Chi-square	4.21375	0.9372	5	12230

The table 4 reveals the results of the granger causality. The results shows that NYA cause RTA & KSE, KLSE Cause RTA& KSE, RTA cause JKSE. The result unearths that none of the stock exchanges cause NYA where KSE cause none of the stock exchanges but get impacted by NYA and KLSE. JKSE also does not cause any stock exchange but get influenced from KLSE.

Table 4 : Granger Causality Test

Null Hypothesis:	Obs	F-Statistic	Prob.
RNYA does not Granger Cause RTA100	2444	3.64984	0.0121
RTA100 does not Granger Cause RNYA		1.25555	0.2880
RKSE100 does not Granger Cause RTA100	2444	2.25551	0.0800
RTA100 does not Granger Cause RKSE100		1.54502	0.2008
RKLSE does not Granger Cause RTA100	2444	5.32913	0.0012
RTA100 does not Granger Cause RKLSE		0.73474	0.5312
RJKSE does not Granger Cause RTA100	2444	0.80384	0.4916
RTA100 does not Granger Cause RJKSE		3.66465	0.0119
RKSE100 does not Granger Cause RNYA	2444	1.10498	0.3458
RNYA does not Granger Cause RKSE100		3.76466	0.0104
RKLSE does not Granger Cause RNYA	2444	0.76338	0.5145
RNYA does not Granger Cause RKLSE		3.11541	0.0252
RJKSE does not Granger Cause RNYA	2444	0.33234	0.8020
RNYA does not Granger Cause RJKSE		2.01918	0.1091
RKLSE does not Granger Cause RKSE100	2444	2.69859	0.0443
RKSE100 does not Granger Cause RKLSE		0.08070	0.9705
RJKSE does not Granger Cause RKSE100	2444	0.82828	0.4782
RKSE100 does not Granger Cause RJKSE		0.14503	0.9329
RJKSE does not Granger Cause RKLSE	2444	0.06940	0.9763
RKLSE does not Granger Cause RJKSE		12.2537	6.E-08

Table 5 reveals the result of the vector auto regression test and it also reveal the fact that NYA regress the KSE and KLSE at the lag of 1, RTA regress KSE at lag of 2, KSE regress NYA at lag of 1, KLSE

regress KSE at lag of 1. The result also shows that NYS does not regress himself from a great extent whether all the other have a high regression in case of constant.

Table 5 : Vector Auto Regression

	RTA100	RNYA	RKSE100	RKLSE	RJKSE
RTA100(-1)	0.999605 (0.02026) [49.3429]	0.014694 (0.02301) [0.63867]	-0.033653 (0.02150) [-1.56528]	0.010188 (0.01595) [0.63858]	-0.003247 (0.02386) [-0.13611]
RTA100(-2)	-0.015211 (0.02019) [-0.75326]	-0.014361 (0.02293) [-0.62619]	0.025538 (0.02143) [1.19162]	-0.015688 (0.01590) [-0.98645]	0.010393 (0.02378) [0.43705]
RNYA(-1)	0.007656 (0.01782) [0.42961]	0.908917 (0.02024) [44.9054]	0.006421 (0.01891) [0.33950]	0.015451 (0.01404) [1.10084]	-0.027733 (0.02099) [-1.32141]
RNYA(-2)	-0.000384 (0.01795) [-0.02141]	0.081454 (0.02038) [3.99585]	0.009553 (0.01905) [0.50149]	-0.004270 (0.01414) [-0.30208]	0.016586 (0.02114) [0.78471]

RKSE100(-1)	-0.040733 (0.01898) [-2.14667]	0.025317 (0.02155) [1.17479]	1.125368 (0.02014) [55.8828]	-0.004056 (0.01494) [-0.27141]	-0.012878 (0.02235) [-0.57633]
RKSE100(-2)	0.037718 (0.01889) [1.99694]	-0.022036 (0.02145) [-1.02725]	-0.133635 (0.02005) [-6.66664]	3.99E-05 (0.01488) [0.00268]	0.013194 (0.02224) [0.59318]
RKLSE(-1)	0.030189 (0.02561) [1.17859]	0.018683 (0.02909) [0.64225]	0.030216 (0.02718) [1.11155]	0.880787 (0.02017) [43.6626]	0.027015 (0.03016) [0.89562]
RKLSE(-2)	-0.007007 (0.02585) [-0.27100]	-0.010704 (0.02936) [-0.36453]	-0.025724 (0.02744) [-0.93749]	0.111278 (0.02036) [5.46502]	0.013062 (0.03045) [0.42901]
RJKSE(-1)	-0.001916 (0.01716) [-0.11165]	0.000981 (0.01949) [0.05031]	0.001899 (0.01822) [0.10424]	0.009516 (0.01352) [0.70397]	1.075777 (0.02021) [53.2258]
RJKSE(-2)	-0.003458 (0.01701) [-0.20333]	-0.005345 (0.01932) [-0.27667]	0.001771 (0.01805) [0.09813]	-0.003651 (0.01340) [-0.27257]	-0.095911 (0.02003) [-4.78834]
C	-0.053362 (0.01679) [-3.17728]	0.030645 (0.01907) [1.60661]	-0.070524 (0.01782) [-3.95664]	-0.013734 (0.01323) [-1.03833]	-0.080530 (0.01978) [-4.07179]
R-squared	0.996204	0.994358	0.999102	0.998480	0.999195
Adj. R-squared	0.996189	0.994335	0.999099	0.998474	0.999192
Sum sq. resid	0.355930	0.459099	0.400895	0.220761	0.493586
S.E. equation	0.012093	0.013734	0.012834	0.009524	0.014240
F-statistic	63882.94	42896.64	270952.7	159915.0	302233.6
Log likelihood	7331.264	7020.099	7185.830	7915.196	6931.552
Akaike AIC	-5.987946	-5.733414	-5.868982	-6.465600	-5.660983
Schwarz SC	-5.961844	-5.707312	-5.842879	-6.439498	-5.634881
Mean dependent	6.901562	9.019063	9.475714	7.196186	7.898396
S.D. dependent	0.195880	0.182466	0.427510	0.243795	0.500976

VI. CONCLUSION

The study reveals that there is a notable impact of the New York Stock Exchange on the other Muslim stock exchanges but there is no reverse impact of these stock exchanges on the NYA. The research also unearths that Karachi stock exchange does not impact any of the stock exchanges but get influenced from New York Stock Exchange and Kualalumpur Stock Exchange. The case os same in the case of Jakarta Stock Exchange also where the JKSE get influenced by KLSE but does not influence any of the stock exchange. The study further shows that there is no impact of the last day on the present day trading on any of the stock exchange which is a good sign for the investors. The results of the regression also shows the same results that NYA regress most of the stock exchanges on the lag of 1. Regression results further reveals that apart from NYA most of the stock exchange regress them self.

To conclude the study may suggest that these countries are good option for the investors as there is no huge relationship observed between these stock exchanges.

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GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH: C
FINANCE

Volume 15 Issue 8 Version 1.0 Year 2015

Type: Double Blind Peer Reviewed International Research Journal

Publisher: Global Journals Inc. (USA)

Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Executive Stock Option Contract Increases Firm Value and Performance: A Case Study on Starbucks Company

By Afzal Ahmad

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Abstract- A diversified stock option plan design plays a crucial role in the effectiveness of option contracts management and elimination of the free-rider problem. The aim of this study is to examine how a company can be used stock options in risk management and solving the agency problem rewarding employees and managers. The stock options plans offered by Starbucks engage all employees and executives into the ownership providing appropriate motivation and incentive and solving the agency problem. However, the study found that, this could also trigger more risk taking on the part of the top managers.

GJMBR - C Classification : JELCode : H54



Strictly as per the compliance and regulations of:



Executive Stock Option Contract Increases Firm Value and Performance: A Case Study on Starbucks Company

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Abstract- A diversified stock option plan design plays a crucial role in the effectiveness of option contracts management and elimination of the free-rider problem. The aim of this study is to examine how a company can be used stock options in risk management and solving the agency problem rewarding employees and managers. The stock options plans offered by Starbucks engage all employees and executives into the ownership providing appropriate motivation and incentive and solving the agency problem. However, the study found that, this could also trigger more risk taking on the part of the top managers.

I. INTRODUCTION

The aim of this study is to assess the use of stock options contracts in risk management. Stock options are derivative instruments that provide a right to the holder to purchase the stock of the company, which is used as the underlying asset. This opportunity to purchase stocks is provided in return for a premium or as a compensation for work. Yet, there is no obligation that the options have to be exercised. The desire of firms to manage financial and other risks effectively and thus maximise shareholders' wealth encourages the use of equity incentives in various forms including stock options. By using stock options, the company can reduce its risk by keeping managers interesting in maintaining high value of the company and good performance (Core, Guay and Larcker, 2003). Moreover, if the company is involved in stock trading and purchases of shares of other companies, stock options can be used as hedging instruments to protect against the downside risk.

With the rapid growth of the markets in the 1990s, many companies adopted employee stock options at all levels of their organisations without any specific attention to the stock option plans design. This illustrates the expansion of the use of stock options not only in risk management and trading but also as a reward system (Brandes, Dharwadkar, and Lemesis, 2003). While the shareholders expect to negate risk aversion among managers, managers with large stock holdings appear to undertake risk-reducing actions (May, 1995). That points to the direct correlation between the effectiveness of compensation plans and

overall company performance. The direct relation between the use of stock options and risk taking has been empirically proven (Rajgopal and Shevlin, 2002).

The main objective of this paper is to discuss the general use of stock option contracts in risk management of companies. This is done by reviewing the literature on how options influence executives' risk taking and conducting a case study of Starbucks Corporation.

In the first, theoretical, part of the paper the literature concerning the general use of stock options, how they work and how they impact risk and risk management is reviewed. In the second part of the paper the application of the stock options at Starbucks Corporation is assessed using the information provided by the company in its annual reports (Starbucks Corporation, 2013).

II. LITERATURE REVIEW

There is a variety of stock options available for companies and investors. They include American options, European options, barrier options, Asian options, and other exotic options. There are also stock options as a form of employee and management compensation. There is a put option and a call option. The former entitles the holder to sell underlying shares whereas call options give the right to buy shares.

In terms of non-cash compensation, stock option can be defined as a right to purchase shares of the corporation "at or below the market price at the time the option is granted for a specified period of years" (Downes and Goodman, 2010, p. 708) in quantities that are indicated in the stock option contract. Important grant details of the stock option agreement include exercise price per share, vesting commencement date, and expiration date (Kolb, 2012). Exercise price, also referred to as the strike price, is the price at which the holder of an option can buy the underlying asset, namely stocks of the company. Vesting period is the period of time between the date when the option was granted and the time the options can be owned and exercised. An exercise price remains fixed and can be exercised no earlier than the vesting date and no later than the expiration date. However, European options do not allow for an earlier exercise. There is a fixed date (Oyer and Schaefer, 2002).

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The cash profit is usually gained with the exercise of the stock options and the sale of the stock, otherwise the option is not exercised and investor incurs a loss equal to the premium paid (Heath, Huddart and Lang, 1999).

In the context of the stock options used by companies as a form of managing the risk taken by employees and managers, Olagues and Summa (2010) suggest that maximisation of the long-term potential value can be reached through avoiding exercise, because exercising long before the expiration date leads to forfeiture of the time premium, which is often quite big, especially if the stock is volatile. Not to mention that any intrinsic value of the options becomes subject to taxation.

Companies widely use employee stock options as a part of compensation package to retain and encourage executives to act in the shareholders' interests and link this form of compensation to value-building performance. Such options serve as one of the risk management tools in companies (Marin, 2008).

Stock options provide incentives to top managers to influence the value of the firm by taking actions to increase the stock value which is of benefit to other shareholders (Kolb and Overdahl, 2010). Those actions would be risk-taking actions since option value increases with volatility. This argument is consistent with the Agency theory proposed by Jensen and Meckling (1976) who show that stock options spur risk-taking by managers. Gormley, Matsa and Milbourn (2013) also agree that stock options provided by the company increase risk taking by company managers. However Carpenter (2000) says that stock options will not necessarily lead to greater risk by explaining that risk-averse managers who own more options and thus being more exposed may choose a rather safer strategy. Ross (2004, p. 224) points that the relationship between the use of stock options and risk taking by managers depends on the manager's utility function by saying that "It is routine for commentators to argue that call options increase the manager's willingness to take risk. We now know, though, that this also depends on the wealth effect of the options" (Ross, 2004, p.224).

Kadan and Swinkels (2006) with their empirical research results complement Ross and Carpenter's findings on the statement that the changes in the distribution of stock options within a company do not necessarily impact in the obvious direction in the presence of a risk-averse leader. In other words, higher effort impelled by more options does not always provide significant changes in volatility of the stock price (Hall, 2003).

Risk-averse executives seek to diversify their personal portfolios, so they are prone for premature exercise and partly because of that they might place a lower value on stock options than the potential cost to shareholders (Gillan, 2001). In this case, compensation

costs to shareholders more than its perceived value to employees, making its appropriateness at least questionable (Lazear, 2002).

III. CASE STUDY

Companies can use options for hedging purposes and this is one part of risk management. However, firms can also use stock options as a form of compensation. When use for hedging purposes, call options provide the right to purchase a particular amount of stocks. The price and a period of time of such purchase are predetermined. An option holder does not have an obligation to buy the security and this is the major difference of options from futures and forward contracts. Still, an option holder pays option premium and therefore need to evaluate whether the benefits of an option hedge are worth this premium (Madura, 2011). Put options provide the buyers of the option with the right to sell a particular amount of securities at a predetermined price and within a predetermined period. Similarly to the call option the put option contract is the right but not the obligation for the holder of the option. Normally the buyer of the call option expects the increase of the price of the underlying security in future. In this case if the exercise price of an option is lower than the market price, option holder has an opportunity to buy the security at the price that is below market price. On the other hand, the holder of the put option expects the decrease of the security price in future. Thus he seeks for an opportunity to sell the security at a price that is higher than market price (Roberts, 2006).

One of the disadvantages of options hedging is the fact that the cost of hedging is not known at the time of purchase of the options. It becomes known only when the payables are due. Therefore option holders need to assess what would be the cost of hedging under different circumstances. The cost of hedging consists of the security price and the premium that is paid for the option (Madura, 2011). The disadvantages of options hedging include the facts that premium payment is required for holding the options. The premium normally includes two components. The first one is the intrinsic value which represents the amount by which the exercise price exceeds the current price of the futures market. The second one is the time value. It represents the amount that is required by the option seller to compensate for the risk that he bears in the course of the life of the contract. Besides only a fixed quantity of securities is available. Nevertheless the major advantage of options hedging is the right to cancel the commitment. This provided greater flexibility to the option holder (Anderson et al., 2012).

Starbucks Corporation uses stock options mainly to reward employees and thus manage the agency problem in the company. The company's stock

option contracts are quite unique. Starbucks diversifies stock options and equity reward plans into three categories (Starbucks Coffee Company, 2012):

- a) *Stock Investment Plan* (started in 1995). This stock option is available to the company's employees who have been employed for at least three months and worked at least twenty hours a week. This options contract gives the right to purchase the stocks of Starbucks at a price 5% lower than the market value.
- b) *Bean Stock Option* (started in 1991). This stock option is available to employees but not executives and top managers. The stock options are granted by Starbucks under a condition that the receiver of the option has worked at least 360 hours.
- c) *Key Employee Stock Plan*. This stock option scheme is designed by Starbucks specifically for the top management team and directors of the company. These stock options have a long expiration date extending up to 10 years. The vesting period ranges from one to three years.

Under these equity plans Starbucks grants non-qualified stock options, incentive stock options, restricted stock and restricted stock units. Fair value for stock options is measured according to the Black-Scholes-Merton option pricing model.

According to the annual report (Starbucks Corporation, 2013), 18.2 million shares of common stock were available for issuance as of September 2013. The fair value of stock options during the period 2011-2013 varied from \$9.58 to \$12.88 with the volatility of the underlying asset reaching 39%.

The stock options plans offered by Starbucks engage all employees and executives into the ownership providing appropriate motivation and incentive and solving the agency problem. However, as it was noted in literature review, this could also trigger more risk taking on the part of the top managers.

IV. CONCLUSION

In conclusions, stock options have been widely used in companies with a purpose of risk management and solving the agency problem rewarding employees and managers. If applied properly, the use of stock options can potentially enhance the firm value and overall performance. A diversified stock option plan design plays a crucial role in the effectiveness of option contracts management and elimination of the free-rider problem. It is important to differentiate between stock-based compensation packages according to the position levels to reach the effective ownership engagement of lower level employees and interest alignment between shareholders and executives. Executive stock option compensation and incentives plans must balance in cost and volumes in order to

encourage a proper amount of risk taking actions yet avoid inadequate overdose of options. At last, it would be fair to mention that in today's human capital oriented corporate structures, when more companies treat all employees as their key talents and develop benefit schemes accordingly, it is essential to not just design an effective compensation plan but also complement it with a truly committed ownership culture inside the company, as can be seen in the Starbucks' case study.

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Foreign Direct Investment (FDI) in SAARC Countries

By Md. Joynal Abdin

Abstract- The South Asian Association for Regional Cooperation was officially established in December 08, 1985. The South Asian Free Trade Area (SAFTA) enter into force on July 01, 2006 under the umbrella of SAARC. From the same platform the SAARC Agreement on Trade in Services enter into force on November 29, 2012. SAARC Agreement on Promotion and Protection of Investment is yet to be finalized and enter into force. In the meantime 30 years gone. SAARC is the home of 21% (1.7 billion) world's population with 9.12 % of global wealth. Combined SAARC is the third largest economy of the world. But a significant number of world's poor people are living in this region. With its diverse landscape and variety of natural resources SAARC has every potential for economic development and poverty alleviation within shortest possible time. To achieve this objective SAARC leaders has to be committed for further economic integration under this common platform. Employment generation and entrepreneurship development could be an effective weapon in this regard. To generate employment for such a huge amount of population huge investment is needed. Intra SAARC investment promotion as well as attracting foreign direct investment (FDI) could be the one of the best options. SAARC Agreement on Promotion and Protection of Investment has to be enter into force as soon as possible. At the same time a central institution has to be established to promote FDI into the SAARC countries as per respective competitiveness, raw materials, skilled manpower etc. availability.

Keywords: foreign direct investment (FDI); FDI into SAARC region, intra-SAARC FDI trend; investment promotion under the umbrella of SAARC; SAARC agreement on investment promotion.

GJMBR - C Classification : JELCode : H54



Strictly as per the compliance and regulations of:



Foreign Direct Investment (FDI) in SAARC Countries

Md. Joynal Abdin

Abstract- The South Asian Association for Regional Cooperation was officially established in December 08, 1985. The South Asian Free Trade Area (SAFTA) enter into force on July 01, 2006 under the umbrella of SAARC. From the same platform the SAARC Agreement on Trade in Services enter into force on November 29, 2012. SAARC Agreement on Promotion and Protection of Investment is yet to be finalized and enter into force. In the meantime 30 years gone. SAARC is the home of 21% (1.7 billion) world's population with 9.12 % of global wealth. Combined SAARC is the third largest economy of the world. But a significant number of world's poor people are living in this region. With its diverse landscape and variety of natural resources SAARC has every potential for economic development and poverty alleviation within shortest possible time. To achieve this objective SAARC leaders has to be committed for further economic integration under this common platform. Employment generation and entrepreneurship development could be an effective weapon in this regard. To generate employment for such a huge amount of population huge investment is needed. Intra SAARC investment promotion as well as attracting foreign direct investment (FDI) could be the one of the best options. SAARC Agreement on Promotion and Protection of Investment has to be enter into force as soon as possible. At the same time a central institution has to be established to promote FDI into the SAARC countries as per respective competitiveness, raw materials, skilled manpower etc. availability.

Keywords: foreign direct investment (FDI); FDI into SAARC region, intra-SAARC FDI trend; investment promotion under the umbrella of SAARC; SAARC agreement on investment promotion.

I. INTRODUCTION

The South Asian Association for Regional Cooperation (SAARC) was officially established in December 08, 1985. But the idea for the SAARC was proposed on May 2, 1980, by Ziaur Rahman, the then President of Bangladesh. Major objective of the SAARC is to undertake collective effort toward collective progress for the involved nations of South Asia. Current members of SAARC are the Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. Since inception SAARC leaders meet 18 times and signed a long list of agreements, conventions, understandings and declarations.

Most importantly a number of regional centers were established including the SAARC Agricultural Centre (SAC), SAARC Meteorological Research Centre

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(SMRC), SAARC Forestry Centre (SFC), SAARC Development Fund (SDF), SAARC Documentation Centre (SDC), SAARC Disaster Management Centre (SDMC), SAARC Coastal Zone Management Centre (SCZMC), SAARC Information Centre (SIC), SAARC Tuberculosis and HIV/AIDS Centre (STAC), SAARC Human Resources Development Centre (SHRDC), SAARC Energy Centre (SEC), and SAARC Cultural Centre (SCC) etc. under the umbrella of SAARC. A good number of apex bodies (professional body, trade body) were establish like SAARC Chamber of Commerce & Industry (SCCI), South Asian Association For Regional Cooperation In Law(SAARCLAW), South Asian Federation of Accountants (SAFA), South Asia Foundation (SAF), South Asia Initiative to End Violence Against Children (SAIEVAC), and Foundation of SAARC Writers and Literature (FOSWAL) etc. under the same umbrella.

Vital achievement of SAARC is to negotiate, sign and activate the South Asian Free Trade Agreement (SAFTA). It opened up our eyes to go further cooperation with visa free South Asia, South Asian Customs Union, South Asian Economic Union, South Asian Investment Forum, South Asian Common Market, South Asian Single Currency, South Asian Common Security Force, South Asian Roads and Water Transport Movement, and South Asian Free Movement of People and Goods etc.

SAARC has potentials to be a powerful regional block in near future if our political leaders become wise, liberal and compromising. SAARC covers 3% of world's geographic territories with 9.12% of global wealth, 21% of world's population (about 1.7 billion). Combined SAARC is the world's 3rd largest economy after the United States and China. Coverage and capacity of SAARC could be further extended if two neighboring observers' state the Myanmar and China upgraded into full member status (may be in near future).

Along with all the above achievements SAARC has few limitations like significant amount of world's poor populations, lack of human development initiatives, political rivalry between the member states, emergence of few trade agreement among few members countries, poor infrastructure, lack of connectivity, complex visa procedures and mistrust between the general people derived from religious extremism etc.

At this moment about half billion poor population is the most severe problem for the SAARC

region. Most of the criminal/terrorist/illegal occurrences derives from or by this frustrated poor populations. Human capacity development initiative should be the number one priority for the SAARC leaders at this moment. Employment generation and entrepreneurship development could be the best tools to overcome this severe problems of the SAARC region. It will increase combined SAARC GDP, export earnings, and ensure faster and inclusive economic growth of the region.

Common initiative could be taken to increase investment in the SAARC region either by the entrepreneurs of SAARC member states or to attract foreign direct investment (FDI) into the SAARC region. Common SAARC industrial area could be developed in suitable locations. Inter, intra as well as extra SAARC investment promotion package could be offered to attract new investment & FDI to promote employment generation and poverty alleviation of each of the member state.

a) *Problem Statement/Core Focused Area*

South Asian Free Trade Area, SAARC Agreement on Trade in Services etc. are entered into force under the umbrella of SAARC. A number of regional centers were established to cooperate in various fields. But during last one and half decades SAARC Agreement on Investment Promotion and Protection is in negotiation table. As most of the SAARC countries are discouraging investment abroad by respective citizen's intra SAARC FDI in not occurring significantly. At the same time till now there are no common initiative to attract FDI into the SAARC countries.

b) *Objectives of this study*

Main objective of this study is to analyze current trend of FDI into the SAARC countries. What are the potential sectors for investment in the SAARC countries, who are the investor countries, what are the challenges to increase intra SAARC FDI, How intra SAARC FDI could be further promoted under a common platform.

c) *Methodology*

This study is conducted based on the secondary data and information available in different international databases and publications. A number of research articles, study reports, working papers etc. were studied to find out the facts.

d) *Scope of the Work*

Four internationally reputed databases namely; ITC Trade Map, ITC Investment Map maintained by the International Trade Center, UNCTAD Start Database maintained by the United Nations Conference on Trade and Development, and the World Development Indicators Database maintained by the World Bank help the author to get adequate data required for analysis in this study. Qualitative information were taken from several study reports, research reports published by the

SAARC Headquarter, SAARC Chambers of Commerce and Industries, the Federation Chambers and Investment Promotion Agencies of respective countries.

e) *Limitation of this study*

Main limitation of this study is it contains secondary study materials only. A number of focused group discussion (FGD), key informant interview (KII) could be organized in each of the SAARC countries to find out the fact from the primary sources. As we have budgetary constraints and limited resources we studies only secondary materials and used information from several internationally reputed databases.

f) *Literature Review*

The Government of the People's Republic of Bangladesh sent a proposal to the Heads of the States of seven South Asian countries to think about a platform of regional cooperation in November 1980. Following that proposal, Foreign Secretaries of seven South Asian countries met for the first time in Colombo in April 1981. That meeting was followed by the foreign ministers' meeting in New Delhi in August 1983, the adoption of the Declaration on South Asian Regional Cooperation, as well as the launching of the Integrated Program of Action (IPA), which initially addressed five areas of cooperation: (i) agriculture, (ii) rural development, (iii) telecommunications, (iv) meteorology, and (v) health and population. Two additional areas, covering (vi) scientific and technological cooperation and (vii) sports, arts and culture were added to the IPA at a later stage. At a meeting of Heads of State of Government, held in Dhaka on 7-8 December 1985, a Charter was adopted that formally to establish South Asian Association for Regional Cooperation (SAARC). The 1985 meeting in Dhaka is subsequently known as the first SAARC Summit (Abdin 2009).

The SAARC Preferential Trading Arrangement (SAPTA) was initiated in April 11, 1993 and in enter into force in December 7, 1995. SAARC leaders felt importance to move further from SAPTA into SAFTA in December 1995. As a result SAFTA enter into force in July 1, 2006. SAARC Agreement on Trade in Service was signed in April 2010 and enter into force on November 29, 2012 (SAARC Secretariat 2015). The SAARC Agreement on Promotion and Protection of Investment was drafted in 2004 and till now it is in negotiation table. The SAARC Chamber of Commerce and Industry (SCCI): It was set up in 1992 as the first recognized regional Apex Body. SCCI brings together under one umbrella the national chambers of commerce and industry of the member States and is actively engaged in the promotion of trade and the interaction of the business community within the SAARC region (Aggarwal 2008). Besides these several understanding were signed regarding, SAARC Cooperation in Standards, Cooperation in Avoidance of Double Taxation, Customs Cooperation, SAARCSTAT,

Organizing SAARC Trade Fairs, and establishing SAARC Arbitration Council etc.

Due to the rival political relationship among few SAARC countries it took time to make decision and enter into force. Therefore several regional / bilateral initiatives like, APTA, BIMSTEC were signed or reinforce to offer similar free trade cooperation with few of the SAARC members states. But to be a real regional economic block SAARC has no alternative. Therefore it is time for the South Asian Leaders to make it effective and more cooperative along with investment agreement, free movement of people and goods, regional land, sea

and air connectivity, transport facility, investment promotion etc. features.

II. FDI INFLOWS INTO THE SAARC COUNTRIES

During last 10 years the largest economy of SAARC i.e. India got highest amount of FDI inflows followed by Pakistan, Bangladesh and Sri Lanka. The land locked countries like Nepal and Bhutan is performing poor in this regard. War affected Afghanistan's performance is extremely poor in FDI attraction.

Table 1 : FDI Inflows into the SAARC Countries (USD in Million)

Country/ Years	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Afghanistan	186.9	271	238	188.69	94.38	75.73	211.25	83.41	93.8	69.29
Bangladesh	460.4	845.26	792.48	666.36	1086.31	700.16	913.32	1136.38	1292.56	1599.13
Bhutan	8.85	6.21	72.16	3.02	19.90	71.65	30.80	25.92	21.83	21.28
India	5777.80	7621.76	20327.76	25349.89	47138.73	35657.25	27431.23	36190.4	24195.77	28199.44
Maldives	52.93	73.23	95.22	132.43	181.25	157.96	216.46	256.46	283.97	325.25
Nepal	-0.41	2.45	-6.64	5.89	1.01	38.55	86.73	95.48	91.97	73.63
Pakistan	1118	2201	4273	5590	5438	2338	2022	1326	859	1307
Sri Lanka	233	272	480	603.4	752.2	404	477.6	981.1	941.12	915.57

Source: UNCTAD Start Database (<http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>). Collected on August 6, 2015. Compiled by the author.

From an analytical point of view overall performance of SAARC countries in FDI attraction in comparison with Vietnam, Singapore is not well at all.

a) Ranking of the SAARC countries in FDI attraction

If we consider total amount of FDI inflows into the SAARC countries India got 85% of total FDI inflows

into the SAARC countries. Then 85% of the total inflows entered into India followed by Pakistan with 9% of total FDI inflows and Bangladesh's position is 3rd with only 3% of total FDI inflows.

Table 2 : Ranking of the SAARC countries in FDI attraction

Country	Total FDI Inflow (2004 - 2013)	Each country share	FDI Ranking
Afghanistan	1512.46	0.49 %	6th
Bangladesh	9492.36	3.12 %	3rd
Bhutan	281.65	0.09 %	8th
India	257890.05	84.86 %	1st
Maldives	1775.21	0.58 %	5th
Nepal	388.67	0.12 %	7th
Pakistan	26472	8.71 %	2nd
Sri Lanka	6059.99	1.99 %	4th
Grand Total	303872.39	100 %	

Source: Compiled by the author based on UNCTAD Start Database.

b) FDI Inflows (Net) in percentage of GDP of the SAARC countries

Maldives is the only SAARC country attracted FDI inflow about 13% of its total GDP. Bhutan got about 3% of its GDP. India got 1.5% even sometimes 3.5 % of

its GDP. Bangladesh being able to attract FDI up to 1% of its GDP.

From this perspective SAARC countries are performing very poor in comparison with the ASEAN countries. For example Singapore got FDI inflow about

22% of its GDP. Vietnam got FDI inflow about 7% of its total GDP. Thailand, Indonesia and Malaysia is also doing comparatively well in FDI attraction than that of the SAARC countries.

If a combined effort is taken under the umbrella of SAARC to establish an institute for promoting FDI into

the SAARC countries and inspiring intra SAARC FDI investment then obviously SAARC countries will perform better than their current condition.

Table 3 : FDI inflows in percentage of respective GDP (% of GDP)

Country/Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Afghanistan	3.5	4.3	3.4	1.9	0.9	1.7	0.5	0.5	0.5	0.3
Bangladesh	0.7	1.1	1.0	0.8	1.1	0.8	0.7	0.9	1.1	1.0
Bhutan	1.3	0.8	0.7	6.2	0.2	1.4	4.7	1.7	1.3	2.8
India	0.8	0.9	2.1	2.0	3.5	2.6	1.6	2.0	1.3	1.5
Maldives	4.4	4.7	4.3	7.6	8.6	7.3	9.3	17.2	9.0	13.3
Nepal	0	0	-0.1	0.1	0	0.3	0.5	0.5	0.5	0.4
Pakistan	1.1	2.0	3.1	3.7	3.2	1.4	1.1	0.6	0.4	0.6
Sri Lanka	1.1	1.1	1.7	1.9	1.8	1.0	1.0	1.6	1.6	1.4

Source: World Development Indicators, the World Bank. Link is <http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS/countries?display=default>, Collected on August 5, 2015.

c) Top 10 Sectors attracting more FDI into the SAARC Region

SAARC countries are having almost similar product in their export basket, accordingly SAARC countries are trying to get investment into the same industrial sector of their own. For example Textile, clothing and readymade garment is a common industrial sector for almost all the SAARC countries like, Bangladesh, India, Sri Lanka and Pakistan everybody is trying to flourish respective garment industries and get FDI in it.

Similarly telecommunication, IT, ICT and Tourism are the common sectors for almost every SAARC countries. For example Bangladesh, India, Afghanistan are getting highest FDI in respective telecommunication and ICT sector. At the same time Nepal, Bhutan, India, Bangladesh, Sri Lanka, Maldives are fighting to promote respective tourism sectors and attract more tourists into their spots.

Generally it may be understand that all the SAARC countries are fighting with same industries but there are some basic differences as well. Therefore we are in need of classifying the industries based in respective competitive advantages. Allocating specialized sector for respective countries. So that, we will not be competitor rather we all countries will promote others industries as complement not supplement each other's. For example Afghanistan, Bangladesh Nepal, Bhutan, India and Pakistan have hill stations as tourist spots. But same environment is not everywhere. Pakistan, India and Nepal have snow covered hill station on the other hand Bangladeshi hill stations are ever green. Bangladesh, India, Sri Lanka, and Maldives have sea beaches but Nepal, Bhutan and Afghanistan do not. So they could promote the beauty of sea beaches to the tourist used to visit hill station this year it may be happened they are planning to visit a sea beach next year.

Table 4 : Major FDI receiving sectors of SAARC region

Sl.	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
1	Agriculture and Related Industries	Textiles, clothing and leather	Hotels	Unspecified secondary	Tourism	Hydro-electricity	Petroleum	Chemicals and chemical products
2	Construction	Finance	Agro & Food	Hotels and restaurants	Fisheries	Tourism	Finance	Food, beverages and tobacco
3	Telecommunications	Electricity, gas and water	Financial Services	Finance	Transportation & shipping	Health	Chemicals and chemical products	Metal and metal products
4	Transports and logistics	Transport, storage and communications	IT	Electricity, gas and water	Telecommunication & ICT	Education	Motor vehicles and other transport equipment	Non-metallic mineral products
5	Mining	Non-metallic mineral products	Ferro Alloys	Construction	Power	ICT	Electricity, gas and water	Other manufacturing
6	Power	Chemicals and	Power	Business		Carpets &	Construction	Textiles, clothing

		chemical products		activities		Woolen products		and leather
7	Water	Other manufacturing	Metals	Unspecified tertiary		Readymade Garment	Non-metallic mineral products	Unspecified tertiary
8		Food, beverages and tobacco	Pharmaceuticals	Wholesale and retail trade		Pashmina and Silk Products	Business activities	Wood and wood products
9		Unspecified tertiary	Gases	Transport, storage and communications		Handicraft	Coke, petroleum products and nuclear fuel	
10		Metal and metal products	Mineral Based	Education		Tea	Textiles, clothing and leather	

Source: ITC Investment Map (<http://www.investmentmap.org>). Collected on August 5, 2015. Compiled by the author.

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d) Sources of FDI into SAARC Countries member states. There are few regional like Singapore, Most of the SAARC countries got FDI China, Japan and Indian investments as well. investment from the western countries like USA and EU

Table 5 : Major Sources of FDI into the SAARC Countries

Sl.	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
1	India	United Arab Emirates	India	Mauritius	Italy	India	USA	China
2	USA	Kingdom of Saudi Arabia (KSA)	Singapore	Singapore	UK	China	UK	Hong Kong
3	China	United Kingdom	Japan	USA	Germany	EU member states	UAE	Singapore
4	UAE	United States	USA	UK	France	USA	Japan	Netherlands
5		The Netherlands	EU member states	Netherlands	Japan	South Korea	Hong Kong	Malaysia
6		Egypt		Japan	China		Switzerland	UK
7		Malaysia		Cyprus	India		KSA	India
8		South Korea		Germany	Switzerland		Germany	
9		India		France	Russia		South Korea	
10		China		UAE			Norway	

Sources: Compiled by the author from the following sources:

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e) *FDI Outflow of the SAARC Countries*

Most of the SAARC countries other than India had restrictions to invest outside their respective

territories. As a result FDI outflow of the SAARC countries other than India is not significant at all.

Table 6 : FDI Outflows of the SAARC Countries

Country / Years	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Afghanistan	..	..	..	..	..	..	..	..	..	..
Bangladesh	5.7	3.3	3.6	21	9.3	29.3	15.4	13.04	52.78	32.27
Bhutan	..	..	..	..	..	..	..	..	..	..
India	2175.36	2985.48	14284.9	17233.76	21147.36	16031.3	15932.52	12456.13	8485.699	1678.743
Maldives	..	..	..	..	..	..	..	..	..	..
Nepal	..	..	..	..	..	..	..	..	..	..
Pakistan	56	45	109	98	49	71	47	62	82	237
Sri Lanka	6	38	29	55	61.7	20	42.5	60	63.93	65.07

Source: UNCTAD Start Database (<http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>). Collected on August 6, 2015. Compiled by the author.

III. ECONOMIC AND TRADE CO-OPERATION UNDER SAARC

Till now SAARC do not have visible achievements in terms of investment promotion. But I think it's ground works were started in form of signing and activating South Asian Free Trade Agreement (SAFTA), SAARC cooperation in Standards, SAARC Agreement on Trade in Services, Cooperation in Avoidance of Double Taxation, SAARC Customs Cooperation, Organizing SAARC Trade Fairs for several times, establishment of SAARC Chamber of Commerce and Industry, and SAARC Arbitration Council. Now it is the time to finalize and activate Agreement on Promotion and Protection of Investment among the SAARC Countries. This agreement may consider to establish a body for united effort to attract foreign direct investment (FDI) into the SAARC states based on respective competitive advantages of different member countries.

a) *Current economic dynamics of the SAARC Countries*

SAARC is covering about 3% of global territory with all features of the earth. There are to mountains, deep oceans, longest sea beaches, deserts, plain lands, green fields etc. Most of the SAARC countries have more than thousand dollar GDP per capita and positive growth rates. SAARC countries are till now trade deficit countries. All the SAARC countries are importing more than that of their exports. As a result united SAARC is one of the largest buyers of the globe. Most of the SAARC countries used to import capital machineries, raw materials, and chemicals. On the other hand their export basket is comparatively small and fixed with same or similar products. They must have to diversify their export basket to grow further and capture a larger portion of the global trade.

Table 7 : Macroeconomic dynamics of SAARC Countries

Countries / Indicators	Territory (km2)	Population	GDP (PPP, in bn. USD)	GDP (Nominal, in bn. USD)	GDP Per-capita (nominal, in USD)	Total Export - 2014 (in USD thousand)	Total Import - 2014 (in USD Thousand)	Trade Balance (in USD Thousand)
Afghanistan	652,000	31,822,848	36.83	21.74	695	845,891	6,241,347	-5,395,456
Bangladesh	147,570	156,594,962	572.44	205.32	1,284	33,231,332	38,504,053	-5,272,721
Bhutan	38,394	742,737	5.85	2.09	2,730	170,607	264,842	-94,235
India	3,287,590	1,210,193,422	7997	2308	1,808	317,544,642	459,369,464	-141,824,822
Maldives	298	393,500	2.84	1.94	5,973	218,373	1,253,733	-1,035,360
Nepal	147,181	26,494,504	62.38	19.92	743	910,849	7,295,737	-6,384,888
Pakistan	803,940	191,715,847	928.43	250.13	1,342	24,722,182	47,544,889	-22,822,707
Sri Lanka	65,610	20,277,597	233.63	80.59	3,818	11,295,486	19,244,461	-7,948,975
Total	5,142,583	1,638,235,417	9,839	2,890	18,393	388,939,362	579,718,526	-190,779,164

Sources: Compiled by the author from Wikipedia (<https://en.wikipedia.org>), and ITC Trade Map (<http://www.trademap.org/>) on August 9, 2015.

b) *Challenges and Constraints*

Above discussion states that there are enormous potential to increase FDI attraction into SAARC countries. At the same time intra-regional FDI flow shall be increased day by day. But there are few challenges hindering deeper economic integration among the SAARC countries. These are as follows:

- i. *Political instability:* Two major and influential SAARC member states fought twice in last century. Besides this intra SAARC level of confidence / trust is not at a satisfactory level. Almost all the SAARC countries other than India is suffering from political instability. Afghanistan faced a series of wars during last decade even last century. Therefore it is a challenge to implement a regional commitment with the change in power (either party or system). Autocratic rollers are not used to comply with people's demands either in terms of local or regional perspective.
- ii. *Restriction on investing abroad:* In most of the SAARC countries only FDI inflow is inspiring but FDI outflow (investing abroad) is restricted. As a result intra SAARC FDI inflow is insignificant. To be deeply integrated SAARC countries have to overcome this challenge in near future.
- iii. *Complex visa regime:* Till now it is tougher to get an Indian visa for its neighboring Muslim states than that of getting a U.S. visa. As a result neighboring government are bound to follow same policy in case of Indian citizens. To make SAARC more result-worthy in terms of investment, trade and commerce visa system must have to be easier. Even visa free SAARC regime could be considered. At least port entry shall be allowed for each other's to promote intra SAARC trade and investment.
- iv. *Connectivity and Transportation:* Till now most of the SAARC countries are not connected even in air for daily business needs. Maximum SAARC states are disconnected for land and sea connectivity as well. Therefore effective intra SAARC trade is not occurring among the member countries. Transit and transshipment facilities are in negotiation stage till now. To make an economically integrated SAARC region free movement of people and free movement of goods has to be ensured first.
- v. *Increasing number of non-tariff measures:* Till now SAARC countries are applying non-tariff measures to discourage intra SAARC trade. This trend of enforcing non-tariff measures is increasing day by day.
- vi. *Emergence of New Regional / Bilateral Free Trade Agreement:* To avoid existing political conflicting relationship among few countries new bilateral / regional agreements are signing with few or partial part of the SAARC. These agreements are

decreasing the importance of SAFTA or SAARC. Therefore it is time to promote new economic initiative under the umbrella of SAARC rather bypassing it.

IV. RECOMMENDATIONS

- a) SAARC countries shall maintain a congenial relationship without interfering each other freedom, dignity and political sovereignty.
- b) Intra SAARC movement of mass people (not only bureaucrats or business magnates) has to be inspired by withdrawing or easing visa complexity.
- c) The Agreement on Promotion and Protection of Investment among the SAARC Countries shall be effective as soon as possible.
- d) A common institution could be established to promote FDI into SAARC countries centrally. They could look after the intra SAARC investment matters as well.
- e) Free movement of people and goods shall be practically encouraged by developing road, sea and air connectivity along with sufficient transports available.
- f) Special attention shall be given to identify and remove non-tariff barriers existing or upcoming in the SAARC region.

V. CONCLUDING REMARKS

South Asian Association for Regional Cooperation (SAARC) has already spent plenty of time without of no use. It took comparatively longer period than that of the EU, ASEAN or even NAFTA to be effective in terms of trade and investment cooperation. A significant amount of world's poor population is living in this region. At the same time SAARC has potentials to grow faster and alleviate poverty within shortest possible time. Therefore it is our political leader's / government's turn to take decision whether they would like to drive the poor SAARC into a developed and deeply economic integrated SAARC with an effective fiscal union or let the SAARC to be further ineffective day by day.

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Contribution of Riba-Free Banking System on Rural Development in Bangladesh: A Projection for Vision-21

By Dr. Hossain Shahid Shohrwardhy, Md. Alauddin & Mohammad Alauddin

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GJMBR - C Classification : JELCode : E59



Strictly as per the compliance and regulations of:



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I. INTRODUCTION

Riba-Free Banking System (RFBS) is the most powerful economic factor in the world. In the session 2006-2007, the World Financial Crisis occurred due to the rival of RFBS instead of Conventional Banking System (CBS) (Nizam, 2012). RFBS had passed golden jubilee in 2013. On that time, Bangladesh had also gathered a 30-year experience, knowledge and the existence of RFBS. At present, RFBS in Bangladesh has a strong market share viz. 45.28%. There are 8 full pledged (15.09%) and 16 conventional banks which comply RFBS in branch or window form (30.19%). Islami Bank Bangladesh Limited (IBBL) is the pioneer (IBBL, 1984), and the largest, fastest growing and best performing (Aminuzzaman, 2010) riba-free bank in Bangladesh.

a) Riba-free Banking System (RFBS)

Riba-Free Banking System (RFBS) is a kind of banking which is formed according to the rules,

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regulations and provisions instructed by the Islamic Shariah. Egypt is the pioneer of structurally adaptation of RFBS in the world in 1963 which is also known as Islamic Banking System (IBS). At present, there are 385 commercial banks in 55 countries which have been following their banking operations in riba-free form (GFDR, 2014). Bangladesh has started riba-free banking from 1983. Now a days, Bangladesh has a significant market share (2.08%) i.e. 8 out of 385. Islami Bank Bangladesh Limited (IBBL) is the pioneer riba-free bank which has been passing 30-years glorious journey in the banking sector of Bangladesh.

b) Rural Development

Rural development is defined as the socio-infrastructure development of a nation where rural people are highly encouraged to involve in the economic development. Rural development can be measured by self-sufficiency, productivity and competence to increase financial worth i.e. deposit and investment of rural people (Halimuzzaman, 2014). In Bangladesh, out of 160 million people, 77% people live in rural and urban areas (BURU, 2013). IBBL has been surviving in Bangladesh considering as mass banking (Shohrwardhy, 2015). There are some extrinsic programs taken by various banks and NGOs in private and public level for the development of rural and urban area i.e. Rajshahi Krishi Unnayan Bank (RAKUB), BRAC bank, ASA, Proshika and IBBL etc. Rural Development Scheme (RDS) is a specialized project of IBBL to develop the rural and urban area where more incompetent people are involved in the economic development of Bangladesh.

c) Rural Development Scheme (RDS)

Basic philosophical objectives of Riba-Free bank (RFB), Islami Bank Bangladesh Limited (IBBL) is enhancing the economic system of Bangladesh based on equity and justice in all levels of civilization. In Bangladesh, 38% of the total population maintains their living standard below the poverty line and 18% of the same live in abject poverty (IBBL, 2014). These poverty stricken people are facing a lot of problems like illiteracy, inadequate health and sanitation facilities, discrete of purchase parity, scanty of the sources of income generation etc. Considering the above mentioned problems, IBBL has started a dimension of rural banking

named Rural Development Scheme (RDS) from 1995. The Basic objective of RDS of IBBL is to create self-employment opportunity for income generation and to

reduce the poverty of rural people. Table-1, expresses the basic nature of RDS offered by Islami Bank Bangladesh Limited.

Table 1 : Basic Features of RDS

Contents	Particulars
Target Group	Rural people with 0.50 to 1.50 acres of land. Both men and women
Program	Basically micro-investment.
Criteria Applied for Selection	Land ownership and permanent residence.
Sanction of Investment	Two months after the formation of group
Size of Investment	Core Product- BDT 25,000.00 (For 1 Year) Nursery- BDT 50,000.00 (For 1 Year) Agriculture Implements- BDT 50,000.00 (For 1-3 Years) Live Stock- BDT 50,000.00 (For 1-2 Years) Poultry- BDT 35,000.00 (For 1 Year) Fisheries- BDT 50,000.00 (For 1-2 Years) Rural Transport- BDT 20,000.00 (For 1 Year) Rural Housing- BDT 50,000.00 (For 1-5 Years) Off-firm Activities- BDT 50,000.00 (For 1 Year)
Mode of Disbursement	Goods / Assets: Buy Muazzal (Sale on credit)
Profit Rate	10% (Flat Rate); but 2.50% rebate in the case of regular and timely payment; Profit-Sharing basis: risks are shared by IBBL if loss is genuine.
Repayment- Period Starts	After two weeks of disbursement.
Sources of Funds	Member Savings; Depositor's Savings; PKSf.
Activities Financed	Both farm and non-farm activities.
Savings	Tk. 25 Per week
Collateral	No collateral except
Required	Personal guarantee and savings.

Source: Jahur (2010)

As shown in Table-1, RDS provides various investment modes for development of rural people through financing in the fulfillment process of their basic

needs. The next table provides a brief profile of RDS of Islami Bank Bangladesh Limited.

Table 2 : A Brief Profile of Rural Development Scheme (RDS) of Islami Bank Bangladesh Limited

Areas of performance	Fig. in million BDT No. & Volume/Amount
No. of Branches covering RDS	250
No. of Field Officers	2,492
No. of Project Officers	217
No. of Zone Officers	14
No. of Villages	18,591
No. of Districts	64
No. of Centers	28,122
No. of Groups	176,765
No. of Members	915,209
% of Women members in the Scheme	79%
No. of Clients	580,251
Financial Statement	
Cumulative disbursement (From 1995)	107,307.21
Present outstanding	17,830.10
Overdue	132.00
Recovery	99.30%
RDS Savings	5,992.50

Source: RDS Manual

On the above table explores the involvement of IBBL in the development of rural and urban areas of Bangladesh. The most remarkable mania in 2014 is that the growth of RDS investment is 24.57% over 2013 and recovery rate of its investment schemes is 99.30%.

d) *Vision-21*

Bangladesh got independence in 1971. Yet, after 40 years of independence, Bangladesh has remained a low-income country (LIC) (GED, 2012), almost two thirds of population remains below poverty line (Bureau, 2013). For improving the situation and recognizing the long-term development challenges, the present Government has adopted the Vision 2021. The Vision 2021 calls for Bangladeshi socio-economic environment to be transformed from a low income economy into the first stages of a middle-income country by the year 2021 (GED, 2012) which also marks as the 50th anniversary of the independence of Bangladesh which is called golden jubilee of the nation. Moreover, Vision 2021 lies down a development scenario where citizens will have a higher standard of living, better education, will have a more equitable socio-economic environment, and the sustainable development will be ensured through better protection from climate change and natural disasters. To achieve Vision 2021, the Government has undertaken "Perspective Plan of Bangladesh (2010-2021): Making Vision 2021 a Reality". The Perspective Plan is a road map for achieving the targets of Vision 2021 and lies down a long-term strategy to make that happen. Thus, it takes two five-year plans: Sixth Five Year Plan (2011-2015) and the Seventh Five Year Plan (2016-2020). Finally, the vision-21 is formed for reaching the country as a middle-income country (MIC) replete with the sign of economic progress.

II. LITERATURE REVIEW

Bangladesh is a growing economic tiger of the third world countries. The majority of the people of Bangladesh live in rural and urban areas (Bureau, 2013) and is contributing to the national economy on the basis of agro-based industry specially small and tinny. According to the statement of Dr. Jahid Hossain, the Lead Economist of the World Bank, Bangladesh is a Lower Income oriented country (LIC) up to 2014. Bangladesh Government has taken sufficient strategic programs to develop our national economy viz. Millennium Development Goals (MDG). In that perspective, banking sector is playing a pivotal role in the economic development in Bangladesh i.e. 1.4% of GDP in service industry (Bangladesh Bank, 2012) but agricultural sector specially crops, animal farming, fisheries, hotel restaurant, community and social service contributions are more significant i.e., 11.4%, 2.7%, 4.6%, 0.7%, 6.9% share of GDP respectively.

Economic development is covered by economic, political and social states of the people of a nation including the economic procedure and policies and social well-being (Wikipedia). Kifle (1997) stated that a strong relationship is existed between poverty alleviation and economic development. The basic principle of Riba-Free Banking System (RFBS) is to realize and ensure the well-being of mankind using equity based economy that is necessary for development economy (Chapra, 1985). RFBS as well as Islamic Banking System (IBS) ensures all kinds of banking activities (Fund collection-Deposit and investment avoiding interest (Riba) (Iqbal, 2001). It is mentioned here with that RFBS ensures steadfast economy considering fair distribution of income, reducing injustice, risk sharing, financial crisis, facilitating production and business activities (Siddiqi, 1985). In the recent world, banking is much more significant than banks (Bill Gate, 2008). Therefore, RFBS always strives itself to ensure its contributions to different aspects of national economy through specialization of its services i.e. Rural development Scheme (RDS) (Ahmed, 2004; Hawlader, 2008; Parveen, 2009; Jahur, 2010 and Bhuyian, 2011).

Islami Bank Bangladesh Limited (IBBL) is the pioneer, the largest and most performing bank in Bangladesh in the field of riba-free banking sector as well as Islamic banking sector. A nominal zero interest rate (Riba-Free) is a required condition for absolute resources allocation (Friedman, 1969). Islamic Shariah based RFBS is playing a pivotal role in economic development contributing a lot to the advancement of the society (Siddidi, 1973). IBBL is providing satisfactory community services through job creation and ensuring consistency in the field of service sector in Bangladesh (Rashid, 2009). IBBL has to deal in equity based profit and Loss Sharing (PLS) contracts that are more suitable for Bangladesh economy but social awareness, rehabilitation, economic and psychological support and strict enforcement of laws are the basic pitfalls for its success (Begum, 2004).

Rural Development Scheme is the specialization of banking expansion aim to incorporate the mass people who live below the poverty level (Hawlader, 2008) in the economic development activities of Bangladesh (RDS Manual of IBBL). A few numbers of scholars engage themselves to explore the different aspects of RDS. RDS is a successful project in retaining the people in the economic development activities (Rahman, 2008). This indicates that riba-free baking sector provides its contribution to the economic progress in Bangladesh through generating employment, earning foreign remittance, strengthening rural economy, promoting ecology and green banking and enhancing industrialization through tiny sector

development using the expansion of RDS (Halimuzzaman, 2014 and Aminuzzaman, 2010).

RDS emphasizes the industrial sector devoting huge investment. Alam (2000) found that industrial development and RDS investment has a strong positive relationship. For enhancing industrialization, banks play vital role to encourage fruitful investment (Iqbal, 2001). Hawlader (2008) proved that RDS positively assets the poverty alleviation existed in Bangladesh encouraging micro scale savings. RDS activities are highly expanded considering the terms of number, investment and deposit (Jahur, 2010). Under RDS, investment is higher than deposit that indicates, investment insecurities are covered by RDS memberships with association (Bhuyian, 2011). Covering all socio-economic factors, RDS is the highest performance oriented micro finance activities in Bangladesh (UNDP, 2012; Ahmed, 2004). RDS plays a vital role in the in the improvement of standard of living through the relationship of household income and expenditures (Rahman, 2008).

Considering the existing literature, it is evident that the contributions of RDS of IBBL are justified by the jurisdiction of scholars' views. Poverty alleviation, socio-economic contributions, high performance oriented micro finance activities were found as scope of operations of RDS. But no evidence has been found regarding the contribution of RDS on the national economy through rural development. Hence, the study attempts to examine the RDS contributions to the development of Bangladesh economy considering the projection of Vision-21 as the golden jubilee of the independence of Bangladesh.

a) Objectives

This study examines the impact of Rural Development Scheme (RDS) of Islami Bank Bangladesh Limited (IBBL) on national GDP of Bangladesh through the contribution on rural development. In light of the basic objectives the study covers the following extensions:

- To measure the contributions of RDS on Rural Development considering vision-21
- To analyze the causality of rural development contributions factors i.e., deposit, investment and GDP
- To determine the impact of RDS on GDP of Bangladesh

III. METHODOLOGY OF THE STUDY

Rural Development Scheme (RDS) of Islami Bank Bangladesh Limited (IBBL) is the organizational sample of this study. It is an empirical research. Therefore, secondary data have been used in this study considering the FY 2002-2003 to FY 2013-2014. The

secondary data are collected from the annual report of IBBL from 2003-2014. Trend line through scattered diagram is used to determine the average existence of different economic contributing factors of RDS i.e. Staff involved in this program for justifying employment, village coverage, members of RDS, savings and investment of RDS. Correlation is used to determine the liner regressive among the variables. Ganger causality test is also used in this study to find out the causal relationship among national GDP, deposit of RDS and investment. Finally, simple regression model is used to determine the individual impact of deposit and investment of RDS on national GDP.

IV. FINDINGS AND ANALYSIS

This section of the study is comprised with three sub-sections considering rural contribution on the basis of various welfare activities, village coverage-employment-members incorporated in the RDS program, and deposit & investment of RDS.

a) Contribution of RDS in the rural development on the basis of various welfare activities

The basic mechanism of RDS is to encourage micro savings in an association formatted by a homogeneous group in a village. This saving tendency has created an economic driven force for their self-consistency of motivation towards the investment. On that prevail, the incompetent people of rural and urban areas involve themselves in the self-income generation activities as well as micro investment modes. RDS creates a wide span of rural investment modes for rural people in various economic activities i.e. service, trading, processing-manufacturing, shop keeping, selling-marketing, rural transport (rickshaw), irrigation equipment, tube well, housing materials etc. (RDS Manual). Formally, RDS encourages the people to retain in a group or association through some significant welfare activities. Table-3 explores the present status of RDS on the basis of its different welfare activities that are complying to the rural development in Bangladesh.

Table 3 : Status of RDS of IBBL on the Basis of Different welfare Activities

Modes of welfare	Beneficiary up to 2014
Graduation Program	71,426
Welfare Activities	2,58,169
Education Program	Education Program
Scholarship	593
Academic award	22,190
Pre-school	18,615
Training Program	Training Program
Leadership	42,743
Skill Development	1,14,207
Self-Employment	184
Health Program	Health Program
Welfare & sanitation	3,984
Medical Assistance	49,068
Relief and Rehabilitation Program	6,432
Waiver	2,029
Relief-donation	4,403

Source: Annual Report of IBBL, 2014

b) *Rural Contribution of RDS on the Basis of Employment Generation, Area Coverage, and Members Involvement*

Rural Development Scheme (RDS) is the specialization of project of rural development as well as an integrated factor of Bangladesh economy. This program has been familiarized due to its contribution to poor people living below the poverty level. This program also enhances income generation, moral, social and ethical values of the rural and urban people. For justifying the rural development contribution of RDS, the study uses simple trend equation expressed in the below:

$$Y = f(x) \quad (i)$$

$$Y = \alpha + \beta x \quad (ii)$$

Where

Y = Dependent variable i.e. RDS staff, Village Coverage, members, deposit and investment of RDS

X = independent Variable i.e. year of Operation

The average growth trends mentioned in the table-4 indicate the weighted value of trend equations using scattered diagram and expected value for vision - 21 indicates the forecast value of the Year-2021 when Bangladesh will stand Golden Jubilee of its independence. Table-4 explores the overall performance of RDS in the scale of staff involvement, village coverage and members incorporate in this program.

Table 4 : Contribution of RDS in the Rural Development of Bangladesh

Year	Staff	Village Coverage	Members
2003	639	3700	130465
2004	731	4230	163465
2005	868	4560	217445
2006	1368	8057	409573
2007	1819	10023	516725
2008	1712	10676	577740
2009	1732	10751	492475
2010	1837	11482	523941
2011	2024	12857	608703
2012	2191	15371	735628
2013	2286	17104	816274
2014	2499	18086	891485
Mean	1724	11191	538394
Average Growth Trend	164.40	1303	82541
R ² =	0.939	0.973	0.942
Expected in Vision-21	3696	26824	1319859
Skewness	-0.4105	-0.0468	-0.1594
Kurtosis	-0.7668	-1.1113	-0.9188

Source: IBBL Annual Report from 2003-2014

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Source: IBBL Annual Report from 2003-2014

RDS deposit per year and investment is 1494.00 million BDT. This is very fact that investment is three times greater than deposit but recovery rate of investment is 99% on an average (IBBL, 2014). These trends are emphasized that customers (members) show the trustee with the performance of RDS functions. Therefore, the study states that RDS is the integral part of rural and urban economy in Bangladesh. It is expected that in the Vision-21, deposit of RDS will reach the level of 8092 million BDT while Investment will be 24533.00 million BDT.

d) *Correlation Analysis*

Correlation expresses the linear relationship between two variables considering direct causation, indirect causality or statistical change (Ferdousi, 2009). Generally, correlation coefficient usually explores the degree of association of defined variables. Table-6 explores the Karl Pearson Coefficient of correlation in two trials with significant value.

Table 6 : Correlation Among the Variables

	GDP	DEP _{RDS}	INV _{RDS}
GDP	1		
DEP _{RDS}	0.986** (0.000)	1	
INV _{RDS}	0.985** (0.000)	0.999** (0.000)	1

Source: Calculated by Authors

Table 7 : Pair-wise Granger Causality Tests

Sample: 2003-2014
Lags: 2, Observation-10

Null Hypothesis:	F-Statistic	Prob.	Hypotheses	Types of Causality
Dep. ^ GDP	0.32836	0.7345	H ₀ =A	No Causality
GDP ^ Dep.	1.97996	0.2326	H ₀ =A	No Causality
Inv. ^ GDP	0.52090	0.6230	H ₀ =A	No Causality
GDP ^ Inv	2.19209	0.2072	H ₀ =A	No Causality
Inv. ^ Dep.	3.96789	0.0929	H ₀ =A	No Causality
Dep. ^ Inv.	4.89208	0.0665	H ₀ =A	No Causality

H₀=A Null hypothesis of causality is not rejected since p > 0.05
H₀=R Null hypothesis of causality is rejected since p < 0.05
 ^ = does not Granger Cause

Source: Calculated by Authors

From the above table, the study has found that GDP, Investment and Deposit of RDS are existed in Bangladesh economy as independent variables since null hypotheses of all causality are not rejected at 5% level.

f) *Impact of Investment of RDS on GDP*

Investment and industrialization have positive relations (Iqbal, 2001). Industrialization is the basic requirement of economic development which is positively depends on poverty alleviations (Kifle, 1997).

All coefficient of correlations are positive significant at 5% level. This result indicates that deposit and investment of RDS is highly correlated with GDP since all coefficients are more than 0.90 at significant level.

e) *Granger Causality Test*

In the time series data correlation do not absolutely imply causality since there is a chance to existence to ignore common factors in correlation (Lin, 2008). Therefore, causality test can be used to find out causal influence (Granger, 1980). Generally, causality measures the supernatural representation of data and make interpretations more informative and useful by extending frequency domain. In this study, we use Eviews version-7 for pair-wise Granger causality test expressed in the Table-7.

This indicates that investment and national GDP have a significant relation. Hence, the study attempts to justify the impact of investment of RDS on GDP. Simple regression equation is used to analyze the impact between investment of RDS and GDP considering the growth model due to no causality. The relationship between GDP and Investment of RDS is expressed in the below:

$$GGDP = f(GINV_{RDS}) \tag{iii}$$

$$GGDP = \alpha + \beta GINV_{RDS} + \varepsilon \tag{iv}$$

Where,

GGDP = Growth of GDP

$GINV_{RDS}$ = Growth of Investment of RDS of IBBL

ϵ = Sampling Error

α, β are constant of the model

SPSS version 21 is used to run the simple regression modeling expressed in the Table-7 incorporating constant, standard regression weight (β), standard error (SE), t -value, P -value , F -statistics, R^2 , DW statistics etc.

Table 8 : Regression Effect of Growth of RDS Investment on the Growth of GDP of Bangladesh

Variables	Standardized Weight (β)	S.E.	t-Value	P-value
Constant	0.24	0.04	6.6124	0.00
INV_{RDS}	0.76	0.12	3.6451	0.00
	$R^2=$	0.571		
	Adjusted $R^2=$	0.528		
	F-Statistics	13.287 (0.000)		
	D-W=	1.973		

Dependent Variable: GDP

Independent Variable: Investment under RDS of IBBL(INV_{RDS})

Source: Calculated by Authors

The measurements values of the Table-7 indicate goodness of fit of the model. So finding is expressed in the following equation.

$$GGDP = 0.24 + 0.76 GINV_{RDS} \quad (v)$$

It should be mentioned here that growth of investment of RDS has positive impact on the growth of GDP of Bangladesh i.e., $\beta_{GDP-GINV_{RDS}} = 0.76$ ($t = 3.6451$ and $P=0.000$). More significantly it is mentioned here that constant of the model is significant at 1% level. Therefore, the study states that the contribution investment of RDS of IBBL is fairly justified to the national GDP of Bangladesh.

g) Impact of Deposit of RDS on GDP

Generally, Deposit is defined as the blood circulation of an organizations and unique elixir (Shohrwardhy, 2015) of investment. The study attempts to determine the impact of RDS deposit on GDP of Bangladesh. Due to the no causality (Table-7), simple

regression equation is used in this section. The relationship between the deposit of RDS and national GDP considering the growth model expressed in the below:

$$GGDP = f(GDEP_{RDS}) \quad (vi)$$

$$GGDP = \alpha + \beta GDEP_{RDS} + \epsilon \quad (vii)$$

Where,

GGDP = Growth of GDP

$GDEP_{RDS}$ = Growth of Deposit of RDS of IBBL

ϵ = Sampling Error

α, β are constant of the model

SPSS version 21 is used to run the simple regression modeling expressed in the Table-9 incorporating constant, standard regression weight (β), standard error (SE), t -value, P-value , F-statistics, R^2 , DW statistics etc.

Table 9 : Regression Effect of Growth of RDS Deposit on the Growth of GDP of Bangladesh

Variables	Standardized Weight (β)	S.E.	t-Value	P-value
Constant	0.15	0.04	4.254	.002
DEP_{RDS}	0.89	0.08	6.022	.000
	$R^2=$	0.784		
	Adjusted $R^2=$	0.762		
	F-Statistics	36.270 (0.000)		
	D-W=	1.717		

Dependent Variable: GDP

Independent Variable: Deposits under RDS of IBBL (DEP_{RDS})

Source: Calculated by Authors

The measurements values of the Table-9 indicate the proper justification of the model due to justification measurements are in the standard level. So finding is expressed in the following equation.

$$GGDP = 0.15 + 0.89 GDEP_{RDS} \quad (\text{viii})$$

From the equation-8, it is found that growth of deposit of RDS has positive impact on the GDP of Bangladesh since constant of the model is found significant at 5% level ($C=0.15$, $t= 4.254$, $P=0.002$). The impact of RDS deposit on GDP is found through the significant value of standard regression weight i.e., β $GDP-GDEPRDS = 0.89$ ($t= 6.022$ and $P=0.000$).

V. CONCLUSION

Riba-Free banking is one of the leading micro finance private sectors in Bangladesh. Specially, Islami Bank Bangladesh Limited is the pioneer of riba-free Banking in Bangladesh. Rural Development Scheme is specialized project of IBBL for rural and urban development. The study has found that RDS is competent to integrate people who live below poverty level and absolute poverty level in the economic development activities especially in the rural areas. RDS encourages these people to save money and investment their savings in a cooperative environment for economic development of Bangladesh. This study has found that deposits of RDS collected from the people (below poverty level and absolute poverty level) and investment have positive and significant relationship with national GDP. It is mentioned here with that impact of deposits and investment of RDS of IBBL on national GDP is significantly positive. Generally, it is mentioned that if more un-scattered people of a country are involved in the economic development activities than percapita income must be increased. It is proved that RDS is the most significant effective factors in the economic development of Bangladesh.

Now, Bangladesh is lower middle income oriented country (LMIC) due to increase per capita income in \$1085. In 2021, if, Bangladesh will be established as a middle income oriented country (MIC), below poverty and absolute poverty level people must be incorporated in the economic development activities. This study is proven experiment of economic development that RDS of IBBL is sample project by which below poverty levels people are contributing themselves to the economic development of Bangladesh. Using the experiences of RDS of IBBL for rural development, it may possible to establish Bangladesh as middle income oriented country in the world which is the basic goal of Vision-21.

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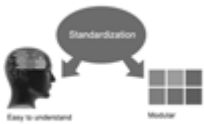




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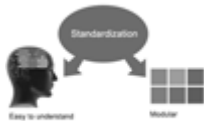


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One must be persistent and creative in using keywords. An effective keyword search requires a strategy and planning a list of possible keywords and phrases to try.

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.

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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.

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<i>References</i>	Complete and correct format, well organized	Beside the point, Incomplete	Wrong format and structuring



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