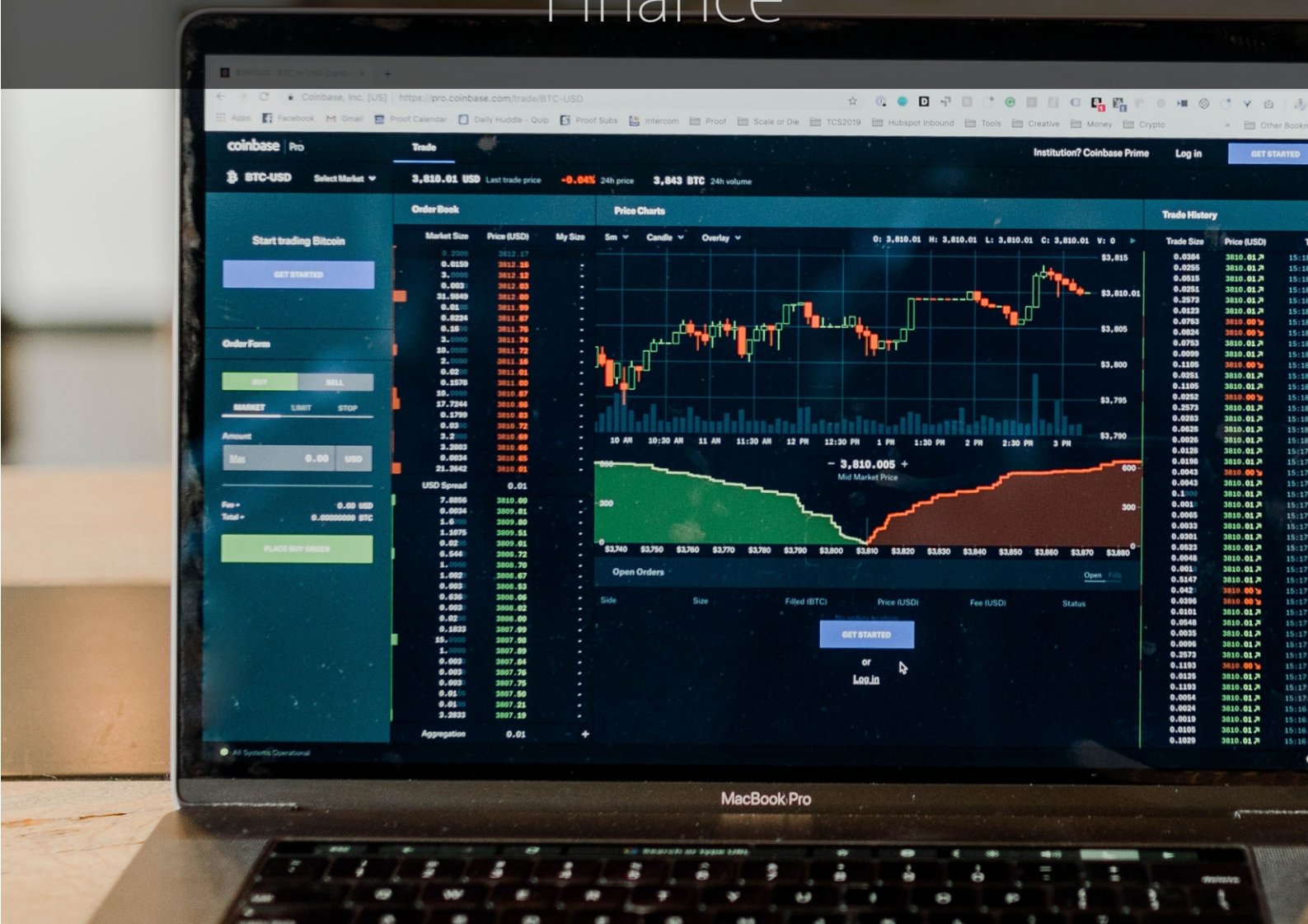
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Effect of Post Covid-19 on Firm's

Highlights

Poverty Reduction in Rwanda

Mudarabah Financial Sharing (MFS)

Discovering Thoughts, Inventing Future

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Effect of Post Covid-19 on Firm's Specific Attributes and Financial Performance of Quoted Conglomerates Companies in Nigeria

By Musa Ahmed Mohammed & Mbatuegwu, David Christopher
Nigerian College of Accountancy

Abstract- The development concern Application issues in post-COVID-19 Africa and the planet are wounding through a litany of scholarship scholarships. Many scholars in Africa and the world, in general, are genuinely interested, and indeed sometimes brain-storm, on what needs to be done by a wide variety of scholars, including but not limited to scientists, economists, sociologists, psychologists, theologians, experts, and finance studies. This examined the characteristics and financial performance of the listed conglomerate companies in Nigeria. The research work has adopted a descriptive design to determine the reciprocal relationship between variables. Data were collected mainly from secondary sources via the published annual reports of the sampled companies for the period 2010-2018 they were analyzed using multiple regression techniques after carrying out a series of robustness tests to determine their validity. The results of the study showed that the size of the business had a positive and significant impact on financial performance. On the other hand, leverage negatively, but insignificantly, on financial results. The study indicates that management should maximize the total amount of assets as much as possible, as this is a guarantor of future economic benefits.

Keywords: *firms attribute, performance.*

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Effect of Post Covid-19 on Firm's Specific Attributes and Financial Performance of Quoted Conglomerates Companies in Nigeria

Musa Ahmed Mohammed [α] & Mbatuegwu, David Christopher [σ]

Abstract- The development concern Application issues in post-COVID-19 Africa and the planet are wounding through a litany of scholarship scholarships. Many scholars in Africa and the world, in general, are genuinely interested, and indeed sometimes brain-storm, on what needs to be done by a wide variety of scholars, including but not limited to scientists, economists, sociologists, psychologists, theologians, experts, and finance studies. This examined the characteristics and financial performance of the listed conglomerate companies in Nigeria. The research work has adopted a descriptive design to determine the reciprocal relationship between variables. Data were collected mainly from secondary sources via the published annual reports of the sampled companies for the period 2010-2018 they were analyzed using multiple regression techniques after carrying out a series of robustness tests to determine their validity. The results of the study showed that the size of the business had a positive and significant impact on financial performance. On the other hand, leverage negatively, but insignificantly, on financial results. The study indicates that management should maximize the total amount of assets as much as possible, as this is a guarantor of future economic benefits.

Keywords: firms attribute, performance.

I. Introduction

The intellectual point of convergence between numerous scholars and contemporary writers in post-COVID-19 Africa is that the continent appears to be evolving under impossible conditions, Previously, companies in Nigeria were formed entirely on a sole proprietorship basis, in collaboration with a few limited liability companies. The establishment of Nigeria's Central Bank (CBN) in 1958 and the Securities and Exchange Commission (SEC) in 1979 opened a new dawn in Nigeria's business sector. Businesses are regulated and the Securities and Exchange Commission has set up an atmosphere in which foreign investors can enter and have their shares quoted in Nigeria's stock exchange. They also provided the facility for easy growth of both short-and long-term investment decision capital. This growth was the driving force behind Nigeria's modern business expansion.

The volatility of the modem market situation, marked by the extremely dynamic and competitive economic factors brought on by the globalization of the world economy, has radically changed Nigeria's business sphere from a national to a global economy. Globalization has changed the world economy, and the business world is at the forefront of this global chain movement. In an attempt to meet global demands and a highly competitive business climate, companies are forced to diversify operations to create values that can compete globally so as not to lose out on the market and maximize shareholders' wealth maximization target.

Diversification is a growth technique used by companies to dive into new markets and expand their spectrum of operations.

The Tiffany Conglomerate (2007) is a diversification strategy whereby a corporation joins one or more unrelated industries to extend its field of activity and explore other viable market areas. Companies also want to develop as a conglomerate because they feel that other markets provide more opportunities for development than their current industries. They also prefer a conglomerate approach to stabilize revenues and earnings. One of the key characteristics of the Conglomerate Business is the lack of an established partnership with the new company or industry The vertical or horizontally integrated company has a value or supply chain relationship which the conglomerate does not necessarily have a conglomerate that does not have a common strategic theme and does not gain a strategic profit. Companies that they buy instead are conglomerates of companies that participate in a host of activities involving different management skills. The conglomerate will emerge through organic internal growth and development, as well as through mergers and acquisitions Businesses in Nigeria are not isolated from this global chain curve.

This study places greater emphasis on the specific attributes and performance of conglomerates quoted in the Nigeria stock exchange The internal characteristics of a conglomerate business plays a key role especially in the area of decision making, exercising control, and exciting expertise strengthening operations perfecting sales and marketing campaign also in ensuring actualization of shareholders wealth maximization objective (men that conglomerate is mostly seen as a large corporation or companies in nature that is composed of several small independently

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run companies which occur partly because of the need to diversify the business. the overriding benefit of conglomerate is often the diversification of business risk, Participating in different markets, which are achieved through the ownership of controlling stakes in several smaller companies that conduct business separately, offers protection from' sector-specific risks, and sometimes geographical shocks to the group as more often than not, only a section of the revenue-generating channel is affected. The conglomerate structure also offers the group substantial economies of scale especially about administrative cost through a centralized management and distribution system. And in the process, at least theoretically, the parent company does maximize the per-subsidiary profit for any given subsector level operational cost.

In line with those above aforementioned, the specific attributes are among the major determinants of financial performance and profitability of conglomerates. Financial performance is a measure of efficient utilization of a firm's resources towards attaining stated goals using a return on asset, return on investment, return on equity and sales growth amongst others as parameters. Specific attributes can be seen in the perspectives of the firm's size, leverage, liquidity level, the board size, institutional shareholding/ownership, and board compositions among others. The conglomerate strategy has removed the narrow divide of sole proprietorship and expanded the scope of businesses by creating more business opportunities for investors to dive into. Globalization which made it easy for capital to move across borders with ease turning the world into a global village created more business opportunities. The competition became more intense and the need to diversify operations rose. To meet up with the global demands and to remain in business, companies in Nigeria searched for a suitable strategy that conforms with the global trend. That's what brought about the prevalent Conglomerates strategy in the Nigeria business landscape.

The base of the conglomerate is deeply rooted in Nigeria's history. The historic development of conglomerate companies in Nigeria dates back to the early colonial period. At the heart of that history is the 80th anniversary of AG-Leventis Plc, which started as a trading and chain store company and later became the assembly and distribution of various consumer and producer goods. Currently, Nigeria's top ten conglomerate investments are estimated to have a combined annual turnover of more than N15 trillion and employ a large number of low middle-level workers.

In this context, we are concerned with the study of the basic characteristics and financial performance of the listed conglomerates in Nigeria.

To achieve this objective, it is thus hypothesized in a null form that:

$H0_1$: Firm size has no significant effect on the financial performance of quoted conglomerate companies in Nigeria.

$H0_2$: Leverage has no significant effect on the financial performance of quoted conglomerate companies.

II. Literature Review

a) Concept of Firm Attributes

Businesses shall be founded to make profits (Abiodun, 2013). To increase shareholder capital through value development, a variety of factors combine to catalyze to improve efficiency and ensure that the ultimate goal is achieved. The firm attribute is one of the key factors and drivers that improve the success or failure of any business. Businesses are set up to ensure A company with a strong and sound specific attribute has a higher chance of performing than a company with a haphazard specific attribute. In other words, basic characteristics play a major role in ensuring the success or failure of business activities in any organization. For this analysis, the firm attribute is: firm size, leverage, the board size, liquidity, and institutional investors will be properly planned.

b) Concept of Firm Size

According to Velnampy (2013), firm size is the amount and variety of production capability and capabilities that a firm possesses or the amount and variety of services that a firm can offer to its customers at the same time. The firm size represents how it grows and adapts to its climate. Changes in size are therefore extremely significant in the field of firm demography (Wissen, 2002).

Classical economist clarified that shifts in the size of firms depend on economies of scale. These economies of scale are due to reduced prices as the business expands. Therefore, the higher the scale economy, the larger the optimum firm size. The size of the company is considered to be an important issue in deciding the essence of the partnership with the company inside and outside its operating environment. And the rising presence of a multinational company worldwide is a direct indication of the importance of the scale and role it can play in the business environment (Abiodun, 2013, Wissen, 2002).

Fajaria and Isnalita, (2018) The size of the business show the size of the company's properties. A large business would have three advantages: it's easy to get venture capital, good at negotiating, and it also has a big advantage. Firm Size can be calculated using the natural logarithm of total assets and acts as a control variable, a variable that is neutral and can be managed in such a way that the relationship of independent variables to the dependent variable is not affected by factors outside the analysis. The natural logarithm of total assets is used while other variables are calculated by the scale ratio that can be interpreted as regression.

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c) *Concept of Leverage*

Mbatuegwu, Musa, Ugoh, and Komolafe (2021), Leverage means that the business can borrow money to finance the purchase of an asset, which also intend to have higher bankruptcy risk, went ahead saying that Leverage is all about keeping your pride to borrow to grow your business. Leverage refers to the effective utilization of borrowed funds (debt financing) to increase profitability. It is measured by total liabilities to equity (Alkhatib, 2012).

Kasmir (2008) indicates that leverage is the ratio used to calculate the size of the company's assets funded by debt. That is to say how much of the debt burden the organization bears on its properties. Typically, the use of leverage is tailored to the goals of the organization. Based on the outcome of the leverage calculations, the company would find a way to use its capital and borrowed capital, as well as assess the ratio of a company's ability to fulfill its obligations.

Financial leverage is caused due to fixed financial interest in every organization. Businesses use fixed financial charges to increase the effect of changes in earnings before interest and tax on the earnings per share and profits. It includes the use of those funds that are obtained at a fixed cost in the expectation of increasing the return to the shareholders in the future. The financial leverage used by every company is anticipated to earn more return to the fixed-charge fund than their costs. The surplus (or deficit) will increase (or decrease) the return on the owners' equity and return on investment (Hallajian, and Tilehnouei (2016).

Linawaty and Ekadjaja (2017) The impact of financial leverage is unfavorable when the earnings capacity of the firm is less than what is expected by the lender i.e., the cost of debt. The return on investment comes from leverage appreciation of assets are purchased with only a portion of the purchase price coming from the buyer and the balance coming from the lender. Any increases in the value of the entire asset represent a real return on the original amount invested and the investor will make profits in long run).

They discussed that sometimes increase in debt causes bankruptcy. They said that the increase in the debt level reduces the agency cost but increases the bankruptcy cost.

d) *Measurement of Firm Performance*

Kouser (2012), profitability can be defined as the earning of the firm or consistency of cash inflow of the firm. It is influenced by several factors such as firm size, the export of the firm, reliance on debt, age, fixed asset, growth, and sales growth. There are many methods to measure performance such as return on asset (ROA), return on equity (ROE) and return on sales (ROS). Return on asset (ROA) is the measure of how well a company uses its assets to generate profit. Return on sales (ROS) is earning of the firm from every amount of the sales and shows a short-term performance of the company. Return on equity (ROE) is the measure of a firm's profit distributed to the shareholder. ROA and ROE give a long-term view of the performance of the firm *(Kouser et al. 2012).* An increase in profitability is the most desire and ultimate reward for all the handiwork and planning of firm management and they are constantly on a look to find ways to increase.

For this study, ROA is adopted to measure financial performance based on the premise that it is the most preferable measure of financial performance as it considers the use of profit of the organization over the value of its assets.

e) *Empirical Studies on Firm Attributes*

Agrawal, Sehgal, and Vasishth (2020) looked at corporate characteristics and fundamental factors for the creation of various investment strategies, using data from 200 companies listed on the National Stock Exchange (NSE) from 2005 to 2018. The results show the presence of anomalies in the stock market based on size, volume, earnings, cash flow fluctuations, asset growth, price momentum, price-to-book ratio, and profitability. The performance of trading strategies is subject to the construction of portfolios, i.e. 5/10/20 portfolios. In general, bivariate strategies perform better than univariate approaches in the Indian context. Overall, the size-based approach works better with a mean over-return of 3.63 percent per month. This experiment has been carried out in a foreign country, and the result cannot be openly generalized in Nigeria.

Ogoun and Ayaundu (2020) investigated whether or not the attribute count of a firm (FAC) affects the management accounting practices (MAPs) adopted. This initiative is related to the manufacturing sector, using primary data obtained via the issuance of standardized questionnaires. The number of firm attributes was discriminated against based on; the size, the strength of market competition, the rank of accounting staff, and the technology used. A sample size of 80 firms was adopted using the Spearman correlation coefficient method used to analyze the results. The analytical outcome of this initiative shows that all the firm attributes deployed in this study have a substantial effect on MAPs. The study concludes, therefore, that the type of accounting management tool used in any firm is firm in size, the strength of market competition, the quality of the accounting staff and the degree and scope of the tech-based, and that the difference in domains is related to the nature of the impact of these variables. It makes use of primary data, but we are making use of secondary data.

Hassan and Farouk (2014) investigated the firm attributes and earnings efficiency of the listed oil and gas companies in Nigeria for the period 2007-2011. The Oil and Gas companies mentioned are Nine (9) in the numbers from which a sample of Seven (7) was used for

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the analysis. Firm attributes as an independent variable were proxy with firm size, leverage, Institutional ownership, profitability, liquidity, and firm growth), while the residuals from Dechow et al (1995) modified Jones model was used as a proxy for quality earnings. The research adopts multiple panel regression techniques and data were collected from secondary sources via annual reports and business accounts. The findings show that leverage, liquidity, and firm growth have a major positive impact on earnings quality, while firm scale, institutional ownership, and profitability have a significant but negative impact on the earnings quality of listed oil and gas companies in Nigeria. This has been done for oil and gas firms, but this will be done for a conglomerate firm.

f) Firm Size and Financial Performance

The relationship between firm size and profitability occupies a substantial portion of economic literature. However, previous empirical investigations of the issue have yield conflicting results. Some studies have obtained a weak or negative relationship or none at all others have reported a positive association (Vijayakumar and Tamizhselvan, 2010).

Fajaria and Isnalita (2018) analyzed the impact of profitability, liquidity, leverage, and business growth on firm value, with dividend policy as a moderating variable, and firm size as a control variable. This study was performed using a documentation system in Indonesia, as well as a sampling methodology for sampling. This analysis was processed using the SPSS software, with a total of 396 data observations. Where there are 146 manufacturers listed on the Stock Exchange during the period from 2013 to 2016 and the number of samples was 108, 106, 94, and 112 firms, respectively. Profitability and fast growth are shown to increase Firm Value, but liquidity and high debt are shown to decrease Firm Value. It may be difficult to function in Nigerian material due to externalities and economic variations.

Akinyomi (2016) explored the effects of firm size on the profitability of the Nigerian manufacturing sector. The panel data set for the period 2005-2012 is collected from the audited annual reports of the selected manufacturing firms listed on the stock exchange. Return on assets (ROA) was used as a proxy for profitability, while log of total assets and log of turnover was used as a proxy for firm scale. Also, liquidity, debt, and the ratio of inventories to total assets were used as control variables. The results of the study showed that the size of the group, both in terms of total assets and in terms of total revenue, had a positive impact on the profitability of the Nigerian manufacturing company. In the meantime, the control variables have a negative relationship with the inventory, while others have a positive relationship. Research has been done on manufacturing firms, but this will concentrate on conglomerates in Nigeria.

However, profitability can affect the firm size and vice versa, It is contended in the literature that the profit rates of the firms can persist over time and increasing levels of profits can help the firm grow faster and at the same time the size of a firm plays an important role in determining the kind of relationship the firm enjoys within and outside its operating environment investigated the relationship between firm size and performance of small and medium-sized Portuguese companies for the period 1999 to 2003. Their results indicate that there is a positive and statistically significant relationship between the size and profitability of SMEs. On the other hand, for the large Portuguese companies, they found a statistically insignificant relationship between size and profitability (Serrasqueiro et al, 2008).

g) Leverage and Financial Performance

Fajaria and Isnalita (2018) analyze the impact of profitability, liquidity, leverage, and business growth on firm valuation, with dividend policy as a moderating variable, and firm size as a control variable. This study was performed using a documentation approach as well as a sampling methodology for sampling. This analysis was processed using the SPSS software, with a total of 396 data observations. Where there are 146 manufacturing companies listed on the Indonesian Stock Exchange between 2013 and 2016 and the number of samples was 108, 106, 94, and 112 companies, respectively. Profitability and fast growth are shown to increase Firm Value, but liquidity and high debt are shown to decrease Firm Value. Due to demographic, inflation, and sectoral peculiarities, the finding cannot be consistent with Nigeria at the time of post-covid-19.

Ibhagui and Olokoyo (2018), use the Hansen (1999) threshold regression model to analyze the empirical relation between leverage and firm performance through a new threshold variable, firm size. We question if there is an ideal firm size for which the leverage is not negatively linked to the firm's results. the panel data from 101 listed companies in Nigeria between 2003 and 2007, were explored to the ultimate effect of leverage on firm performance depends on firm size; that is, whether the type of impact that leverage has on the firm's performance depends on the size of the firm. the findings indicate that the negative impact of leverage on firm output is most important and significant for small firms, and that evidence of negative impact decreases as the firm expands, ultimately disappearing as firm size approaches its estimated threshold. We find that this finding continues to hold, regardless of the debt ratios used. In line with previous research, findings show that the leverage impact on Tobin's Q is positive for

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Nigeria's listed firms. However, our recent result is proof that the frequency of the positive relationship depends on the size of the business and is often higher for small firms. The current work will make use of multiple regression analysis techniques also the data analysis will make use of the ordinary least squire regression technique.

Alkhatib (2012) Analyzed the Leverage Determinants of Listed Companies sampled by 121 listed companies on the Jordanian Stock Exchange, extended from 2007 to 2010. The survey represented the manufacturing and utility industries, while the financial sector was excluded from the report. For the data analysis, the regression model was used; the explanatory variables included firm liquidity, scale, growth rate, benefit, and tangibility, while the independent variable was the leverage ratio. The findings indicate that there was no statistically important association for both the manufacturing and service sectors. When the two sectors were divided, the results for the manufacturing sector revealed that liquidity and tangible linkages with leverage were important, while the results for the services sector revealed that the rate of growth, liquidity, and tangibility had a significant relationship with leverage. Due to demographic, inflation, and sectoral peculiarities, work is now almost decayed, but the finding cannot be compatible with Nigeria at the moment.

a) Model Specification and variables measurement

$$Y_{it} = \alpha_{it} + B_1 x_{1it} + B_2 X_{2it} + \ldots\ldots\ldots\ldots\ldots\ldots Bn_{it} Xn_{it} + \mu_{it} \quad \text{-I}$$

$$ROA_{it} = \alpha_{it} + B_1 FS_{it} + B_2 LEV_{it} + \varepsilon_{it} \quad \text{-II}$$

Where

a. = Intercept

B_1-B_3 = Coefficient of the independent variables

ROA = Return on asset = Ratio of net income after tax to total asset value

FS = Firm size = Natural logarithm of total asset.

LEV = Leverage = Measured as the ratio of long-term debts plus (+) short term debts to total value of assets

ε_{it} = Residual or error term of firm 'i' in period 't'

QR = Total Current Assets - Stock /Total + Current Liabilities.

The choice of the year and variables is considered appropriate given that the objectives of the study. The variables were preferred given their importance in the determination of quoted conglomerates companies in Nigeria.

h) Theoretical Framework

i. *Agency Costs Theory*

According to Agency cost theory, a higher level of debt increases shareholders' value because of its disciplinary effect on manager behavior. There are two types of inherent conflicts of interest in this theory: (a) Manager -to- shareholder conflicts, and (b) creditors-to shareholders conflict. In the first case, when debt increases, shareholders can bind managers to service the debt obligation. Thus, when the debt level is increased, a large portion of the free cash flow should be used to pay the debt obligation. In this case, shareholders or boards of directors effectively reduced the free cash flow in the company and prevent managers from investing in sub-optimal or excessive investments (Berle and Means (1932) the firm size and leverage structure helped to prevent conflict by making information conformity and balance.

III. Methodology

The work employs multiple regression analysis techniques for data analysis using the ordinary least squire regression technique. The population comprises all 25 quoted conglomerates on the Nigerian stock exchange (NSE) as of 31st December 2018.

IV. Result and Discussion

a) Descriptive Statistics

The sample descriptive was first presented in the table below where the minimum, maximum, mean, standard deviation, skewness, and kurtosis of the data for the variables used in the study were described.

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Table 1: Descriptive Statistics of the Variables

Variable	Min	Max	Mean	Std.Dev.	Skewness	Kurtosis	N
ROA	-3.97	24.68	6 .7296	11.224	-0.388	3.551	25
LEV	0.33	4.95	1.592	1.2201	1.4372	4.284	25
FS	5.74	7.33	6.3758	0.5906	2.2874	2.284	25

Source: Annual Report (2010-2018)

As can be inferred from the above presented descriptive result, ROA topped the chart with an average return of 6.72% approximately ranging from a minimum of - 3.97% to a maximum value of 24.68% implying that the industrial ROA average rises marginally over the period. As for the predictors used; firm size had the highest industrial average of 6.3758 implying that at par level, the asset of the firms in this industry increase by approximately N6.38 per every cost Ni cost incurred ranging from a minimum of N5.74 to a maximum of N7.33.

In the industry potentially can convert its current assets into liquid cash easily while leverage was averaged at 1.592% ranging between 0.33% to 4.94% implying that the firms in this industry are averagely levered across the period.

The most prominent among the result in the descriptive statistics was the higher standard deviations of performance (0.049) relative to the standard deviation of other independent variables used in the study model when compared with their mean value. The high standard deviation of performance indicates that our sample firms were of varying performances.

Finally, the skewness and kurtosis statistics revealed that the data obtained for all the variables including dependent and independents were not abnormal. Then, the study is considered valid when it is based on valid data or information, and this information is considered valid if obtained from the data quality. Therefore, the result from the normality test signified the normality of the data and further substantiated the validity of the regression result.

b) Correlation Matrix

The table displays the correlation values between the dependent and the independent variables and also the relationship between the independent variables themselves. The values were gotten from the Pearson correlation of two-tailed significance. It shows the correlation the top values displaying the Pearson correlation coefficient between all pairs of variables and the asterisk beside the Pearson correlation coefficient showing the two-tail significance of these coefficients.

Correlation Matrix

	ROA	FS	LIQ	LEV
ROA	1			
FS	0.3779	1		
LIQ	0.1224	-0.2813	1	
LEV	-0.401**	0.0177	-0.461**	1

Source: Correlation Matrix Results Using STATA

Summary of Regression Result

Variables	Coefficient	Z-Statist	
Constant	-37.47668	-1.47	0.
FS	7.629132	2.11	0.035
LEV	-3.498806	-1.87	0.065
R^2 Within	0.3773		
R^2 Between	0.0157		
R^2 Overall	0.3115		
Wald Chi^2	9.50		
Wald-Significance		0.0233	

Source: Result output from STATA 10

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The accumulated R2 Total value of (0.3115) which is the multiple coefficients of determination gave the proportion of the total variance of the dependent variable explained jointly by the independent variable. It, therefore, meant that 31.15 percent of the overall shift in output of listed conglomerate firms in Nigeria was attributed to company unique attributes of firm size, liquidity, and leverage, assuming all other factors remain constant.

The Wald chi2 of 9.50, which is important at a significance level of 0.05, suggests that the model of success and firm attributes are acceptable. This means that the independent variables are chosen, combined, and used correctly. It implies that any improvement in firm unique attributes will have a direct effect on results. The value of Wald Chi2 which is statistically significant at a level of 0.0233 implies that there is a 99.08 percent likelihood that the relationship between the variables was not due to mere chance.

From Table 4.3, it was observed that the z-value for firm size (FS) was 2.11 with a coefficient value of 7.629132 is significant at of 0.05 significance level. This signifies that firm size positively and significantly influences the performance of firms in this industry meaning that for every unit change in firm size performance will increase by 7.62% is that all other factors are held constant.

As for leverage as one of the determinants of firm-specific attributes, a negative relationship can be inferred as depicted by the negative coefficient and z-value of - 3.498806 and -1.87 respectively and at the same time not statistically significant at a 5% significance level. This means that how levered the firms are cannot significantly influence performance in the short-run assuming all other factors are held constant.

V. Discussion of Findings

This section presents the analysis carried out to test the hypotheses stated in chapter one. The regression result used for the hypotheses test is presented in Table below:

Variable Coefficients

Variables	Z-Values	P. Values	Tolerance/VIF
FS	2.11	0.035	0.712813/1.40
LIQ	0.28	0.780	0.773810/1.29
LEV	-1.85	0.065	0.904965/1.11

Source: Result output from STATA 10

Table 4.4 shows that majority of the variables are positive, while one of the predictors (leverage) is negative. Only one predictor is significantly impactful at 1% and 5% levels. This revealed that all firm attributes explain the attitude of performance of conglomerate firms in Nigeria to a large extent.

The results for each hypothesis are presented below:

As can be inferred from the above-presented result under hypotheses testing, drawing inference from the result shows that firm size significantly influences financial performance for the reason being that computed p-value of 0.035 is less than 5% significance level. Therefore, the first null

The hypothesis is rejected.

Also, from the table above, while leverage has shown a negative effect on financial results but not statistically significant at a 5 percent significance level because the p-value of 0.065 is higher than 0.05. Therefore, we conclude here by failing to dismiss the second null hypothesis. This means that the leverage does not have a significant influence on performance.

In summary, from the study carried out, it can be seen that, overall, firm-specific attributes have a major effect on results. Specifically, it was noted that, among the three specific attributes used in our analysis, only firm size significantly influences financial performance positively, as well as liquidity positively, but not significantly, while leverage negatively affects the financial performance of conglomerate firms in Nigeria. Which was also in line with the finding of Mahendra Dj et al. (2012) and Sisca (2018) Martini (2015) and Lestari (2017) found that the positive effect of debt policy on corporate value, and can be moderated dividend policy.

A firm with a high leverage level tends to be negatively affected for the reason being that finance cost is involved here. A high leverage level is a potential to the existence of a corporation; therefore, it should be kept at bay and an internal source of finance should be opted for through retained earnings to finance the cost of operation as they retain earnings connotes a reservoir of firm's existence. This further goes in line with Zhang and Li, (2008), who discussed that increase in leverage decreases the agency cost. In their study, they also stated that if the leverage is increased from the optimal level then those results in the opposite put an effect on the agency cost of free cash flow. They discussed that sometimes increase in debt causes bankruptcy. They said that the increase in the debt level reduces the agency cost but increases the bankruptcy cost.

A firm with a large asset base tends to perform better-off than those with less capacity in terms of assets. Assets are often time referred to as economic resources of which are expected to flow economic

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benefits to the owners for the next foreseeable future. By so doing, a firm with a large asset base would receive a higher economic benefit in both the short-run and the long-run. This reason accounts for the significant effect of firm size on performance. Findings from this study correlate with the findings of (Dogan, 2013).

VI. Conclusion and Recommendations

The study found that the size of the company has a positive and important effect on financial performance at this point of post-COVID-19, and therefore management should try to increase its total asset level as much as possible because assets have been described in accounting as business capital in which long-term economic benefits are expected to flow for a long period. The higher the number of assets, the higher the valuation of the businesses, and the more likely it is to produce more returns.

Accordingly, this study concludes that firm size and firm leverage are determinants of the financial performance of listed conglomerate firms in Nigeria.

Also, this study advises that the management track its leverage level to maintain it at an optimum stage. High debt adversely affects the output of conglomerate companies. Therefore, the amount of leverage (debt-to-equity ratio) should be 3 5:65 to avoid high capital costs that guarantee performance in the post-COVID-19 Era.

Finally, a high level of liquidity is toxic to conglomerate companies because cash is tied down in the production process. Low liquidity leads to an inability to meet current obligations as they are due. An optimum liquidity level of 50% is therefore recommended for optimum performance.

The study, therefore, suggests that constructive steps be taken in addition to traditional practices and transparency criteria for companies in conglomerates in Nigeria:

* Financing of the economy and diversification with transparent management.

The economy must be funded to develop, first of all, for businesses like conglomerates to fall in line with growth.

* Financing and planning for the health care system is a very important factor.
* Reducing much of the pressure on the revenue and financial structure of conglomerates by the owners and their family members.
* Collaborating, organizing, and helping each other first to solve this lethal pandemic to save the global economic system by the IMF findings (2020).

We suggest that in this post-COVID-19 period and the subsequent economic crisis should not lead to a recession in the economy, some of the imperatives addressed in this work Yet effective supervision, probity, fairness, integrity, prudence, accountability and the best values of conglomerate business practice are important to the post-COVID-19 Nigerian economy in terms of world best practice and practice.

Be wise, and the truthful Covid-19 is real.

Suggestion for Studies

i. Since this study focused on the conglomerate's companies, other future researches can focus on other sectors of the economy especially, the ones with governance and reporting failures.
ii. Also, the study did not capture all variables as such other studies may consider variables that were not used in this study.
iii. The new code of corporate governance addresses so many issues bothering conglomerates companies and governance hence, new endeavors can make massive use of the new code.

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Appendix I

liq

	Percentiles	Smallest		
1%	.41	.41		
5%	.51	.51		
10%	.57	.57	Obs	25
25%	1.12	.72	Sum of Wgt.	25
50%	1.41		Mean	1.7432
		Largest	Std. Dev.	1.033944
75%	2.32	3.17		
90%	3.41	3.41	Variance	1.069039
95%	3.47	3.47	Skewness	.9887972
99%	4.45	4.45	Kurtosis	3.242478

lev

	Percentiles	Smallest		
1%	.33	.33		
5%	.35	.35		
10%	.38	.38	Obs	25
25%	.79	.43	Sum of Wgt.	25
50%	1.23		Mean	1.592
		Largest	Std. Dev.	1.220174
75%	1.97	2.62		
90%	3.06	3.06	Variance	1.488825
95%	4.68	4.68	Skewness	1.43723
99%	4.95	4.95	Kurtosis	4.619586

```
. sum roa fs liq lev, detail
```

roa

	Percentiles	Smallest		
1%	-23.9	-23.9		
5%	-6.04	-6.04		
10%	-4.92	-4.92	Obs	25
25%	1.1	-3.97	Sum of Wgt.	25
50%	5.12		Mean	6.7296
		Largest	Std. Dev.	11.22401
75%	12.9	21.45		
90%	22	22	Variance	125.9783
95%	23.81	23.81	Skewness	-.3884459
99%	24.68	24.68	Kurtosis	3.55144

fs

	Percentiles	Smallest		
1%	5.195581	5.195581		
5%	5.262589	5.262589		
10%	5.734264	5.734264	Obs	25
25%	5.911939	5.746411	Sum of Wgt.	25
50%	6.444484		Mean	6.375879
		Largest	Std. Dev.	.5906449
75%	6.847922	7.050152		
90%	7.150881	7.150881	Variance	.3488614
95%	7.248228	7.248228	Skewness	-.2588283
99%	7.333876	7.333876	Kurtosis	2.287433

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```
. sum roa fs liq lev
```

Variable	Obs	Mean	Std. Dev.	Min	Max
roa	25	6.7296	11.22401	-23.9	24.68
fs	25	6.375879	.5906449	5.195581	7.333876
liq	25	1.7432	1.033944	.41	4.45
lev	25	1.592	1.220174	.33	4.95

```
. pwcorr roa fs liq lev, sig
```

	roa	fs	liq	lev
roa	1.0000			
fs	0.3779 0.0626	1.0000		
liq	0.1224 0.5601	-0.2813 0.1732	1.0000	
lev	-0.4009 0.0470	0.0177 0.9329	-0.4611 0.0204	1.0000

```
. reg roa fs liq lev
```

Source	SS	df	MS
Model	941.844391	3	313.94813
Residual	2081.63553	21	99.1255015
Total	3023.47992	24	125.97833

Number of obs	= 25
F(3, 21)	= 3.17
Prob > F	= 0.0457
R-squared	= 0.3115
Adj R-squared	= 0.2132
Root MSE	= 9.9562

roa	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
fs	7.629132	3.616968	2.11	0.047	.1072361	15.15103
liq	.6505058	2.328105	0.28	0.783	-4.191053	5.492065
lev	-3.498806	1.893424	-1.85	0.079	-7.436398	.4387854
_cons	-37.47668	25.47298	-1.47	0.156	-90.45064	15.49728

```
. vif
```

Variable	VIF	1/VIF
liq	1.40	0.712813
lev	1.29	0.773810
fs	1.11	0.904965
Mean VIF	1.27	

```
. hettest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
        Ho: Constant variance
        Variables: fitted values of roa

        chi2(1)      =     1.99
        Prob > chi2  =   0.1581
```


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```
. xtreg roa fs liq lev, fe

Fixed-effects (within) regression               Number of obs      =        25
Group variable: year                            Number of groups   =         5

R-sq:  within  = 0.3917                         Obs per group: min =         5
       between = 0.0090                                        avg =       5.0
       overall = 0.2980                                        max =         5

                                                F(3,17)            =      3.65
corr(u_i, Xb)  = -0.0769                        Prob > F           =    0.0338

------------------------------------------------------------------------------
         roa |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
          fs |   8.815284   3.472624     2.54   0.021     1.488687    16.14188
         liq |  -.1925496   2.448499    -0.08   0.938    -5.358432    4.973332
         lev |  -3.300238   1.844048    -1.79   0.091     -7.19084    .5903637
       _cons |  -43.88595   24.28636    -1.81   0.088    -95.12569    7.353787
-------------+----------------------------------------------------------------
     sigma_u |  5.5456637
     sigma_e |  9.4278554
         rho |  .25706021   (fraction of variance due to u_i)
------------------------------------------------------------------------------
F test that all u_i=0:     F(4, 17) =     1.60                 Prob > F = 0.2187

. estimates store fixed

. xtreg roa fs liq lev, re

Random-effects GLS regression                   Number of obs      =        25
Group variable: year                            Number of groups   =         5

R-sq:  within  = 0.3773                         Obs per group: min =         5
       between = 0.0157                                        avg =       5.0
       overall = 0.3115                                        max =         5

Random effects u_i ~ Gaussian                   Wald chi2(3)       =      9.50
corr(u_i, X)       = 0 (assumed)                Prob > chi2        =    0.0233

------------------------------------------------------------------------------
         roa |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
          fs |   7.629132   3.616968     2.11   0.035     .5400058    14.71826
         liq |   .6505058   2.328105     0.28   0.780    -3.912496    5.213507
         lev |  -3.498806   1.893424    -1.85   0.065     -7.20985    .2122374
       _cons |  -37.47668   25.47298    -1.47   0.141     -87.4028    12.44944
-------------+----------------------------------------------------------------
     sigma_u |           0
     sigma_e |  9.4278554
         rho |           0   (fraction of variance due to u_i)
------------------------------------------------------------------------------

. estimates store random

. hausman fixed

                 ---- Coefficients ----
             |      (b)          (B)            (b-B)     sqrt(diag(V_b-V_B))
             |    fixed        random       Difference          S.E.
-------------+----------------------------------------------------------------
          fs |   8.815284     7.629132       1.186152                .
         liq |  -.1925496     .6505058      -.8430554        .7583382
         lev |  -3.300238    -3.498806       .1985681                .
------------------------------------------------------------------------------
                b = consistent under Ho and Ha; obtained from xtreg
 B = inconsistent under Ha, efficient under Ho; obtained from xtreg

    Test:  Ho:  difference in coefficients not systematic

                  chi2(3) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                          =          0.52
                Prob>chi2 =        0.9155
                (V_b-V_B is not positive definite)
```


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```
. xtreg roa fs liq lev, re

Random-effects GLS regression                   Number of obs      =        25
Group variable: year                            Number of groups   =         5

R-sq:  within  = 0.3773                         Obs per group: min =         5
       between = 0.0157                                        avg =       5.0
       overall = 0.3115                                        max =         5

Random effects u_i ~ Gaussian                   Wald chi2(3)       =      9.50
corr(u_i, X)       = 0 (assumed)                Prob > chi2        =    0.0233
```

roa	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
fs	7.629132	3.616968	2.11	0.035	.5400058	14.71826
liq	.6505058	2.328105	0.28	0.780	-3.912496	5.213507
lev	-3.498806	1.893424	-1.85	0.065	-7.20985	.2122374
_cons	-37.47668	25.47298	-1.47	0.141	-87.4028	12.44944
sigma_u	0					
sigma_e	9.4278554					
rho	0	(fraction of variance due to u_i)				

Appendix II

Table 3.1: Lists of Sampled Conglomerate Firms in Nigeria

S/N	Quoted Firms	Year of Listing
1.	A.G Leventis (Nigeria) Plc.	1978
2.	Chellarams Plc.	1977
3.	John Holt Plc.	1974
4.	PZ Cussons Nig. Plc.	1974
5.	SCOA (Nigeria) Plc.	1977
6.	Unilever Nig. Plc.	1973
7.	UACN Plc.	1974
8.	Transnational Corporation of Nig.	2006

Source: Stock Exchange Fact Book.

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Crowdfunding Prospects in Nepal

By Som Raj Nepali

Abstract- Graduation of Nepal from Least Developed Country (LDC) by achieving remaining criteria of Gross National Income (GNI) per capita threshold of US $1230 from the status of US $1,196 is urging for huge investments in Nepal. The study helps to analyze the potentiality of crowd funding in Nepal with the due consideration of its financial development, technological advancement and regulatory requirements & legislations. Government of Nepal and Nepal Rastra Bank are contributing towards Digital Nepal under the Digital Nepal Framework-2019. The conglomeration of Financial Technology (FIN-Tech), and Information and Communication Technology (ICT) in Nepalese financial system is facilitating the implementation of crowdfunding. Similarly, the study reveals that crowdfunding has potentiality of becoming the pillar of alternative finance source in Nepal. However, lack of regulatory guidances is the major barrier for the establishment, operation and growth of crowdfunding, which requires a rigorous study on it scope, viability and regulation.

Keywords: *equity, donation, reward, financial technology and regulation.*

GJMBR-C Classification: *JEL Classification: G10, G18, G21, G23, G28*



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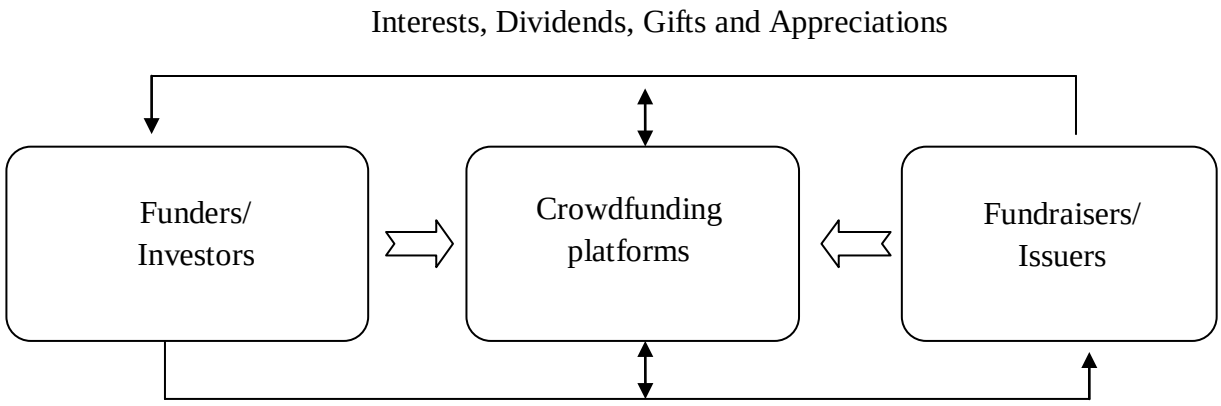
Keywords: equity, donation, reward, financial technology and regulation.

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I. Introduction

The concept of crowdfunding is believed to be grown in developed countries in a response to the credit crunch and financing difficulties faced by early stage Small and Middle-scale Enterprises (SMEs) resulting from the financial crisis of 2008. The traditional banking system and its difficulties in response to the financial crisis have triggered a search for new alternative financing sources; crowd funding. Crowdfunding is a form of fund-raising usually over the network of the internet. Individuals with ideas of startups and in need of funds and financial support can present their ideas over the internet or forum, for example, Kickstarter, Seedrs and so on. Then, the users of the forum or the crowd decide if they are willing to invest in some ideas presented there.

Literally, crowd-refers to a large group or conglomeration of individuals contributing via the internet, by financially supporting a project or cause (Lasrado and Lugmayr, 2013). Funding mechanism-are the principles or rules the intermediaries set under which funding takes place (Schulz et al., 2015).



Source: Author's creation

Figure 1: System of crowdfunding

Especially, crowd funding is considered as a part of Fin Tech's sub-category, which is called Alternative Finance. It is a technology-enabled market based funding which comes outside the financial system (Jenik, Lyman and Nava, 2017). According to Haddad and Hornuf (2019), it is one of the parts of Fin-Tech developments, which addresses needs in capital raising through innovative and digital solutions.

Crowd funding platforms adopt diversified business models under the different local and

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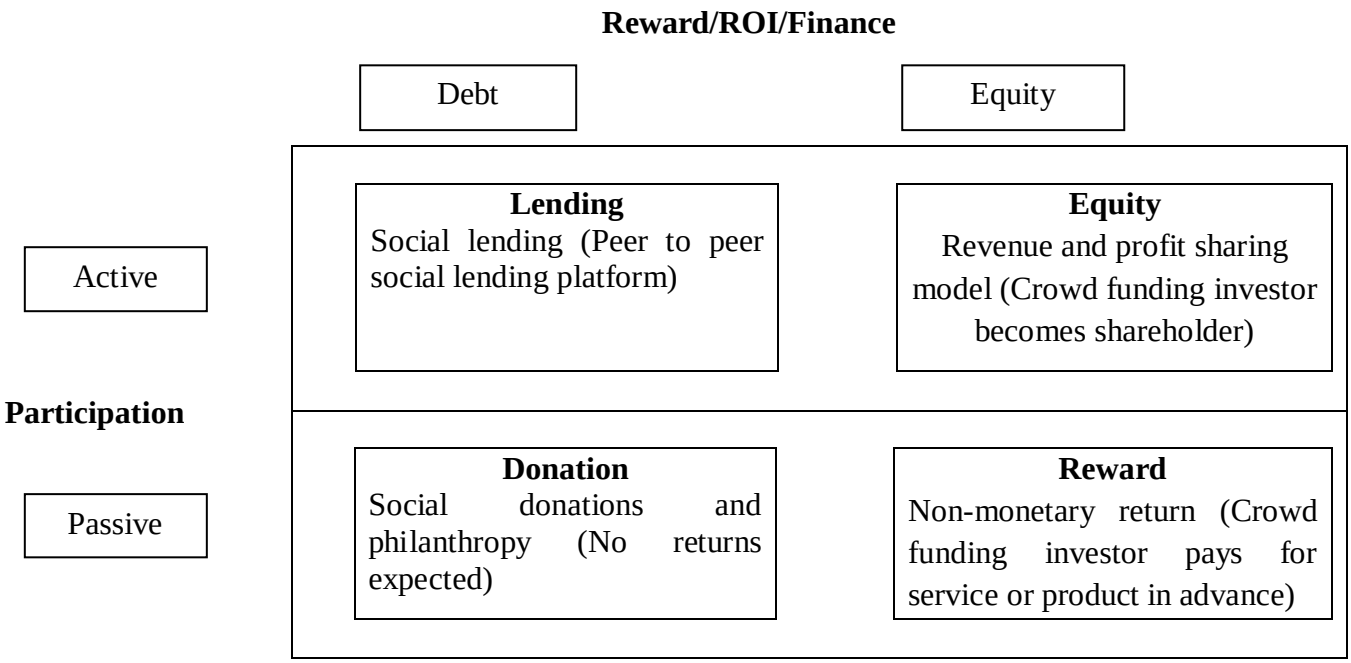
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international rules, regulations, legal regimes and structures. According to IOSCO (2015), the benefits of crowd funding can be listed out as below:

a. Facilitate funding for small and medium sized enterprises;
b. Seed capital to start-up companies;
c. Lower cost of capital/high returns;
d. Portfolio diversification;
e. Cost efficiency of relatively simple infrastructure;
f. Convenience of online platform; and
g. Increased competition in a space traditionally dominated by a few providers.

II. Types of Crowdfunding

The crowdfunding projects types can be presented in figure as below:



Source: Menon et al. (2018)

Figure 2: Types of crowdfunding

The detail characteristics and nature of the crowdfunding can be explained as below:

a) Lending based crowd funding

Under it, crowdfunder lends money to companies or startups or individuals in return of a fixed interest rate for a specified schedule. The interest rate is generally lower than that of banks and financial institutions and is based on the risk factor It is also called as peer to peer lending, whereby peers lend to other peers via internet or online platforms. It comes under the regulation of monetary authority.

b) Equity based crowd funding

Under it, crowd funding buys equity or profit sharing arrangements in a company. In other words, investor becomes the owner of the company and is supposed to get dividend as well. This has more potentiality to attract relatively large numbers of investors. It also comes under the regulation of the central banks or monetary authority.

c) Donation based crowdfunding

By the name itself, under it crowdfunder donates funds to a dedicated cause or project without expecting any monetary or non-monetary returns. It is more like philanthropic in nature. This type of funding occurs in the area like; school constructions, hospital establishments and operation, disaster reliefs and so on. Here, investors get nothing but Thank you as a reward, in other words, investors are appreciated and recognized in return of his/her investment. NGO's have been using this model of crowdfunding for years.

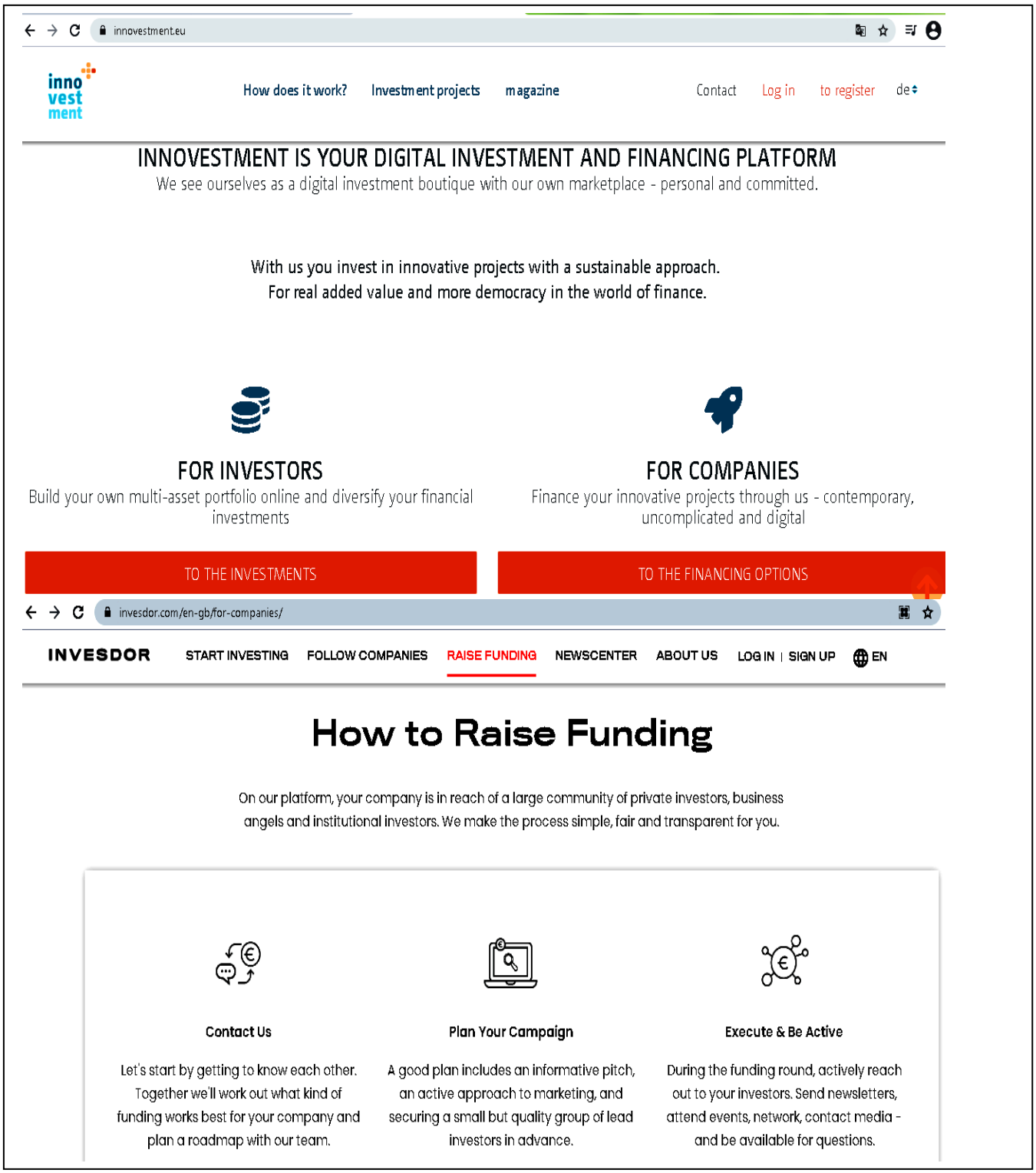
d) Reward based crowdfunding

Under it, there is reward for the crowd funders. However, the reward may take the form of products or gifts or membership or invitation for the events instead of interest or profit share in return of funds. Here, investors also receive a token gift of pre-purchase of service or product. Therefore, it has been used as a tool of pre-selling products, which also generates revenue for the start-ups.

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III. Crowdfunding Models and Platforms

The major crowd funding models can be shown as below:



Source: Innovestment and Invesdor platforms

Figure 3: Example of crowdfunding platforms

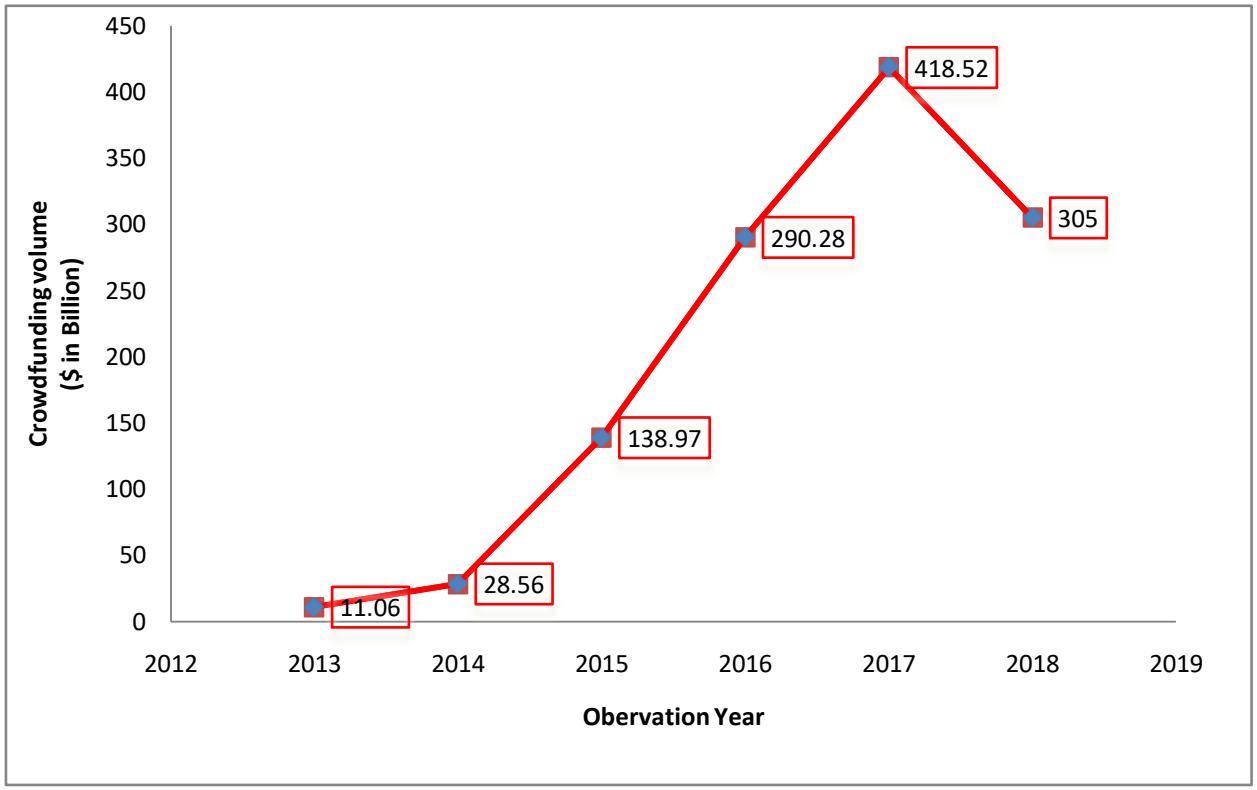
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IV. Global Scenario of Crowdfunding

Crowdfunding has been occupying a significant place in the discussion of economic forum, political, social and cultural discourses after the global recession of 2008. There has been a search for the better source of funds and investment alternatives thereof. Across the world, developments in financial technology (Fin-Tech) are revolutionizing the way people interact with financial services-allowing faster payments, more secure transactions, user-friendly interfaces, and reducing costs.

According to UNDP (2017), crowdfunding is an innovative approach for projects, organizations, entrepreneurs, and startups to raise money for their causes from multiple individual donors or investors. The industry is expected to reach an annual volume of US$100 billion by 2025 and becoming the leading financial channel for SMEs.

The figure (see Figure 4) shows the global total volume that alternative finance platforms having facilitated along with the percentage change in some years.



Source: Schmidt (2020) and Cambridge Centre for Alternative Finance (2020).

Figure 4: Global alternative finance volume ($ in Billion)

The total global alternative finance volume has grown from $11.06 billion in 2013 to $418.52 billion in 2017 (Ziegler, Shneor and Zhang, 2020). As a result, the concept of crowdfunding has taken more space and growth substantially. According to Schmidt (2020), China solely accounted for 85.5 percent of the worldwide crowdfunding market in 2017.

a) South Asian and Nepalese Scenario of Crowdfunding

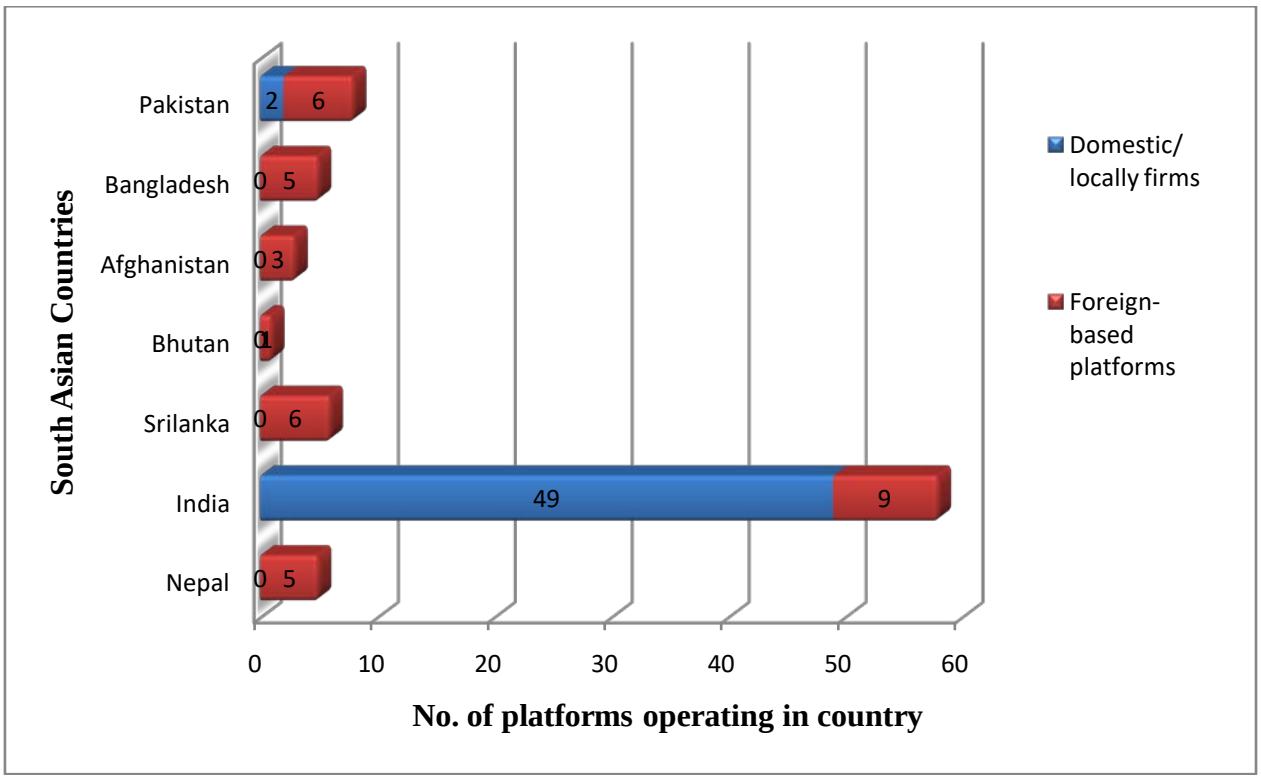
With the growing development in information technology, financial innovations and an avenue towards digital economy, modern and innovative models of finance have been emerged all around the world. The following table shows the regulatory provisions and legislations regarding the crowdfunding in South Asian countries.

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Table 3: Crowdfunding in South Asian countries

S/N	South Asian Countries	Provisions related to crowd funding	Remarks
1	Srilanka	A crowdfunding initiative that merely procures gifted or donated sums without the possibility of a return may not be considered unlawful under the Securities Act (2008).	D'Rosario, M., Busary, A., & Raval, K. (2016).
2	Nepal	The Securities Act 2007 does not permit non broker intermediaries to engage in capital raising related activities.	Securities Board of Nepal (SEBON) (2021)
3	Bangladesh	The Securities and Exchange Commission Act, 1993 is silent in relation to crowdfunding type methods. A crowdfunding initiative that merely procures gifted or donated sums without the possibility of a return may not be considered unlawful under it.	D'Rosario, M., Busary, A., & Raval, K. (2016).
4	India	However, it is evident that crowdfunding as a discrete activity would be prohibited and would be considered unlawful under Indian securities legislation. In 2017, RBI issued directions targeting 'Non-Banking Financial Companies' and specifically P2P lending platforms. These directions require all P2P lending platforms to obtain a certificate from RBI.	D'Rosario, M., Busary, A., & Raval, K. (2016); Suresh, K., Oyna, S., & Munim, Z. H. (2020)
5	Bhutan	The Royal Monetary Authority of Bhutan, in exercise of the powers conferred by Sections 202 of the Financial Services Act of Bhutan 2011, has formulated and promulgated "Crowdfunding Rules & Regulations 2019."	Royal Monetary Authority of Bhutan (RMAB) (2019).
6	Pakistan	Securities & Exchange Commission of Pakistan (SECP) has granted approval to the first technology based crowdfunding platform that allows startups and SMEs to raise funds from investors in return for securities.	SEC pakistan (27 october, 2020)

The following figure illustrates the number of crowdfunding platforms operating in South Asian countries.



Source: Cambridge Centre for Alternative Finance (2020)

Figure 5: No. of crowdfunding platforms operating in South Asian countries

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The following table shows the volume of alternative finance in South Asian countries.

Table 4: Volume of alternative finance in South Asian countries.

S/N	South Asian Countries	Volume ($ USD)
1	Nepal	1,014,850
2	Bhutan	10,000
3	Bangladesh	10,272
4	Sri Lanka	38,926
5	Pakistan	8,571,762
6	India	268,579,820

Source: Cambridge Centre for Alternative Finance (2018), Ziegler et al. (2018)

The above table shows that India is the largest market in terms of volume of alternative finance followed by the Pakistan and Nepal. According to UNDP (2017), crowdfunding in developing countries raised US$430 million in 2015 with India, Philippines, and Nepal in the top three.

b) Nepalese Economic and Payment System Scenario

Shares of public and private sectors in fiscal year 2018/19 were 79.7 percent and 20.3 percent respectively. In comparison to the public sector, the rate of capital formation of private sector is high.

Table 5: Economic indicators

S/N	Particulars	2019/20 (Estimated)	2019/20 (Actual)	2020/21 (Estimated)
1	Gross Investment, 2020/21	Rs. 1889.26 Billion	-	Rs. 1312.71 Billion
2	Gross investment to GDP	50.20%	28.40%	30.80%
3	Fixed capital formation to GDP	28.10%	28.40%	27.30%
4	Gross fixed capital formation of government sector	77.90%	18.60% (Rest 7.6% public corporation)	18.10% (Rest 8.4% public corporation)
5	Gross fixed capital formation of private sector	22.10%	73.10%	74.30%
6	Gap between Savings and investment	32.10%	22.10%	24.20%
8	GDI per capita in current price	US $ 1085 (GDP per capita)	US $ 1196	US $ 1196

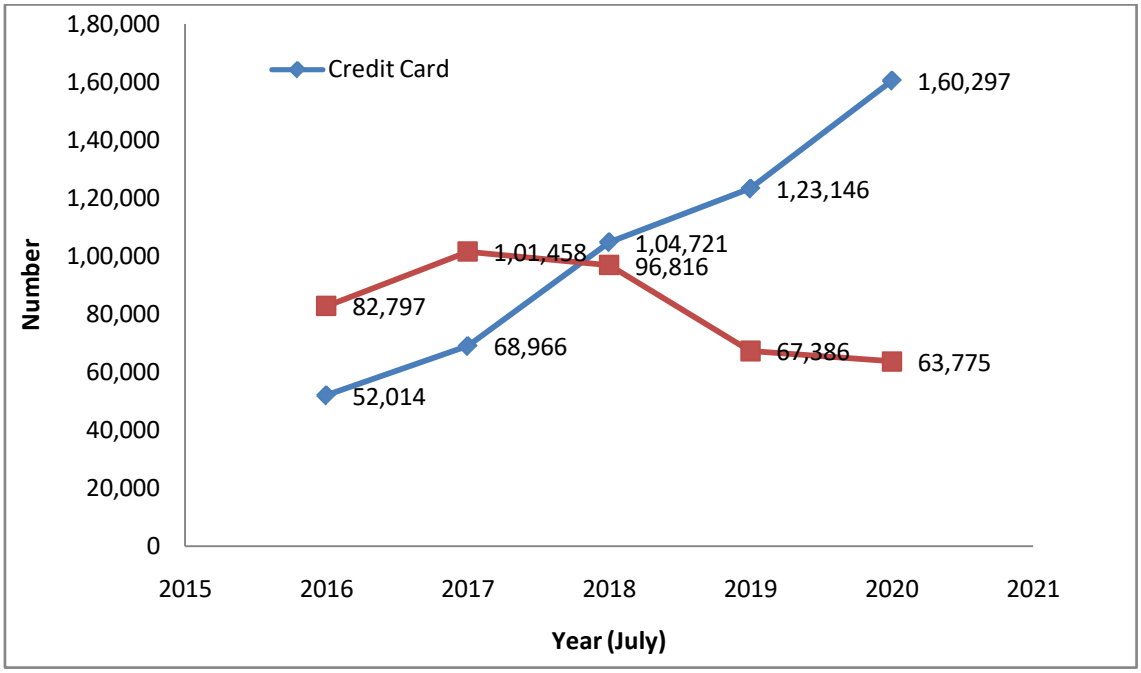
Source: Ministry of Finance, Economic Survey 2019/20 & 2020/21

The concept of digital economy and its supporting pillars like; SMS banking, mobile banking, QR code scan system, POS machine, internet banking, connect IPS and RTGS system can facilitate the crowdfunding. Technological awareness and subjective norms positively influence backers' crowdfunding intentions (Hasan, Ahmad, Rahman, and Islam, 2018).

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V. Payment Instruments Issued

The following figure shows the number of payment instruments issued in Nepal.



Source: Payment Systems Oversight Report, 2019/20

Figure 6: Number of payment instruments issued

The following table represnets the major payment system indicators in Nepal.

Table 6: Major payment system indicators

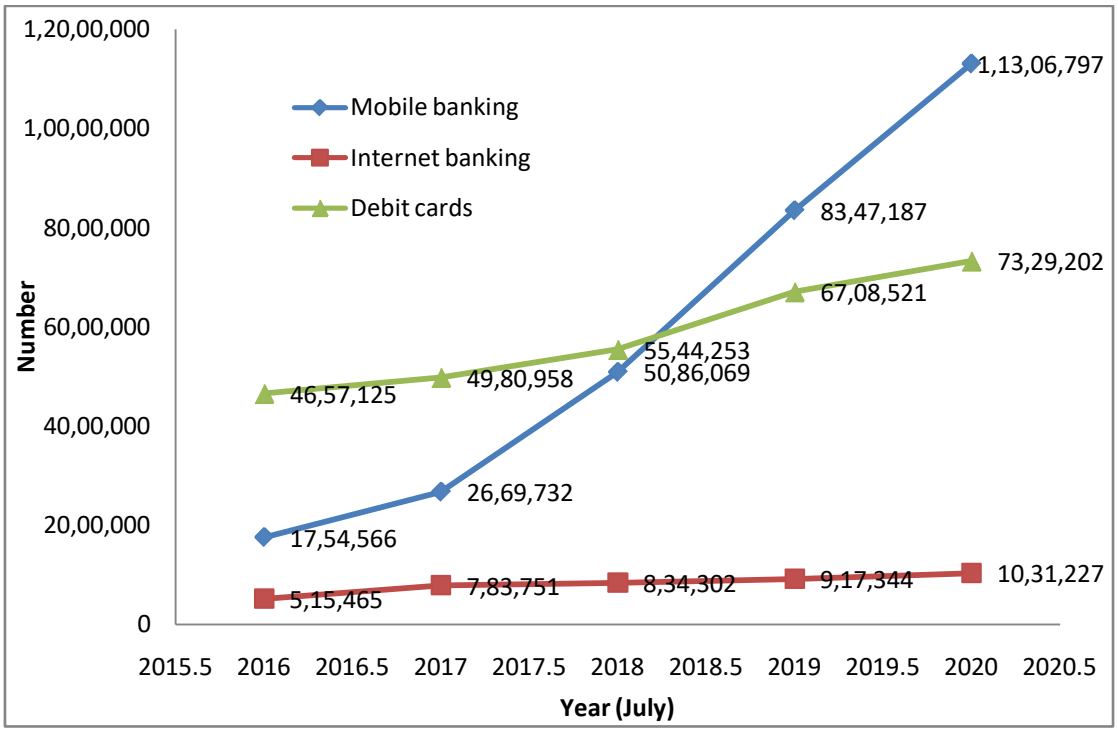
S/N	Particulars	Mid July 2020
1	Total number of ATMs	4,106
2	Total inter-bank payment system (IPS) Transaction Presented Count (Yearly)	5,875,765
3	Total ConnectIPS Transaction Presented Count (Yearly)	2,849,964
4	Total number of Non-BFIs working as PSO	9
5	Total number of Non-bank institution operating as PSP	14

Source: Payment Systems Oversight Report, 2019/20

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a) Payment Channels

The following figure shows the number of customers on payment channels in Nepal.



Source: Payment Systems Oversight Report, 2019/20

Figure 7: Number of customers on payment channels

b) 15th Five Year Plan (FY2020-FY2024)

There has been a remarkable progress in adoption of information technology in Nepalese economy. According to Nepal Telecommunications Authority (2020), telephone service penetration has reached to 126.72 % of the total population, mobile phone service has exceeded 90% of the people, and internet penetration has reached to 74.43%. Similarly, International Telecommunication Union reported that Nepal will be among the frontrunners in internet penetration at 79% by 2025 (Frost and Sullivan, 2018).

The Government of Nepal's 15th five-year plan (FY2020-FY2024) envisions Digital Nepal project with the total estimated cost of NRs. 107.50. According to NPC (2020), 65.9 per cent of the population has access to the Internet services, and digital literacy stands at 40 percent. The Government of Nepal's 15th five-year plan (FY2020-FY2024) envisions increasing internet penetration to 80% by FY2024 (NPC, 2020). The rapid and improved access to the information technology specifically internet via mobile phones and other devices, boom in social networks and Fin-Tech developments have helped growth of crowdfunding in developed as well as in developing countries like Nepal.

c) Digital Nepal Framework-2019

Digital Nepal Framework is in effect in Nepal since 2019. It has selected 8 major sectors which includes eighty initiatives. They all support for the economic growth through enhanced use of ICT in major sectors. One of the major sectors to build up the digital foundation and its effective utilization is on financial sector. It targets unbanked population get into the banking or financial sector by the use of ICT. Besides, it aims for leveraging the financial inclusion and access upto 55 percent of the population employing Fin-Tech and digital ways (DNF, 2019).

Ministry of Communications and Information Technology (MoCIT) has recently launched the beta version of the application called "*Nagarik App*". This app has been launched with an aim to provide all the government reated services through a single online platform, which is under the government's Digital Nepal Framework project. Similarly, "*Mero Kitta*" app is another example of the Ministry of Land Management, Cooperatives and Poverty Alleviation's initiatives towards digital Nepal. This app provides online land related services without having to visit government offices.

d) Nepal Rastra Bank and Legal Frameworks/Initiatives for Digital Payment System

Nepal Rastra Bank is the central bank of Nepal and it is committed to develop the digital economy and promote digital financial system in Nepal. According to NRB Act (2002) First amendment 2006, one of the major objectives of NRB is to develop a secure, healthy and efficient system of payment. Therefore, various commendable efforts have been making for the

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payment system modernization, started with the formulation of Nepal Payment System Development Strategy (NPSDS) in 2014. NPSDS guides NRB to implement the strategy across the nine pillars.

Furthermore, following strategic and legal formulation and implementations are regarded as the breakthrough in making Nepalese economy a Digital economy:

a. Licensing Policy for Institution/Mechanism Operating Payment Related Activities, 2016
b. Payment and Settlement Act, 2018,
c. Payment and Settlement Bylaws 2020,
d. Real Time Gross Settlement (RTGS) System Rule, 2019,
e. Unified Directives,
f. Monetary policy, and
g. International guiding polices such as Principles of Financial Market Infrastructures (PFMIs)

These policy level milestones are expanding, improving and securing the digital mode of payments in Nepalese economy.

e) Third Strategic Plan (2017-2021) of NRB

According the Third Strategic Plan (2017-2021) of NRB, NRB has set four core pillars that are essential for achieving organizational goals and objectives. Pillar two is related to Financial Stability and Financial Sector Development. One of its objectives is to Enhance Financial Access and Financial Inclusion, which is an integral part of Financial Sector Development Strategy (FSDS) announced in 2017. In order to achieve this objective, among others strategies and actions, encouraging different modes of digital financing is one of the important actions. Therefore, NRB is in avenue of supporting digital economy of Nepal. Therefore, it is important to pro-actively and prudentially develop technological and policy level regulatory framework to support crowdfunding.

The monetary policy 2020/21 has significantly focused on Fin-Tech and digital payment in Nepal. One of the stances of monetary policy 2020/21 is that "digitization will be promoted to make payment system more secure, healthy and efficient." Following are the major provisions in monetary policy 2020/21 relating to the digital economy and digital Nepal.

a. Settlement of financial transactions through digital means will be encouraged following the spirit of the Digital Nepal Framework implemented by the GoN, which aims to promote sound and secure electronic payment system in order to minimize the cash transactions.
b. National Payment Switch will be established to facilitate the payment system further in order to maintain records of all electronic transactions conducted in Nepal.
c. A guideline will be issued to manage the electronic payments made through Quick Response (QR) code.
d. Provisions will be made to receive foreign currency earned from the exports of IT related services exported through online or electronic means in the bank account or card of the exporter or service provider.
e. Likewise, necessary arrangements will be made to receive remittances through mobile wallets.

f) Crowdfunding and its Potentiality on Economic Development of Nepal

A neo-classical economic growth model of Solow-Swan (1956) focuses on long run economic growth with the key components of saving and investment. It says that an increase in saving and investment raises the capital stock and thus raises the full-employment national income and product. Investment is one of the pillar for the economic growth.

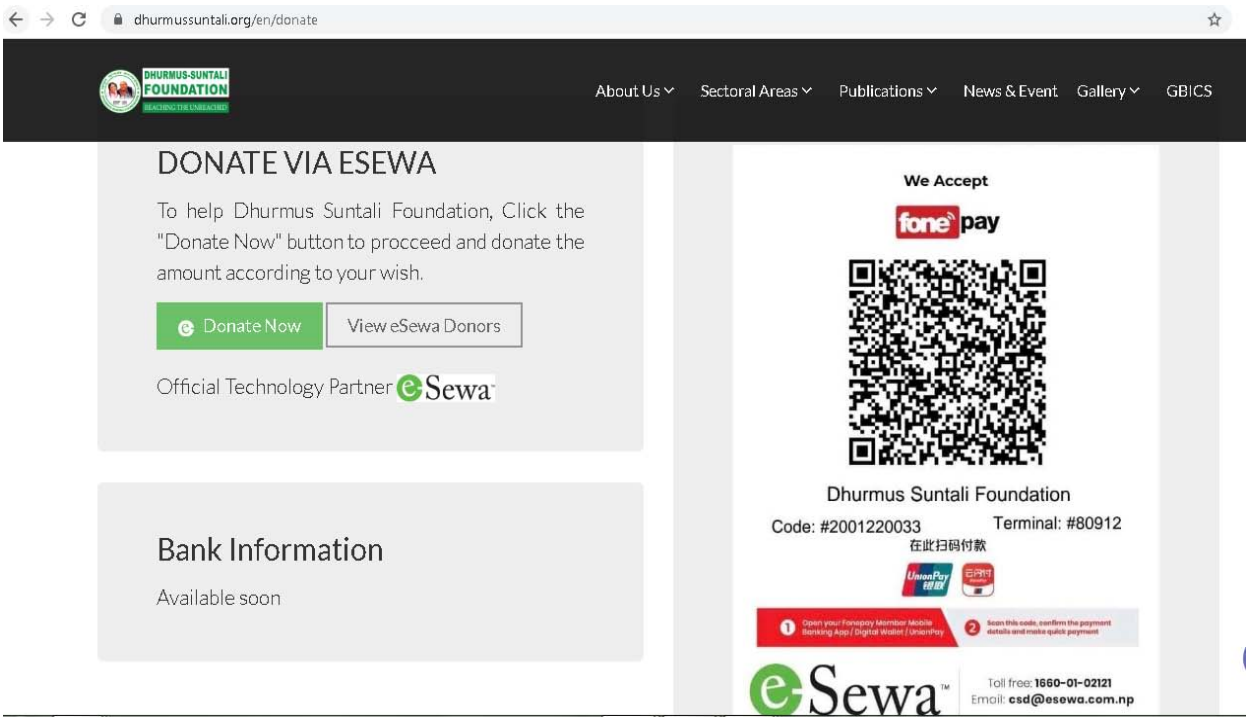
The previous economic crises, frequent credit crunch and stringent regulatory requirements as such have been demanding for alternative financing. In the context of Nepal, there has been a rapid growth of informal sectors that are bridging the gap between the savers and users of funds by any means. According to a study of United Nations Capital Development Fund (UNCDF) (2017), it revelaed that 24% of Nepali adults had been refused loans due to lack of proof of sufficient income, while 19% were unable to provide collateral. There is always a gap between required capital and fulfilled invesment's. Therefore, people who are not confident enough to proceed through the formal channels due to stringent regulatory requirements and searching for alternative way of investment are the growth factors of crowd funding. On the other hand, small investors are searching for investment alternatives that give them, even though smaller, returns.

Besides, a unprecedented global pandemic of Corona Virus-COVID 19 has magnified the prominence of digital and electronic transactions in an economy no matter of its size. The market has already started as there are some online platforms that provide startup solutions for the investors and entrepreneurs in Nepal, for example, *Clock b.* Similarly, international competition and opportunities viz. Hult Prize, GIST Tech-I, Seedstar, and IdeaStudio in Nepal are attempting to bridge the gap between the start-ups, entrepreneurs and investors.

Similarly, there are well known donation based crowd funded projects which are being operated by a not for profit and non-government humanitarian organization called *Dhurmus Suntali Foundation (DSF).* The inception of DSF virtuously was for humanitarian support in reconstruction of settlements for survivor of 2015 Nepal earthquake and since then started

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implementing social, economic and infrastructure development initiatives in Nepal (DSF, 2021).



Source: https://dhurmussuntali.org/

Figure 8: Dhurmus Suntali Foundation

It is now focused on mega-projects like ongoing construction of Gautam Buddha International Cricket Stadium-multiple sport venues and covered halls representing all 77 districts. It is also fully implementing crowdfunding for collecting donations using Fin-Tech. According to annual report (DSFa, 2021), DSF has collected donations of NRs. 18,53,42,791.75 and expensed the same amount for completing 7.17 percentage of the project until the review period. The initiative and success of the DSF has also shown an avenue for the crowdfunding in Nepal. DSF has supported for the infrastructure development in Nepal although it is based on donation crowdfunding. Therefore, these platforms act as alternative finance source and support for the other kinds of philanthropic causes and economic development of Nepal.

Crowd funding can be a one of the major and alternative financing solutions for achieving sustainable development as well. Out of total 17 sustainable development goals, 8th goal is related to decent work and economic growth. Similarly, 9th goal concerns with industry, innovation and infrastructure. The government's big plan of 'Digital Nepal' is designed to facilitate Nepal to connect its driving socioeconomic growth of citizens, which will help and support to achieve the sustainable development goal (Giri, 2020).

In order to achieve these major goals, one of the major resources is capital and capital can be collected from alternative financing along with the traditional financing. Crowd funding is one of the emerging platforms for collecting small investments for the huge projects. Innovation in financial tools and techniques yields secured and productive platforms for the funds generation.

It helps the development of small and medium scale enterprises in such a way that it does not interfere with future development potentiality and sustainability.

The United Nations Committee for Development Policy (UNCDP) has recommended for Nepal's graduation from the Least Developed Country (LDC) category, which would be effective in 2026 after the preparatory period ends. The efforts have been made to graduate by 2022 via 12th 3 years plan. This upgrade is based on three graduation thresholds as presented below and these must be met in two consecutive triennial reviews (or income only).

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Table 7: LDC graduation thresholds

S/N	Parameters	LDC graduation thresholds	Nepal's achievements	Remarks
1	GNI Per capita	US $ 1,230 or above	US $ 1,196*	Need to achieve
2	Human Assets Index (HAI)	66 or above	Greater than 71.2	Achieved
3	Economic Vulnerability Index (EVI)	32 or below	Less than 28.4	Achieved

*Source: United Nations, Economic and Social Commission for Asia and the Pacific, (2019), and Economic Survey Report, 2020/21**

Nepal has already attained two indicators with HAI of greater than 71.2 and EVI of less than 28.4 respectively (UN, ESCAP, 2019). However, Nepal has not attained the GNI per capita threshold of $1230, which is currently US $ 1196. In order to achieve the GNI per capita threshold, Nepal has to work hard for the sustainable, wide, and higher economic growth. For this Nepal has to maintain at least double-digit growth rate for the remaining fiscal years which requires huge investments in every sectors. In contrast to it, a contemporary banking and formal financial system may be insufficient for the required investments and economic activities. Therefore, crowd funding platforms with supportive legal and regulatory environment are pillars towards economic development of Nepal.

Economic development not only implies the monetary or income growth of the people of a country but also means mental, personal, or social growth. Alternative finance, crowdfunding, provides an increasingly vital source for start-ups, entrepreneurs and Small and Medium Enterprises. At the same time, it provides a platform to share the ideas and work on to make it possible or turn into a reality. It entice individuals or entrepreneurs to be creative, innovative and persuasive to get the funder's attention and funds. Therefore, it is possible for the startups to finance their businesses either from equity or debt or mix of both and give return to the funders. There is a potentiality of crowd funding to be have positive effect on investment efficiency in the developing economies like Nepal.

Besides, business and philanthropic purposes, crowdfunding are used for the political purpose also. There are ample of examples that political campaigns also use crowdfunding to finance their events and projects. Even political projects have been crowdfunded, for instance a majority of Barrack Obama's election campaign funds in 2008 came from small financial contributions which raised over 200 million dollars in microdonations (Eranti, 2014). Better political issues and agendas funded via crowdfunding leads towards better government and support for the economic development of nation.

g) Regulation of Payment System and Crowfunding in Nepal

It's a responsibility of monetary as well as regulatory authority to protect investor, issuer and crowdfunding platforms. In international context, American Jumpstart Our Business Startups (JOBS) Act - 2012, enacted in US, is one of the first regulatory frameworks for crowdfunding in the USA. Title III of the JOBS Act-2012, is also called as the Crowdfunding Act, also known as Regulation Crowdfunding (Reg CF) and effective from 2016. Reg CF allowed eligible companies to raise capital through equity-based platforms with an exemption from registration crowdfunding transactions. However, the regulation also included several limitations on the maximum investable amount per year, combined with tailored disclosure procedures and disqualification criteria (Chervyakov and Rocholl, 2019). In European level, there are provisions for the regulations on investment and lending instruments, however, they are not specifically tailored for crowdfunding related activities.

Regulation of crowdfunding does influence the expenses, incomes and investments. It can go either way i.e. positive, negative or both, For instance, in 2017 China's volume accounted for 86% of global volumes, while this year it shrank to 71%. This decline is mostly explained by regulatory enforcement efforts by Chinese authorities in a market in which, until recently, such regulations were largely unclearly specified Cambridge Centre for Alternative Finance (2020).

Because crowdfunding is just starting to be regulated across the globe, many jurisdictions do not impose stringent regulations on crowdfunding just yet. Under the United States SEC (Securities and Exchange Commission) rules, an intermediary that is a funding portal is required to ensure that investors send money or other consideration directly to a third party that has agreed in writing to hold the funds for the benefit of, and to promptly transmit or return the funds to, the persons entitled (IOSCO, 2015).

A study by Rau (2019), using the Cambridge Centre for Alternative Finance (CCAF) database, showed that national volumes of crowdfunding are positively associated with the rule of law in the country and its quality of regulation. Similarly, it is positively relate to the control of corruption, presence of explicit or bespoke crowdfunding regulations, ease of setting up business, and financial profitability of existing financial intermediaries (e.g. the banking sector). In Indian context, central bank of India i.e Reserve Bank of India

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(RBI) regulates all types of money lending. Peer to peer (P2P) lending has been there in India since 2014, however there was no specific regualtion until the latter half of 2017 (Menon, 2016).

In Nepalese context, Nepal Rastra Bank (NRB) has been continuously issuing various directives, guidelines, and policies to the licensed institutions for ensuring secured and seamless payment system. A dedicated department, Payment Systems Department, has been set up in NRB's organizational structure to regulate and oversight of payment institutions (NRBc, 2019/20).

As one of the strategies to strengthen the Nepalese payment system, the monetary policy 2019/20 has already prioritized and worked on arranging for the settlement of transactions within the country by ensuring interoperability of electronic payment transactions through the development of national payment gateway/switch. The monetary policy 2020/21 has focused on some regulatory frameworks. Like;

a. New license to Payment System Operator (PSO) and Payment Service Provider (PSP) has been suspended except in the case of those which have been provided Letter of Intent (LOI).
b. License of the PSPs that fail to make at least three hundred thousand customers and at least six hundred thousand monthly average transactions by mid-July 2021 may be revoked.
c. Payment System Development Indicators (PSDIs) will be published.

The first attracting policy for establishing crowdfunding platform, as mentioned above, is Licensing Policy for Institution/Mechanism Operating Payment Related Activities, 2016. This policy has stated that there is provision for providing license to Payment Service Provider (PSP), which carries out payment related transaction function through telecommunication network. According to this policy, PSPs can perform, activities like; giving/taking payment and intermediate between customer and service provider, domestic money transfer service in home country and other activities except as prescribed above. However, this policy is still unclear about providing license to PSPs that perform crowd fudning in Nepal.

Securities Act, 2007 of Nepal also doesnot allow non-broker intermediaries to involve themselves in raising capital and such activities in any other ways. Securities Act, 2007, section 63 as divided the types and nature of the securities business where it doesnot acknowledge any licensing provisions, pursuant to section 58, relating to crowd funding platforms which issue securities and operate in Nepal (SEBON, 2021).

In crowdfunding, an internet is employed as a medium for the communication and operation of online platforms. By the nature itself, there is huge possibility and risk of cyber crime, cyber threat and cyber attacks in crowd funding platforms. There is a cyber law called Electronic Transactions Act (2008) in Nepal. According to Electronic Transactions Act (2008) Chapter 9, section 53 Abetment to commit computer related offence, "a person who abets other to commit an offence relating to computer under this Act or who attempts or is involved in the conspiracy to commit such an offence shall be liable to the punishment with a fine not exceeding fifty thousand Rupees or with imprisonment not exceeding six months or with both, depending on the degree of the offence."

Similarly, Electronic Transactions Act (2008) section 54 has a provision of 'Punishment to the Accomplice', which state that "a person who assists others to commit any offence under this Act or acts as accomplice, by any means shall be liable to one half of the punishment for which the principal is liable." Fines, penalties and punishments are the ways of regulation of cyber sector. A study concluded that the Nepal government must conduct a professional analysis of cyber crime, cyber threat, cyber security, and cyber strategies (Giri, 2019).

VI. Conclusion

Government of Nepal and Nepal Rastra Bank (NRB) are in the avenue of making Digital Nepal with the effective implementation of Digital Nepal Framework-2019. An enhanced financial access and financial inclusions have fueled the need for digital economy and demand for the innovative investment alternatives. Besides formal and regular mode of financing channels, Nepal also needs alternative financing channels for the sustainable, wide, and higher economic development. One of the latest, young and dynamically evolving alternative financing sources, in developed as well as developing economies, is crowd funding. Crowdfunding is an internet-based platforms used for collecting funds from individuals in small amount for business or social or cultural cause and issues employing social media especially.

Crowd funding has shown the huge potentiality for the development of Nepal. Success of existing donation based crowdfunding platform initiated by the Dhurmus Suntali Foundation is the best example. After the review of legislations regarding Nepalese payment system, it shows that there has not been even a licensing and other regulatory provision for the crowdfunding platforms. Regualtions based on the nature, type and models of crowd funding is the urgent need of Nepal. Likewise, cyber security is a main challenges for the growth of internet based platforms like; crowdfunding. Sooner or later modern Fin-Tech based products; like crowd funding platforms become the necessity of the economy and NRB has to be proactive and prudent to regulate such systems along with the ICT infrastructural developments. NRB, with the

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vision of modern, dynamic, credible and effective central bank of Nepal, facilitates crowdfunding as an alternative financing source in Nepalese economy.

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The Effect of Corporate Governance Practice on Firms' Profitability

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Abstract- Corporate Governance has been framed in organization which basically define relationship between board members, management team and shareholders, to carry out duties at utmost transparency, ethical and accountability. It is always expected that the corporate governance should meet the global standard for better corporate success. Therefore, it is very necessary to have good corporate governance in order to manage effectively in global market. Companies put in lot of effort to build and adopt a good corporate governance model in order to catch the eye of investors. A good corporate governance practice can help companies perform better than competitors and so does it impact on profitability. This research paper focuses on finding the impact on corporate governance practices on profitability of firms. Here statistical methods like descriptive statistics and Pearson correlation methodology are used to find the direct link. Independent variables are board committee, board size, CEO duality, audit committee, non-executive director and dependent variables are PAT, EPS, ROA.

Keywords: *ethical, corporate success, profitability.*

GJMBR-C Classification: *JEL Code: F65*



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The Effect of Corporate Governance Practice on Firms' Profitability

Dr. Hema Doreswamy [α], Dr. Madhavi Lokhande [σ], Prof. Radhika Uttam [ρ] & Ms Debasmita Lenka [ω]

Abstract- Corporate Governance has been framed in organization which basically define relationship between board members, management team and shareholders, to carry out duties at utmost transparency, ethical and accountability. It is always expected that the corporate governance should meet the global standard for better corporate success. Therefore, it is very necessary to have good corporate governance in order to manage effectively in global market. Companies put in lot of effort to build and adopt a good corporate governance model in order to catch the eye of investors. A good corporate governance practice can help companies perform better than competitors and so does it impact on profitability. This research paper focuses on finding the impact on corporate governance practices on profitability of firms. Here statistical methods like descriptive statistics and Pearson correlation methodology are used to find the direct link. Independent variables are board committee, board size, CEO duality, audit committee, non-executive director and dependent variables are PAT, EPS, ROA.

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I. Introduction

Corporate Governance is a process that mandates a particular set of ethical governance and practice in corporate. It is a process that controls and governs an organization. Corporate governance has majorly impacted the growth of economies in countries where private sector is responsible for driving the growth of economy. Catastrophic failure of private sector seen in the past was because of the bad corporate governance. It has certainly impacted the profit and earning of shareholders and the company. Well framed corporate governance gives predictable growth rate for the firm. Therefore it is very necessary that in developing countries where startup are getting into unicorn club, should make a note keeping their practices and governance to avoid catastrophic failure in future. (Okoye 2016).

Global market particularly looks into the ethics and governance of the organization to rely for partnership and business in their countries. We can see that corporate governance is also considered when there is partnership, takeovers, institutional investor activism, financial restructuring, so here the whole idea is that a strong corporate governance gives predictable rate of return on investments. If such ethics are not maintained, investing bond market, buying equity shares, becomes questionable. In such situation where corporate governance are not strong enough, companies have to rely on the internal cash stock, securities, and other financial resources for its ongoing operational work. Therefore, overall financial resources for firm get affected. On a larger scale, economies get affected as many good business opportunity are missed. (Okoye et al., 2016)

We have seen that an improved corporate governance has helped improve market liquidity, increase investor confidence, more capital resource, and there by a better financial disclosure. Major financial crime, frauds, can be avoided with better Corporate Governance and in return this can help in better inflow of foreign capital. There are evidences which has shown that, a strong corporate governance has increased chance of high fund allocation, better accessibility. Thereby increasing the valuation and goodwill of the company.

Here in this study, we would like to find out if there could be a direct link between corporate governance and profitability.

II. Review of Literature

Many researchers, government regulators, global agencies have taken major interest in creating stringent corporate governance after major financial crises in 2008, some of institution in India that collapsed due to bad corporate governance are Kingfisher, Jet Airways, Sahara, DHFL. In US we have seen the same case in Enron and Arthur and in UK similar situation was in case of Marconi, now because of which corporate governance has become critically important in different parts of the world, but the regulation is different in different parts of the world. As the legal system are different in different parts of the world, therefore regulation of corporate governance tends to be different.

(Mohammad & Yousef, 2016) The author found a relationship between firm profitability and the corporate governance of the firm. Here the corporate governance mechanism includes board independence, characteristics, size, growth. Statistical analysis like

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multiple regression methodology was used, and its result was 0.05 level which statistically significant.

The result of the study lead to confirmation that corporate governance has direct impact on the firms' profitability. The findings also the explained the model, one of its finding was the F statistic which was found to be 1.036.

(Ahmed Adesina Babatunde 2016) In this paper, the author obtained data from annual report of 37 companies, which is the sample size, out of top 50 listed companies. The data so obtained were analyzed using Spearman's correlation and analysis was done using variance. In this paper, author found that there was positive correlation between corporate governance and financial performance for example return on equity and board composition, board committees. When such corporate governance practices were implemented, it resulted in positive share price performance and higher profitability.

(Heenetigala 2012) Corporate governance play major role in minimizing the risk of misconduct in the firm; therefore, it has positive contribute in the company. In this paper the author found a positive relation between corporate governance and firm performance, here there was positive effect on return on asset, return on equity and return on stock. The result was analyzed using multiple hierarchical regression analysis, it was found to be significant and positive.

(W.A.D.K Jayendrika 2020) has analyzed the impact of corporate governance practices on firm's financial performance where Earnings per share was used as a dependent variable and CEO duality, number of shares held by the directors, ratio of non-executive directors to total directors in the firm were some of the independent variables. Correlation and regression analysis used by the researcher in the study proves that ownership concentration and CEO duality has positive relationship with the financial performance of the firm.

Martin Kyere (2019), did a study on impact of corporate governance on financial performance of non- financial listed companies in UK. Agency and stewardship theory of corporate governance is used as a basis for the study. The dependent variables were ROA and Tobin's Q and some of the independent variables were insider shareholding, board size, CEO duality etc. The author has used descriptive statistics, correlation and regression techniques to prove that strong independent board is one of the solutions to agency problem by reducing cost, thereby improving financial performance.

Afshan (2016), studied the impact of corporate governance of financial performance of firms belonging to textile industry in Pakistan. 60 companies were selected out of 156 listed companies of Pakistan stock exchange. The researcher has used similar statistical techniques and variables and concluded the study that it depends on the capabilities of managers in utilizing the assets of the firm effectively.

Aswathy Mohan (2018), has used certain variables like ROE (Return on Equity), PB ratio (Price to book ratio), board composition, board size and CEO duality. The study has used OLS regression model for analyzing the impact of corporate governance on financial performance of BSE Sensex companies. The study indicates the need for firms to separate the post of CEO and Chair in order to ensure optimal performance.

Dr. Giriraj Kiradoo (2019), has studied the relationship between CEO duality, board size and ownership concentration with financial performance of the firm. It also considers the concept of internal and external controls which helps in building good corporate governance practice. The researcher concludes the study by stating that it is purely the responsibility of the board to improve the financial performance by being more accountable and attract investors.

III. Objectives

1. To understand the importance of corporate governance for successful functioning of a company.
2. To analyze the impact of corporate governance on firm's profitability.

IV. Research Methodology

In this study, corporate governance link with profitability of the firm is measured, which is basically performed using statistical methodology like descriptive statistics and correlation. In order to perform this process, independent variable and dependent variable is taken under consideration. Here the independent variable are CEO Duality, Board Committee, Board Size, Non-Executive Director, Audit Committee are used, and dependent variable like ROA, EPS, PAT.

a) *Sample Selection and Data*

There are 30 manufacturing companies listed under NSE and here we have taken five companies (16.66% is the sample size). Those are UPL, Ultra Tech Cement, Tata Steel, Bajaj Auto, JSW Steel. Annual report of the respective companies was used from the year of 2016 to 2020.

i. *Independent variables*

CEO Duality: If the same person who hold the title of chairman is also CEO, then the value to be assigned is 1 else 0.

Board Committee: This is the number of committees in the board of the firm in a year.

Board Size: This is the numbers of directors in the board of the firm.

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Non-Executive Director: These are non-executive directors in the board of directors. They are majorly involved policy making and planning.

Audit Committee: It is the number of members in the committee who look after the audit through financial reports.

ii. *Dependent Variables*

Profit after Tax (PAT): These are profit after deducting expenses and tax. This profit meant for shareholders.

Return on Asset (ROA): This is financial ratio, which is used to measure profitability of the firm in relation to its total asset. 5% of ROA is generally considered good and overall, 20% is considered excellent.

Earnings per Share (EPS): It is calculated by dividing the profit after tax by number of outstanding shares. Here relationship of corporate governance and EPS is measured and studied.

b) Correlation Matrix

Correlation matrix is a table which show relation between two set of variables and it is measured through coefficients. If two variables are correlated then they would have positive coefficient and if two are negative correlated then they would negative coefficients. The diagonal of the table is set as 1, as correlation between same variable is always 1.

c) Descriptive Statistics

Here the descriptive statistic basically summarizes the data in simple form, which is in the form of mean, median, skewness, maximum, minimum, standard deviation, kurtosis. It is just representation of data and it is not based on any theory of probability.

d) Regression Analysis

It is a type of predictive analysis where we basically find the relation between the independent variable and dependent variable using coefficient value and P-value with significance at 5% (0.05).

V. Results

Table No.4.1: Financial Data Set of firms

United Phosphorus Ltd	2016	2017	2018	2019	2020	Average
CEO Duality	0	0	0	0	0	0
Board Committee	6	6	6	6	6	6
Board Size	12	12	12	10	10	11.2
Non-Executive Directors	10	8	8	8	8	8.4
Audit Committee Members	3	3	4	4	3	3.4
PAT (in Lakhs)	134296	172700	202200	144700	177600	166299.2
EPS	31.98	34.06	39.79	28.42	23.24	31.498
ROA	0.2	0.1	0.1	0.02	0.03	0.076406

(Annual Reports)

Table No.4.2: Financial Data Set of firms

Ultra Tech Cement	2016	2017	2018	2019	2020	Average
CEO Duality	0	0	0	0	0	0
Board Committee	6	6	6	6	6	6
Board Size	12	12	12	12	9	11.4
Non-Executive Directors	5	5	3	2	3	3.6
Audit Committee Members	3	5	5	5	4	4.4

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PAT	228,658	271492	222217	243472	581484	309464.6
EPS	83.33	98.92	80.94	88.72	201.61	110.704
ROA	0.06	0.06	0.04	0.04	0.07	0.05394

(Annual Reports)

Table No. 4.3: Financial Data Set of firms

JSW Steel Ltd	2016	2017	2018	2019	2020	Average
CEO Duality	0	0	0	0	0	0
Board Committee	13	13	13	13	14	13.2
Board Size	12	12	12	12	12	12
Non-Executive Directors	6	6	6	6	6	6
Audit Committee Members	4	4	4	4	4	4
PAT	-74195	357979	621400	763900	403000	414416.8
EPS	-32.08	14.66	25.85	31.77	16.78	11.396
ROA	-0.01	0.04	0.07	0.07	0.03	0.039245

(Annual Reports)

Table No. 4.4: Financial Data Set of firms

Bajaj Auto	2016	2017	2018	2019	2020	Average
CEO Duality	0	0	0	0	0	0
Board Committee	5	6	6	6	6	5.8
Board Size	15	15	16	16	15	15.4
Non-Executive Directors	12	11	13	12	11	11.8
Audit Committee Members	3	3	4	4	4	3.6
PAT	378398	407949	421895	492761	521191	444438.8
EPS	130.8	141	145.8	170.3	180.2	153.62
ROA	0.23	0.19	0.17	0.17	0.20	0.19084

(Annual Reports)

Table No. 4.5: Financial Data Set of firms

Tata Steel Ltd	2016	2017	2018	2019	2020	Average
CEO Duality	0	0	0	0	0	0
Board Committee	7	6	6	6	6	6.2
Board Size	11	11	10	10	10	10.4
Non-Executive Directors	3	3	3	4	3	3.2

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Audit Committee Members	4	4	4	4	5	4.2
PAT	-304,932.00	-434258	1326090	1004520	271958	372675.6
EPS	-33.23	-44.77	128.12	87.75	22.02	31.978
ROA	-0.019	-0.025	0.063	0.043	0.011	0.014671

(Annual Reports)

Table No. 4.6: Financial Data Set of firms

	Years	CEO Duality	Board Committee	Board Size	Non-Executive Directors	Audit Committee Members	PAT (in Lakhs)	EPS	ROA
United Phosphorus	2016	0	6	12	10	3	134296	31.98	0.2
	2017	0	6	12	8	3	172700	34.06	0.1
	2018	0	6	12	8	4	202200	39.79	0.1
	2019	0	6	10	8	4	144700	28.42	0.02
	2020	0	6	10	8	3	177600	23.24	0.03
Ultra Tech Cement	2016	0	6	12	5	3	228,658	83.33	0.06
	2017	0	6	12	5	5	271492	98.92	0.06
	2018	0	6	12	3	5	222217	80.94	0.04
	2019	0	6	12	2	5	243472	88.72	0.04
	2020	0	6	9	3	4	581484	201.61	0.07

Table No.4.7: Financial Data Set of firms

	Years	CEO Duality	Board Committee	Board Size	Non-Executive Directors	Audit Committee Members	PAT (in Lakhs)	EPS	ROA
JSW Steel	2016	0	13	12	6	4	-74195	-32.08	-0.01
	2017	0	13	12	6	4	357979	14.66	0.04
	2018	0	13	12	6	4	621400	25.85	0.07
	2019	0	13	12	6	4	763900	31.77	0.07
	2020	0	14	12	6	4	403000	16.78	0.03
Bajaj Auto	2016	0	5	15	12	3	378398	130.8	0.23
	2017	0	6	15	11	3	407949	141	0.19
	2018	0	6	16	13	4	421895	145.8	0.17
	2019	0	6	16	12	4	492761	170.3	0.17
	2020	0	6	15	11	4	521191	180.2	0.20
Tata Steel Ltd	2016	0	7	11	3	4	-304,932	-33.23	-0.019
	2017	0	6	11	3	4	-434258	-44.77	-0.025

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	2018	0	6	10	3	4	1326090	128.12	0.063
	2019	0	6	10	4	4	1004520	87.75	0.043
	2020	0	6	10	3	5	271958	22.02	0.011

a) Descriptive Statistics Analysis

Table below show descriptive statistics for listed Companies of India for a period of five years from 2016 to 2020.

Table No.4.8: Descriptive Statistics Analysis

	CEO Duality	Board Committee	Board Size	Non-Executive Directors	Audit Committee Members	PAT(in Lakhs)	EPS	ROA
Mean	0	7.5	12.1	6.5	4.0	350090.8	69.3	0.1
Standard Error	0	0.6	0.4	0.7	0.1	75485.6	14.2	0.0
Median	0	6.0	12.0	6.0	4.0	314968.5	60.4	0.1
Standard Deviation	0	3.0	2.0	3.3	0.6	369802.5	69.5	0.1
Kurtosis	0	0.4	-0.2	-0.8	-0.1	1.8	-0.8	0.1
Skewness	0	1.5	0.7	0.6	0.0	0.4	0.2	0.9
Range	0	9	7	11	2	1760348	246.38	0.26
Minimum	0	5	9	2	3	-434258	-44.77	-0.03
Maximum	0	14	16	13	5	1326090	201.61	0.23
Sum	0	180	290	155	95	8402179	1664	1.71
Count	24	24	24	24	24	24	24	24
Confidence Level(95.0%)	0	1.27	0.83	1.41	0.26	156153.90	29.35	0.03

i. *CEO Duality*

Here, it can be seen that mean, median, maximum, minimum and standard deviation is zero.

ii. *Board Committee*

From the above table it can be seen that mean value is 7.5, median is 6. The maximum and minimum range for board committee is 14 and 5. The standard deviation is found to be 3.

iii. *Board Size*

From the above table it can be seen that mean value is 12.1, median is 12. The maximum and minimum range for board size is 16 and 9. The standard deviation is found to be 2.

iv. *Non-Executive Directors*

From the above table it can be seen that mean value is 6.5, median is 6. The maximum and minimum range for non-executive directors is 13 and 2. The standard deviation is found to be 3.3.

v. *Audit Committee Members*

From the above table it can be seen that mean value is 4, median is 4. The maximum and minimum range for audit committee is 5 and 3. The standard deviation is found to be 0.6.

vi. *Profit after tax (PAT in Lakhs)*

From the above table it can be seen that mean value is 350090.8, median is 314968.5. The maximum and minimum range for PAT is 1326090 and -434258. The standard deviation is found to be 369802.5.

vii. *Earnings per share (EPS)*

From the above table it can be seen that mean value is 69.3, median is 60.4. The maximum and minimum range for EPS is 201.6 and -44.77. The standard deviation is found to be 69.5

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viii. *Return on Asset (ROA)*

From the above table it can be seen that mean value is 0.1, median is 0.1. The maximum and minimum range for ROA is 0.23 and -0.03. The standard deviation is found to be 0.1.

b) Correlation Analysis

Correlation statistical tool helps to understand the relationship between dependent and independent variables and on the basis of which analysis are made. After the data analysis, information that we get help us to see the relationship between variables, for example, some of them between corporate governance and firm financial performance (profitability measure).

Table No. 4.9: Correlation Analysis

	CEO Duality	Board Committee	Board Size	Non-Executive Directors	Audit Committee	PAT(in Lakhs)	EPS	ROA
CEO Duality	1							
Board Committee	0	1						
Board Size	0	-0.05	1					
Non-Executive Directors	0	-0.13	0.78	1				
Audit Committee Members	0	0.09	-0.20	-0.54	1			
PAT(in Lakhs)	0	0.07	0.00	0.04	0.03	1		
EPS	0	-0.45	0.43	0.37	-0.02	0.58	1	
ROA	0	-0.31	0.77	0.82	-0.41	0.32	0.71	1

From the above table, we can clearly see that, PAT is positively correlated with all the independent variable i.e. CEO Duality, Board Committee, Board Size, Non-Executive Director, Audit Committee.

In case of EPS, we see that it is negatively correlated with board committee and audit committee, where as it is positively correlated with CEO Duality, Board size, Non-Executive Director.

Same is the case with ROA, that we can clearly see, it is negatively correlated with board committee and audit committee, where as it is positively correlated with CEO Duality, Board size, Non-Executive Director.

Here, we can summarize that dependent variable like PAT, EPS, ROA have positive correlation with CEO Duality, Board size, Non-Executive Director.

But we can see that EPS, ROA have negative correlation with board committee and audit committee.

So few factors of corporate governance has positive correlation with profitability of the firm but not all of them.

c) Regression Analysis

Regression analysis is a statistical method, through which positive and negative relationship between dependent variable and independent variable are analyzed, and on basis of the P value , null hypothesis is either rejected or accepted. The significance of P value is 0.05.

Null Hypothesis

H1: There is no relationship between ROA and CEO Duality, Board Committee, Board Size, Non-Executive Director, Audit Committee.

H2: There is no relationship between EPS and CEO Duality, Board Committee, Board Size, Non-Executive Director, Audit Committee.

H3: There is no relationship between PAT and CEO Duality, Board Committee, Board Size, Non-Executive Director, Audit Committee.

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Table No. 4.10: Regression Analysis of ROA and CEO Duality, Board Committee, Board Size, Non-Executive Director, Audit Committee.

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.879557
R Square	0.77362
Adjusted R Square	0.678344
Standard Error	0.036869
Observations	25

ANOVA

	df	*SS*	*MS*	*F*	*gnificance F*
Regression	5	0.092904	0.0185807	17.08673546	1.885E-06
Residual	20	0.027186	0.0013593		
Total	25	0.12009			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-0.09	0.08	-1.24	0.23	-0.25	0.06	-0.25	0.06
CEO Duality	0.00	0.00	65535.00	0.00	0.00	0.00	0.00	0.00
Board Committee	-0.01	0.00	-2.09	0.05	-0.01	0.00	-0.01	0.00
Board Size	0.02	0.01	2.17	0.04	0.00	0.03	0.00	0.03
Non-Executive Directors	0.01	0.00	1.95	0.07	0.00	0.02	0.00	0.02
Audit Committee Members	-0.01	0.02	-0.54	0.59	-0.04	0.02	-0.04	0.02

Here, there is negative correlation between ROA and Board Committee, Audit Committee, but there is positive correlation between ROA and Board size, Non-Executive Director and CEO duality. Here it can be seen that the P value is less than the significant value (0.05) for CEO duality, Board Committee, Board size, therefore in such situation the null hypothesis is rejected and the alternate hypothesis is accepted.

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Table No. 4.11: Regression Analysis of PAT and CEO Duality, Board Committee, Board Size, Non-Executive Director, Audit Committee.

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.14
R Square	0.02
Adjusted R Square	-0.23
Standard Error	395342.24
Observations	25

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	5	64134647837	1.283E+10	0.1025856	0.99038865
Residual	20	3.12591E+12	1.563E+11		
Total	25	3.19004E+12			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	164136.9	812357.0	0.2	0.8	-1530410.0	1858683.9	-1530410.0	1858683.9
CEO Duality	0.0	0.0	65535.0	0.0	0.0	0.0	0.0	0.0
Board Committee	10728.8	27594.8	0.4	0.7	-46832.8	68290.5	-46832.8	68290.5
Board Size	-29829.6	74352.3	-0.4	0.7	-184925.7	125266.6	-184925.7	125266.6
Non-Executive Directors	26430.5	50153.5	0.5	0.6	-78188.0	131049.0	-78188.0	131049.0
Audit Committee Members	72295.8	165749.3	0.4	0.7	-273451.2	418042.9	-273451.2	418042.9

Here, there is negative correlation between PAT and Board size, and positive correlation between PAT and Board committee, Audit Committee, Non-Executive Director and CEO duality. From the above, it can be seen that P value is less than the significant value (0.05) for CEO duality, therefore null hypothesis is rejected and the alternate hypothesis is accepted.

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Table No. 4.12: Regression Analysis of EPS and CEO Duality, Board Committee, Board Size, Non-Executive Director, Audit Committee.

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.621697
R Square	0.386507
Adjusted R Square	0.213808
Standard Error	58.74197
Observations	25

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	5	43478.53	8695.707	3.150053	0.03083
Residual	20	69012.39	3450.619		
Total	25	112490.9			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-87.08	120.70	-0.72	0.48	-338.87	164.70	-338.87	164.70
CEO Duality	0.00	0.00	65535.00	0.00	0.00	0.00	0.00	0.00
Board Committee	-9.96	4.10	-2.43	0.02	-18.51	-1.41	-18.51	-1.41
Board Size	12.24	11.05	1.11	0.28	-10.80	35.29	-10.80	35.29
Non-Executive Directors	2.52	7.45	0.34	0.74	-13.03	18.06	-13.03	18.06
Audit Committee Members	16.46	24.63	0.67	0.51	-34.91	67.83	-34.91	67.83

There is negative correlation between EPS and Board Committee and positive correlation between EPS and Board Size, Audit Committee, Non-Executive Director and CEO duality. The P value is less than the significant value (0.05) for CEO duality, Board Committee, Board Size, the null hypothesis is rejected and the alternate hypothesis is accepted.

VI. Findings

From the above study and statistical analysis few things can deduced from here that, these statistical tools have shown significant link between corporate governance and profitability.

Few factors of corporate governance were not significant linked with profitability.

- From the above table and study, we can clearly see that, PAT is positively correlated with all the independent variable i.e. CEO Duality, Board Committee, Board Size, Non-Executive Director, Audit Committee. In case of EPS, we see that it is negatively correlated with board committee and audit committee, where as it is positively correlated with CEO Duality, Board size, Non-Executive Director.
- Same is the case with ROA, that we can clearly see, it is negatively correlated with board committee and audit committee, where as it is positively correlated with CEO Duality, Board size, Non-Executive Director.
- Here, one can summarize that dependent variable like PAT, EPS, ROA have positive correlation with CEO Duality, Board size, Non-Executive Director. But we can see that EPS, ROA have negative correlation with board committee and audit committee. So few factors of corporate governance has positive correlation with profitability of the firm but not all of them.
- In case of regression analysis, it was seen that there is negative correlation between ROA and Board committee, Audit Committee, but there is negative correlation between ROA and Board size, Non-Executive Director and CEO duality. Here it can be seen that the P value is less than the significant value (0.05) for CEO duality, Board Committee,

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Board size, therefore in such situation the null hypothesis is rejected and the alternate hypothesis is accepted.

- It can be seen that there is negative correlation between PAT and Board size, and positive correlation between PAT and Board committee, Audit Committee, Non-Executive Director and CEO duality. From the above, it can be seen that P value is less than the significant value (0.05) for CEO duality, therefore the null hypothesis is rejected and the alternate hypothesis is accepted.
- It can be seen that there is negative correlation between EPS and Board Committee and positive correlation between EPS and Board Size, Audit Committee, Non-Executive Director and CEO duality. The P value is less than the significant value (0.05) for CEO duality, Board Committee, Board Size, the null hypothesis is rejected and the alternate hypothesis is accepted.

VII. Conclusion

Corporate governance has major significance in firm valuation. It has increased profitability by controlling risk in business. In this study we have found that there is positive correlation between corporate governance and profitability but not all factors of corporate governance were positively correlated with all the profitability. Most of the companies that was taken were from manufacturing sector where there is frequent change in policies in order keep ethics and transparency strong. Therefore, we can conclude that there is significant link between the independent and dependent variable, but still explore more with other factors of corporate governance like board meeting and director remuneration. There is also scope to study different industries and compare how corporate governance affect profitability.

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Effect of Internal Controls on the Financial Performance of County Referral Hospitals in Kenya

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Abstract- Internal Control Systems play an important role in every organization as it assists in realization of their financial performance goals. Most public institutions in Kenya have registered declining performance in recent years due to weakened internal control systems. Researches done relating to internal control systems and financial performance do not show directly the effect of corporate governance and regulatory systems on financial performance. The general objective of this study was to determine the effect of internal controls on the financial performance of county referral hospitals in Kenya. The specific objectives of the study were to determine the effect of physical controls on the financial performance of county referral hospitals in Kenya, to establish the effect of internal audit controls on the financial performance of county referral hospitals in Kenya, to assess the effect of corporate governance controls on the financial performance of county referral hospitals in Kenya and to determine the effect of regulatory controls on the financial performance of county referral hospitals in Kenya. The study used a descriptive correlational research design approach. The target population was 47 county referral hospitals in Kenya. Census was used to select all the 47 county referral hospitals in Kenya and purposive sampling was used to select the hospital accountant in each of the hospitals to make a sample size of 47 respondents.

Keywords: internal control systems, physical controls, internal audit controls, financial performance.

GJMBR-C Classification: JEL Code: G00



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Effect of Internal Controls on the Financial Performance of County Referral Hospitals in Kenya

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Abstract- Internal Control Systems play an important role in every organization as it assists in realization of their financial performance goals. Most public institutions in Kenya have registered declining performance in recent years due to weakened internal control systems. Researches done relating to internal control systems and financial performance do not show directly the effect of corporate governance and regulatory systems on financial performance. The general objective of this study was to determine the effect of internal controls on the financial performance of county referral hospitals in Kenya. The specific objectives of the study were to determine the effect of physical controls on the financial performance of county referral hospitals in Kenya, to establish the effect of internal audit controls on the financial performance of county referral hospitals in Kenya, to assess the effect of corporate governance controls on the financial performance of county referral hospitals in Kenya and to determine the effect of regulatory controls on the financial performance of county referral hospitals in Kenya. The study used a descriptive correlational research design approach. The target population was 47 county referral hospitals in Kenya. Census was used to select all the 47 county referral hospitals in Kenya and purposive sampling was used to select the hospital accountant in each of the hospitals to make a sample size of 47 respondents. Only 35 hospitals responded to the questionnaire translating to 74.5% response rate. Survey data was collected by use of a structured questionnaire. The data obtained was analyzed using both qualitative and quantitative analysis. The study found that physical controls have a positive significant effect ($\beta = 0.391$, $p = 0.038$) on Financial Performance of the hospitals implying that holding all factors constant, a unit increase in physical controls leads to a 39.1% significant increase in Financial Performance; Internal audit controls affect Financial Performance positively and significantly ($\beta = 0.401$, $p = 0.038$) implying that a unit increase in Internal audit controls results in a 40.1% increase in Financial Performance when all factors are held constant; Corporate governance controls have a positive significant effect on Financial Performance ($\beta = 0.296$, $p = 0.010$) indicating that when all factors are held constant, a unit increase in Corporate governance controls lead to a 29.6% significant increase in Financial Performance in the hospitals and that Regulatory controls have a positive significant effect ($\beta = 0.372$, $p = 0.000$) on Financial performance indicating that if all other factors are held constant, a unit increase in Regulatory controls results into a significant increase in Financial Performance of 37.2%. The study concludes that physical controls are significant drivers of financial performance in the referral hospitals; internal audit control is a significant positive predictor of financial performance in the referral hospitals; corporate governance controls are a positive significant predictor of financial performance in the referral hospitals and that regulatory controls have a positive significant influence on financial performance of the hospitals and can therefore predict the financial performance in the hospitals. The results from this study may assist regulators to form regulations that will help the referral hospitals improve their financial performance. Future researchers may also find results from the present study important in theory formulation.

Keywords: internal control systems, physical controls, internal audit controls, financial performance.

I. Introduction

Control activities are the policies, procedures, techniques, and mechanisms that help ensure that management's response to reduce risks. They include the policies, procedures, performance reviews, information processing, physical controls, documents verification and segregation of Duties. Internal controls help in risk assessment, which is a systematic process that seeks to identify potential hazards and identify their implications before they occur. A substance should set up its own arrangement of controls so as to accomplish its destinations (Tunji, 2013). An arrangement of viable inner controls is a basic part of an association's administration and an establishment for the free from any potential harm activity of associations. Nevertheless, insufficient inside controls bring about incapable projects and in the long run prompting misfortunes (Olumbe, 2012). Late frequencies of corporate disappointments and bookkeeping fakes are for the most part gone before by disappointment in an organization's inside control structures (Anyanzwa, 2013).

Inside controls have happened to central significance today in the open division overall including Kenya. The explanation being that the control frameworks in any association are a mainstay of an effective bookkeeping framework (Wanemba, 2010). This is especially significant for open foundations as frail inside control framework remains as one of the significant reasons for troubling execution in open organizations chiefly because of undetected fakes (Etuk, 2011). From an administration perspective there is have to guarantee that inward control frameworks are taken care of set up to lessen the event of extortion. Inside control is a powerful vital procedure that is adjusting constantly to the progressions confronting present day open area organizations (Auditor General, 2014).

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Inside controls are planned fundamentally to upgrade the dependability of budgetary execution, either legitimately or by implication by expanding responsibility among data suppliers in an association (Tunji, 2013). Inner controls give a free evaluation of the nature of administrative presentation in doing allotted obligations regarding execution (Olumbe, 2012). Wanemba (2010) sets that a compelling interior control framework unequivocally associates with hierarchical accomplishment in gathering its presentation target level. Inside control keeps an association on course toward its targets and the accomplishment of its strategic. They advance viability and effectiveness of activities, lessens the danger of advantage misfortune, and guarantees consistence with laws and guidelines.

Inward control additionally guarantees the unwavering quality of monetary revealing (all exchanges are recorded and that every recorded exchange is genuine, appropriately esteemed, recorded on an opportune premise, appropriately characterized, and effectively condensed and posted). An Organization with compelling arrangement of inner control is relied upon to accomplish its target proficiently and viably (COSO, 2013). Anyway, the general motivation behind the idea is to enable an association to accomplish its strategic, methodical, conservative, proficient and viable activities and produce quality items and administrations predictable with the association's crucial, assets against misfortune because of waste, misuse, botch, mistakes and extortion. It likewise elevates adherence to laws, guidelines, agreements and the executives' orders just as create and keep up dependable money related and the board information, and precisely present that information in auspicious reports (Magara, 2013).

The COSO (2013) Framework characterizes Internal Control framework as "a procedure, affected by an element's top managerial staff, the board, and other faculty, intended to give sensible affirmation with respect to the accomplishment of targets identifying with tasks, revealing, and consistence". The control condition establishes the pace of an association, influencing the control cognizance of its representatives. The Committee of Sponsoring Organizations (COSO, 2013), a deliberate association offering direction on checking interior controls, report demonstrates that this part is the establishment for every single other segment of inward control, giving both order and structure to the association.

The COSO (2013) structure distinguishes five fundamental components of a control framework against which the survey should occur. These incorporate Control condition, Risk appraisal, control exercises, data, correspondence, and observing. Inside control, frameworks work at various degrees of viability. Deciding if a specific inside control framework is successful is a judgment coming about because of an evaluation of whether the five segments - Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring - are available and working. Successful controls give sensible affirmation in regards to the achievement of set up destinations.

As indicated by Tunji (2013), the nature of an association inner control framework has noteworthy effect on the precision of the board direction. Similarly, firms that unveil inadequate inside controls framework have bigger inclination of encountering the board mistakes in their activity than those organizations that report viable interior controls framework. Olumbe (2012) in their examination expressed that powerful inward controls frameworks are key drivers toward income quality. In a similar vein, powerful inward control framework has a fundamental task to carry out in an association's prosperity (Jokipii, 2010).

Different researchers have characterized inward control as a procedure, affected by an element's governing body, the executives and other faculty, intended to give sensible affirmation in regards to the accomplishment of an association's goals in the adequacy and effectiveness of tasks, dependability of budgetary and the executives announcing, consistence with pertinent laws and guidelines and ensure the association's notoriety (Kinyua, 2016; Nyakundi and Nyamita, 2014; Muio, 2012; Ngugi, 2011: Simiyu, 2011). Compelling inward control framework works when some particular strategies are embraced by the administration. Worldwide Accounting Standards categorizes inside control types as an arrangement of association, isolation of obligations, control of reports, shielding of benefits, skill of staff, number juggling and bookkeeping controls, recording and record keeping, supervision, approval and endorsements, job and revolution of obligations, cost achievability, normal and programmed checks (COSO, 2013). The above investigations incredibly bolster that powerful internal controls altogether add to budgetary execution of associations.

While there have been studies inspecting inner control frameworks in the private division and corporate world, there has been a less examinations analyzing a similar issue in the open area regardless of the way that the theft of assets from open establishments or associations, especially in basic administrations or monopolistic open organizations, is winding up progressively normal (Kinyua, 2016; Nyakundi and Nyamita, 2014; Muio, 2012; Ngugi, 2011: Simiyu, 2011). Such scandals have raised worries about their inward control frameworks. Regardless of the absence of any revealed money related embarrassments, there is a developing worry with respect to whether they experience indistinguishable inadequacies from other open administrative establishments do. Late reports on the blunder of assets by the media combined with introduction of the unpredictable snare of spoil and poor control frameworks have been featured by crafted by

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different insightful writers (Olumbe, 2012). As per World Economic Forum (2013), most open establishments do not have proficient interior control frameworks on money gathering which has frequently represented poor budgetary administration. In like manner, it is nothing unexpected that, some open specialist organizations as a rule see interior controls as superfluous and unessential.

Around the globe, governments face weights to give wellbeing administrations adequately, effectively and impartially. In any case, the wellbeing part has been constrained by various powers of progress including; developing interest for human services, increasing costs obliged assets focused weights and observing by open and private gatherings with a notably better educated customer. In this way, additional weight is being applied on human services chiefs to reassess their techniques (Muio, 2012). Solid inward control frameworks are the most noteworthy and suffering methodology in guaranteeing endurance of associations and a key course to business greatness and expanding piece of the pie of social insurance associations (COSO, 2013; Magara, 2013).

In Kenya, the conveyance of wellbeing administration is attempted through a National Health System whose activities have a main role of conveying and continuing great wellbeing. The social insurance conveyance framework is reverted to the region governments with the national government assuming the job of largely arrangement detailing and observing (MOH, 2013). Inferable from the need to accomplish all inclusive access to human services bundles just as impartial and maintainable financing instruments, administration of Kenya with county governments have drafted different approaches where government and different partners have conceded to subsidizing and the executives of the social insurance conveyance system (MOH, 2013). Be that as it may, while the structures for coordination are set up at the national level, they are powerless at the region level (Muio, 2012).

As per the Auditor General's Annual Report (2014/2015), there were uncontrolled acts of neglect in the responsibility from open establishments in Kenya including region governments and wellbeing organizations with the vast majority of their activities portrayed by rebelliousness with strategies and techniques, abuse of assets and assets controls, among different cases. The service of wellbeing for example is suspected to have lost more than 5 billion shillings in the 2015/2016 money related year through preoccupation of assets, twofold installment for products, and control of the Integrated Financial Management System (IFMIS) (Auditor General, 2016). While advancement help keeps on assuming a significant job in financing the wellbeing administrations, a greater extent of this is off-spending plan and MOH has data on general spending plan/venture backing to the wellbeing area and not off spending support (MOH, 2013).

a) Statement of the Problem

Globally, budgetary outrages have been seen activating response for more tightly guideline and upgraded benchmarks for bookkeeping and corporate administration (COSO, 2013). Poor interior control frameworks including powerless corporate administration brought about these major money related embarrassments. In Kenya, Statistics accessible from Capital Markets Authority (CMA) (2013) have demonstrated most firms particularly cited organizations have kept on enlisting declining money related execution. Information accessible from World Bank (2014) demonstrated that there was decrease in administration in all segments of the economy including the wellbeing area. In most Kenyan open establishments including wellbeing organizations there has been proceeded with poor money related execution, where spending plans are not kept, principles and guidelines on the utilization of accounts are not clung to and there is huge unaccounted for assets (Auditor General, 2016). This has put open establishments in danger of money related insufficiency, representative disappointment and poor budgetary execution ((Mikes and Kaplan, 2014). This has left the inquiries of the holes that exist inside the open division attributable to such numerous ruptures with no move being made (Olumbe, 2012).

Several investigations have been completed on controls universally, regionally and locally on the impact on interior control framework on benefit of differing firms. For instance; Abu-Musa (2014); Chunlan (2010); Wittayapoom (2011); and locally Kakucha (2010); Odei (2011) and Nyakundi and Nyamita (2014) have set up there exist a connection between powerful interior control and budgetary execution of the firm. Nonetheless, larger part of these investigations have focused on various enterprises, while others have focused on a blend of recorded firms in their territories. Moreover, the investigations utilized various approaches subsequently such examinations may not be summed up to the investigation setting. Locally, an investigation by Muio (2012) considered the effect of inside control frameworks on the monetary exhibition of private medical clinics in Nairobi obviously show private emergency clinics face calm various difficulties during inner controls in execution like battles with liquidity issues, money related reports are not made auspicious, responsibility for the budgetary assets is as yet needing, fakes and abuse of institutional assets. As it can be seen, form the reviewed studies there are restricted investigations that emphasis on inward controls in the wellbeing segment in Kenya. A study gap therefore existed. It is against this foundation that this study sought to investigate effect of internal controls on the financial performance of county referral hospitals in Kenya.

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b) Objectives of the Study

i. *General Objective*

The general objective of this study was to determine the effect of internal controls on the financial performance of county referral hospitals in Kenya.

ii. *Specific Objectives*

The specific objectives of the study were to:

i. To determine the effect of physical controls on the financial performance of county referral hospitals in Kenya.
ii. To establish the effect of internal audit controls on the financial performance of county referral hospitals in Kenya.
iii. To assess the effect of corporate governance controls on the financial performance of county referral hospitals in Kenya.
iv. To determine the effect of regulatory controls on the financial performance of county referral hospitals in Kenya.

II. Theoretical Literature Review

A hypothesis is a "lot of interrelated ideas, definitions, and recommendations that present a methodical perspective on occasions or circumstances by determining relations among factors, so as to clarify and foresee the occasions or circumstances" (Durham and Stokes, 2015). Hypothetical writing is concerned fundamentally with speculations or theories instead of commonsense application. Hypothetical writing starts with a proper model that looks to clarify support designs as far as basic hypothesis (Shapira, 2011). There are a few hypothetical methodologies, which can be utilized to layout the money related execution of associations, to choose the indicators to the models, and to legitimize the practical structure between these indicators. In this survey, these methodologies are ordered into the accompanying classifications; office hypothesis, institutional hypothesis, exchange hypothesis and stewardship hypothesis.

a) Agency Theory

Agency hypothesis has been broadly utilized in writing to examine the data asymmetry between principals (investors) and specialist (the executives). Sarens and Abdolmohammadi (2011) express that as indicated by the office hypothesis, an association comprises of a lot of connected agreements between the proprietors of financial assets (the principals) and administrators (the specialists) who are accused of utilizing and controlling these assets. A critical assemblage of work has been embraced here inside the setting of the head specialist structure. Crafted by Jensen and Mecklin (1976) specifically just as that of Fama (1980) is significant. Organization hypothesis recognizes the office relationship where one gathering, the head, delegates work to another gathering, the operator.

The office relationship can have various drawbacks identifying with the advantage or personal responsibility of the specialist: For instance, the operator may not act to the greatest advantage of the head, or the operator may act just mostly to the greatest advantage of the head. There can be various measurements to this including for instance, the specialist abusing their capacity for financial or other favorable position, or the operator not going for broke in compatibility of the chief's advantages in light of the fact that the specialist sees those dangers as not being proper while then again the chief may have various frames of mind to dangers. There is additionally the issue of data asymmetry whereby the head and the specialist approach various degrees of data; and by this implies the chief is off guard on the grounds that the operator has more data (Sarens and Abdolmohammadi, 2011). The hypothesis is accordingly significant in this examination as general society through province governments who are the proprietors of the district referral emergency clinics have assigned the obligations of day by day running of the medical clinics to the administration who goes about as their operators and subsequently extraordinary requirement for solid inward control frameworks to guarantee the general population and other partner's inclinations are enough shielded. The hypothesis subsequently underpins presence of physical controls, inner review and corporate administration controls.

i. *Institutional Theory*

Foundations are social structures that have achieved a high level of versatility. They are made out of social intellectual, regularizing, and regulative components that, together with related exercises and assets, give dependability and importance to public activity (Christopher, Sarens and Leung, 2009). Organizations are transmitted by different kinds of transporters, including representative frameworks, social frameworks, schedules and antiquities. Establishments work at various degrees of ward, from the world framework to confined relational connections. Establishments by definition imply steadiness however are liable to change forms, both gradual and irregular. Institutional and neo-institutional hypothesis recommends that reception of authoritative practices and ecological arrangement is an institutional procedure subject with the impact of three weights or powers – coercive, mimetic and standardizing. This hypothesis further proposes that these powers can urge associations to receive comparative key activities in this way prompting hierarchical homogeneity (Adebanjo, Ojadi, Laosirihongthong and Tickle, 2013).

The interests of partners in most open foundations have been fortified after some time,

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particularly through endeavors by the legislature and expert bodies. All the more explicitly, there has been expanded weight on the board to guarantee that an association is represented productively, successfully and financially to serve investors. A lot of this weight has been a consequence of social desires in light of later corporate embarrassments (Christopher, Sarens and Leung, 2009). This examination will draw on institutional hypothesis, which focuses that hierarchical administration and control structures will in general comply with social desires. The hypothesis consequently propels contention for upgraded corporate administration in the board of associations' assets.

ii. *Stewardship Theory*

Stewardship hypothesis has its underlying foundations from brain research and humanism and is characterized by Davis, Schoorman and Donaldson (1997) as "a steward ensures and boosts investors' riches through firm execution, in light of the fact that by so doing, the steward's utility capacities are augmented". In contrast to office hypothesis, stewardship hypothesis stresses not on the viewpoint of independence (Donaldson and Davis, 1991), yet rather on the job of top administration being as stewards, incorporating their objectives as a component of the association.

The stewardship point of view proposes that stewards are fulfilled and persuaded when hierarchical achievement is accomplished. Argyris (1973) contends that while organization hypothesis takes a gander at a worker or individuals as a monetary being, which stifles a person's own goals, then again Donaldson and Davis (1991) contend that stewardship hypothesis perceives the significance of structures that engage the steward and offers most extreme self-sufficiency based on trust. It weights on the situation of representatives or administrators to act all the more self-governing with the goal that the investors "returns" are expanded. Without a doubt, Fama (1980) battle that officials and executives are likewise dealing with their vocations so as to be viewed as powerful stewards of their association, while, Shleifer, Andlei and Vishny (1997) claims that directors return fund to financial specialists to set up a decent notoriety so that they can reappear the market for future account.

Meckling and Jensen (1994) further express the expense brought about to check organization problems(reducing data asymmetries and going with good dangers) is less when proprietors legitimately partake in the administration of the firm as there is a characteristic arrangement of proprietor administrators' enthusiasm with development openings and hazard. It pursues from the over that stewardship hypothesis dissimilar to office hypothesis is a finished differentiation and doesn't stress on the need to bring about observing or office cost which incorporates building up an inner review work. By and by, Donaldson and Davis (1991) further note that profits are improved by having both of these hypotheses consolidated instead of isolated which suggests that administration must find some kind of harmony. In this investigation, the steward hypothesis is bolstered by the way that administrators of area referral emergency clinics go about as stewards of partners, providers, loan bosses, customers and representatives of the medical clinics.

b) Conceptual Framework

An idea is a theoretical or general thought induced or got from explicit occurrences (Kombo and Tromp, 2009). In contrast to a hypothesis, an idea should not be talked about to be comprehended (Durham and Stokes, 2015). A theoretical system is a gadget that sorts out exact perceptions in an important Structure (Shapira, 2011). Childs (2010) contended an applied system to be a lot of expansive thoughts and standards taken from important fields of enquiry and used to structure a resulting introduction (Durham and Stokes, 2015). Applied systems are significant to look into as they explain and coordinate philosophical, methodological and commonsense parts of a proposition while helping the calling to be viewed as an exploration based control, all right with the language of meta-hypothetical discussion (Sykes and Piper, 2015).

Figure 2.1 conceptualizes that inside controls (physical, interior review, corporate administration and administrative controls) effect on the money related execution of county referral hospitals in Kenya.

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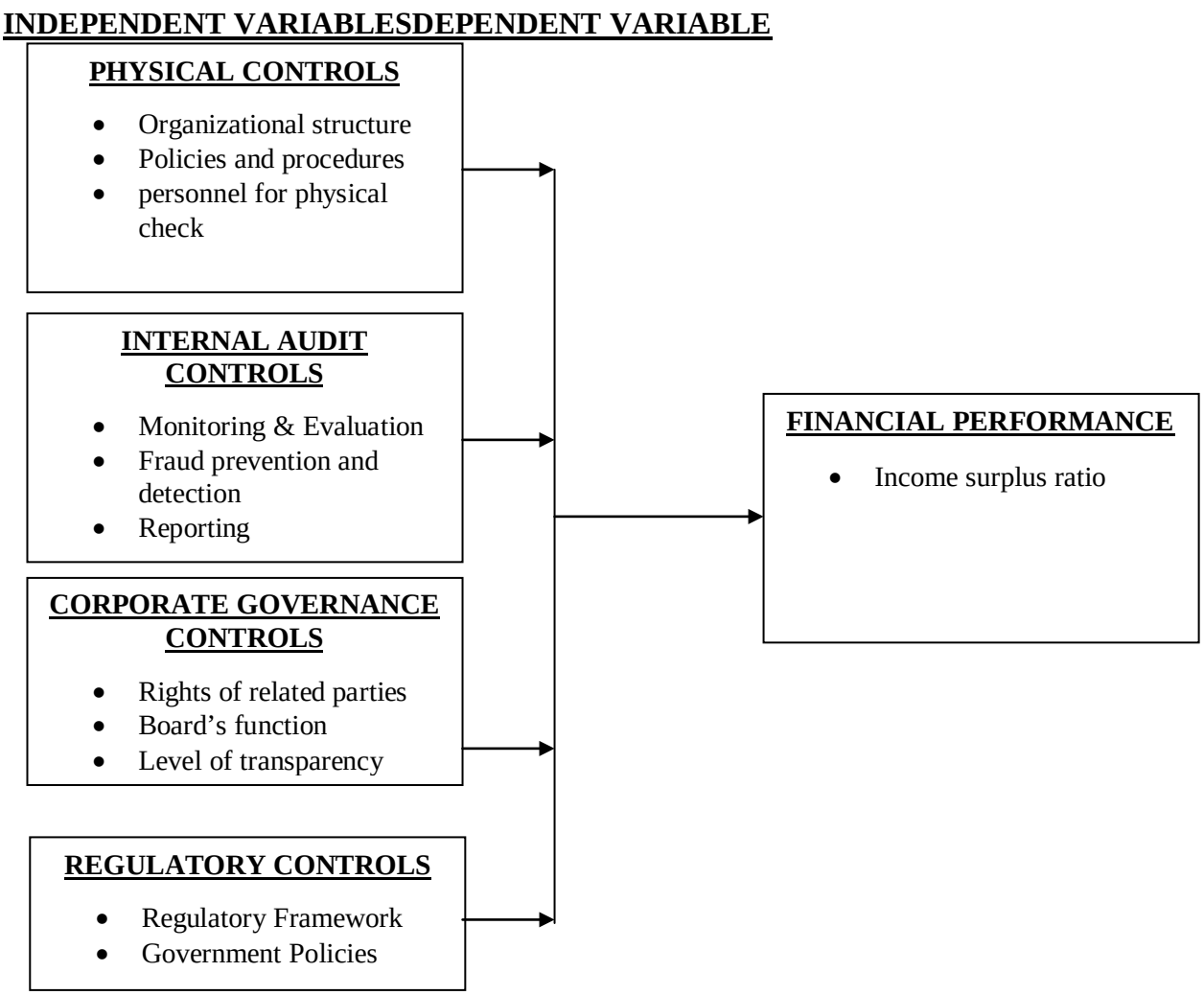


Figure 2.1: Conceptual Framework

i. *Physical Controls and Financial Performance*

Muio (2012) and Mawanda (2010) states that physical controls are another part of inward controls. These researchers note that physical controls are strategies and methodology that help guarantee that administration mandates are done. Physical controls in an association essentially contain; execution audits (contrasting genuine execution and spending plans, estimates and earlier period execution), data preparing (important to check exactness, fulfillment and approval of exchanges), security over the two records and different resources and isolation of obligations (where nobody individual should deal with all parts of an exchange from the earliest starting point as far as possible). An examination by Khamis (2013) discovered that there is a critical positive connection between physical controls and money related execution of budgetary foundation. In his exploration Mawanda (2010) built up that there is a positive connection between physical controls and monetary execution of foundations of higher learning in Uganda as depicted by his contextual investigation of Uganda Martyrs University.

ii. *Internal Audit Controls and Financial Performance*

Inward reviewing is a free, target affirmation and counseling movement intended to include esteem and improve an association's tasks. It enables an association to achieve its destinations by bringing a methodical, trained way to deal with assess and improve the viability of hazard the executives, control, and administration forms (foundation of inward Auditor). COSO (2013) declares that "Inside review is a free examination capacity built up inside an Organization to analyze and assess its exercises as a support of the association".

The goal of inward review is to help individuals from the association in the viable release of their duties. It is additionally a free examination capacity set up inside an association to look at and assess the viability, productivity and economy of administrations control framework (Olantuji, 2010). Its goal is to furnish the executives with consolation that their interior control

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frameworks are sufficient for the need of the association and are working agreeably (Olumbe, 2012). It is a part of the inside control framework set-up by the executives of a venture to inspect, assess and report tasks of bookkeeping and different controls. The quality and viability of interior review techniques by and by are essential since inward inspectors spread a wide assortment of assignments, not all of which will identify with bookkeeping territories in which the outside evaluator is intrigued.

Kinyua (2016) takes note of that "The viability of inside review work halfway relies upon; lawful and administrative system, situation of the capacity and its autonomy, presence of review boards of trustees, assets distributed to the capacity and polished methodology of inward review staff". It is anyway a harsh reality that inner review offices are once in a while sufficiently encouraged. With respect to measure and help of the inside review capacity, Gerrit and Mohammad (2010) discovered proof on the side of the observing job of the interior review work. They explicitly discovered proof that administration proprietorship is emphatically identified with the overall size of the Internal Audit Function, which is conflicting with conventional office hypothesis contentions that foresee a negative relationship, yet more in accordance with late investigations on income the board.

This discovering recommends that expanded administration possession may influence the top managerial staff to help bigger inside review capacities to enable them to intently screen directors' presentation. Adequacy of interior review systems is a proportion of the capacity of the program to deliver an ideal impact or an outcome that can be subjectively estimated (Muio, 2012. Nyakundi and Nyamita (2012) contend that there should be successful interior review systems to guarantee dependability of budget summaries, operational reports, defending corporate resources and viable hierarchical controls.

iii. *Corporate Governance Controls and Financial Performance*

Corporate administration has as of late gotten a lot of consideration due prominent outrages, filling in as the stimulus to such ongoing U.S. guidelines as the Sarbanes-Oxley Act of 2002, viewed as the most clearing corporate administration guideline in the previous 70 years (Ngungi, 2011). Abu Musa (2014) demonstrate that organizations with more grounded investor rights have higher Tobin Q"s, their intermediary for firm worth, recommending that better-administered firms are increasingly significant. With such huge numbers of ongoing guidelines concentrating on corporate administration, for example, those dependent on the Sarbanes-Oxley Act and the ongoing stock posting norms forced by major U.S. trades, there is a broadly held view that better corporate administration is related with better firm execution, however the proof is dubious (Kinyua, 2016; Nyakundi and Nyamita, 2014; Kakucha, 2010; Odei, 2011).

iv. *Regulatory Controls and Financial Performance*

Administrative controls can be utilized to portray any game plan by the administration, which means to change a specific circumstance (COSO, 2013). Government utilizes approaches to handle a wide scope of issues, which incorporate activity of law and guidelines, charges, loan fees and market control. These instruments of the legislature can legitimately or in a roundabout way impact the budgetary presentation of associations (Kinyua, 2016; Nyakundi and Nyamita, 2014; Muio, 2012; Ngugi, 2011: Simiyu, 2011). 2.3.5 Financial Performance

As indicated by Gerrit and Abdolmohammadi, (2010), Organizational execution incorporates gathered final products of all the association's work procedures and exercises. Money related Performance measures in county referral hospitals can be monetary or non-budgetary. The best method to improve budgetary execution is by lessening the degree of abnormality and extortion through upgrades in the association's frameworks of interior money related control. Partners should be guaranteed that their assets are being utilized productively and adequately in giving the correct assistance in any event cost.

Donald and Delno (2010) noticed that proper presentation measures are those which empower associations to coordinate their activities towards accomplishing their key targets Brennan and Soloman (2011) fights that, execution is estimated by either emotional or target criteria; contentions for abstract measures incorporate troubles with gathering subjective execution information from little firms and with unwavering quality of such information emerging from contrasts in bookkeeping strategies utilized by firms.

Incentive for Money is not paying more for a decent or administration than its quality or accessibility legitimizes too open going through suggests a worry with economy (cost minimization), productivity (yield augmentation) and viability (full accomplishment of the proposed outcomes. Supported productivity can be viewed as a consistent monetary advantage that is acknowledged when the measure of income picked up from a business action surpasses the costs, expenses and duties expected to continue the movement. The best method to improve net gain is by decreasing the degree of abnormality and extortion through upgrades in the association's frameworks of inside monetary control (Wainaina, 2014). The board ought to all the time survey all parts of their organization and guarantee interior controls that will reinforce the association and increment benefit are set up, (Kamau, 2014). Each business choice contains hazard; dodging or alleviating this hazard is accomplished through solid inward controls. In

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this examination, Income Surplus Ratio was utilized to gauge execution.

c) Empirical Review

Mwachiro (2013) examined the inner controls in activity at Kenya Revenue Authority with the end goal of building up whether such inward controls have delivered any important outcomes in expanded gathered income. The investigation utilized control condition, hazard evaluation, control exercises, Information, correspondence, and observing segments of inward controls as the factors. The investigation was directed utilizing graphic contextual investigation utilizing causal/logical research plan. The information was investigated utilizing both measurable and story strategies while connection was utilized as a method for surveying the impact of inner controls and income gathering. The discoveries uncovered that the five segments of the control condition, chance evaluation, control exercises, data and correspondence and observing must be accessible for inner controls to work. The examination built up that powerless interior controls and particularly poor moral qualities in the association have urged plot to extortion, loss of income and misappropriation of gathered income. The investigation, thusly, inferred that interior controls do work in spite of the fact that with hiccups and that there is a huge impact between inward controls and income gathering in KRA.

Magara (2013) looked to discover the impact of interior controls on the money related execution of store assuming Savings and Acknowledgment Cooperative Societies (SACCOs) in Kenya. The free factors for the examination included; control condition, hazard appraisal, control exercises and checking systems while the reliant variable was monetary execution. The discoveries of this examination led on 122 store taking SACCOs in Kenya depended on both essential and optional information which was gotten from the yearly reports of the SACCOs. A various relapse model was received to check the type of connection between the ward and the autonomous factors. The relapse investigation directed built up that the free factors have a positive solid relationship with the needy variable. Every one of the free factors to be specific, the control condition, hazard evaluation, control exercises and checking systems contribute decidedly to the money related execution of SACCOs in Kenya. It is additionally obvious from the investigation that without the nearness of solid inner controls inside these establishments, the SACCOs would perform inadequately with the danger of possible breakdown because of poor money related execution.

Ondieki (2013) directed an examination on impacts of inward review on money related execution of business banks. The autonomous factors for the investigation included; control condition, chance appraisal, control exercises and observing instruments while the reliant variable was monetary execution. The discoveries of the investigation were that interior controls could have highlights incorporated with them to guarantee that fake truncations are hailed or made troublesome, if certainly feasible, to execute. Interior control reviews give affirmation that controls are working, yet they do not really identify misrepresentation or debasement. The destinations of inward controls review identify with the board's arrangements, techniques, and methods used to meet the association's crucial, and goals.

Muio (2012) researched on the effect of inside control frameworks on the budgetary presentation of private clinics in Kenya. The investigation was tied down on checking, control exercises, chance evaluation, data and correspondence, control condition as the factors speaking to inner control frameworks. A clear research configuration was received while the objective populace comprised of all the private clinics licensed by National Hospital Insurance Fund (NHIF) working inside the County of Nairobi. Straight relapse examination was utilized to discover the connection between checking, control exercises, hazard appraisal, data and correspondence, control condition and money related execution of private clinics in Kenya. The discoveries of the examination demonstrate that all the five parts that are Monitoring, Control Activities, Risk Assessment, Information and Communication and Control Environment must be available for an inner control framework to be viewed as viable. The discoveries likewise demonstrated that Monitoring had the most elevated impact on the money related execution of private medical clinics in Kenya pursued by control condition, data and correspondence, hazard evaluation and control exercises individually.

Olumbe (2012) did an examination to build up the connection between inside control and corporate administration in business banks in Kenya. The factors included; value structure, endeavor inward and outer supervision opportunity, the top managerial staff and leading body of bosses. The examination embraced an expressive research structure and all the 43 business banks in Kenya were considered. The essential information was gathered by utilization of an organized poll and an unstructured meeting guide. Information was broke down through a direct relapse investigation based on spellbinding insights and execution correlation done crosswise over time between the years 2009-2011. The examination found that the greater part of the banks had consolidated the different parameters which are utilized for measuring inside controls and the corporate administration as was demonstrated by the methods which were acquired enquiring on the equivalent and this demonstrated the respondents concurred that their banks had established great corporate administration with a solid arrangement of interior controls, and there is

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a connection between inner control and corporate administration.

Ewa and Udoayang (2012) did an examination to build up the effect of interior control configuration on bank's capacity to explore staff extortion and staff way of life and misrepresentation recognition in Nigeria. The examination found that interior control configuration impacts staff frame of mind towards extortion. Solid inside control component is prevention to staff misrepresentation since all the essential checks are set up and henceforth restricting staff from prevailing in any arranged false movement. Powerless interior control component opens the framework to misrepresentation and makes open door for staff to submit extortion because of the current holes. The examination along these lines stressed on the need to have a solid interior control system to check extortion.

Wainaina (2011) examined on interior control capacity of the Kenya Polytechnic University College. The factors for the investigation included; Control condition, Risk evaluation, Control exercises, Information and Communication, Monitoring and Information innovation. The finding of the examination demonstrated that as a substitute for its essence on the area of tasks, the board must depend on interior control methods to execute its choices and to direct the exercises for which she would at last be answerable. It is in this light utilization of compelling Internal Control Systems (ICS's) is regarded essential in the administration of business assets. Subsequently, the administration of any association structures inner control methods to dispense, control and guarantee effective usage of assets, so as to accomplish the general corporate objectives. It was discovered that Internal Control Systems (ICS's) assume a significant job in anticipating and identifying extortion and securing the association's assets, both physical and elusive. This is accomplished through legitimate approval controls and documentation.

Ngungi (2011) completed research meant to discover the training with respect to structure and execution of inward control frameworks in the private and the open part and whether there was any distinction in adequacy and effectiveness as the outcome. The exploration concentrated on the key segments of inward control frameworks specifically control condition, hazard evaluation, control systems, data and correspondence lastly checking. The investigation investigated the plans of the separate segments to discover their similitudes and contrasts. Information of this investigation was gathered by surveys and centered gathering discourse. The information gathered was dissected by utilization of illustrative and inferential insights. The outcomes demonstrated that the private area has a solid interior control framework than the open division in all the segment of inner control. Anyway, both general society and private segment do not have a huge contrast in observing and control exercises and the open part even has more grounded components of preventive controls.

Barra (2010) explored on the impact of punishments and other inside controls on worker's penchant to be deceitful. The outcomes demonstrated that the nearness of the control exercises and partition of obligations, builds the expense of submitting extortion. In this way, the advantage from submitting extortion needs to exceed the expense in a domain of isolated obligations for a worker to submit misrepresentation. Further, it was built up that isolation of obligations is a "least-cost" extortion obstacle for non-administrative workers, yet for administrative representatives, extreme punishments are the "least-cost" misrepresentation disincentives. The outcomes recommend the viability of preventive controls control exercises, for example, isolation of obligations is subject to criminologist controls.

Kakucha (2010) assessed the degree of adequacy of inside controls working in Nairobi. The investigation depended on various factors including age of an endeavor and viability of its arrangement of inward control; the measure of assets held by a venture and its adequacy of its arrangement of interior control; the nature of the connection between inside control and budgetary execution. The examination was quantitative and utilized an example of 30 private ventures as recorded in the National Social Security Fund (NSSF) Register of Kenya, 2008. The investigation found that there are inadequacies in the frameworks of inner controls, with the level of lacks fluctuating from big business to another. The segments of interior control that were absent in many organizations reviewed were; right off the bat, hazard examination, and absence of legitimate progressions of data. Furthermore, the investigation built up that the example populace needed attention to what comprised a compelling arrangement of inside control. The investigation additionally found that there is huge factual proof to help the negative connection between the age of an endeavor and the viability of its arrangement of inward control. In addition, the examination built up that there is a negative connection between the assets held by a venture and its interior control shortcomings. At last, the examination found that there is a frail negative connection between the interior control shortcomings and money related execution. In any case, this examination did not consider the impacts of the particular parts of interior control, for example, the observing and assessment and hazard evaluating and the board inside private companies.

Amudo and Inanga (2010) completed an assessment of Internal Control Systems in the Regional Member Countries (RMCs) of the African Development Bank Group (AfDB) concentrating on Uganda in East Africa. The factors included; observing, control exercises, chance appraisal, data and correspondence and control condition. The examination built up that

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some control parts of powerful inner control frameworks need these activities which render the present control structures incapable. The examination suggested an improvement of the current inward control frameworks in the ventures.

Small Goh (2010) considered on review councils, sheets of chiefs, and remediation of material shortcomings in inward control. He quantified the adequacy of the review advisory group by its freedom, money related aptitude, size, and meeting recurrence, and the viability of the board by its autonomy, size, and meeting recurrence, and by the duality of the (CEO) and seat positions (CEO duality). He additionally analyzed different elements that can influence firms' practicality in the remediation of material shortcomings, for example, the seriousness of material shortcomings, firms' gainfulness, the unpredictability of firms' tasks, etc. He discovered that the extent of review advisory group individuals with monetary ability is decidedly connected with firms' practicality in the remediation of material shortcomings. Second, firms with bigger review boards of trustees are bound to remediate material shortcomings in an opportune way. Third that an increasingly free board is less vulnerable to the undue impact of the board and bound to apply weight on the executives to remediate material shortcomings.

Olatunji (2010) Sought to discover the effect of interior control framework in banking area. The investigation arranged controls into three significant groupings: Preventive controls, criminologist controls and restorative controls. Information, from which the data comprises the discoveries, were gathered from fifty parts of Wema Bank Plc. This included making a trip to all the previously mentioned states and asking the officials in control, some readied inquiries wherein answers were given as needs be. Information were acquired from both the essential and auxiliary sources, which incorporates; meet, organized poll, diary distributions, course books, papers, web offices. Optional information is utilized to supplement the essential information as the essential information is the first work. Information caught for this investigation was broke down through illustrative and inferential factual strategies. The enlightening investigation includes the utilization of rates, organization and graphical introduction. While, the inferential factual technique included the utilization of the chi-square. As per his discoveries, the absence of a successful interior control framework is the significant reason for bank cheats in Nigeria. It is then presumed that the administration of each bank ought to make and build up a standard interior control framework, sufficiently able to remain against the wiles of misrepresentation so as to advance coherence of tasks and to guarantee the liquidity, dissolvability and going concern idea of the bank.

Jones (2011) researched on inside controls, responsibility and corporate administration in medieval and present-day Britain. The factors included control condition, chance appraisal, data and correspondence, checking and control exercises. He utilized a cutting-edge referential system as a focal point to examine medieval interior controls utilized in the twelfth century imperial exchequer and other medieval foundations. He exhibited that the vast majority of the inside controls discovered today were available in medieval England. Stewardship and individual responsibility were seen as the center components of medieval inner control. The ongoing acknowledgment of the requirement for the upgraded individual responsibility of people is suggestive of medieval reasoning.

Mawanda (2010) led an exploration on impacts of inside control frameworks on money related execution in organization of higher learning Uganda. In his examination, he explored and looked to set up the connection between interior control frameworks and money related execution in an Institution of higher learning in Uganda. Inside controls were taken a gander at from the point of view of Control Environment, Internal Audit and Control Activities though Financial execution concentrated on Liquidity, Accountability and Reporting as the proportions of Financial execution. The Researcher set out to build up the reasons for steady poor money related execution from the point of view of inner controls. The examination built up a huge connection between interior control framework and money related execution. The examination suggests skill profiling in the Internal Audit division that ought to be founded on what the University, anticipates that the inward review should do and what fitting number staff would be required to carry out this responsibility. The examination in this way recognized job of inside review division to build up inner controls that affect the budgetary exhibition of associations.

Crutchley *et al*. (2011) contemplated the probability of a firm being associated with a bookkeeping embarrassment. The examination found that specific attributes improved the probability of a firm being associated with a bookkeeping outrage. The attributes included elevated levels of development of a firm, captivating in profit the board procedures, review advisory groups made out of couple of executives and overextended outside chiefs. Nevertheless, firms with low degree of development and having review advisory groups made out of more executives had a lesser probability of being engaged with bookkeeping outrage. Solid inner controls and a moral hierarchical culture were discovered key in keeping a firm from being engaged.

III. Research Methodology

The chapter defines the research design, target population of the study, the sampling size used, sampling procedure followed as well as the type of

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instrument that was used. The data collection procedures and data analysis techniques used in analyzing the results of the study were also discussed. This study employed a correlational survey research design. This is because the main purpose of the study was to establish the effect of internal controls on financial performance of county referral hospitals in Kenya.

Kombo and Tromp (2011) define a population as a collection of people, articles or things from which tests are taken for estimation. Cooper and Schindler (2013) see that populace as the all-out accumulation of components about which one needs to make deductions. Kothari (2013) characterizes populace as the scientist's "universe". Target populace alludes to the whole gathering of objects of enthusiasm from whom the specialist looks to acquire the applicable data for the investigation (Cooper and Schindler, 2013; Kothari, 2013; Oso and Onen 2011; Kombo and Tromp, 2011). They state that the population of study ought to have trademark that meet a scientist's investigation advantages. The study targeted referral hospitals in Kenya. There are 47 county referral hospitals according to the rundown got from the Ministry of Health Kenya; November 2019 and all the 47 referral hospitals which have been dynamic throughout the previous a long time since reverted arrangement of government wound up operational in Kenya was taken as the population of the study. The examination utilized the Census method when choosing the province referral medical clinics for the investigation. The available populace of this investigation was the 47 county referral hospitals that are at present working in Kenya (MOH, 2019). The examination utilized the whole populace. Bryman (2013) and Creswell (2013) express that in spite of the fact that cost contemplations make registration system unimaginable for enormous populaces, an enumeration is appealing for little populaces of 200 or underneath.

The examination at that point utilized purposive inspecting with regards to the determination of the respondents. Bryman and Bell (2015) and Cooper and Schindler (2013) express that purposive examining includes picking individuals from an example to speak to an area or type in connection to a key foundation to guarantee importance to the topic secured. The respondents were the 47 hospital medical superintendent in the area referral hospitals or their identical as the unit of investigation. The study used both primary and secondary data to accomplish the research objectives.

IV. Results and Interpretation

a) Introduction

This chapter presents the results and interpretation of findings that were obtained from the study. The chapter outlines these findings with regard to meeting each objective as outlined in the previous chapters.

b) Descriptive Frequencies of Controls

i. Physical Controls

The study targeted 47 referral hospitals. Data was obtained from 35 referral hospitals which represented 74.5% of the target population.

The first objective was to determine the effect of physical controls on financial performance of the referral hospitals. Table 4.31 shows frequencies of the level of agreement for various physical control aspects.

Table 4.1: Physical Controls

Physical Controls	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Hospitals have installed enough CCTV cameras for surveillance	0(0.00)	2(5.71)	7(20)	10(28.57)	16(45.71)	35(100.00)
CCTV cameras have enhanced transparency and accountability	0(0.00)	1(2.86)	10(28.57)	13(37.14)	11(31.43)	35(100.00)
Scanners are used to inspects items in the hospital.	2(5.71)	3(8.57)	12(34.29)	10(28.57)	8(22.86)	35(100.00)
Scanners have enhanced transparency and accountability in hospitals	1(2.86)	1(2.86)	11(31.43)	15(42.89)	7(0.20)	35(100.00)
Scanners have reduced loss of items in hospitals	1(2.86)	3(8.57)	10(28.57)	15(42.89)	6(17.14)	35(100.00)
Special peoples are positioned on strategic points for scrutiny in hospitals	0(0.00)	2(5.71)	4(11.43)	16(45.71)	13(37.14)	35(100.00)
Strategic Positioning of personnel has improved surveillance, transparency in hospitals	0(0.00)	0(0.00)	2(5.71)	20(57.14)	13(37.14)	35(100.00)
Total	4(1.63)	12(34.28)	56(22.86)	99(40.41)	74(30.20)	245(100)

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Results in Table 4.1 show that that majority of the referral hospitals 40.41% (N = 99) had effective physical control systems, followed by strongly agree at 30.20% (N = 74), and only 1.63% (N = 4) strongly disagreed. This implies that the physical controls were available in the referral hospitals.

ii. *Internal Audit Controls*

The second independent variable in the study was internal audit control. Table 4.2 shows the descriptive statistics for the variable.

Table 4.2: Internal Audit Controls

Internal Audit Controls	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Hospital has functional internal audit unit	0(0.00)	1(2.86)	1(2.86)	6(17.14)	27(77.14)	35(100.00)
Timing of the audit here is appropriate.	1(2.86)	3(8.57)	6(17.14)	15(42.86)	10(28.57)	35(100.00)
There is an internal audit manual	0(0.00)	1(2.86)	5(14.28)	16(45.72)	13(37.14)	35(100.00)
Audit process completed on time	1(2.86)	8(22.85)	9(25.71)	11(31.42)	6(17.14)	35(100.00)
Internal audit findings are reported directly to top management	0(0.00)	1(2.86)	1(2.86)	18(51.43)	15(42.86)	35(100.00)
Majority of the audit members here are registered members of ICPAK	0(0.00)	1(2.86)	4(11.42)	18(51.43)	12(34.29)	35(100.00)
Internal audit unit helps in fraud detection and prevention.	1(2.86)	2(5.71)	6(17.14)	20(57.14)	6(17.14)	35(100.00)
Recommendations of the internal audit unit are taken very seriously here	1(2.86)	1(2.86)	6(17.14)	18(51.43)	9(25.71)	35(100.00)
Internal auditor(s) demonstrate professionalism	1(2.86)	1(2.86)	4(11.42)	24(68.57)	5(14.28)	35(100.00)
Audit department provides management with assurance	1(2.86)	1(2.86)	4(11.42)	23(65.71)	6(17.14)	35(100.00)
Internal audit department reports functionally to the audit committee	0(0.00)	2(5.71)	2(5.71)	16(45.72)	15(42.86)	35(100.00)
Internal audit department has independence	0(0.00)	1(2.86)	1(2.86)	17(48.57)	16(45.72)	35(100.00)
Head of the Internal audit unit is a member of the senior management	2(5.71)	1(2.86)	2(5.71)	14(0.40)	16(45.72)	35(100.00)
Total	8(1.75)	24(5.27)	51(11.21)	216(47.47)	156(34.29)	455(100.00)

Table 4.2 shows that most hospitals have internal audit controls that were working effectively. This was represented by 47.47% (N = 216) followed by 34.29% (N = 156) who strongly agreed and only 1.75% (N = 8) strongly disagreed. This implies that majority of the referral hospitals had internal audit controls that were working.

iii. *Corporate Governance Controls*

The third independent variable of the study was corporate governance controls. The descriptive statistics for the variable are presented in Table 4.3.

Table 4.3: Corporate Governance Controls

Corporate governance Controls	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
The hospital has a well-established and effective Board.	0(0.00)	0(0.00)	5(14.29)	8(22.86)	22(62.86)	35(100.00)
Recruitment and appointment of Board members is approved by the hospital stakeholders.	2(5.71)	1(2.86)	5(14.29)	14(0.40)	13(37.14)	35(100.00)
The different members of the board in the hospital bring unique experiences and expertise to the management of the hospital.	1(2.86)	3(8.57)	12(34.29)	10(28.57)	9(22.71)	35(100.00)

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All members of the board of management belong to various specialized sub-committees of the board.	1(2.86)	1(2.86)	11(31.43)	13(37.14)	9(22.71)	35(100.00)
The hospital has well established corporate governance policies, procedures, and practices that guide the affairs of the hospital.	0(0.00)	2(5.71)	5(14.29)	10(28.57)	4(11.43)	21(100.00)
The hospital's conflict of interest policy and procedures on how to handle any conflict-of-interest cases that may arise from time to time are well developed.	0(0.00)	4(11.43)	11(31.43)	8(22.86)	12(34.29)	35(100.00)
Total	4(2.04)	11(5.61)	49(0.25)	63(32.14)	69(35.20)	196(100.00)

The descriptive statistics presented in Table 4.3 above indicate that most hospitals strongly agreed that corporate governance controls were effective, represented by 35.20% (N = 69) followed by those who agreed at 32.14% (N = 63) and only 2.04% (N = 4) strongly disagreed. This implies that corporate governance controls are present in the hospitals.

iv. *Regulatory Controls*

The fourth independent variable of the study was regulatory controls. The descriptive statistics based on a five-point Likert scale for the variable are shown in Table 4.4.

Table 4.4: Regulatory Controls

Regulatory Controls	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
The hospital operations comply with the all set government policies.	0(0.00)	1(2.86)	1(2.86)	9(25.71)	24(68.57)	35(100.00)
There exists a legal unit within the hospital	0(0.00)	1(2.86)	2(5.71)	16(45.71)	16(45.71)	35(100.00)
Recommendations of the legal unit in the hospital are reported to the audit and risk sub-committee of the board.	0(0.00)	2(5.71)	8(22.86)	13(37.14)	12(34.39)	35(100.00)
The hospital is greatly affected by government action on market prices	2(5.71)	1(2.86)	3(8.57)	15(42.86)	14(0.40)	35(100.00)
Government regulations are implemented in the hospital	0(0.00)	1(2.86)	5(14.29)	12(34.39)	17(48.57)	35(100.00)
Financial performance of the hospital is affected by changes in government rules and regulation.	1(2.86)	2(5.71)	1(2.86)	17(48.57)	14(0.40)	35(100.00)
The hospital frequently reviews its policies.	0(0.00)	0(0.00)	5(14.29)	17(48.57)	13(37.14	35(100.00)
Total	3(1.22)	8(3.27)	25(10.20)	99(40.41)	110(44.89)	245(100.00)

The findings in the table below show that most of the hospital's medical superintendent strongly agreed 44.89% (110) that regulatory controls were effectively working, followed by 40.41%(99) who agreed, and only 1.22% (N = 3) strongly disagreed. This implies that the regulatory controls are present in the referral hospitals.

c) Effect of Internal Controls on Financial Performance

i. *Correlation Analysis*

Correlation analysis shows the direction, strength and significance of the relationships among the variables of study (Sekaran, 2000). To establish whether there was a relationship between the variables, a correlation analysis was conducted. The correlation analysis shows the direction, strength, and significance of the relationships among the variables of the study. A positive correlation indicates that as one variable increases, the other variables will also increase. On the other hand, a negative correlation indicates that as one variable increases the other variable decreases (Sekaran, 2003).

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The model that was to be fitted is as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where;

Y = Financial Performance in County Referral Hospitals (Dependent Variable)

β0 = Constant Term

β1, β2, β3, β4 = Beta coefficients

X1 = Physical Controls, X2 = Internal Audit Controls, X3 = Corporate Governance Controls, X4 = Regulatory Controls

ε = Error Term which was assumed to be normally distributed with zero mean and constant variance.

Table 4.5 shows results of the correlation analysis.

Table 4.5: Correlation between Study Variables

	Y	X_1	X_2	X_3	X_4
Y	1				
X_1	.646***	1			
X_2	.594***	.136	1		
X_3	.712***	.124	.056	1	
X_4	.412***	.032	.001	.065	1

*Note: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$*

From the results in Table 4.5, several conclusions can be drawn. First, it has been indicated that physical controls (X_1) are significantly and positively correlated with financial performance in the referral hospitals in Kenya. This is indicated by the correlation coefficient of 0.646 that is significant ($p < 0.01$). This implies that there is a strong and significant positive association between physical controls and financial performance in the referral hospitals in Kenya.

Furthermore, Internal Audit Controls ($X2$) is positively and significantly related to financial performance as shown by the correlation coefficient of 0.594 ($p < 0.01$). This implies that there is a moderate but significant positive association between Internal Audit Controls and financial performance in referral hospitals in Kenya. Moreover, Table 4.7 shows that Corporate Governance Controls (X_3) is also positively and significantly correlated with financial performance with a significant correlation coefficient of 0.712 ($p < 0.01$). This implies that there is a strong positive association between Corporate Governance Controls and financial performance in referral hospitals in Kenya. The correlation between accounts Regulatory Controls (X_4) and financial performance was found to be a significant 0.412 ($p < 0.01$). The implication here is that there is a weak but positive association between Regulatory Controls and financial performance in referral hospitals in Kenya.

These findings are in tandem with findings by Muhammad (2015) who while examining the impact of inward review capacity and interior control framework on monetary execution of a foundation of advanced education in Pakistan found that internal controls have a positive correlation with financial performance. The discoveries were that there was a positive connection between inward review, interior control condition and budgetary execution of advanced education organization. The exploration concentrated on three components of inner control that is inward review, interior control condition and neglected to demonstrate the commitment of corporate administration in the money related execution of an association. The exploration additionally centered around a particular foundation which restrains the utilization of research to different organizations which show distinctive operational attributes. The result however contradicts that of Mugo (2013) who conducted a study on impact of inside control on budgetary execution of specialized preparing foundations and found no positive relationship deliver between interior control and budgetary execution, the examination neglected to demonstrate the impact of corporate administration and government approach on money related execution of associations.

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ii. *Regression Analysis*

The general objective of this study was to determine the effect of internal controls on the financial performance of county referral hospitals in Kenya. The specific objectives of the study were to determine the effect of physical controls on the financial performance of county referral hospitals in Kenya, to establish the effect of internal audit controls on the financial performance of county referral hospitals in Kenya, to assess the effect of corporate governance controls on the financial performance of county referral hospitals in Kenya and to determine the effect of regulatory controls on the financial performance of county referral hospitals in Kenya. The regression results from the filed data are presented in the sub-sections below. Regression tests the magnitude between the variables. The results for the regression analysis are presented in Tables 4.6, 4.7 and 4.8 below.

Table 4.6: Model Summary

Model	R	R Square	Adjusted R Square	Sig
1	.856[a]	.732	.728	.000

The model summary in Table 4.6 above indicates that the general correlation between internal controls and the financial performance of county referral hospitals in Kenya. is positive and high. This is shown by the model correlation coefficient of 0.856. The suitability of the model in predicting financial performance is revealed by the coefficient of determination (R square) value of 0.728. This implies that the 72.8% of financial performance can be predicted by managing the internal controls, with other factors not in the model predicting the remaining 27.2%. Further, the significance of 0.000 shows that the model is significant. The model suitability relationship in the Table 4.6 shows that the general relationship between the variables is strong.

Table 4.7 on analysis of variance shows the general relationship among the variables.

Table 4.7: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	160.425	4	40.106	78.906	.000[a]
	Residual	16.773	33	0.808		
	Total	67.198	37			

a. *Predictors: (Constant),* X_1, X_2, X_3, X_4
b. *Dependent Variable:* Y

The analysis of variance (ANOVA) Table 4.7 above shows that the model that predicts Financial Performance at Referral hospitals in Kenya using the Internal controls is significant. This is based on the relatively large F-value of 78.906 that is significant. It therefore implies that the model is a significant predictor of Financial Performance at the referral hospitals in Kenya.

Table 4.8: Regression Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
	Model	Beta	Std. Error	Beta	t-stat	Sig.
1	(Constant)	0.376	0.286		1.315	.002
	X_1	0.391	0.165	0.308	2.370	.038
	X_2	0.401	0.154	0.421	2.600	.021
	X_3	0.296	0.106	0.207	2.792	.010
	X_4	0.372	0.162	0.291	2.300	.000

Dependent Variable: Y

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From Table 4.8 above, several inferences can be derived. The constant term in the regression equation of 0.376 indicates the level of Financial Performance that is in existence in the referral hospitals. Regulatory controls have a positive significant effect (β = 0.372, p = 0.000) on Financial performance. This implies that if all other factors are held constant, a unit increase in Regulatory controls results into a significant increase in Financial Performance of 37.2%. Generally, the fitted model based on the study findings is as follows:

$$Y = 0.376 + 0.391X_1 + 0.401X_2 + 0.296X_3 + 0.372X_4$$

Where the variables are defined as: Y – Financial Performance, X_1 – Physical Controls

X_2 – Internal Audit Controls

X_3 –Corporate governance controls

X_4 –Regulatory controls

V. Conclusions and Recommendations

a) Conclusions

Based on the findings from the first objective which was that physical controls have a positive significant effect on Financial Performance of the hospitals, it is concluded that physical controls are significant drivers of financial performance in the referral hospitals.

Based on the findings from the second objective which showed that internal audit controls affect Financial Performance positively and significantly, it is concluded that internal audit control is a significant positive predictor of financial performance in the referral hospitals.

Regression results based on the third objective which was to establish the effect of corporate governance controls on Financial Performance of Referral hospitals in Kenya showed that corporate governance controls have a positive significant effect on Financial Performance. It is concluded that corporate governance controls are a positive significant predictor of financial performance in the referral hospitals.

Results for the fourth objective of the study which was find out the effect of Regulatory controls on Financial Performance at Referral hospitals in Kenya showed that Regulatory controls have a positive significant effect on Financial performance. It is therefore concluded that regulatory controls have a positive significant influence on financial performance of the hospitals and can therefore predict the financial performance in the hospitals.

b) Recommendations

Based on the findings from the first objective which was that physical controls have a positive significant effect on Financial Performance of the hospitals and the conclusion that physical controls are significant drivers of financial performance in the referral hospitals, it is recommended that physical controls in the referral hospitals be enhanced by strengthening the existing ones and adding new ones.

Based on the findings from the second objective which showed that Internal audit controls affect Financial Performance positively and significantly and the conclusion that internal audit control is a significant positive predictor of financial performance in the referral hospitals, it is recommended that the internal audit units in the hospitals be improved by employing more staff and re-training the ones already serving.

Based on the regression results of the third objective and the conclusion that corporate governance controls are a positive significant predictor of financial performance in the referral hospitals, it is recommended that corporate governance practices in the referral hospitals be enhanced by reviewing the existing ones and embracing those not instituted.

Results for the fourth objective of the study which was find out the effect of Regulatory controls on Financial Performance at Referral hospitals in Kenya showed that Regulatory controls have a positive significant effect on Financial performance. It was therefore concluded that regulatory controls have a positive significant influence on financial performance of the hospitals and can therefore predict the financial performance in the hospitals. The present study recommends that regulatory controls are enhanced by strictly following the policies laid down by the regulatory bodies.

c) Suggestions for Further Research

The present study sought to determine the effect of internal controls on the financial performance of county referral hospitals in Kenya using the variables of physical controls, internal audit controls, corporate governance controls and regulatory controls. This implies that only four variables of internal controls were used. Based on this, the study recommends that future studies focus on other variables of internal controls not included in the present study. It is also recommended that future studies are conducted in private hospitals.

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Effect of Microfinance Loan on Poverty Reduction in Rwanda

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Abstract- The purpose of this study was to investigate the effect of microfinance loan on poverty reduction in Rwanda. The study sought to identify the achievements of microfinance loans to the individuals, explore the perceptions of microfinance beneficiaries on poverty reduction and determine the effect of microfinance loans on the economic growth. The target population for this study was 6228 persons, which included employees and clients of COPEDU PLC, Remera Branch. The study adopted descriptive research design to collect data from the selected sample size. The primary data was collected using questionnaires that were randomly distributed to the sample population. The data collected was analyzed using the Statistical Package for Social Sciences (SPSS) software to determine the mean, mode, standard deviation and inferential statistics related to the study. The findings from the study indicate that microfinance loans have a significant effect on poverty reduction. The study found that microfinance loans empower the poor and enable them to overcome the challenges that they face. The provision of microfinance loans has led to start-ups, growth and expansion of micro and small businesses resulting in asset building, job creation, poverty reduction and improved standard of living.

Keywords: *poverty reduction, microfinance, COPEDU PLC, grace period.*

GJMBR-C Classification: *JEL Code: G21*



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Effect of Microfinance Loan on Poverty Reduction in Rwanda

Dolca Ingabire [α] & Dr. Henry Jefferson Ogoi [σ]

Abstract- The purpose of this study was to investigate the effect of microfinance loan on poverty reduction in Rwanda. The study sought to identify the achievements of microfinance loans to the individuals, explore the perceptions of microfinance beneficiaries on poverty reduction and determine the effect of microfinance loans on the economic growth. The target population for this study was 6228 persons, which included employees and clients of COPEDU PLC, Remera Branch. The study adopted descriptive research design to collect data from the selected sample size. The primary data was collected using questionnaires that were randomly distributed to the sample population. The data collected was analyzed using the Statistical Package for Social Sciences (SPSS) software to determine the mean, mode, standard deviation and inferential statistics related to the study. The findings from the study indicate that microfinance loans have a significant effect on poverty reduction. The study found that microfinance loans empower the poor and enable them to overcome the challenges that they face. The provision of microfinance loans has led to start-ups, growth and expansion of micro and small businesses resulting in asset building, job creation, poverty reduction and improved standard of living. The study concludes that provision of microfinance loans have a significant effect on poverty reduction in Rwanda. This study recommends that the microfinance management review the loan processing requirements to faciliate the application process and induce more people to take the loans. The study also recommends that management consider providing a grace period to enable the borrowers to make proper arrangement on how to repay the loans.

Keywords: poverty reduction, microfinance, COPEDU PLC, grace period.

I. Introduction

Poverty has become a major concern for both the developed and developing countries. Based on the poverty line, people in each country can be broadly divided into categories, namely, the poor and the non- poor. The non-poor live above the poverty line while the poor live below the poverty line. Balkenhol (2007) found that microfinance schemes have been increasing significantly throughout the world. Despite the tremendous increase of microfinance schemes, the effect on the borrowers and household welfare remains widely contested.

Rwanda is a landlocked country with limited natural resources. Rwanda has a population of about 12.5 millions, of which 87 per cent of live in the rural areas. The current population density of Rwanda stands at 416 people per square km. In the year 2012, Rwanda had a GDP per capita of US $ 644. Poverty is widespread with a life expectancy of 63.49 years (MINECOFIN 2012).

The Poverty Reduction Unit (PRU) of UNDP Rwanda is attempting to lessen poverty and quicken advance towards the Millennium Development Goals (MDGs) by supporting star poor monetary development and comprehensive market improvement in Rwanda. UNDP Rwanda's strategy on Poverty Reduction seeks to furnish the low-income individuals with the tools and assets to lift themselves out of destitution through private segment activities at the national and district levels. The exercise intends to give low income people access to the business sector, merchandise and other ventures to empower themselves and reduce poverty to minimum.

Providing access to credit will enable the poor to start-up businesses resulting in poverty reduction and speedy economic growth (Robinson, 2002). Many African countries are wallowing in poverty, forcing the governments to develop strategies on how to reduce poverty and accelerate economic growth. One of the approaches to eradicating poverty is the engineering of microfinance, which is considered as an effective tool of addressing the financial challenges facing the needy (Salia, 2014).

Morduch and Haley (2002) noted that it is feasible for a microfinance organization to serve the most unfortunate to enable them meet their financial obligations. Swain (2004) stated that microfinance can be utilized as an instrument for mitigation instead of as a destitution reduction strategy.

Despite the tremendous economic progress since 1994, Rwanda still remains undeveloped country based on the destitution lines. The degree of the populace in neediness declined from 39.1% in 2013/14 to 38.2% in 2016/17, while the degree living in phenomenal destitution decreased from 16.3% to 16.0% during a comparative period and certified utilization per grown-up corresponding to the neediness line (RWF 159,375 consistently) or the extraordinary neediness line (RWF 105,064). (The Fifth Integrated Household Living Conditions Survey, EICV5 (2016/17). Rwanda has acknowledged the issue of neediness as a troublesome issue and the imagined techniques for conquering it.

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To reduce poverty, the legislature of Rwanda has taken drastic measures related destitution decrease. The Government of Rwanda acknowledges that microfinance plays a crucial role in reducing poverty and improving the economy, resulting in destitution decrease (Destitution Trend Analysis Report (2010/11-2013/14).

The Government of Rwanda has further initiated several projects geared toward poverty reduction. Some of these initiatives are as explained below:

a) Home grown initiatives

- ✓ Community Justice (Gacaca): These are local efforts geared toward creating equity and rebuilding responsible post-destruction Rwanda.
- ✓ Mediation Committees (Abunzi): These are instruments for casual settlement of disputes and resolving of minor criminal offenses during the post genocide period.
- ✓ One cow per poor Family (Girinka): It is a Government initiated program of providing a cow to each family to ensure a healthy sustenance and reduce poverty through a consistent source of income.
- ✓ Community Works (Umuganda): This initiative is seen as a vehicle for solidarity and commitment to the advancement of the network of achieving a common goal as a country.
- ✓ Ubudehe credit scheme: Provides a home grown solution to money related issues and poverty reduction among Rwandans. In 2008, the Scheme won the United Nations Public Service Award for participatory advancement in reducing destitution in Rwanda.

The Rwanda Vision 2020 as articulated in 2000 and revised in 2012, has ambitious targets for further economic and social development for the years ahead. One such target is the substantial reduction of poverty. The Government of Rwanda and its development partners are committed to making significant headway towards achieving the objectives contained in the national vision document (The Fifth Integrated Household Living Conditions Survey, EICV5, 2016-17). In 2016, the Government of Rwanda made business simpler by improving the registration procedure, sponsoring agribusiness, controlling prices and finance for 20 percent of the population (Rwanda's Economic Freedom Score, 2018).

Although, the government of Rwanda put much effort for poverty reduction, poverty remains a global problem, which needs concerted effort to address it. Of the worlds' 6 billion people, 2.8 billion people live on less than 2 US dollars a day and 1.2 billion on less than 1 US dollar a day (WDR, 2000/2001). Therefore, it is against this backdrop that this study sought to examine the effect of microfinance loan on poverty reduction in Rwanda.

II. Literature Review

Stiglitz (1990) noted that lack of guaranteeing among borrowers was the greatest challenge facing MFIs in providing credit. MFIs require the guarantor to pay the loan in case the borrower defaults. Cheston and Kuhn (2002) discovered that joint obligation brings down the liquidity danger of default to the borrower. Aryeetey (1997) contended that observing the loan requirements was the key to improving reimbursement rates. The authors also noted that small-scale money lenders have a joint obligation as the case Grameen in Bangladesh. Diane and Zeller (2001) proposed a companion weight model in which borrowers are not entirely educated about their accomplices' ability to apply or endure social endorsements. The model shows how companion weight can be utilized to alleviate default in circumstances where potential defaulters are prejudiced of authorizations.

a) Credit as a Human Right

Conventional banks are based on the principle that the more you have, the more you can get; if you have nothing you get nothing. They argue that banking is a business and thus it cannot indulge in charity for the poor. Grameen bank in Bangladesh has actually redefined this principle to; "the less you have the higher priority you get in receiving loans from Grameen". If you have nothing you get the highest priority. Yunus (1998) argued that if there is one single action which will enable the poor to overcome their poverty, then it is credit. Credit should be accepted as a human right. If financial institutions can come up with a system which allows everybody access to credit while ensuring excellent repayment, then poverty will be past tense.

b) A Critical Assessment of Microfinance as a Poverty Reduction Tool

Chowdhury and Bhuiya (2009) contended that there exists clashing suppositions regarding the degree to which microfinance has reduced poverty. The high interest rate charged by independent venture capitalists make it difficult to access credit resulting in escalation of poverty. Chowdhury and Bhuiya (2009) found that microfinance institutions have made a significant contribution in reducing poverty and improving the living standards of the people. The authors further contend that borrowers with business aptitude, enterprise capacity and training are more likely to access credit than those without such attributes. Hence, there is a need to train and equip individuals with business knowledge and skills to not only know how to run business, but also access credit to improve and grow their businesses.

III. Research Methodology

In this study, a quantitative research approach with a descriptive design was used to collect from the

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sample population. The primary data was collected using questionnaires which were randomly distributed among the respondents. The secondary data was collected using documentary review which included the Poverty Trend Analysis Report, Rwanda Economic Freedom Score and Poverty Strategy Paper to supplement the primary data. The study focused on microfinance clients who received loans between the years 2014 to 2018. The data collected was edited, coded and analyzed through the Statistical Package for Social Sciences (SPSS) software to produce the descriptive statistics such as percentages and standard deviation. The findings were reported using tables.

IV. Results

The data collected was analyzed to obtain the response from respondents using tabular representations. This study examined the effect of Microfinance loan on poverty reduction in Rwanda.

a) Classification according to age of respondent.

The following table shows how the respondents were distributed corresponding to their age.

Table 1: Age of the respondents

Age of the respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Between 18-24	6	7.9	7.9	7.9
	between 25-34	29	38.2	38.2	46.1
	Between 35-44	17	22.4	22.4	68.4
	Between 45-54	13	17.1	17.1	85.5
	Between 55-64	11	14.5	14.5	100.0
	Total	76	100.0	100.0	

Source: Research finding

The table above shows the age brackets of the respondents. The results show that 38.2% (age bracket 25-34) as the most active followed by 22.4% (age bracket 35-44) and 7.9% (age bracket 18-24) as the least active. Thus, it is evident that the level of activity can be deduced to be highest within the 25-34 years of age bracket.

b) Classification according to gender of respondents

Table 2: Gender Analysis

Response by Gender					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	46	60.5	60.5	60.5
	Female	30	39.5	39.5	100.0
	Total	76	100.0	100.0	

Source: Research findings

The table above depicts the actual number of respondents by gender. The results show that the male respondents were more willing to give information required than the female respondents. This attribute was used to establish how microfinance loans affect the lifestyles of the respondents. This study sought to find out if the existing loan policies favor one sex over the other and how respondents feel about it. The findings indicate that 60.5% male respondents obtained microfinance loans compared to 39.5% female respondents. Qualitative data reveal that women in Rwanda were reluctant to engage in economic activities and prefer to help their husbands to own and run the business to avoid stress and risk. According to the Rwandan culture, women are expected to use their earnings in the business without having to rely on their counterparts for household needs.

Table 3: Marital Status of the Respondents.

Marital status of the respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	27	35.5	35.5	35.5
	Married	49	64.5	64.5	100.0
	Total	76	100.0	100.0	

Source: Research findings

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The table above indicates that 64.5% of the respondents were married while 35.5% were single. The higher response rate for the married respondents shows that those who are married have more financial obligations, which forces them to look for additional sources of income.

Table 4: Educational Level of Respondents.

Educational level of Respondents.					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Illiteracy	6	7.9	7.9	7.9
	Primary	18	23.7	23.7	31.6
	Professionals & secondary	45	59.2	59.2	90.8
	University	7	9.2	9.2	100.0
	Total	76	100.0	100.0	

Source: Research findings

The table above shows that 59.2% of the respondents had professional and secondary education, 9.2% had university education, 23.7% had primary education and 7.9% had no primary education. The higher percentage (59.2%) of *professional* & secondary education shows that those who did not have the chance to proceed with high education have to think of other ways to create a stable source of income.

Table 5: Analysis on How Clients Perceive Interest Rate

Respondent Perceive Annual interest rate					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	13%	19	25.0	25.0	25.0
	16%	57	75.0	75.0	100.0
	Total	76	100.0	100.0	

Source: Research findings

The table above shows that 75% of the respondents complained of high interest rates charged on the loans while 25 % said that the interest rates were fair. However, this could be attributed to the amount of the loan, repayment schedule and capacity to pay the loan(s).

Table 6: Reason for borrowing

Respondent reason for borrowing					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Business	56	73.7	73.7	73.7
	Family expenses	5	6.6	6.6	80.3
	Housing	15	19.7	19.7	100.0
	Total	76	100.0	100.0	

Source: Research findings

The table above shows that 73.7% of the respondents borrow money for business use while 26.3% borrow for other purposes such as family expenses and housing. From the statistical perspective, majority respondents borrow money with the sole purpose of investing in business to generate profit and improvement their standards of living.

Table 7: Main Source of Loan Payment

Respondent main source of loan payment					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	micro business finance	46	60.5	60.5	60.5
	Wages	30	39.5	39.5	100.0
	Total	76	100.0	100.0	

Source: Research findings

The table above indicates that 60.5% of the respondents used income generated from micro business to repay their loans while 39.5% used their wage income to pay off their loans. This is evident that majority of the respondents are in micro business while few are on payroll.

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Table 8: Delay in Loan Repayment

Response of respondents of Late in loan repayment					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	76	100.0	100.0	100.0

Source: Research findings

The table above shows that 100% of the respondents were prompt in repaying their loans, which in turn, facilitates further access to credit to expand the business.

Table 9: Monthly Savings after Taking Loan

Response of respondents of Monthly Savings after taking loan in Frw					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less than 20,000	15	19.7	19.7	19.7
	Between 20,000 and 40,000	15	19.7	19.7	39.5
	More than 40,000	46	60.5	60.5	100.0
	Total	76	100.0	100.0	

Source: Research findings

The table above shows that 60.5% of the respondents save more than 40,000frw while 39.5% save between 20,000frw and 40,000frw. We can deduce that those who had more savings had adequate collateral than those who had little savings.

Table 9: Types of Collateral Provided

Types of collateral provided					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Wages	20	26.3	26.3	26.3
	savings	45	59.2	59.2	85.5
	House	11	14.5	14.5	100.0
	Total	76	100.0	100.0	

Source: Research findings

The table above indicates that 59.2% of the respondents used savings as collateral for the loan while 40.8% used wages and personal house as collateral for the loan. The type of the loan sought determines the collateral to be used. For example, respondents who needed business loan had to use their savings as collateral than those who needed a loan for say household purpose.

Table 10: Obtained Group Loan

Response of respondents on obtained group loan					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	40	52.6	52.6	52.6
	No	36	47.4	47.4	100.0
	Total	76	100.0	100.0	

Source: Research findings

The table above shows that 47.4 percent of the respondents obtained individual loans while 52.6 percent obtained group loans. From the statistical perspective, group loans are more supportive than individual loans.

Table 11: Satisfaction of Loan Terms Conditions and Repayment

Satisfaction of loan terms conditions and repayment					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	52	68.4	68.4	68.4
	No	24	31.6	31.6	100.0
	Total	76	100.0	100.0	

Source: Research findings

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The table above shows that 68.4% of the respondents are satisfied with the loan requirements and repayment schedule whereas 31.6% of respondents are not satisfied with the lending requirements and repayment schedule. Those who were not satisfied with the loan requirements said that there was too much paperwork involved in accessing the credit. The respondents cited lack of grace period to allow them make proper repayment arrangements.

Table 12: Kind of business activity Loan borrowers are engaged in

Respondents Business activity engaged in					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Transport	41	53.9	53.9	53.9
	commercial activities	35	46.1	46.1	100.0
	Total	76	100.0	100.0	

Source: Research findings

The table above shows 53.9 percent of the respondents are engaged in transport services while 46.1 are engaged in commercial activities. This is evident that microfinance borrowers put their money into business to generate profit and improve their livelihood.

Table 13: Any Kind of Training Received from COPEDU PLC

Any kind of training received from COPEDU PLC					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	76	100.0	100.0	100.0

Source: Research findings

The table above indicates that 100% of the respondents who own and run businesses receive training on management, accounting, marketing and entrepreneurship through COPEDU PLC.

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Rastin Partnership Accounting Part II: Mudarabah Financial Sharing (MFS)

By Bijan Bidabad

Abstract- *Purpose:* This paper aims to explain a new system of accounting for partnership financing that applies in Rastin Profit and Loss Sharing Banking. In this system, the interest rate is not used in calculations and accounting, and instead, the "time value" of capital based on the amount and duration of the partnership is used. In this part, we will go to the details of Mudarabah accounting details.

Design: Rastin Partnership Accounting principles have been founded on off-balance-sheet items and on the basis of the institutions' obligations to the depositors and receivers of financial resources, and they are in compliance with the nature of the financial intermediary activity (a partnership of depositor in the yields of the fund receiver via the bank).

Findings: The distribution of profit among stakeholders (including workforce and capital owners) is accomplished according to the share of each beneficiary in the created value added. In this regard, Euler's theorem, as the best mathematical-economic innovation for distribution of income is applied.

Research limitations: This system is novel, and it is required to be more elaborated for further practical development and adjustment.

Keywords: *rastin banking, profit and loss sharing (PLS), partnership, profit distribution, accounting, islamic banking, musharakah.*

GJMBR-C Classification: *JEL Code: P45*

RASTINPARTNERSHIPACCOUNTINGPARTIIMUDARABAHFINANCIALSHARINGMFS

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Practical implications: In this accounting system, the return of the partnership is distributed among sharers based on the amount and duration of their partnership. The penalty for delay in payment is calculated from the sum of the incurred loss due to negligence or blameworthy of the undertaker and not upon a penalty interest rate.

Social implications: Interest rate as an essential factor in conventional accounting is not usable in Islamic banking and other similar institutions that work based on partnership, such as mutual funds and saving and loan associations. The proposed system removes this shortage and is fairer than the conventional accounting.

Originality/value: Approach of this accounting system is fully different from the conventional accounting, because of intrinsic characteristics of the intermediary role of financial partnership institutions and Islamic banks.

Keywords: rastin banking, profit and loss sharing (PLS), partnership, profit distribution, accounting, islamic banking, musharakah.

**** Continued from Part I[1] ****

I. Introduction

In the first part of the paper, we discussed Profit and Loss Sharing (PLS) accounting experiences, and we introduced the Rastin Partnership Accounting principles and operations. We also showed that how this new accounting system can be used for the "Funds with Variable Capital". It was also addressed that how this accounting system deals with change in timing due to non-performance of the commitments.

In this part, the continuing topics of Rastin Partnership Accounting in Mudarabah Financial Sharing (MFS) accounting are discussed. Mudarabah Financial Sharing (MFS) provides the conditions for depositors to share in the commercial project of an entrepreneur. MFS is a financial subsystem[2] of Rastin Profit and Loss sharing (PLS) banking system and works under general instructions, organisations, operating procedures, electronic software, contracts and related forms of Rastin PLS banking.

The rate of return determination in this kind of sharing – whether the bank is public or private- is the return rate of the real economy. Bank receives a commission for providing capital management services to the depositor as agent/attorney or and works as an intermediary of financial resources to allocate depositor's funds in *Mudarabah* business of entrepreneur. Bank enters a "*Joalah* contract" with depositor and a "*Mudarabah* contract" with *Mudarib* (entrepreneur) to join them in the sharing project according to their opinions. In this subsystem, the bank offers the deposited funds to those seeking financial resources for *Mudarabah* and the benefit of *Mudarabah* is divided between depositor and *Mudarib* according to instructions. Distribution of profit will be done among depositors and entrepreneur, and the bank receives a commission fee. In the case, that bank is interested in depositing in a project, of course, will receive profit

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[1] Bidabad, Bijan, Mahmoud Allahyarifard, Mahshid Sherafati. Rastin Partnership Accounting, Part I: General Procedure, Journal of Islamic Accounting and Business Research, Vol. 10 No. 4, pp. 490-511, 2019. http://www.bidabad.ir/doc/rastin-partnership-accounting-I-en.pdf https://doi.org/10.1108/JIABR-04-2016-0049

[2] - *Financial Subsystems* of Rastin PLS Banking system refer to different defined financing methods and services. These subsystems are governed by Rastin PLS Base System's regulations.
Bidabad, Bijan. (2014). New Operational Islamic Banking System, Volume One, Theoretical Foundations, LAP Lambert. Academic Publishing, OmniScriptum GmbH & Co. KG, ISBN: 978-3-659-54463-7
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share in proportion to its further fund depositing. The agent (entrepreneur/*Mudarib*) is a real person or legal entity who receives the money resources of depositor through the bank and according to the contract starts particular *Mudarabah* activity. The depositor will fund the *Mudarib* and *Mudarib* provides adequate guarantees to the bank for assuring to conduct his job properly. Trustee unit is a unit in Rastin PLS office of the bank that monitors the project implementation.

"*Mudarabah* Certificate" as well as "Periodic *Mudarabah* Certificate" are used as new financial innovations in MFS. *Mudarabah* Certificates are anonym certificates with a nominal price that are issued by Rastin bank for the specified period of the project. The owners of these certificates which are kinds of Rastin Certificates share the profits of *Mudarabah* business in proportion to the nominal price of the certificate and the period duration they had depositing. These certificates are issued digitally over the web to provide web-based digital transactions. The holders of this certificate can transact it on the web or over the counter of PLS bank branches. Therefore, these certificates can be negotiated internationally.

"Periodic *Mudarabah* Certificate" is a kind of "*Mudarabah* Certificate", but depositor receives her/his profit periodically and entrepreneur can do the business multiple times with the fund of the depositor.

By applying to the web information portal of Rastin Certificate Market, or a Rastin PLS bank branch, depositor acquaints with depositing and dispensing through consulting with bank expert and selects the project she desires. By depositing and after signing and registering the contract, the web-based system automatically issues the certificate. At the end of the project, the accounting/auditing unit will calculate and pay the profit to the certificate holder.

By applying to a bank branch, *Mudarib* also offers his *Mudarabah* project proposal to the bank. Then, while informing the *Mudarib* (entrepreneur) about the conditions and regulations concerning participation through web information portal of Rastin Certificate Market (RCM) or information counter of Rastin PLS bank branch, the registration fee (according to instruction) with the written project proposal, and economic, technical and financial justification of the project will be received from the *Mudarib*.

The assessment unit of the PLS bank will assess the credibility of the agent on the basis of the available historical background of the *Mudarib* and according to the compiled instructions if the *Mudarib* possesses required technical and other capabilities, will report to project assessment unit. If the assessment report is positive, the necessary guarantees and collaterals will be determined according to instructions. After signing a contract with the *Mudarib*, bank delivers the requested fund to the *Mudarib* according to a *Mudarabah* contract. All the *Mudarabah* documents according to the agreement including the details of *Mudarabah* merchandise, budgeting, timetable, needed resources, and the method of consumption of resources and implementing the project, phasing, quality control and reporting and finishing the project will be given to the trustee unit of the PLS office of the bank. The monitoring reports of trustee unit will be delivered to accounting/auditing unit at pre-determined intervals. The trustee report will be the basis for final *Mudarabah* settlements. At the end of the project or at the specific periods, accounting/auditing unit of the PLS office of the bank will compute profit or loss and bank commission fee according to the compiled instructions. The share of depositor and *Mudarib* will be carried to their accounts. If there were a stoppage report provided by the trustee, the resulted losses would be calculated according to the compiled instructions.

II. Mudarabah Contract

In Islamic *Fiqh* (jurisprudence) it is a transaction contract between two persons according to which a person conducts economic activity by the money of the another person, and the derived profit is divided according to pre-agreed ratios. On the other words, *Mudarabah* is a contract between depositor (capital owner) and *Mudarib* (entrepreneur/agent) for conducting economic activity by the depositor's capital and dividing the profit by an agreed percentage among them. If the business ends to benefit, it will be split between the two, but if it ends with a loss, only the entrepreneur's loss is his unfruitful efforts. Except in the case that it is proved that agent's fault caused the loss. In *Mudarabah* there is the condition that the depositor should accept the probable loss; otherwise, the contract will not be a *Mudarabah* deal, but it is a loan. If it is agreed to transfer all the profit to the owner of capital, again the contract will not be a *Mudarabah* one, but an *Ibza*[3]. Defining the shares of profit of each party is of essential conditions of a *Mudarabah* contract. *Mudarabah* contract has two sides and it needs that the both side approve the contract and its conditions[4].

Some jurists believe that the capital of *Mudarabah* should be in cash[5], and conducting *Mudarabah* with commodities is not valid [6]. On the other

[3] - In *Ibza* the agent works for the owner of capital and earns wage.

[4] - Tabatbaee Yazdi, Saied Muhammad Kazem; Orvatol-Vosgha, Qom, Islamic Publication Institute, 1420 Lunar Hijri. Khomeini, Seyyed Rouhul-Allah Musavi; Tahrir-ul-Vasileh, Qom, Islamic Publication Institute, 1420 Lunar Hijri, Vol. 1, pp. 558-567.
Al-Husaini Shirazi, Seyyed Muhammad; Al-Feqh (Vol. *Mudarabah*), Qom, Seyyed-u-Shohada Publication, Pp 5-8.

[5] - Civil Act, article No. 547.

[6] - Allameh Helli, Al Jame-u-sharaye, ed. by Murvarid, Ali Asghar, Birea: Al Shiah Feqh Institute, 1410 Lunar Hijri.

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hand, by restricting the definition of *Mudarabah,* some jurists believe that *Mudarabah* should only be used in commercial activities[7]. Of course, these beliefs do not reject original rules and conditions of the contract; and types of the *Mudarabah* contract can be made by goods as capital, or be made on the other non-commercial activities[8]. On the other words, there is no reason to limit all contracts to contracts in *fiqh* books and as narrated contracts; therefore, even if the capital is non-cash, and it is not considered as a *Mudarabah* contract, though the contract is yet legal and valid. The narration-based reasoning for *Mudarabah* is based on epithet (*laqab*)[9] concept, which is the weakest logic in *fiqh* and is not a proof. On the other side, there are some narrations that goods can be regarded as the capital of *Mudarabah*[10].

Some of the Sunni jurists admit goods *Mudarabah* by evaluating the price of goods and considering the price as the *Mudarabah* capital, or if a debt were created by transacting measurable/weighable property, it would be quite similar to cash money, and the *Mudarib* (agent) receives what he is rightful and accordingly, there will be no guarantee-less profit (*Rebh-e-la'yozman*)[11]. In addition, it is possible for *Mudarib* to give back the original capital (commodity) at the end of *Mudarabah*[12].

Mudarabah is a definite and revocable contract[13]. The Civil Act of Iran prescribes: "*Mudarabah* is an agreement according to which one party of the contract provides the capital and the other party should do business with it and divide the profit between them[14]. The share of each side in the profit should be clarified from the joined ownership such as a quarter, a third or else[15]. These shares should be determined before unless it were generally known, and if it is not defined by the parties, it is considered as a common general case[16]. It is also mentioned in the Iran's Civil Act that the subject of *Mudarabah* might be any general unconditional business activity - if any particular event is not referred to in the contract[17]. *Mudarib* (agent) will work as an *amin* (trustee) and therefore s/he is not a guarantor of the owner's capital, except he has wasted or oppressed it[18]. As another condition of *Mudarabah*, the capital is to be specified. If someone provides the money and conditions that all the profit should be returned to him, the other side only receives a commission; unless it is proved that, the *Mudarib* has carried out the task freely[19]. If it is conditioned in the contract that the agent is responsible and guarantor for the *Mudarabah* capital; then the contract will be nullified unless it has been said that the *Mudarib* compensates the losses freely from his own wealth[20].

III. Mudarabah Financial Sharing (MFS)

Civil Act defines the legal basis of *Mudarabah* Financial Sharing (MFS). In addition, other regulations and measures have been ruled on the detailed application. Accordingly in *Mudarabah* Financial Sharing (MFS), one party provides the money, and the other one trades with that money, and the profit is shared. The necessary activities to be carried out by the agent (*Mudarib*) should be defined in the contract. The agent can be a real person or legal entity as well. The MFS activity should be carried out under the general instructions of Rastin PLS Banking Base System unless the deviation from it is mentioned.

In MFS, bank obtains the *Mudarabah* project proposal from *Mudarib.* After careful assessing of the project proposal and agent capability and reliability according to compiled instructions, the project proposal is introduced to depositors; and by issuing *Mudarabah* Certificates bank will provide the necessary fund for *Mudarabah* activity. Bank allocates the resource to entrepreneur and *Mudarabah* starts under the supervision of bank's trustee unit, and after the end of *Mudarabah* activity, the bank pays the principal capital and profit shares back to depositor and agent, and the bank receives its commission. If the business fails to obtain profit, the bank will receive no commission fee. The issuance and transaction of *Mudarabah* Certificate are according to Rastin PLS banking instructions.

7 - Khomeini, Seyyed Rouhul-Allah Musavi; Tahrir-ul-Vasileh, Qom, Islamic Publication Institute, 1420 Lunar Hijri.

8 - Article 560, Civil Act: Mudarabah contract follows the conditions and regulations considered between two sides of the contract.

9 - Epithet is discussed in *Feqh* Principles. It is to say that if a title or name is the subject of a commandment, what is not generally covered by this name, is not included in that commandment. Muzaffar, Muhammad Reza, *Osoule Feqh*, vol. 1, *Ismaeelian* publication.

10 - See: Tafreshi, Muhammed Isa, and Jalil Ghanavati Khalafabadi, Foundation of *Mudarabah* contract in Islamic jurisprudence and Iran Civil Act. http://www.ghavanin.ir/PaperDetail.asp?id=839

11 - This is a kind of profit for which the person has no guarantee about it.

12 - Al Fatehul Ghozat, Zakaria Muhammad, *Al-Salam val-Mudarabah,* Amman, Darul Fekr Lelnashr va Tozie, 1984.

13 - Article 550, Civil Act of Iran.

14 - Article 546, Civil Act of Iran.

15 - Article 548, Iran Civil Act.

16 - Article 549, Iran Civil Act.

17 - Article 553, Iran Civil Act.

18 - Article 556, Iran Civil Act.

19 - Article 557, Iran Civil Act.

20 - Article 558, Iran Civil Act.

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Mudarabah subject is a commerce (trade) to be carried out in following fields:

a. Transaction of merchandise inside the country (domestic trade)
b. Exporting merchandise for selling abroad (export)
c. Importing merchandise to sell in the country (import)
d. Importing merchandise to re-export (transit)
e. Interchanging foreign trade merchandises (swap).

The *Mudarabah* capital is defined by acceptable costs (including the price of buying goods for *Mudarabah*, insurance, transportation, warehousing, packaging, order registration, customs, commercial and banking fees) for the buying and selling period. Depositing a percent of import value, as the guarantee for opening the letter of credit (LC) at the central bank, is not considered as a cost because it will be paid back to the *Mudarib* when customhouse releases the imported commodity. This payment should be carried out by the agent himself.

Other related and different unexpected costs are acceptable if the Rastin bank's trustee unit confirms their necessities; otherwise, they should be paid by the agent. The cash capital of *Mudarabah* is given to the Mudarib (entrepreneur) all in once or in different prespecified stages.

If the trustee unit of the Rastin Bank accepts the entrepreneur's quest for further funds, because of increase in some of the above-mentioned agreed costs or price increase, this will be financed through complimentary contract according to the compiled instruction. If it is necessary, the bank will decide about additional collaterals. Financing new fund will be through issuing new *Mudarabah* Certificates for the new depositors to apply for the same project.

Duration of the contract is proportional to a full period of buying and selling of the *Mudarabah* merchandise. Export *Mudarabah* contract length is determined by considering the maturity of the letter of credit (LC) and its length should be more than the former. *Mudarabah* duration can only be extended by providing documents to the trustee unit of the Rastin Bank about the occurred delay according to the instructions of Rastin PLS Banking and trustee unit approval. However, this period should not be set longer than 6 and 9 months for internal and external trade contracts respectively.

All bank supervisions will be carried out by trustee unit. All the sell receipts will be transferred to a particular account of the bank immediately. The agent should promptly inform the trustee regarding his purchase, and the trustee will supervise his warehousing and sale. The trustee is obliged to monitor the flow of the purchased merchandise from the supplier to storehouse and details of sell and outgoing from the store. *Mudarib* is bound to inform the trustee unit of the PLS office about all physical movement of the merchandises from the place of sale to storehouse, loading and delivery of merchandise and move it by trustee unit permission. If there is a delay, fault, violation, or other similar troubles, the trustee unit of the PLS office will reconsider the competency of the agent to preserve the rights of the depositor.

The *Mudarabah* capital will be in ownership of bank to preserve the depositor's rights. After receiving information about the stoppage of *Mudarabah* activity, or bankruptcy of agent, the bank will promptly provide a list of merchandise and confiscates it into the hands of the bank. Then, by selling goods under the supervision of the trustee, the bank will settle the claims of the depositor. The *Mudarib* allows the bank with an irrevocable attorneyship power for after his death to permit the bank to refer to his firm, storehouse or other places related to the subject of *Mudarabah,* and confiscates the related merchandise, and draw depositor claim from his accounts in any bank to perform his obligations and settle the contract if necessary.

The organisational structure applied in MFS banking, its processing procedures, regulations and instructions and requirements designed for the bank, depositor, *Mudarib* and necessary regulatory structure work under Rastin PLS banking regulations. Rastin PLS banking organization is defined in chart framework of "Rastin PLS Banking Leading Committee", "Reviewing Group for Rastin PLS Banking Regulations" and "PLS Office"[21], together with "Legal Unit"[22] and "Assessment Unit" and "Trustee Unit" and "Auditing and Calculation Unit"[23] and "Financial Engineering Unit"[24] and "PLS Branch" with "Cashier Section" and "Information and Consulting Section". The same organisation will be used for MFS.

a) Apportionment of Benefit between Depositor and Mudarib

Dividing profit between *Mudarib* and depositor is one of the significant *Mudarabah* problems. Traditionally, this splitting is made by mutual agreement, but it is not possible to leave the decision to bank branches, and it is necessary to compile special regulation for it. Before discussing this subject, we should consider that *Mudarabah* activity is a process, which creates value added in economic concept and in the framework of national accounting is considered as the production of goods and services.

[21] *PLS Office:* It is a bank department that along with subordinate units manages participation processes in Rastin Banking.
[22] *Legal unit* is a unit in PLS office in of Rastin Banking and includes awared insurance and law experts in Rastin Profit and Loss Sharing Banking.
[23] *Auditing and Calculation Unit* is a unit in PLS office of Rastin PLS bank and includes accountants and auditing experts.
[24] *Financial engeineering unit* is a unit in PLS office of Rastin PLS bank for supervision on Rastin Certificat Market and information disclouser of the entrepreneur.

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Different schools of thoughts have differences of opinion about the value of work along the history, and different people believed different sources for the creation of value[25]. Their points of view in different schools of thoughts are so different that some of them think that labour is not a source of value creation, and others believe that labour is the sole source of value creation.

Physiocrats were the pioneers who discussed the source of "value added" and extended it from transaction to production[26]. They considered value in a frame of material tangible goods with the meaning of "use value", not trade value. Thus, the concept of value added was just in the form of the value of production against the value of goods used to produce the commodity, which is called "net production", and only exists in the agriculture and farming sector. According to Physiocrats' belief, that only shape of materials changes in manufactory and no added value is created in industry, and the only farmer creates added value[27].

In Marxian literature, "The theory of value" is described as the amount of used human labour that is equal to the value of goods, and labour should produce relative added value in addition to the goods' absolute added value in the competitive scene. In order to create relative added value, his personal value of produced goods should be less than his current social value of that product. In creating absolute added value, the labour should use capital. Producing absolute added value is a material manifestation of capital by labour[28]. If we regard total production process from a production viewpoint, production means are the tools by which production takes place according to Karl Marx and his descendants; and it is only the labour, which is creative. As far as work is an individual process, a worker carries out all the work until the product is made and a human being has not hegemony on nature by his own solely, and force the nature to create crops as Physiocrats asserted. Therefore, the direct production of a single worker will change into a joint production of labours. According to the Marxist viewpoint, the concept of capitalistic production is not just the production of goods, but it is derived from a surplus value. The labour is not producing for himself alone, but for the capital owner and increase of his wealth, and he is not just producing, but he is also producing surplus value.

In Ricardo viewpoint, surplus value is an inherent and inseparable part of the capitalistic production. Ricardo is not searching for the very reason of the existence of surplus value but he is looking for the cause that defines the amount of this value. Mercantilists believed that the surplus price of goods over its production cost is because of the transaction and selling it at a price above its original value. John Stewart Mill believed that the origin of profit is the excess production of labour more than his own sustenance needs and the reason for the creation of profit from capital is because of the durability of raw materials and production means more than the time required for producing them. Hence, according to this economic school of thought, profit is not created by the transaction, but it is because of productivity power of labour.

These theories have not the applicational merit for distribution of the outcome of *Mudarabah*, but the neoclassical microeconomic firm theory has an extensive and profound analytical base[29] that can be used for this problem. In simple words, according to the neoclassic opinion, "firm" is a place, which produces goods by using factors of production of labour and capital. The production function of the firm is a mathematical presentation of the relation between labour, capital and product. Consider a *Mudarabah* procedure in which *Mudarib* uses two variable factors of production: capital of the depositor (K) and labour work of *Mudarib* (L) together with his own fixed production factor to produce value added (from a business). The *Mudarabah* value added (Q) as a mathematical function of variable factors of production as capital (K) and labour (L) will be as follows:

$$Q = f(L, K) \tag{1}$$

The above function is defined without fixed factor of production, and the amount of production is defined by variable factors of production L, and K. The production function is defined for an exclusive period in which the fixed cost does not enter into calculations. That is investment does not change. The applied technology, technical information of the entrepreneur

[25] These topics are discussed in history of economic thoughts.

[26] Physiocarts did not believe to social concept of value and "surplus value" in Marxian literature.

[27] Physiocarts believed that this is because of the power of growth in plants, which is seen only in agriculture and not in industry. In their view, the added value is not because of labour, but it is created by the cooperation of land and nature and it is the creativity or fertility power of the land which changes the amount of planted seeds to larger amounts of seeds.
Accordingly, the dividend of proprietor or additional value in agriculture is a natural endowment that is because of relationship of human being and land, and not because of his social relations.

[28] Marx, Karl, Capital, vol. 1, Penguin, England, pp. 1019-1026.

[29] For more detailed discussions see microeconomics books, specially:

- Henderson, R., Quandt, P. (1982), Microeconomic Theory, a Mathematical Approach. Mc-Graw Hill.
- Savabi Asl, Farhad; Bidabad, Bijan and Shahrestani, Hamid, 1993. Estimating Aggregate Investment Function of Iran by Considering Various Functions, M.S. dissertation, Islamic Azad University, Tehran.

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about using capital, is included in the mathematical form of the production function. Usually, the production function is assumed to be a continuous non-negative, single–valued, increasing function in the domain and regular strictly quasi-concave. The scope of entrepreneur and his activity and capital of depositor are defined for a specific period. The period in which the amount of L and K and thereof the *Mudarabah* function are defined has three constraints: Firstly, this time must be so short, in which entrepreneur cannot change the fixed factor of production. Moreover, it should be so short that the production function might not be modified because of improvement of *Mudarabah* technology. Thirdly, it should be so long enough to cover all the process of *Mudarabah*. The marginal efficiency of factors of production or the labour of *Mudarib* (entrepreneur) and the capital of depositor are defined as MP_L and MP_K respectively:

$$MP_L = \frac{\partial Q}{\partial L} = f_L(L,K) = f_L$$
$$MP_K = \frac{\partial Q}{\partial K} = f_K(L,K) = f_K \quad (2)$$

The "decreasing marginal productivity of factors of production" rule explains that increasing the amount of a variable production factor will increase its marginal productivity for first, and then after diminishing point of return decreases the marginal productivity of that factor. That is the more use of that variable production factor, after reaching a point of production; the lower will be the amount of extra production[30]. This rule has particular effects on the *Mudarabah* profit distribution, which can be confined from the forthcoming profit distribution relation.

The term "Economies of scale" explicates the method of proportional increase in all factors of production. If *Mudarabah* is increased commensurate with labour and capital increments, the economies of scale in the specified range of their combination is fixed. The Increasing return to scale can be seen when the increased use of production factors leads to more production increment, and it is decreasing when it leads to a lower increase in production. "Return to scale" is defined by the concept of homogeneity. A homogeneous production function has a degree of "j" if:

$$f(tL,tK) = t^j.f(L,K) \quad (3)$$

Increasing the depositor capital factor of production and *Mudarib* labour factor of production by t times for amounts of $j>1$, $j=1$, $0<j<1$, the return to scale will be increasing, constant and decreasing respectively. Moreover, a linear production function can be obtained from a collection of linear simultaneous activities[31]. Linear production functions are homogeneous of degree one and hence, have constant returns to scale. The concept of homogeneity of production function means that if an increase (or decrease) in all factors of production occurs proportionally, production will increase (or decrease) proportionally as well. If production increase was proportional to the increase of production factors, the production function is homogeneous of degree one. When production increase was less than the increase of production factors, the homogeneity is less than one. Otherwise will be greater than one. In these cases of homogeneity of degree one, less than one and greater than one, the return to scale will be constant, decreasing and increasing respectively. This condition in the production function is mathematically confined by equation (3).

The assumption of homogeneity of degree one in the *Mudarabah* function is entirely rational and meaningful and by this assumption we can obtain a way for distribution of the yields of *Mudarabah* by Euler theorem. In other words, in the case of homogeneity of degree one, if all production factors increase/decrease proportionally, the production amount will also increase/decrease proportionally. In this case, because of the stability of average productivity of production factors, total productivity will not change. Euler's theorem explicates that the following equation is established in homogeneous production function of degree j:

$$L.f_L + K.f_K = j.f(L,K) \quad (4)$$

Substitution of (1) into (4) and assuming $j=1$ (homogeneity of degree one), the following relation is reached:

$$L.f_L + K.f_K = Q \quad (5)$$

According to this theorem, we can understand that the total value of *Mudarabah* is equal to the sum of multiplication of marginal production of the labour of *Mudarib* (f_L) by his labour (L) and marginal production of the capital of depositor (f_K) by the amount of her/his capital (K). On the other words, if we want to distribute the yield of *Mudarabah* according to the marginal

[30] - This point is the intersection point of average and marginal productivity curves.

[31] - Many production functions are under consideration for various economic and mathematical aspects. See: Eatwell, J., M. Milgate, P. Newman (1988). The New Palgrave Dictionary of Economics. MacMillan Publication.

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productivity of labour and capital, the total outcome exhausts. Euler's theorem has a basic role in marginal production theory, and each production factor will receive its marginal production and *Mudarabah* yield is distributed accordingly. It should be mentioned that the homogeneity of degree one causes the *Mudarabah* function to be homogeneous as well. In other words, let π be the profit of *Mudarabah*, we have:

$$t\pi = f(tL, tK) - tL - tK \quad (6)$$

This means that if the amount of entrepreneur's labour work and depositor's capital increase at the same ratio, the *Mudarabah* profit will increase proportionately.

By means of this analysis, we can compute the share of depositor and *Mudarib* according to the ratio of marginal capital and labour productivities by using the following formulas. In the following relation, the capital value is the *Mudarabah* sharing capital; and the marginal productivity of labour is *Mudarabah* profit, and the value added is the profit of the sale, and the value of the sold merchandise is the amount of *Mudarabah* commodity sold. In other words, we have:

$$K + L = Q = C + V \quad (7)$$

That is the total of value added (V) plus cost (C) is equal to *Mudarabah* value (Q) and is equal to the values of labour (L) and capital (K). This is because:

$$\pi = V \quad (8)$$

This means that the value added equals to *Mudarabah* profit, and the value of the sold merchandise is equal to the sum of value added and cost:

$$C + V = Q \quad (9)$$

Therefore, the value of the *Mudarib* labour will be equal to the value of the sale value of merchandise minus the capital of depositor:

$$L = Q - K \quad (10)$$

Therefore, the profit share of depositor from the created value added (R_K) is equal to the ratio of the depositor's capital to the value of the sold merchandise and the profit share of the entrepreneur from the created value added (R_L) is equal to the ratio of the value added to the value of the sold merchandise. In other words:

$$R_L = V/Q \quad (11)$$

$$R_K = K/Q \quad (12)$$

The profit share of the depositor(π_k) and the entrepreneur (π_L) are obtained by multiplication of their profit shares into their corresponding values added. That is:

$$\pi_L = R_L \times V \quad (13)$$

$$\pi_K = R_K \times V \quad (14)$$

Accordingly, each part of the *Mudarabah* (depositor and entrepreneur) share proportionately to their productivity ratios in producing value added. On the other words, if we sum up the above-mentioned relations, we will get the following relationship in which, the value added is equal to the total productivity (output) of labour and capital:

$$\pi_L + \pi_K = V \quad (15)$$

which is compatible with Euler's theorem of distribution of value added between labour and capital according to the marginal productivity of labour (*Mudarib*) and capital owner (depositor). Therefore, the amount received by the depositor for the principal and profit of the activity will be:

$$P_K = \pi_K + K \quad (16)$$

That is the amount of payment to the depositor at the end of *Mudarabah* is equal to the sum value of his original capital plus his profit. The amount paid to *Mudarib* will be equal to his profit share:

$$P_L = \pi_L \quad (17)$$

The sum of the above two relations shows that after the end of *Mudarabah* and reimburse of principal capital and distribution *of Mudarabah* profit, the sum of the payment to the entrepreneur and payment to the depositor is equal to the total value of depositor's capital and profits of depositor and entrepreneur:

$$P_L + P_K = \pi_L + \pi_K + K \quad (18)$$

On the other hand, the total amount paid to depositor and *Mudarib* is equal to the total value of depositor capital and *Mudarabah* profit:

$$P_L + P_K = \pi + K \quad (19)$$

b) Mudarabah Financial Sharing (MFS) Accounting

In order to provide the financial facilities and allocate the resources, needed for commercial projects, the bank can employ the subsystem, of *Mudarabah* Financial Sharing (MFS). On behalf of the depositor, the bank will sign a *mudarabah* contract with the entrepreneur and as an intermediary, and will give the deposit of the depositor to the entrepreneur (i.e., the *mudarib*) in order to perform the *mudarabah*; moreover, the bank will monitor the entrepreneur's operation and on the other side, will surrender the *Mudarabah* Certificate or the Periodic *Mudarabah* Certificate to the depositor. After accomplishing the *mudarabah* financial process, the bank will share the gained profit or loss between the depositor and the *mudarib* after deduction of the bank's commission (if any profit realised). The

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main subject of *mudarabah* in *Mudarabah* Financial Sharing (MFS) is to use the depositor's capital by the entrepreneur (*mudarib*) for the purpose of selling and buying (business), which can be carried out via domestic commerce, export, import), re-export, transit, and swap.

The ratio of the profit share of each party (the entrepreneur and the depositor), of the value added of the *mudarabah* operation, will be determined according to the return ratio of capital and labour, via the following formulas: in the following relations, the capital value means the depositor's partnership capital, the return rate of the *mudarib*'s labour means the profit obtained from *mudarabah*, the value added means the benefit yielded from sales, and the value of sold goods means the total sales of goods.

The depositors' profit share of the value added will be equal to the ratio of the depositors' capital value divided by the value of sold goods. Also, the entrepreneur's profit share of the value added will equal to the ratio of the value added divided by the amount of sold goods: thus:

$$\text{Depositors' profit share} = \text{Depositors' capital value} \div \text{Sold goods amount}$$

$$\text{Entrepreneur's profit share} = \text{Value added} \div \text{Sold goods amount}$$

The depositors' and the entrepreneur's profit will be obtained by multiplying their profit shares by the created value added; hence:

$$\text{Depositors' profit} = \text{Depositors' profit share} \times \text{Value added}$$

$$\text{Entrepreneur's profit} = \text{Entrepreneur's profit share} \times \text{Value added}$$

Accordingly, each party (the depositors and the entrepreneur) will take a share of the value added, based on its return ratio. After calculation of each party's profit, the settlement process with the depositors and the entrepreneur will be proceeded as below:

$$\text{Payment to depositors} = \text{Depositors' profit} + \text{Depositor's deposit}$$

$$\text{Payment to entrepreneur} = \text{Entrepreneur's profit}$$

After performing the calculations and the sharing process, the bank's commission will be deducted in favour of the bank from the value-added resulting from the *mudarabah*, based on the depositor's and the entrepreneur's profit shares and the full resources financed, and will be remitted to the bank's account. The bank's commission will be receivable, only if any value added has been realised in the partnership operation. If the bank PLS office and the entrepreneur agree upon the equal sharing of the *mudarabah* profit between the depositor and the entrepreneur, the entrepreneur will be obliged, at the time of contract signing, to buy the *Mudarabah* Certificate of his/her own project, equal to half of the nominal value of the deposit, minus the predicted value added in the project proposal.

The original deposit and the value added of each depositor (in accordance with the *mudarabah* subject and terms and conditions), will be calculated, distributed, and paid to depositors, based on the "term share" (resulted from the nominal amount and the partnership duration) of the *Mudarabah* Certificates (issued for each project according to the provisions of Rastin Banking regulations (Rastin Partnership Accounting)). Hence:

$$\text{Share of the depositor (Mudarabah Certificate holder), of the value added} = \frac{\text{Duration of Mudarabah Certificate} \times \text{Nominal amount of Mudarabah Certificate}}{\text{Total amount of} \left(\text{Nominal amounts of Mudarabah Certificates issued for the project} \times \text{Duration of Mudarabah Certificates} \right)}$$

If for a project, all *Mudarabah* Certificates are issued once and on the same date, the above- mentioned formula will be simplified as below:

$$\text{Share of the depositor (Mudarabah Certificate holder), of the value added} = \frac{\text{Nominal amount of Mudarabah Certificate}}{\text{Total nominal amounts of Mudarabah Certificates, issued for the project}}$$

The selling price of goods in the project proposal will be predicted based on the predicted price and market conditions. The entrepreneur will be obliged to confirm the real price of the day of selling goods with the trustee unit. The trustee unit will investigate the mentioned price and adjust it with the market price

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quote and then, will issue the permission for selling goods at a price declared by the entrepreneur.

**** To be continued in Part III[32] ****

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Financial Deepening Parameters and Economic Progress in Bangladesh: A Causality and Impact Analysis

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Abstract- This research investigated the causality and impact analysis of financial deepening and economic growth in Bangladesh for the period of 1993 to 2020. The Johansen cointegration test is used to demonstrate a long-run association. The Granger causality test and the Error Correction Model are also used to determine causality between the variables and short-term or long-term kinematics among the parameters. The findings show that economic growth, broad money supply, market capitalization, and private sector credit have a long-run relationship with a strong adjustment rate toward long-run equilibrium. The findings also show that whereas broad money has a negative and negligible impact on economic growth, market capitalization has a negative and large impact. Broad money is thought to drive growth from a prior standpoint. However, the analysis found that broad money had no positive impact on economic development between 1993 and 2020. Following a pairwise Granger Causality test, it is discovered that GDP doesn't have an effect on money supply or private sector credit, and vice versa. Based on the findings, the research recommends implementing private sector-friendly policies to ensure that depositors not only have access to credit, but that credit is also available at a reasonable cost, i.e., at a low interest rate.

Keywords: financial deepening, granger causality, error correction model, economic growth & private sector credit.

GJMBR-C Classification: JEL Code: A10, F65



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Keywords: financial deepening, granger causality, error correction model, economic growth & private sector credit.

I. Introduction

Bangladesh is now regarded as an example of development, despite the current global financial crisis. Bangladesh is considered a country with enormous potential. Many people trust that it is overloaded by its large population, while others see it as an asset. According to a tentative estimate by BBS, Bangladesh's GDP growth rate has been above 5% for the past decade. It hit 8.15 percent this fiscal year, shattering all prior records in the country's economic history. Economic growth is the most important priority for macroeconomic policy in every country, and gross domestic product (GDP) is a key indicator of that growth. If a country's GDP grows faster than its population, it means its GDP per capita is increasing and the people's standard of living is improving. The country's macroeconomic situation could be harmed by financial deepening. Due to financial deepening, the percentage of money supply that comprises GDP or the price index can usually be increased. This has the potential to improve liquidity. Money can open up new chances for investment and growth. Although there is broad agreement among researchers who fund it that it boosts economic growth and that the cause-and-effect relationship between the two has been established, there are more concrete issues. At the same time, the path of causality may pass through hypothesis giving, which claims that growth leads to development and financial demand for financial services, or hypothesis following the claim, which claims that growth leads to development and financial demand for financial services. Financial deepening indicators, according to this study, represent the ratio of private sector credit to gross domestic output (GDP). As a key financial deepening metric, take into account both the private sector credit ratio and GDP, but also use the money supply associated with GDP as a substitute indication.

Financial deepening is a term used by economists to refer to a state of adequate liquidity and seamless financial intermediation. To be sure, research has been conducted on financial depth and economic growth in a variety of economies. Such discourses shed light on the subject, while subsequent retrospect reveals knowledge gaps and the need for additional investigation. Several empirical studies on the subject include the following: In light of finance's critical role in promoting economic growth and development, particularly in developing nations like Bangladesh, Examining if Bangladesh's financial structure has a major positive effect on the country's economic growth and development. The findings may corroborate prior research indicating that the whole financial structure has a significant positive effect on economic growth. While certain industries (banks and markets) have a stronger influence on economic growth, others (such as insurance) may have little effect. Examining the long-run growth consequences of financial development in Bangladesh and suggesting that the growth effect of financial development is proxy-dependent. As a result, the study discovered that private sector credit-to-GDP and total domestic credit both contribute to growth, while the broad money supply-to-GDP ratio does not. The sensitivity of the effect to the proxy choice was

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tested using indexes built from principal component analysis indexes. The number of financial deepening indicators has an impact on a country's GDPG. The following are some of the financial deepening indicators. The most crucial component in financial deepening is broad money. It's a way of calculating how much money is distributed throughout the economy. It is defined as the most comprehensive way of determining a country's money supply— the quantity of assets that consumers and companies can use to pay for goods and services or keep as short-term investments, such as currency, bank account balances, and all money values. Many macroeconomic theories predict that expanding the money supply will lower interest rates in the economy. More money can be borrowed in the economy if the money supply is increased. According to the law of demand, an increase in supply tends to lower the cost of borrowing money.

When borrowing money becomes easier, spending rates and lending (and lending) rise. In the short term, the increased rate of consumption and borrowing can be linked to a growth in total economic production and expenditure, as well as, possibly, the country's GDP. This is not the real conclusion, despite the fact that it is expected (and predicted by economists). The long-term effects of a rising money supply are more difficult to predict. Throughout history, property prices have risen. Household goods and inventory have had a strong tendency to rise artificially after an increase in the money supply or anything else that results in a high degree of liquidity in the economy. A country's GDPG is influenced by a variety of factors, including: Financial deepening is also influenced by domestic loans to the private sector. Domestic credit to the private sector refers to financial resources provided by finance companies to the private sector, such as loans, acquisitions of unlawful securities, trade credits, and other receivables with repayment requests. Credit provided by the private sector is critical for private investment and economic development. Domestic banks play an essential role in boosting employment, assuring efficiency and productivity, and stimulating economic growth through funding investments. Market capitalization also influences financial deepening. The aggregate assessment of an enterprise based on the current share price and the quantity of unchanged inventories is known as market capitalization. It's computed by multiplying the company's current market price by the number of shares that haven't yet been issued. The stock market's capitalization to GDP ratio is used to analyze whether the market as a whole is undervalued or overvalued compared to the historical average. It could be argued that the market is undervalued if the valuation coefficient is between 50 and 75 percent.

However, depending on the economy, the size and direction of the influence may differ. As a result, the goal of this research is to look into the degree of correlation between economic growth, broad money supply, market capitalization, and private sector credit, all of which are moving towards long-run equilibrium at a fast pace. This project study will play a vital part in tracking Bangladesh's economic growth.

II. Literature Review

Several studies have been conducted to examine the impact and causality of financial deepening on economic growth in the context of various countries. Such a speech provides a broad overview of the subject, while his concluding glance reveals the knowledge gap and the need for future research. The following are some experimental studies linked to the topic:

In Tanzania, Akinboade, O.A., (2000) investigates the relationship between financial and economic growth. As a metric of financial growth and a model for the relationship with per capita income, bank loan rates for the country's natural resources are utilized. They employed the minimum field measurement method (SOLS) and the standard field measurement method (DOLS). This model looks at periods of financial tyranny as well as periods of financial liberty. The findings demonstrate that, while interest rates are normally minor, they are inconsistent during the two years under consideration. It had a tiny but positive impact on financial advancements during the period of financial liberation, despite having had a negative impact on the economy during the period of financial oppression. In general, and during periods of financial liberalization, the association between financial analysis and economic progress appears to be stressed and significant, but not during periods of financial oppression. Calderón, C., and Liu, L. (2003) analyze the causal trade between financial development and economic growth using a Geweke decomposition analysis of aggregate data from 109 developing and housing nations from 1960 to 1994. This paper identifies the following: (1) financial development frequently leads to economic growth; (2) Granger's co- existence causes from development financing to economic growth and Granger's causes from economic growth to development financing; (3) deep funding contributes more causal factors in developing countries than in developed countries; (4) the longer the model period, the greater the impact of financial factors on economic growth; and (5) financial stimulus stimulates economic growth. Hassan, A.K., and Islam, M.R., (2005) use a series of publications to study the relationship between FDI, trade openness, capital creation, and economic growth rate in Bangladesh from 1986 to 2008. The ADF and PP stop tests revealed that all variables remained constant at first, differentiating fixed and constant flow levels as well as trends. To assess the composite relationship between the variables, the Johansen-Juselius approach was used,

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followed by a vector error correction model. Empirical findings reveal a long-run equilibrium between the rate of GDP growth and variations that can be explained by nonlinear fluctuations. It has been demonstrated that total FDI and capital creation have a major impact on changes in gross domestic output. The degree of trade openness has a negative influence, but it lowers the rate of GDP growth. To enhance the overall economic growth rate, Bangladesh should build an FDI-led police force and ensure higher quality standards. N. Nazmi (2005) examines the consequences of money laundering and money laundering on the real sector using a general equilibrium model. According to the model, deregulation and the sophisticated banking sector, according to the model, boost production intensity, resulting in faster growth. The Latin American evidence model backs up the model's findings by proving that regulatory reform and financial expansion have a favorable influence on investment. Using a combination of theoretical and empirical literature, Townsend, R.M., and Ueda, K. (2006) investigate the relationship between economic growth, financial structure, and inequality. That is, we demonstrate how to determine a model's common denominator in a transition path. We examined the expected model path and conducted a thorough test. We create a four-covariance error measure based on the covariance and discover the most suited chemistry because the true route of the Thai economy is regarded to be the fulfillment of many model economic models. We also validated the model and created a confidence zone using a series of simulations. We recover actual data and look for anomalies. J.O. Chukwu and C.C. Agu (2009) explored the sources of Nigeria's deep financial and economic growth from 1971 to 2008. The findings indicate that economic growth and its depth have a long-term link. As long as it supports the lender's estimates on loan and debt savings rates by depositing money into the bank, this research supports the following assumptions about bank private sector debt demand and multi- sector financing: These findings support those of Agu and Chukwu (2008), who employed Toda and Yamamoto's causal analysis method (1995). The addition of VECM in this analysis revealed a causal association between financial depth and Nigerian economic growth in 1971, using the models of Johansen and Juselius (1990) and Juselius (1988, 1992). Financial performance and economic growth have no bearing on the long-term position. Abdul Wadud, M. (2009) evaluates the long-term relationship between financial development and economic growth for South Asian countries—India, Pakistan, and Bangladesh in the period 1976–2008. A financial system that supports financial stability and facilitates the implementation of successful economic policies is the foundation for financial development. For highly developed markets and institutions, a one-of- a-kind capital and capital management system is available. Financial systems based on banks may be in a good position to implement effective monetary and expansion plans. Financial liberalization and oppression may suggest that financial progress and economic growth are linked. The deficit correction model's findings reveal the variables that impede financial development and economic growth, from financial development to economic growth. Using Granger's legal reasoning through the "Vector Auto" regression approach and two proxies for financial development, Eita, J.H., and Jordaan, A.C. (2010) investigate the relationship between financial development and economic growth in Botswana from 1977 to 2006. Regardless of which financial development proxy is employed, the data suggests that there is a long-run relationship between financial development and economic growth. Furthermore, the findings demonstrate a demand-driven and demand-driven approach to financial growth, implying that Botswana's development strategy is to improve financial markets and real economic performance. O. Karahan and M. Ylgör (2011) study the literature to present an outline of the relationship between financial development and economic growth. From the standpoint of repayment rate, we investigate the relationship between financial development and economic growth in Turkey using the theory of monetary growth. Gross domestic product investigates the link between total investment in the GNP rate and annual gross domestic product data from 1980 to 2010 using the VAR model method. According to economic studies, there is a two-way interaction in the economy between financial and economic growth in Turkey. J.U.J. Onwumere, Ibe, I.G., Ozoh, F.O., and Mounanu, O. (2012) investigated the impact of financial growth on Nigerian economic growth. We find that the speed of money and market movements will drive economic growth in Nigeria if it appears that financial diversity, economic development, and capitalism did not exist in the study period (1992–2008) using supply chain methods through variables such as cash speed, ease of cash flow, economic development, market processing, and market volatility as proxies of financial growth and the growth rate of domestic production to economic growth. As a result, government policy should concentrate on strategically boosting investment and fostering efficient capital markets in order to improve overall economic performance, establish and expand governance, and mobilize reserves. Increase fundraising, shift resources from conventional sectors to growth- oriented sectors (such as manufacturing, agriculture, and services), and encourage skilled entrepreneurs to respond in diverse sectors of the economy. B.O. Ohwofasa and J.O. Aiyedogbon (2013) examine the level of financial management growth in the banking industry and its impact on economic growth during the last two decades. To examine the relationship

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between cash flow and economic growth, we use methodology and vector autoregressive derivatives (VARs), impulse response functions, and variance decomposition. The findings show that the series is cooperative in character and that the variables have long-term correlations. Economic growth is a factor for another year, according to the VAR prediction, with significant national savings for gross domestic product (height 1) and exchange rates (height 1). The GCF (lag 1) has a significant effect on current economic growth, whereas the GCF (lag 1) has a negative and statistically significant effect on current economic growth. Through a set of statistics on capitalism (GDP, GDP growth rate, and GDP growth rate), Jamil, T., and Shazia, F. (2013) investigate the impact of capital market growth on Bangladeshi economic growth. From 1991 to 2011, stock-GDP was used to calculate GDP. The Ordinary Least Squares Method Produces Economic Results It should be highlighted that the capital market's growth does not contribute significantly to the country's economic growth. This is owing to the company's dwindling market share and the high interest rates available elsewhere. The findings of this study also suggest that, in addition to the changes in attitudes examined here, there may be a slew of other factors influencing the country's economic progress.

The long-term relationship between fiscal growth (FD) and GDP growth for Pakistan, as well as direct investment (FDI) and inflation, is examined by L. Safdar (2014). The ADF was used to check the variability of the variables, and it revealed that all of them remained at the same level, i.e., I (0). Using the Johansen Co-integration test, this study discovered that financial management is becoming more sophisticated; foreign direct investment, inflation, and economic growth all combine to form a long-term link for Pakistan. The VECM results reveal a short-run relationship between variability and the error correction model for GDP, while the FD results show a long-run return correction effect. Finally, the Granger causality test demonstrated a correlation between the variables' differences. Pakistan, according to the newspaper, requires a robust and stable financial system in order to attract investor confidence and international direct investment. D.W.H. Alrabadi and B.A. Kharabsheh (2016) investigate the active interaction between financial and economic growth in Jordan from 1992 to 2014. The study's objectives were met using automatic vector analysis, Granger causality, and the Johansen-Juselius input test. Using quarterly data, the results demonstrate no significant statistical impact on the economy's financial growth in the short run. Regardless of which proxy for financial augmentation is utilized, the cointegration test revealed a statistically significant link between the two variables. Furthermore, when financial growth is assessed in terms of independent debt, the Granger causality test reveals two elements that contribute to economic and financial growth. When savings and investment (M2) are employed as a proxy for financial growth, however, there is a causal relationship ranging from economic growth to financial growth. These findings have had a big impact on Jordanian academics and policymakers. S. Abosedra, M. Shahbaz, and K. Nawaz (2016) use data from 1975Q1 to 2011Q4 to examine the relationship between financial development and poverty reduction in Egypt. The Zivot-Andrews root system was used to test the morality of the variables. The long-term association between the variables was investigated using the autoregressive stratore method of segmentation-limited lag testing for aggregation. The findings of our research give solid evidence that a long-term relationship exists between financial growth, economic growth, and poverty alleviation. When local debt to the private sector is used as a proxy for financial development, the results demonstrate that it improves poverty. If M2 is used as a proxy for financial development and child mortality per capita is used as a proxy for poverty, it is unclear. Despite the fact that the association between economic development and poverty reduction in Egypt is weak in the proxies employed to evaluate these variables, the findings imply that the poverty-reduction program is working. Furthermore, our findings suggest that proper reforms targeted at fostering a stable and nationwide financial industry in Egypt can assist in poverty reduction by securing debt in the country. Okafor, I.G., Onwumere, J.U.J., and Chijindu, E.H. (2016) employed the Phillips-Peron test to evaluate if the variable was moving or not. The histogram-normality test and VEC balance are employed elsewhere to evaluate if the data set is normally distributed. The Johansen simulation exam was used to conduct the long-term relationship test. The Granger causality test and the error correction model were also applied. The findings reveal that economic growth, free money financing, and lending to the private sector have a long-term connection, with high interest rates on long-term balances. The study's findings also suggest that even large sums of money have a small but favorable impact on the economy. Growth, on the other hand, has a negative and minor influence on the private sector. Granger's causality test reveals that there is a scarcity of money and funding for the private sector. The true causes of economic progress, as well as the reverse. M.A. Islam, M.R. Hassan, and M. Rana (2017) investigate the existence of causation and the direction of causation of financial growth, investment-direct money from abroad, and economic growth in Bangladesh, a low-income country according to the World Bank. The researchers looked at data from 1980 to 2017 to see if there was a link. In the example of Bangladesh, this study indicates that economic growth has both short- and long-term implications for financial growth, foreign direct investment, and economic growth. In terms of other

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regeneration strategies, such as Fully Modified OLS, these results are reliable (FMOLS). Canonical Regression with Dynamic OLS (DOLS) (CCR). This indicates that Bangladesh's sophisticated, trustworthy, and acceptable financial sector has the ability to attract international investment. Furthermore, a rise in foreign exchange inflows is expected to result in the creation of employment, technical advancements, and chances for innovation, as well as actual economic progress. In order to achieve actual economic progress, the report recommends developing FDI-friendly policies to attract international investors and multi-stakeholders. M.A. Islam, H. Liu, M.A. Khan, S.M. Reza, Y.E. Yahia, and L. Nasrin investigate the integrative and causal link between economic development, financial deepening, foreign investment consolidation, and innovation in China. The ARDL Bounds test's significant evidence of the link with the VECM Granger causes supports the relationship and the reasons between the variables. The paper proposes legislative measures to increase the financial system's depth and, therefore, the possibility of an improved FDI climate. Furthermore, policymakers must be cautious about gaining deep and efficient access to financial institutions in order to optimize genuine growth by establishing transparent effects and promoting the use of breath. Through the consolidation of actual domestic goods, capital, education, and natural resources through data, Faisal, F., Sulaiman, Y., and Tursoy, T. (2019) analyze the asymmetric link between financial growth and natural resources. In addition to typical root canal testing, this study applies to Carrion-i-Silvestre et al. (2009) five system suspension tests. Maki's (2012) coupling approach was also used to determine long-term associations up to a 5-year gap. Furthermore, NARDL coupling was used to find long-term asymmetric correlations between variables. Long-term findings also confirm the good and negative effects of natural resources on financial outcomes and long-term effort results. Furthermore, education has a positive and substantial impact on financial growth with long-term positive consequences, whereas capital has a negative and significant impact on financial growth with long-term positive consequences. Long-term asymmetry in all variables, as well as short-term asymmetry in all variables except natural resources, indicated the presence of an asymmetric connection. Finally, the asymmetric consistency factor indicates that financial development financial shocks and natural resource positive shocks have a two-way connection. This suggests that substantial bank investments in Turkey might assist the natural resources industry. K. Williams (2019) investigates the influence of financial market expansion on economic growth in developing and developed nations from 1970 to 2014. The newspaper also looked at whether political institutions had a role in mediating the link between the debt market and economic development. In the empirical analysis, there were two major results. According to preliminary research, credit market expansion slows economic development in emerging and developing nations. The second conclusion demonstrates that democratic institutions mitigate the effects of economic expansion on the debt market. These findings contribute to the economic and political discussion in emerging and developing countries in general.

The study will examine the degree of association between economic growth and the ratios of broad money supply to GDPG, market capitalization to GDPG, and private sector credit to GDPG, with a high speed of harmony towards long-run equilibrium and Causality Analysis, based on the discussion above about related literature. As a result, there are several possibilities to learn about this comprehensive relationship and its causality.

III. Objective of the Study

The goal of this research is to look at the degree of correlation between economic growth and the ratios of broad money supply to GDPG, market capitalization to GDPG, and private sector credit to GDPG, using a high speed of harmony approach to long-term equilibrium and Causality Analysis. This report will be useful in tracking an economy's progress. Rather than a description of fresh scientific results, it acts as a general instructional document.

IV. Data & Methodology

This research is looking into what has already happened. To put it another way, it's an ex-post facto study. The annualized time series data was gathered from the Bangladesh Central Bank statistical bulletins and the World Bank from 1993 to 2020. Our data will be subjected to diagnostic tests in order to increase the accuracy of our results and verify that they are not false. For normality tests, we will use the Jarque-Bera statistics, which will be supplemented with a group histogram- normality test. The Augmented Dickey-Fuller unit root test will be used to check for stationarity. The Johansen co-integration test will be used to determine if our variables are co-integrated, and the Error Correction Model will be used to determine the speed of adjustment to equilibrium, as well as the direction and size of the impact. To determine the causal relationships between our variables, we will use the paired Granger causality test.

V. Model Specification for the Study

While conducting experimental research on financial markets, financial deepening, and economic growth in Bangladesh, the results of this study will be illustrated in the model accepted. This empirical investigation employs the following model:

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$$gy = f(FD) = \lambda 0 + \lambda 1\, f(FD) + \varepsilon t \quad \text{(i)}$$

Where gy denotes per capita growth, $\lambda 0 = \alpha 0 + \beta 0$; $\lambda 1 = \alpha 1 + \beta 1$; FD indicates financial sector development, and εt denotes the error term with the usual properties. This study will modify the above model for our purposes, thus

$$GDPGt = \beta 0 + \beta 1 BMGDPt + \beta 2 PSCGDPt + \beta 3 MCGDPt + \varepsilon t \quad \text{(ii)}$$

Where,

GDPGt = Gross domestic product growth.
BMGDPt = Ratio of broad money to gross domestic product.
PSCGDPt = Ratio of private sector credit to gross domestic product.
MCGDPt = Ratio of market capitalization to gross domestic product.
βo = Constant term.
β1- β3 = Parameter estimates.
εt = Error term.

MCGDP is a conditioning variable that accounts for market capitalization's perceived role in explaining growth. Our estimating process has three parts. To check the unit root of the time series, we first use E-views' ADF (Augmented Dickey-Fuller) test to check for stationarity. If the mean and variance of a time series are constant across time, it is said to be stationary. This second stage allows us to see if there are any long-term correlations between the variables. If our variables have been co-integrated at this stage, we move to the third step, which is to run the Error Correction model (ECM).

$$\Delta GDPGR t = \beta 0 + \sum_{i=0}^{n} \beta 1 GDPG t-1 + \sum_{i=0}^{n} \beta 2 BMGDP t-1 + \sum_{i=0}^{n} \beta 3 PSCGDP t-1 + \sum_{i=0}^{n} \beta 4 MCGDP t-1 + \sum_{i=0}^{n} \beta 5 ECT t-1 + \varepsilon t$$

Where ECTt-1 is the lagged value of the error correction term.

VI. Result and Analysis

a) Unit Root Test

The test procedure given below:

Ho = GDP series have a unit root (time series is non-stationary)
H1= GDP series have not a unit root (time series is stationary)

If the null hypothesis is rejected, the series is a stationary time series. Accept the null hypothesis, however, and the series is a non-stationary time series. The trend coefficient value is the ADF test statistic. Accept the null hypothesis if the estimated t statistics are less than the critical value of tau statistics. This indicates that the time series are non-stationary and have a unit root.

Table 1: Summary Statistics of ADF Unit Root Test

Variable	Augmented Dickey-Fuller test statistic	1% critical value	5% critical value	10% critical value	Order of integration	Prob.*	Decisions
GDPG	-5.521693	-2.664853	-1.955681	-1.608793	I(1)	0.0000	Ho reject
BMGDP	-3.424689	-3.724070	-2.986225	-2.632604	I(1)	0.0196	Ho reject
PSCGDP	-3.445259	-2.660720	-1.955020	-1.609070	I(1)	0.0014	Ho reject
MCGDP	-7.249488	-2.660720	-1.955020	-1.609070	I(0)	0.0000	Ho reject

GDPG, as well as BMGDP and PSCGDP, are non-stationary at I(0), implying that they have a unit root. MCGDP, the independent variable, is the only one that is stationary at I(0). GDPG, BMGDP, and PSCGDP are stationary at I(1). A misleading regression could result from the non-stationary variables and their regression. The regression will not be spurious if the independent variables are co-integrated with the dependent variable. As a result, we must examine the co-integration of the variables.

b) Normality Test

Normality tests are frequently used to determine when a set of well-defined data fits a normal distribution and how much space fluctuation is permissible before the statement set becomes normally distributed.

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Table II: Summary Statistics of Jarque-Bera Normality test

Variable	Skewness	Kurtosis	Jarque-Bera	Probability
GDPGR	0.262705	2.197213	1.035589	0.595833
BMGDP	-0.210949	2.069019	1.175315	0.555627
PSCGDP	-0.575867	2.395019	1.904056	0.385958
MCGDP	0.238253	1.309957	3.468680	0.176517

The normality tests for the important variables that formed the database's foundation are shown in Table II. It has a positive skewness of 0.262705, as evidenced by the GDPG skewness. This indicates that the deviation from the average distribution is positive, and that GDPG has risen steadily between 1993 and 2019. The kurtosis for the variables in the second panel was 2.997213, 2.869019, 2.395019, and 2.309957, respectively. Because each normal/standard value is more than 2.0, the maximum score during the study period is normally distributed because the majority of the values cluster around the mean. The p values of the Jarque-Bera statistics were all greater than the crucial value of 0.05 in the third panel. As a result, the null hypothesis that our variables are regularly distributed is accepted. This demonstrates that the model passed a thorough appropriateness check.

c) Johansen Co-Integration Test

Given that all of our variables are absorbed from the same command (and thus stationary at first difference), we can establish if the dependent and independent variables have a long-term relationship. This will be accomplished through the application of the Johansen co-integration test.

Table III: Summary Statistics of Regression Analysis

Date: 04/20/21 Time: 11:05 Sample (adjusted): 1995 2020
Included observations: 25 after adjustments Trend assumption: Linear deterministic trend Series: LGDPG BMGDP MCGDP PSCGDP
Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.641661	49.19888	47.856130.0372	
At most 1	0.414627	23.54198	29.797070.2205	
At most 2	0.318675	10.15433	15.494710.2691	
At most 3	0.022207	0.561426	3.8414650.4537	

Trace test indicates 1 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None	0.641661	28.65691	27.18434	0.0464
At most 1	0.414627	13.38765	21.13162	0.4172
At most 2	0.318675	9.592904	14.26460	0.2401
At most 3	0.022207	0.561426	3.841465	0.4537

Max-eigenvalue test indicates 1 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

The results for the trace statistic and max-Eigen statistics are shown in the first two panels of Table III. In each case, the ordered Eigenvalues are presented in the second column. The critical value of 49.19888 is surpassed by the trace statistic (of 47.85613). However, because the trace statistic (0.0372) has a probability of less than 5%, the null of no co-integrating vectors is rejected. When we continue to the following row, the trace statistic (of 23.54198) is smaller than the crucial value (of 29.79707), allowing us to accept the null of at most one co-integrating vector, and vice versa. The results of the Max-Eigen statistic test, shown in the second panel, reveal that the variables are co-integrated. As a result, the dependent variable and the independent variables have a long-term relationship.

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d) Regression Result: Error Correction Model

The ECM regression findings are shown in Table IV. The residual of the short-term regression is stationary when an error correction term (ECT) is found. This is why you should use the ECM. The long-term correlation is specified by residual stability. The results showed that the total regression model was significant from the dependent variable to the independent variable. The statistical probability F (0.000002), which is less than 0.05, demonstrates this. It's worth noting that the error correction term (ECT) is considerable and negative. In our model, this shows a shift toward long-term equilibrium, explaining that long-term causes include everything from economic growth to broad money supply and private sector credit. Furthermore, the residual coefficient (ECT) (.0.794613), which measures adjustment speed, revealed that 79 percent of long-term mistakes were corrected on an annual basis. BMGDP coefficient was negative and had no statistically significant effect on GDPGR. The MCGDP coefficient, on the other hand, was negative and had a statistically significant effect on GDPGR, as seen in the preceding figures. At the time of this study, PSCGDP had a positive and extensive impact on GDPG, but BMGDP had a negative and minor influence on economic growth and MCGDP had a negative and large impact on economic growth.

Table IV: Result of Hypothesis Testing

Dependent Variable: D(GDPG)
Method: Least Squares
Date: 04/17/21 Time: 12:1 1
Sample: 1993 2020
Included observations: 27

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.065594	0.307946	-0.213004	0.8332
D(BMGDP)	-0.361245	0.266425	-1.355895	0.1883
D(MCGDP)	-0.081255	0.035195	-2.308695	0.0303
D(LPSCGDP)	0.987662	0.292620	3.375244	0.0026
ECT(-1)	-0.794613	0.167027	-4.823241	0.0000
R-squared	0.715206	Mean dependent var		1.732251
Adjusted R-squared	0.678059	S.D. dependent var		0.203545
S.E. of regression	0.115491	Akaike info criterion		-1.343293
Sum squared resid	0.306779	Schwarz criterion		-1.151317
Log likelihood	22.13445	Hannan-Quinn criter.		-1.286208
F-statistic	19.25339	Durbin-Watson stat		1.036692
Prob(F-statistic)	0.000002			

Table-V shows that broad money supply did not explain Granger's economic growth (P = 0.4496) and that economic growth had no reaction to broad money supply. Similarly, market capitalization and private sector credit have no causal relationship with economic development; the variables are unrelated.

Table V: Granger causality test

Pairwise Granger Causality Tests
Date: 05/18/21 Time: 12:15
Sample: 1993 2020
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
BMGDP does not Granger Cause GDPG	25	0.83216	0.4496
GDPG does not Granger Cause BMGDP		0.84845	0.4429
MCGDP does not Granger Cause GDPG	25	0.27804	0.7601
GDPG does not Granger Cause MCGDP		0.06058	0.9414
PSCGDP does not Granger Cause GDPG	25	3.17491	0.0635
GDPG does not Granger Cause PSCGDP		1.18644	0.3259

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VII. Conclusion

Despite the fact that current estimates put Bangladesh's GDP growth rate at 8.15 percent, the country's economy is at a crossroads where authorities must confront the country's growing macroeconomic challenges. For almost all administrations and financial leaders, GDP is utilized as a yardstick for planning and strategy implementation. This research uncovered important statistical tools in the quest for strategies to control the impact of financial deepening points on economic growth, as well as to examine the causality between underlying variables. The Johansen co-integration test revealed that economic growth and broad money supply, as well as private sector credit, have a long-run relationship. The long-run interconnectedness or causality between GDP and broad money and private sector credit was also validated by the Engel and Granger residual building conclusion. The results of the error-correcting model revealed that broad money has no statistically meaningful impact on economic growth. Market capitalization, on the other hand, has a statistically significant effect on economic growth, as shown by the following statistics. At the time of this study, private sector credit had a positive and large impact on economic growth, while broad money had a negative and minor impact, and market capitalization had a negative and significant impact. Broad money is thought to drive growth from an a priori standpoint. However, the analysis found that spending money had no positive impact on economic development between 1993 and 2019. According to a pairwise Granger Causality test, GDP does not cause money supply or private sector credit, and vice versa. Based on the findings, the research suggests implementing private sector-friendly policies to ensure that depositors not only have access to credit, but that credit is also available at a reasonable cost, i.e., at a low interest rate. Monetary and fiscal policies must be linked to achieve the economic goals of long-term growth and stability. These insights could be used by a decision maker to develop measures to enhance the country's GDP. Our research is limited to Bangladesh's economy, but it might be applied to other nations with similar economic conditions.

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- First character must be three lines drop-capped.
- The paragraph before spacing of 1 pt and after of 0 pt.
- Line spacing of 1 pt.
- Large images must be in one column.
- The names of first main headings (Heading 1) must be in Roman font, capital letters, and font size of 10.
- The names of second main headings (Heading 2) must not include numbers and must be in italics with a font size of 10.

Structure and Format of Manuscript

The recommended size of an original research paper is under 15,000 words and review papers under 7,000 words. Research articles should be less than 10,000 words. Research papers are usually longer than review papers. Review papers are reports of significant research (typically less than 7,000 words, including tables, figures, and references)

A research paper must include:

a) A title which should be relevant to the theme of the paper.
b) A summary, known as an abstract (less than 150 words), containing the major results and conclusions.
c) Up to 10 keywords that precisely identify the paper's subject, purpose, and focus.
d) An introduction, giving fundamental background objectives.
e) Resources and techniques with sufficient complete experimental details (wherever possible by reference) to permit repetition, sources of information must be given, and numerical methods must be specified by reference.
f) Results which should be presented concisely by well-designed tables and figures.
g) Suitable statistical data should also be given.
h) All data must have been gathered with attention to numerical detail in the planning stage.

Design has been recognized to be essential to experiments for a considerable time, and the editor has decided that any paper that appears not to have adequate numerical treatments of the data will be returned unrefereed.

i) Discussion should cover implications and consequences and not just recapitulate the results; conclusions should also be summarized.
j) There should be brief acknowledgments.
k) There ought to be references in the conventional format. Global Journals recommends APA format.

Authors should carefully consider the preparation of papers to ensure that they communicate effectively. Papers are much more likely to be accepted if they are carefully designed and laid out, contain few or no errors, are summarizing, and follow instructions. They will also be published with much fewer delays than those that require much technical and editorial correction.

The Editorial Board reserves the right to make literary corrections and suggestions to improve brevity.



Format Structure

It is necessary that authors take care in submitting a manuscript that is written in simple language and adheres to published guidelines.

All manuscripts submitted to Global Journals should include:

Title

The title page must carry an informative title that reflects the content, a running title (less than 45 characters together with spaces), names of the authors and co-authors, and the place(s) where the work was carried out.

Author details

The full postal address of any related author(s) must be specified.

Abstract

The abstract is the foundation of the research paper. It should be clear and concise and must contain the objective of the paper and inferences drawn. It is advised to not include big mathematical equations or complicated jargon.

Many researchers searching for information online will use search engines such as Google, Yahoo or others. By optimizing your paper for search engines, you will amplify the chance of someone finding it. In turn, this will make it more likely to be viewed and cited in further works. Global Journals has compiled these guidelines to facilitate you to maximize the web-friendliness of the most public part of your paper.

Keywords

A major lynchpin of research work for the writing of research papers is the keyword search, which one will employ to find both library and internet resources. Up to eleven keywords or very brief phrases have to be given to help data retrieval, mining, and indexing.

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

Choice of the main keywords is the first tool of writing a research paper. Research paper writing is an art. Keyword search should be as strategic as possible.

One should start brainstorming lists of potential keywords before even beginning 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 a research paper?” Then consider synonyms for the important words.

It may take the discovery of only one important paper to steer in the right keyword direction because, in most databases, the keywords under which a research paper is abstracted are listed with the paper.

Numerical Methods

Numerical methods used should be transparent and, where appropriate, supported by references.

Abbreviations

Authors must list all the abbreviations used in the paper at the end of the paper or in a separate table before using them.

Formulas and equations

Authors are advised to submit any mathematical equation using either MathJax, KaTeX, or LaTeX, or in a very high-quality image.

Tables, Figures, and Figure Legends

Tables: Tables should be cautiously designed, uncrowned, and include only essential data. Each must have an Arabic number, e.g., Table 4, a self-explanatory caption, and be on a separate sheet. Authors must submit tables in an editable format and not as images. References to these tables (if any) must be mentioned accurately.

Figures

Figures are supposed to be submitted as separate files. Always include a citation in the text for each figure using Arabic numbers, e.g., Fig. 4. Artwork must be submitted online in vector electronic form or by emailing it.

Preparation of Eletronic Figures for Publication

Although low-quality images are sufficient for review purposes, print publication requires high-quality images to prevent the final product being blurred or fuzzy. Submit (possibly by e-mail) EPS (line art) or TIFF (halftone/ photographs) files only. MS PowerPoint and Word Graphics are unsuitable for printed pictures. Avoid using pixel-oriented software. Scans (TIFF only) should have a resolution of at least 350 dpi (halftone) or 700 to 1100 dpi (line drawings). Please give the data for figures in black and white or submit a Color Work Agreement form. EPS files must be saved with fonts embedded (and with a TIFF preview, if possible).

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

Color charges: Authors are advised to pay the full cost for the reproduction of their color artwork. Hence, please note that if there is color artwork in your manuscript when it is accepted for publication, we would require you to complete and return a Color Work Agreement form before your paper can be published. Also, you can email your editor to remove the color fee after acceptance of the paper.

Tips for writing a good quality Management Research Paper

Techniques for writing a good quality management and business research paper:

1. Choosing the topic: In most cases, the topic is selected by the interests of the author, but it can also be suggested by the guides. You can have several topics, and then judge which you are most comfortable with. This may be done by asking several questions of yourself, like "Will I be able to carry out a search in this area? Will I find all necessary resources to accomplish the search? Will I be able to find all information in this field area?" If the answer to this type of question is "yes," then you ought to choose that topic. In most cases, you may have to conduct surveys and visit several places. Also, you might have to do a lot of work to find all the rises and falls of the various data on that subject. Sometimes, detailed information plays a vital role, instead of short information. Evaluators are human: The first thing to remember is that evaluators are also human beings. They are not only meant for rejecting a paper. They are here to evaluate your paper. So present your best aspect.

2. Think like evaluators: If you are in confusion or getting demotivated because your paper may not be accepted by the evaluators, then think, and try to evaluate your paper like an evaluator. Try to understand what an evaluator wants in your research paper, and you will automatically have your answer. Make blueprints of paper: The outline is the plan or framework that will help you to arrange your thoughts. It will make your paper logical. But remember that all points of your outline must be related to the topic you have chosen.

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

4. Use of computer is recommended: As you are doing research in the field of management and business then this point is quite obvious. Use right software: Always use good quality software packages. If you are not capable of judging good software, then you can lose the quality of your paper unknowingly. There are various programs available to help you which you can get through the internet.

5. Use the internet for help: An excellent start for your paper is using Google. It is a wondrous search engine, where you can have your doubts resolved. You may also read some answers for the frequent question of how to write your research paper or find a model research paper. You can download books from the internet. If you have all the required books, place importance on reading, selecting, and analyzing the specified information. Then sketch out your research paper. Use big pictures: You may use encyclopedias like Wikipedia to get pictures with the best resolution. At Global Journals, you should strictly follow here.



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

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

8. Make every effort: Make every effort to mention what you are going to write in your paper. That means always have a good start. Try to mention everything in the introduction—what is the need for a particular research paper. Polish your work with good writing skills and always give an evaluator what he wants. Make backups: When you are going to do any important thing like making a research paper, you should always have backup copies of it either on your computer or on paper. This protects you from losing any portion of your important data.

9. Produce good diagrams of your own: Always try to include good charts or diagrams in your paper to improve quality. Using several unnecessary diagrams will degrade the quality of your paper by creating a hodgepodge. So always try to include diagrams which were made by you to improve the readability of your paper. Use of direct quotes: When you do research relevant to literature, history, or current affairs, then use of quotes becomes essential, but if the study is relevant to science, use of quotes is not preferable.

10. Use proper verb tense: Use proper verb tenses in your paper. Use past tense to present those events that have happened. Use present tense to indicate events that are going on. Use future tense to indicate events that will happen in the future. Use of wrong tenses will confuse the evaluator. Avoid sentences that are incomplete.

11. Pick a good study spot: Always try to pick a spot for your research which is quiet. Not every spot is good for studying.

12. Know what you know: Always try to know what you know by making objectives, otherwise you will be confused and unable to achieve your target.

13. Use good grammar: Always use good grammar and words that will have a positive impact on the evaluator; use of good vocabulary does not mean using tough words which the evaluator has to find in a dictionary. Do not fragment sentences. Eliminate one-word sentences. Do not ever use a big word when a smaller one would suffice.
Verbs have to be in agreement with their subjects. In a research paper, do not start sentences with conjunctions or finish them with prepositions. When writing formally, it is advisable to never split an infinitive because someone will (wrongly) complain. Avoid clichés like a disease. Always shun irritating alliteration. Use language which is simple and straightforward. Put together a neat summary.

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

15. Never start at the last minute: Always allow enough time for research work. Leaving everything to the last minute will degrade your paper and spoil your work.

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

17. Never copy others' work: Never copy others' work and give it your name because if the evaluator has seen it anywhere, you will be in trouble. Take proper rest and food: No matter how many hours you spend on your research activity, if you are not taking care of your health, then all your efforts will have been in vain. For quality research, take proper rest and food.

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

19. Refresh your mind after intervals: Try to give your mind a rest by listening to soft music or sleeping in intervals. This will also improve your memory. Acquire colleagues: Always try to acquire colleagues. No matter how sharp you are, if you acquire colleagues, they can give you ideas which will be helpful to your research.

20. Think technically: Always think technically. If anything happens, search for its reasons, benefits, and demerits. Think and then print: When you go to print your paper, check that tables are not split, headings are not detached from their descriptions, and page sequence is maintained.

21. Adding unnecessary information: Do not add unnecessary information like "I have used MS Excel to draw graphs." Irrelevant and inappropriate material is superfluous. Foreign terminology and phrases are not apropos. One should never take a broad view. Analogy is like feathers on a snake. Use words properly, regardless of how others use them. Remove quotations. Puns are for kids, not grunt readers. Never oversimplify: When adding material to your research paper, never go for oversimplification; this will definitely irritate the evaluator. Be specific. Never use rhythmic redundancies. Contractions shouldn't be used in a research paper. Comparisons are as terrible as clichés. Give up ampersands, abbreviations, and so on. Remove commas that are not necessary. Parenthetical words should be between brackets or commas. Understatement is always the best way to put forward earth-shaking thoughts. Give a detailed literary review.

22. Report concluded results: Use concluded results. From raw data, filter the results, and then conclude your studies based on measurements and observations taken. An appropriate number of decimal places should be used. Parenthetical remarks are prohibited here. Proofread carefully at the final stage. At the end, give an outline to your arguments. Spot perspectives of further study of the subject. Justify your conclusion at the bottom sufficiently, which will probably include examples.

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

Informal Guidelines of Research Paper Writing

Key points to remember:

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

Final points:

One purpose of organizing a research paper is to let people interpret your efforts selectively. The journal requires the following sections, submitted in the order listed, with each section starting on a new page:

The introduction: This will be compiled from reference matter and reflect the design processes or outline of basis that directed you to make a study. As you carry out the process of study, the method and process section will be constructed like that. The results segment will show related statistics in nearly sequential order and direct reviewers to similar intellectual paths throughout the data that you gathered to carry out your study.

The discussion section:

This will provide understanding of the data and projections as to the implications of the results. The use of good quality references throughout the paper will give the effort trustworthiness by representing an alertness to prior workings.

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

General style:

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

To make a paper clear: Adhere to recommended page limits.

Mistakes to avoid:

- Insertion of a title at the foot of a page with subsequent text on the next page.
- Separating a table, chart, or figure—confine each to a single page.
- Submitting a manuscript with pages out of sequence.
- In every section of your document, use standard writing style, including articles ("a" and "the").
- Keep paying attention to the topic of the paper.



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- Use paragraphs to split each significant point (excluding the abstract).
- Align the primary line of each section.
- Present your points in sound order.
- Use present tense to report well-accepted matters.
- Use past tense to describe specific results.
- Do not use familiar wording; don't address the reviewer directly. Don't use slang or superlatives.
- Avoid use of extra pictures—include only those figures essential to presenting results.

Title page:

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

Abstract: This summary should be two hundred words or less. It should clearly and briefly explain the key findings reported in the manuscript and must have precise statistics. It should not have acronyms or abbreviations. It should be logical in itself. Do not cite references at this point.

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

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

Reason for writing the article—theory, overall issue, purpose.

- Fundamental goal.
- To-the-point depiction of the research.
- Consequences, including definite statistics—if the consequences are quantitative in nature, account for this; results of any numerical analysis should be reported. Significant conclusions or questions that emerge from the research.

Approach:

- Single section and succinct.
- An outline of the job done is always written in past tense.
- Concentrate on shortening results—limit background information to a verdict or two.
- Exact spelling, clarity of sentences and phrases, and appropriate reporting of quantities (proper units, important statistics) are just as significant in an abstract as they are anywhere else.

Introduction:

The introduction should "introduce" the manuscript. The reviewer should be presented with sufficient background information to be capable of comprehending and calculating the purpose of your study without having to refer to other works. The basis for the study should be offered. Give the most important references, but avoid making a comprehensive appraisal of the topic. Describe the problem visibly. If the problem is not acknowledged in a logical, reasonable way, the reviewer will give no attention to your results. Speak in common terms about techniques used to explain the problem, if needed, but do not present any particulars about the protocols here.

The following approach can create a valuable beginning:

- Explain the value (significance) of the study.
- Defend the model—why did you employ this particular system or method? What is its compensation? Remark upon its appropriateness from an abstract point of view as well as pointing out sensible reasons for using it.
- Present a justification. State your particular theory(-ies) or aim(s), and describe the logic that led you to choose them.
- Briefly explain the study's tentative purpose and how it meets the declared objectives.

Approach:

Use past tense except for when referring to recognized facts. After all, the manuscript will be submitted after the entire job is done. Sort out your thoughts; manufacture one key point for every section. If you make the four points listed above, you will need at least four paragraphs. Present surrounding information only when it is necessary to support a situation. The reviewer does not desire to read everything you know about a topic. Shape the theory specifically—do not take a broad view.

As always, give awareness to spelling, simplicity, and correctness of sentences and phrases.

Procedures (methods and materials):

This part is supposed to be the easiest to carve if you have good skills. A soundly written procedures segment allows a capable scientist to replicate your results. Present precise information about your supplies. The suppliers and clarity of reagents can be helpful bits of information. Present methods in sequential order, but linked methodologies can be grouped as a segment. Be concise when relating the protocols. Attempt to give the least amount of information that would permit another capable scientist to replicate your outcome, but be cautious that vital information is integrated. The use of subheadings is suggested and ought to be synchronized with the results section.

When a technique is used that has been well-described in another section, mention the specific item describing the way, but draw the basic principle while stating the situation. The purpose is to show all particular resources and broad procedures so that another person may use some or all of the methods in one more study or referee the scientific value of your work. It is not to be a step-by-step report of the whole thing you did, nor is a methods section a set of orders.

Materials:

Materials may be reported in part of a section or else they may be recognized along with your measures.

Methods:

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

Approach:

It is embarrassing to use vigorous voice when documenting methods without using first person, which would focus the reviewer's interest on the researcher rather than the job. As a result, when writing up the methods, most authors use third person passive voice.

Use standard style in this and every other part of the paper—avoid familiar lists, and use full sentences.

What to keep away from:

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

Results:

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

The page length of this segment is set by the sum and types of data to be reported. Use statistics and tables, if suitable, to present consequences most efficiently.

You must clearly differentiate material which would usually be incorporated in a study editorial from any unprocessed data or additional appendix matter that would not be available. In fact, such matters should not be submitted at all except if requested by the instructor.



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Content:

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

What to stay away from:

- Do not discuss or infer your outcome, report surrounding information, or try to explain anything.
- Do not include raw data or intermediate calculations in a research manuscript.
- Do not present similar data more than once.
- A manuscript should complement any figures or tables, not duplicate information.
- Never confuse figures with tables—there is a difference.

Approach:

As always, use past tense when you submit your results, and put the whole thing in a reasonable order.

Put figures and tables, appropriately numbered, in order at the end of the report.

If you desire, you may place your figures and tables properly within the text of your results section.

Figures and tables:

If you put figures and tables at the end of some details, make certain that they are visibly distinguished from any attached appendix materials, such as raw facts. Whatever the position, each table must be titled, numbered one after the other, and include a heading. All figures and tables must be divided from the text.

Discussion:

The discussion is expected to be the trickiest segment to write. A lot of papers submitted to the journal are discarded based on problems with the discussion. There is no rule for how long an argument should be.

Position your understanding of the outcome visibly to lead the reviewer through your conclusions, and then finish the paper with a summing up of the implications of the study. The purpose here is to offer an understanding of your results and support all of your conclusions, using facts from your research and generally accepted information, if suitable. The implication of results should be fully described.

Infer your data in the conversation in suitable depth. This means that when you clarify an observable fact, you must explain mechanisms that may account for the observation. If your results vary from your prospect, make clear why that may have happened. If your results agree, then explain the theory that the proof supported. It is never suitable to just state that the data approved the prospect, and let it drop at that. Make a decision as to whether each premise is supported or discarded or if you cannot make a conclusion with assurance. Do not just dismiss a study or part of a study as "uncertain."

Research papers are not acknowledged if the work is imperfect. Draw what conclusions you can based upon the results that you have, and take care of the study as a finished work.

- You may propose future guidelines, such as how an experiment might be personalized to accomplish a new idea.
- Give details of all of your remarks as much as possible, focusing on mechanisms.
- Make a decision as to whether the tentative design sufficiently addressed the theory and whether or not it was correctly restricted. Try to present substitute explanations if they are sensible alternatives.
- One piece of research will not counter an overall question, so maintain the large picture in mind. Where do you go next? The best studies unlock new avenues of study. What questions remain?
- Recommendations for detailed papers will offer supplementary suggestions.

Approach:

When you refer to information, differentiate data generated by your own studies from other available information. Present work done by specific persons (including you) in past tense.

Describe generally acknowledged facts and main beliefs in present tense.

The Administration Rules

Administration Rules to Be Strictly Followed before Submitting Your Research Paper to Global Journals Inc.

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

Please note that following table is only a Grading of "Paper Compilation" and not on "Performed/Stated Research" whose grading solely depends on Individual Assigned Peer Reviewer and Editorial Board Member. These can be available only on request and after decision of Paper. This report will be the property of Global Journals.

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

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