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Measuring the Contribution of Full-Fledged Islamic Banking to the Growth and Development of Bangladesh Economy

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Abstract

Islamic Banking is a new Industry which has attracted the attention of many economists in the world regarding its ability to operate successfully and its instruments for mobilizing and allocating monetary resources. The present study has been conducted to measure the Contribution of full-fledged Islamic Banking to the Growth and Development of Bangladesh Economy.

In this study qualitative and quantitative analysis methods have been followed. The structured interview has been taken on 55 interviewees using Likert Scale Survey method. Structured interviews were carried out with the 55 interviewees including Managers of 16 branches of 8 full-fledged Islamic Banks (8 Managers of the City and 8 Managers out of the City), 4 Official of Central Bank from the level of General Manager to Deputy Director, 3 Academicians (Professor to Assistant Professor) and 32 deposit and investment clients of the said Banks situated in Dhaka City and outside Dhaka City i.e. Narayangonj City. The results of the interviews were the introduction of several instruments used in the Banking system in Bangladesh for the supervision of Banking activities and to ensure their Shariah-Compliance. A new issue in this research is that being Shariah-compliant does not only mean utilizing appropriate contracts but also using deposits for the most efficient and profitable vendor. This is because banks are the agents of the depositors and therefore they must use their deposits for the best possible projects.

Though the study period was 2012-2016 but the data have been used from 2011-2012 to 2015-2016, in order to make a comparative study among the data of 8 full-fledged Islamic Banks and the Government Fiscal data. For more accurate study, not only the figure of deposits and financial facilities in these periods was considered but also the other activities were focused. My research target was to find out and to measure how the 8 full-fledged Islamic Banks of Bangladesh are contributing to the different major economic sectors i.e. Agriculture, Industry and Services Sectors of Bangladesh Economy. For qualitative analysis in respect of Shariah and general aspects discussion has been made on the structured questionnaires using 5 points Likert Scale (chapter eight and nine).

From the quantitative analysis (chapter seven) the set forth data for the period 2011-2012 to 2015-2016 it is measured and found that the contribution of full-fledged Islamic Banks is insignificant i.e. 0.37% to 0.44% to the size of total Gross Domestic Product of our economy. But there is a significant role in contributing to the Agriculture, Industry and also Service sectors. For the year 2012, 2013, 2014, 2015 and 2016 to the Agriculture sector it is 1.60%, 1.74%, 1.34%, 1.68% & 1.77% to Industrial sector it is 22.40%, 19.67%, 18.39%, 17.69% & 17.93% and to the Service Sector it is 76.00%, 78.59%, 80.27%, 80.63% & 80.30% to the economy of our country. It is seen that percentage share of Islamic Banks to the agri-sector is gradually increasing but percentage share to the industrial sector is gradually decreasing day by day. As on December 31 2016 the contribution to the total

deposit is 21.46% and in investment it is 22.92%, in agriculture it is 29.16% and in total Branches it is 10.85%.

Though the contribution of Islamic Banking to the Economic Growth and Development is very insignificant, successfully Islamic Bank contributing to the Economic Growth and Development of Bangladesh Economy since inception to this industry.

Key Words: Islamic banking, Gross Domestic Products, Gross National Products, Financial System, Economic Indicators.

ABBREBIATIONS

AD=Authorized Dealers
AIBL=Al-Arafa Islami Bank Limitd
AWCA =Al- Wadeah Current Account
BASIC=Bank of Small Industries & Commerce Bangladesh Ltd.
BBS =Bangladesh Bureau of Statistics
BCCFT =Bangladesh Climate Change Trust Fund
BCCRF =Bangladesh Climate Change Resilience Fund
BCCSAP=Bangladesh Climate Change Strategy and Action Plan
BDBL=Bangladesh development Bank Limited
BFIU=Bangladesh Financial Intelligent Unit
BGIIB =Bangladesh Government Islamic Investment Bond
BGMEA=Bangladesh Garment Manufacturing and Exporting Association
BRPD=Banking Regulation and Policy Department
BRT =Bus Rapid Transit
BSB =Bangladesh Shilpa Bank
BSRS=Bangladesh Shilpa Rin Sangstha
CAB =current account balance
CIS =Car Investment Scheme
CMSMEs =Cottage, Micro, Small and Medium Enterprises
CPI =Consumer Price Index
CRMR =Comprehensive Risk Management Reporting
CSBIBB=Central Shariah Board for Islami Banks of Bangladesh
CSE=Chittagong Stock Exchange
CSR=Corporate Social responsibility
DSE =Dhaka Stock Exchange
DSL= Debt Service Liabilities
EDF=Export Development Fund
EPB= Export Promotion Bureau
EPZs =Export Processing Zones
ESA =European System of Accounts
FDB =Foreign Documentary Bills
FDI =Foreign Direct Investment
FIBCF=Formation of Islamic Bank Consultative Forum
FSI=Financial Soundness Indicators
GCC=Gulf Cooperation Council
GDP=Gross Domestic Product
GNI=Gross National Income
GO =Gross Output
GVA =Gross value added

HDI=Human development Index
HPSM =Hire Purchase under Shirkatul Melk
IBAS =Integrated Budget and Accounting System
IBBL= Islami Bank Bangladesh Limited
IBCF =Formation of Islamic Bank Consultative Forum
IBFCR =Inclusive budgeting and Financing for Climate Resilience
IBFM=Islami Bank's Fund Market
IC =Intermediate Consumption
ID Ratio= Investment Deposit Ratio
IDB=Islamic Development Bank
IFIs=Islamic Financial Institutions
IIFM= Islamic Inter Bank Fund Market
LCR=Liquidity Coverage Ratio
MCR =Minimum Capital Adequacy
MDB =Musharaka Documentary Bill
MDG=Millennium Development Goal
MEIS=Micro Enterprise Investment Scheme
MFCI =Murabaha Foreign Currency Investment
MIB=Murabaha Import Bills
MPI =Murabaha Post Import
MRT= Mass Rapid Transit
MSA= Mudaraba Savings Account
MSD=Mudaraba Savings Deposit
MSIS =Marriage Saving Investment Scheme
MSND= Mudaraba Special Notice Deposit
MTMF =Medium-Term Macroeconomic Framework
NDA =Net Domestic Assets
NFA =Net Foreign Assets
NGOs=Non-Government Organizations
NLG =Liquid Natural Gas
NNI =Net national income
NOC=No Objection Certificate
NRTA =Non-Resident Taka Account
NSFR=Net Stable Funding Ratio
OECD=Organisation for Economic Co-operation and Development
OMO=Open market operations
PLS =Profit-Loss Sharing
PPP =Purchasing Power Parity
PPP=Public Private Partnership
RAKUB=Rajshahi Krishi Unnayan Bank
RDS =Rural Development Scheme
RFCD =Resident Foreign Currency Deposit Account

RMG=Ready Made Garment

ROE =Return on Equity

SEDI =Socially and Environmentally Desirable Investments

SIBL=Social Islami Bank Limited

SJIBL=Shahjalal Islami Bank Limited

SLR= Statutory Liquidity Ratio

SMEs=Small and Medium Enterprises

SOEs =STATE OWNED ENTERPRIZES

SPIS =Solar Panel Investment Scheme

TRIPS= Trade Related Aspects of Intellectual Property Rights

UBL=Union Bank Limited

UNDP=United Nations Development Programme

UNSNA =United Nations System of National Accounts

UPDS=Urban Poor Development Scheme

VAT =Value Added Tax

WTO=World Trade Organization

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Chapter: One

Theoretical Discussion and Literature Review

1.1 Introduction

The world is going and growing faster for doing something for the betterment of the mankind. The speed of these jobs is being pigmented by the financial sources. Today, financial systems and banking play an important role in economic activities all over the world, especially with regard to those activities related to economic development. Truly, in general there is a direct relationship between the level of development in a financial system and economic growth and development.

Islamic banks and financial institutions are the part of the Islamic economic system and were established to achieve certain socio-economic objectives in accordance with the concepts of the Shariah laws that are based on the Holy Quran. According to the Holy Quran, Islam is an ideology of social development that requires all individuals and businesses to conduct themselves ethically and in a socially responsible manner. For over a thousand years the Islamic state existed in some shape and or form, independent and powerful, which served as a beacon of inspiration for Muslim identity and fortunes.

Akkas et al. (2016) described “This is a general consensus among economists and researchers about the inefficiency of the interest-based banking system in terms of its role in the development of a country through maximizing production ensuring equity in distribution and preventing cyclical fluctuations. Partly due to the alleged inefficiency but more largely due to religious beliefs in the Islamic community, a new system of banking has emerged known as profit-loss sharing (PLS)”¹. As an effective consequence, Islamic Banking is getting International exposure and more and more Islamic Banks, Branches, windows (Branches and Windows are of Conventional Banks) are being established around the world.

Islamic finance and the Shariah-compliant financial products that form the core of Islamic banking have become one of the fastest growing segments of the financial market industry, operating through more than 300 institutions in 75 countries (Cihak, Hesse 2008). Economists view financial and legal systems as two prominent mechanisms through which economic growth either can be supported or suppressed (Levine 1998). Certain components of Islamic banking such as risk-sharing, stability, and innovation are proven stimulants of growth while others, including limited liquidity, may be detrimental to the economy.³ Therefore, elements of Islamic banking likely impact economic growth, the net effect of which is undetermined and worthy of study.

¹Akkas, S. M. A., Rahman, A. R, Hassam, M. K., Hussain, M. S., Islam, M. M., Islam, M. N., Shafiullah, M., Sarker, A. A. (2016): *Text Book on Islamic Banking*, (A Publication of Islamic Economics Research Bureau) Bishokollan Publications, 1/A, Purana Paltan, Dhka-1000, Bangladesh. p.vi

Andrzej D. Szczepanowicz said (2011: iii) that “The Islamic economic system goes beyond the pure financial and economic matter. Islam emphasizes a religious approach to life. The concept of forbidding transactions involving interest, derivatives or short selling seems like an alien idea to many Western economists. Indeed when one analyzes the foundations of Western economics and compares it to Islamic economics the disparity between the two only becomes more visible. An Islamic economic system holds opposing views from the Western conventional, capitalistic one. Islam is not only a religion, but also sets of norms that influence every aspect of human life including rules for politics, economy, etc.”

While economic growth is a crucial situation for financial development, funding is an important factor for economic growth. Thus a monetary system, especially banking, which provides investment to investors, performs a necessary position in financing economic development. As there are two predominant groups in each society, those who have surplus cash but are not in a position to do something or do not favor to invest and produce, and those who are in a position to function as producers, and even originators, but do no longer have enough money to invest, the major accountability of banks is to accumulate surplus cash from savers and depositors (mobilization), and allocate it to producers or intermediate businessman. However, given that there is a pastime rate-riba, in traditional banks’, which is prohibited in Islam. Muslims have a trouble with this type of banking; therefore, Muslim thinkers have tried to set up a financial institution which is in a position to elevate out the primary features of traditional banks besides the problem of riba.

Islamic banking in its modern form is a new experience in the banking industry. It is approximately 70 years old. The first Islamic bank was established in Pakistan in the 1950’s where no interest would be charged for the investment, but a small fixed administrative fee was levied to cover the operating expenses of the bank (Wilson, 1983: 75). However, the first Islamic bank in the Middle East was established in Egypt in the year 1959 named Mit Ghamr Bank by Ahmed Al Gamar.

It is observed that the whole operation of Mit Ghamr Bank was taken over by the National Bank of Egypt and Egypt Central Bank in mid-1967, which changed the whole banking operation to the riba system. But, the establishment of Mit Ghamr Saving Bank marked a new milestone in the revolution of the modern Islamic banking system. This bank was considered to be the most innovative and successful experiment with interest-free banking.

At the same time, Malaysia also takes an initiative by establishing the Muslim Pilgrim’s Saving Corporation, Malaysia in 1963. Muslim Pilgrims Savings Corporation set up in 1963 to help people save for performing Hajj (pilgrimage to Mecca and Medina). In 1969, this body evolved into the Pilgrims Management and Fund Board or the Tabung Haji as it is now popularly known. The Tabung Haji has been acting as a finance company that invests the savings of pilgrims in accordance with Shariah, but its role is rather limited, as it is a non-bank financial institution.

The new banking law was implemented in 1984 and the Islamic banking system has been incorporated in Bangladesh with the Conventional Banking Model. Although there are many Islamic banks with a capital of more than USD 2 trillion in 2017, marking an 8.3% growth in assets in US Dollar terms.

The market shares of Islamic banking System has been increasing significantly. Islamic banking is categorized as systemically important in 12 jurisdictions. The market shares have reached up to 92% to the global Islamic banking assets. Apart from two jurisdictions with market shares of 100% (Iran, Sudan), the shares in most of the ten jurisdictions with dual banking systems increased, while it decreased in only one country (Qatar). Collectively, these 12 jurisdictions account for 92% of the global Islamic banking assets. The largest are Iran (34.4% of global Islamic banking assets), Saudi Arabia (20.4%), United Arab Emirates (UAE) (9.3%), Malaysia (9.1%), Kuwait (6.0%) and Qatar (6.0%). Only in Iran, Sudan and Pakistan have completely Islamic banking system today in the world.

While the average growth rate of Islamic banking assets was in the moderate single digits, more than half of the jurisdictions for which detailed data were available achieved double-digit growth rates of assets. Most Asian countries reported growth rates of between close to 10% and well above 20%. On the other hand, Gulf Cooperation Council (GCC) economies are feeling the strain from persistently low oil prices, with most Islamic banking growth rates below the average of 4%. Several countries in North and sub-Saharan Africa are making efforts to introduce Islamic banking services which would enhance the industry's growth prospects in the future.²

1.2. Objectives of the study: There are two objectives of the Study. One is General Objective and another is Specific Objective.

General objective: The overall objective of the study is to Measure the Contribution of Full-Fledged Islamic Banking to the growth and development of Bangladesh Economy.

Specific Objectives: The specific objectives of the study may be described as follows:

- i. To measure the Contribution of Islamic Banking to the Agricultural Growth and Development of Bangladesh Economy.
- ii. To measure the Contribution of Islamic Banking to the Industrial Growth and Development of Bangladesh Economy.
- iii. To measure the Contribution of Islamic Banking to the Growth and Development of Service Sectors of Bangladesh Economy.
- iv. To find out the problems and limitations of Islamic Banking Services and Suggestion of the remedial measures to accelerate the Economic Growth and Development of Agriculture, Industry and Service Sector of Bangladesh.

² Islamic Financial Services Industry Stability Report 2018(2018). Islamic Financial Services Board, Kuala Lumpur, Malaysia.p.3-4,Retrieved from <https://www.ifs.org> > download .access date:16.10.2019. p. 3-4

- v. To explore the potentials of Islamic Banking Services to the Economic Growth and Development of Bangladesh.
- vi. To identify the role of Shariah Supervisory Committee in ensuring the contribution of Islamic Banking Services to the Economic Growth and Development of Bangladesh.

The aim of the research result will be achieved from descriptive analysis of secondary data by using the quantitative analysis method and qualitative analysis method by using the structured interview of 55 respondents of 10 questionnaires for customers' view points and 12 questionnaires for managements' view points respectively.

1.3 The Conceptual Analysis

In this section the following discussions has been carried out:

- (i) Introducing modality of performance of the - Islamic Banking in Bangladesh in connection with conventional Banking environment.
- (ii) Literature Review of the contribution of the Islamic Banking system particularly in economic growth and development.
- (iii) Islamic banking in Bangladesh, its background and circumstance of its activity with regard to Interest Free Banking in Bangladesh.

Definition of Key Terms

Contribution

Contribution means giving something or playing role in a particular sector. In this research, contribution means the roles of full fledged Banking which are contributing significantly or insignificantly to the economic growth and development of Bangladesh.

Full-Fledged Islamic Banking

Full-fledged means complete or total activities of the specific item or institution. In our country there are eight full fledged Islamic Banks, 19 branches of eight conventional banks and 25 windows of seven conventional banks are doing Islamic Banking Business. In this research only eight full fledged Islamic banks have been selected. Data and information have been selected for the fiscal year from 2011-2012 to 2015-2016.

Growth

Growth is the progress or increase in physical size or in number.

In this research, economic growth has been considered as follows:

Economic growth refers to an increase over time in a country's real output of goods and services (GNP) or real output per capita income.

Development

Development is a process that creates growth, progress, positive change or the addition of physical, economic, environmental, social and demographic components.

In this research, economic development has been considered as follows:

Economic development refers not only to economic growth but also to quality of production. According to McKinnon (1973: 9) “Economic development as the reduction of the great dispersion in social rates of return on existing and new investments under domestic entrepreneurial control”.

1.4 The Quantitative Analyses

This section has been involved with the following:

- (i) Examination of the main features of Bangladesh economy in general particularly by using the secondary data on the subject matter.
- (ii) Analysis of economic growth and development financing by the Islamic Banking System in Bangladesh through the Reports of Banks Annual Reports and other related reports collected from different organizations.

1.5 The Qualitative Analyses

This section has been involved with the following:

- (i) Using structured interviews of Fifty five (C-8x2x2 + Manager-8x2+BB-4+BIBM-3, Total 55 respondents) interviewees which have been selected from 8 full-fledged Islamic Banks’ official (Manager) and customers of Banks, researchers from Bangladesh Bank and Academician form Bangladesh Institute of Bank Management.
- (ii) Data have been collected and examined and analyzed by using the world famous scale i.e. Likert Scale of Symmetric method to examine the contribution of Islamic banking to the growth and development of Bangladesh economy.

1.6 Research Methodology

The methodology of this research has been designed in details in Chapter six. The following method will be used in this study

- a) The Theoretical Method
- b) The Quantitative Method
- c) The Qualitative Method

1.6.1 Theoretical Method

It is an important method of the research methodology. In chapter three, four, five and seven I have discussed the potentiality and ability of Islamic Banking Systems in general in particular to economic growth and development of Bangladesh Economy. However, in discussing regarding on this issues, the opinions of the controlling authority of Banks, the Academicians and the part of the management have taken interview and shows the results at

the qualitative part of research method at chapter nine and ten by the survey questionnaire using 5 points Likert Scale.

1.6.2 Quantitative Method

Quantitative research methods are used for collecting and analyzing numerical data. These data are called secondary data which is usually collected from Annual Reports of 8 full-pledged Islamic Banks and institutions. In order to show a true picture of Bangladesh economy and to examine the contribution of Islamic banking to the growth and development of the economy. Quantitative and Qualitative research method have been used in this research. For this reason, secondary data have been collected from different sources such as:

- a) Schedule Banks' Statistics from Central Bank i.e. Bangladesh Bank and its reports and balance sheets for different years.
- b) Data from Bangladesh Bureau of Statistics.
- c) Data from Islamic Banking Wings, Bangladesh Bank.
- d) Research Department of Bangladesh Bank.
- e) Activities of Bank, Bima and Financial Institutions, Bank and Financial Institution Division, Ministry of Finance Bangladesh
- f) Necessary data have been collected from the Ministry of Finance.
- g) The Annual Reports of eight full-fledged Islamic Banks.

After collecting these data, I have performed some necessary calculations upon these data and have been analyzed descriptively.

1.6.3 Qualitative Method

There are some important and useful data which do not appear in the statistics because they are non-numerical data. So, the qualitative research methods aim to collect these kinds of data. The data information has been analyzed by using the Symmetric method of Likert Scale which is the most popular to all the researchers to a days. In this research the structured interview has been selected to investigate the main research questionnaires. Fifty five (C-8x2x2 + Manager-8x2+BB-4+BIBM-3, Total 55 respondents) interviewees were selected from different Islamic Banks' official and customers of Banks, researchers from Bangladesh Bank and Academician form Bangladesh Institute of Bank Management. After conducting the interviews their results are analyzed manually in Chapters nine and ten.

1.7 Ways of Research Technique

To fulfill the aims and objectives of the study and answer the research questionnaires in qualitative method, this research has been designed by 2 parts of 10 chapters considering the merits of research matter.

Part One-theoretical discussion, literature review and economic structure in Bangladesh, the Banking industry in Bangladesh with elaboration of Islamic Banking system and research methodology containing Chapters 1-6.

Part Two-Calculation process of Gross Value Added(GVA/GDP),contribution of full-fledged Islamic Banks to the growth and development of Bangladesh Economy from the viewpoints of quantitative and qualitative approach, summery, recommendations, conclusion, findings, further suggestion containing Chapters 7-10.

Chapter one, introduction, objectives, research method and ways of research technique have been discussed.

Chapter Two presents the conceptual review and historical review with some other issues theoretical issues. In this chapter some theories regarding the role of banking systems in general and Islamic banking in particular in economic development are presented. In addition, to cover the background of the issue more completely, some literature regarding economic growth, economic development, difference between growth and development, the relationship between financial development and economic growth is reviewed. Also, empirical evidence of different countries has been mentioned.

Chapter Three provides the economic structure of Bangladesh. For this purpose, the banking system, capital market, agricultural sectors, Industrial sectors and service sectors related activities, energy, construction and housing, transport are discussed briefly. The sector-wise GDP has also been interpreted. In other words, this chapter offers a descriptive quantitative analysis of the process of economic growth, success of Islamic banking in the mobilization and allocation of monetary resources (deposits) and their effect on economic development. In this chapter the monetary policy, Fiscal Policy, contribution of Islamic Banks to agriculture, Industry, Service sectors, contributions to power and energy sector, way of poverty alleviation, private sector development. Capital market contribution, foreign trade like import, export, foreign remittance also been discussed, Foreign trade, forward trade linkage, contribution of RMG Sector regarding the matter of market discipline. The primary and secondary data has been used here for the period 2011-2016.

Chapter Four the Banking Industry in Bangladesh with Elaboration of Islamic Banking System. The Islamic banking system and their contribution to the economic growth and development in Bangladesh. Types of the structure of economy like primary, secondary and tertiary has been depicted carefully. In other words, there has been discussed the size of Banks', Local Full-Fledged Islamic Banks and their corporate profiles of these banks, Islamic Banking around the world this chapter offers a descriptive quantitative analysis of the process of economic growth, success of Islamic banking in the mobilization and allocation of monetary resources (deposits) and their effect on economic development, different organization of Islamic Banking around the world, the details analysis of 8 full-

fledged Islamic Banks, last five years performance indicators of the banks' of the economy. We have discussed the global Islamic banking position, the central shariah board for Islamic bank of Bangladesh, Islamic banks, the number of Islamic banking branches and windows of conventional banks in Bangladesh.

Chapter Five presents the objectives, functions, Formation of Financial System on Perfection and Justice, Deposit Products of Islamic Banking in Bangladesh and its performance, Major Types of Deposit Products, types of investment, Investment System for import/export business as per Islamic Shariah Principles, foreign remittance as well as Miscellaneous Banking Services finally Central Bank and Maintenance of Currency Value.

Chapter Six provides research methodology, a survey questionnaires issued by the researcher emphasized on quantitative and qualitative analysis. Therefore, it presents some empirical methods which are utilized in empirical research in general. In this regard, quantitative research methods and qualitative research methods are introduced in this chapter. Also, the interview process like un-structured, semi-structured, structured and group interview, which is a tool for collecting primary data. In this research, we have followed the tools of structured interview for collecting primary data and used 5 points Likert Scale for discussing and analyzing the data.

Chapter Seven: In this chapter we have discussed the data which have been collected from the secondary sources e.g. Annual Reports of 8 full-fledged Islamic Banks, data collected from Bangladesh Bank, website, Bangladesh Bureau of Statistics and also data collected from other sources have been discussed minutely. We have converted the calendar year data of banks to the fiscal year and find out the total gross value addition of banks to the Gross Domestic Products (GDP) and derivative has been calculated to find out the contribution of Islamic banking to the growth of GDP of our Economy. Also we have discussed the comparative analysis of data of the Islamic banks among them.

Chapter Eight questions regarding shariah-compliance have been discussed. It is worth mentioning that as banks are agents of the depositors and according to the contract they are engaged to utilize deposits in the best profitable projects, profitability of the contracts also becomes one condition of being shariah-compliant.

In this chapter qualitative analysis has been discussed, using the structured interview method, issues related to the shariah-compliance of Islamic banking in Bangladesh, from the interviewees' point of view and these have been examined. Specifically, ensuring that 8 full-fledged Islamic banks and their banking activities in Bangladesh whether are Shariah-compliant or not, problems which are faced by the Islamic banks, solution to these problems, determination of final profit rates for depositors, determination of final profit rates for facilities applicants, qualities of the members of Shariah Board, problems caused

due to absence of Shariah Board and solutions to the problems regarding the Shariah Board are asked to the interviewees.

Chapter Nine, we have discussed from the view points of management and in some cases from the view points of customers. In this chapter, research related questions have been asked to the interviewees and their responses are analyzed manually. Once again, the structured interview was chosen to conduct the survey questionnaires. Some sample questions are shown below:

1. Contribution of Islamic Banks to the growth and development of agricultural sectors of our economy.
2. Augmenting of agricultural products for economic growth and development.
3. Contribution to the growth and Development of Industrial sectors.
4. Problems solution of Industrial sectors for the economic development.
5. Contributions to Industrial sectors for growth and Development.
6. Finance to service sectors to contribute to the growth and Development.
7. Possible challenges, Islamic Banks facing for enhancing the economic growth and development.
8. Steps to be taken in future by the Islamic Banks to ensure better contribution towards growth and development
9. Measures can be taken to increase the contribution of Islamic Banking to the growth and development
10. Possible care may be taken for expansion of Islamic Banking with connection to the economic growth and development
11. Customers friendly services of Islamic Bank in respect of economic growth and development
12. Insurance of deposit and financing facilities they offer are Shariah Compliant

Chapter Ten includes the Summary, Recommendations, Conclusion, Findings from the study, Limitations of the study, and further suggestions for research.

1.8 Conclusion

In this chapter, we have discussed the objectives, quantitative and qualitative analysis of the research, research methodology, area of the study, limitations of the study, and ways of the study to reach the goal and find out the research output to add something to this arena. At the qualitative study we have tried our best to analyses and find out the problems and limitations of Islamic Banking services and suggestion of the remedial measures to accelerate the economic growth and development of agriculture, industry and service sector of Bangladesh economy.

Chapter: Two

Literature Review: Economic Growth and Development (Conceptual and Historical Analysis)

2.1 Introduction

In this chapter, I will discuss about the literature review, which is the most vital discussing point in the research material. Because the researcher starts his research work after finding the lacking of the previous study and begins new one, which is the findings of him. In this chapter, I have discussed the study of the previous one. So far I have been informed my studies that a very few study has been done on the view point of contribution of Islamic Banking to the growth and Development of Bangladesh economy in respect of full-fledged Islamic Banking. Therefore, in this chapter, I have tried my best to find out the research gap and accordingly I have designed a plan and started my journey on this topic. I have found that Relationship Between Financial System and Economic Growth, Financial Aspects of Economic Growth, How Financial Systems Affect Economic Growth, Economic Growth Accelerator Factors, Economic Growth Decelerator Factors, Role of Islamic Banking in Economic Growth and Development.

From the many research works carried out in this view point, there may have different types of causal relationships between financial development and economic growth that have been tried to find out from research.

The main objective of this chapter, therefore, is to narrow the gap in literature by observing the relationship between Islamic Banking and financial development and economic growth, particularly in the context of Bangladesh.

In this chapter at the first, I have discussed about the conceptual review of the study and then I have reviewed the historical aspects, which is the most vital discussing point in the research material. Because the researcher starts its research, work after finding the lacking of the previous study and begins new one, which is the main finding target of him. In this chapter, I have discussed the study of the previous one. I have found the correlation between financial system and economic growth.

In this chapter, I have examined the historical review or literature review and then investigate theories regarding the role of Islamic banking system in economic growth and development of Bangladesh. We know that there are some differences between economic growth and economic development (the most important difference is that while in the former the emphasis is on the qualitative aspects, in the latter, the emphasis is on the quantitative aspects). However, it is obvious that not only is economic growth an important factor is in economic development.

Therefore, as due to the fact the economic growth can be measured, I have attempted to define some terminologies such as economic development, economic growth and monetary improvement. In this part, I have reviewed carefully some literature, in particular the contribution of Schumpeter, MacKinnon, Shaw, King and Levin, I have focused on theories and opinions related to the role of the financial instrument in economic growth, with emphasis on the banking system. Furthermore, I have shown how the Islamic Banks make a contribution to the growth and development of Bangladesh Economy.

2.2 Terminological Analysis

In this section, I define and explain some terminologies such as economic development, economic growth and financial development and I also show difference between economic growth and economic development.

2.2.1 Economic Development and its components

Economic development refers not only to economic growth but also to quality of production. According to McKinnon (1973: 9) "Economic development as the reduction of the great dispersion in social rates of return on existing and new investments under domestic entrepreneurial control". Schumpeter, the great economist (1911) viewed several cases of development covers as follows:

- a) The introduction of new goods which consumers are not yet familiar with or of a new quality of goods.
- b) The introduction of a new method of a new production that is not yet tested by experience in a branch of manufacture concerned, which need by no means be founded upon a discovery scientifically new, and can also exist in a new way of handling a commodity commercially.
- c) The opening of a new market that is a market that into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market existed before.
- d) The conquest of a new source of supply of raw materials or half manufactured goods.
- e) The carrying out of the new organization of any industry, like the creation of monopoly position (for example through fructification) or the breaking up of a monopoly position.

Moreover, there are other opinions regarding the definition of economic development. One is that economic development is a fundamental change in the structure of an economy, such as a change in the share of industry and agriculture in the GDP in favour of industry, moving people from villages and rural areas to live in cities and changing consumption patterns. People no longer spend the majority of their income on necessities; rather, they buy durable consumption goods and have more leisure-time. However, another factor in economic development is people's participation in the process of change; everyone in a country should benefit from changes including, but not solely or even mainly, foreigners.

A key element in economic development is that the people of the country must be major participants in the process of development that brought about these changes in structure. Foreigners can be and inevitably are involved as well, but they cannot be the main focal point. Participation in the process of development as well as participation in those benefits. If growth benefits only a tiny wealthy minority, whether domestic or foreign, it is not development. The benefit of growth will be for the majority portion of a nation and then its essence will be bloomed.

2.2.2 Economic Growth and its calculation process

Economic growth, which is defined as an increase in Gross National Product (GNP) or increase in Gross Domestic Product (GDP), has been the main purpose of most economic studies and models from Adam Smith (the father of Classical Economics) until the present time. Even before Smith there were some opinions regarding this issue. Today growth is still an important topic of discussion among economists. Transfer from exogenous to endogenous growth models was in fact a progress toward a better explanation of reality. While in exogenous growth models the focus was on the accumulation of capital and innovations and technological changes were determined outside the model, in endogenous growth models they are determined within the model. For example, in Romer's model (1987) the technology factor is determined by the knowledge.

In the endogenous growth models there are some factors which affect economic growth, including services provided by financial intermediation which have a positive effect on economic growth.

2.2.3. Differences between Economic Growth and Development

Table 1: Economic Development versus Economic Growth comparison chart

	Economic Development	Economic Growth
Implications	Economic development implies an upward movement of the entire social system in terms of income, savings and investment along with progressive changes in socioeconomic structure of a country (institutional and technological changes).	Economic growth refers to an increase over time in a country's real output of goods and services (GNP) or real output per capita income.
Factors	Development relates to growth of human capital indexes, a decrease in inequality figures, and structural changes that improve the general population's quality of life.	Economic growth refers to an increase over time in a country's real output of goods and services (GNP) or real output per capita income.

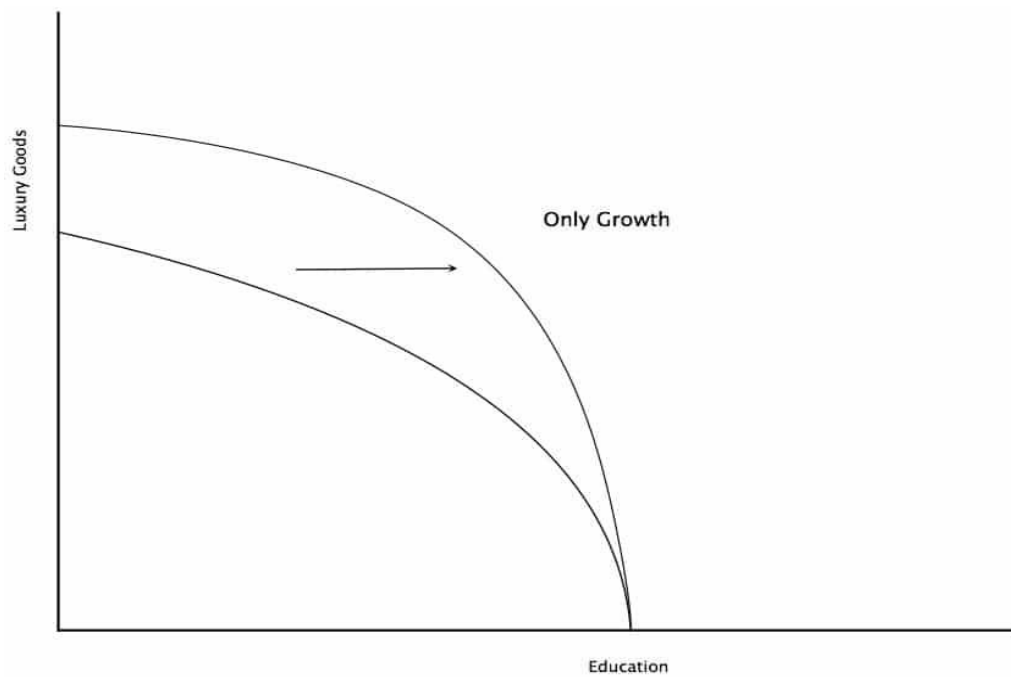
Measurement	Qualitative: HDI (Human Development Index), Gender- Development Index (GDI), Human Poverty Index (HPI), infant mortality, literacy rate etc.	Quantitative: Increases in real GDP.
Effect	Brings qualitative and quantitative changes in the economy	Brings quantitative changes in the economy
Relevance	Economic development is more relevant to measure progress and quality of life in developing nations.	Economic growth is a more relevant metric for progress in developed countries. But it's widely used in all countries because growth is a necessary condition for development.
Scope	Concerned with structural changes in the economy	Growth is concerned with increase in the economy's output

Graphical Reorientation

Economic Growth

Economic Growth increase the Country's output. At figure-1, the rightward expanded (shown by arrow) downward curve shows the growth of luxury goods of a country where education is assumed as fixed.

Figure 1: Change in Growth

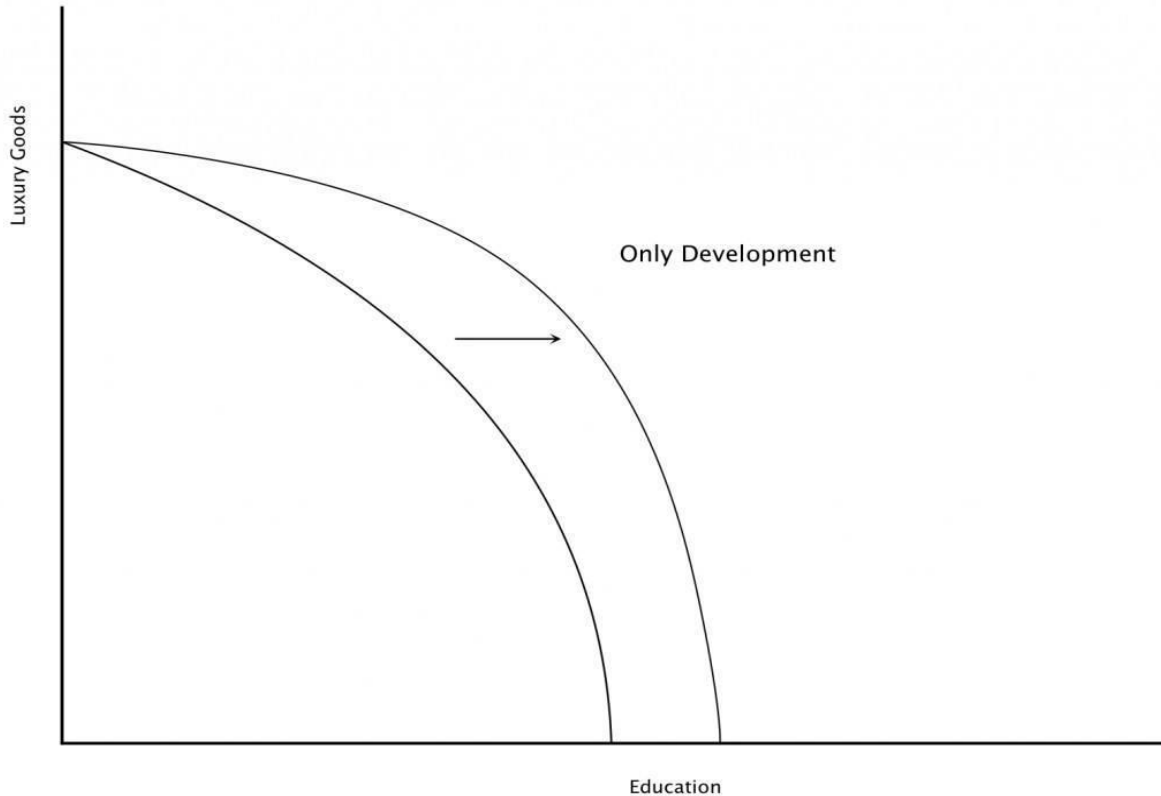


B. Economic Development

Economic Development is an improvement of factors (such as health, education, literacy and alleviation of poverty level) by which country's economic growth is ensured. At figure-

2, the right expanded (shown by arrow) downward curve shows the changes in Economic Development (i.e. standard of) education of a country where luxury goods is assumed as fixed.

Figure 2: Change in Economic Development



2.3 Conceptual Review

From the different viewpoints I have designed this chapter. i) Consent of profit and loss sharing, ii) Concept of Islamic banking, iii) Consent of trust-financing and iv) Concept of mark up profit to understand the characteristics of Islamic Banking.

2.3.1 Consent of profit and loss sharing

The originality of Islamic banks consists of the principle of Profits and Losses Sharing (PLS) between the provider and the user of the funds. This notion of equitable sharing is a key element in the concept of Islamic finance as it is supposed to reflect the values of Islam. We know that under the rules of Shariah, no one can claim any compensation without incurring some of ex-ante investment risks.

The Profit and loss sharing concept used by the Islamic banks according to the Islamic Shariah laws and according to this rule in Islamic banks, depositors are the investors with some rights of ownership in the bank. Profit and loss sharing difference introduces a mutuality concept in Islamic banking. The main factor, which contributes to the emergence of the PLS-, banking system, is the prohibition of Interest (Riba) in the Holy Quran.

The underlying principles of Shari'ah that govern Islamic banking is to promote a profit and loss sharing framework as an ideal mode of financing to achieve justice and socio-economic objectives.

We know that Profit Loss Sharing is a contractual arrangement between two or more transacting parties, which allows them to pool their resources to invest in a project to share in profit and loss. PLS is based on two major modes of financing, namely Mudaraba and Musharaka, which are desirable in an Islamic context wherein reward sharing is related to risk-sharing between transacting parties. In these lending arrangements, profits are shared between the investors and the bank on a predetermined basis. In sharing of profit and loss the borrower and the lender share, the profits as well as losses arising from the venture with the finances obtained from the lender.

In the view points of Islamic economic thought the profit and loss sharing concept of Islamic Banks help to foster economic development by encouraging equal income distribution and which results in greater benefits for social justice and long-term growth. In addition, profit and loss sharing scheme improves capital allocation efficiency as a return on capital depends on productivity and the allocation of funds is based on the success of the project. The profit and loss sharing may lead to a more efficient and optimal allocation of resources than does the interest-based system. Accordingly, past studies have emphasized that the profit and loss sharing contracts promote greater stability in financial markets. In addition, the PLS framework is expected to reduce significantly the inequitable distribution of income and wealth and is likely to control inflation to some extent.

2.3.2 Concept of Islamic banking

The notion of Islamic banking is based on the sources of the holy divine the Al-Quran and the Sunnah of Muhammad (S.) and the ideas of Isma and Qias that the idea of interest is strictly prohibited in Islam, and that Islamic teaching provide the required guidance on which the banks should works.

According to Ahmad (2006), the theory of Islamic banking is based essentially on the premise that interest, which is strictly forbidden in Islam, is neither a necessary nor a desirable basis for the conduct of banking operations, and that Islamic teachings provide a better foundation for organizing the working of banks. The basic postulate that has guided all theoretical work on Islamic banking is that while interest is forbidden in Islam, trade and profit is permissible. The basic principle in Islamic law is that exploitative contracts or unfair contracts that involve risk or speculation are impermissible.

Theoretical work on Islamic banking encompasses several aspects related to both the operating procedures of Islamic banks and the possible socioeconomic consequences of the adoption of the new system (Ahmad, 2006). Islam seeks to establish a society based upon fairness and justice (Holy Qur'an 2:239). Thus, the concept of Islamic banking has

proceeded on the basis that guidance for all institutionalized developments in an Islamic society should be derived from the principles of Shari'ah. The form and content of Islamic banking practices have, therefore, to be derived from the teachings of Islam (Ahmad, 2006). For instance, if a loan provides the lender with a fixed return irrespective of the outcome of the borrower's venture. It is much fairer to have a sharing of the profits and losses. Fairness in this context has two dimensions: the supplier of capital possesses a right to reward, but this reward should be commensurate with the risk and effort involved and thus be governed by the return on the individual project for which funds are supplied.

2.3.3 Concept of trust-financing

The trust financing theory is referred to Mudaraba in Islam (finance by way of trust). Mudaraba is a form of partnership in which one partner (rabb al-mal) finances the project, while the other party (mudarib) manages it. This mode of financing does not require that a company be created; the financial institution provides all of the capital and the customer is responsible for the management of the project. Thus, profits from the investment are distributed according to a fixed, predetermined ratio. The partner has possession of the assets, but the other party has the option to buy out the partner's investment.

2.3.4 Concept of mark up Profit

The term mark-up is used in the mode of Bai-Muazzal and Bai-Murabaha investments. In mark up financing also referred to as cost plus financing or Murahaba an Islamic bank does a transaction where the institutions buys a product on a client's behalf and then resells this with a mark-up to a client, the borrower (Khan, 2014). In a murabaha agreement, the bank agrees to buy an asset or goods from a third party, and then resells the goods to its client with a mark-up. In the buy and sale mode the client purchases the goods against either immediate or deferred payment. This mode of Islamic finance is said to be very close to a conventional interest-based lending operation since there is a mark up. However, a major difference between murabaha and interest-based lending is that the mark-up in murabaha is for the services the bank and the mark-up is not stipulated in terms of a period like interest. Thus, if the client fails to make a deferred payment on time, the mark-up does not increase from the agreed price owing to delay. But if the customer can make payment at early time, there is opportunity to the bankers to rebate the customer.

2.4 Determinants of Economic Growth

It is a very important focal point to the researchers to depict the determinants of economic growth. These factors may be classified in various categories including profit rates, political stability, foreign direct investment, employment and government expenditure. Various literatures have evidence the determinants of economic growth by different researchers as described below.

2.4.1 Profit Rates

Interest rate is the amount charged on the principal amount borrowed normally expressed as a percentage either on a monthly or annual basis. It may be stated that bank lending where the profit rates are favorable and causes economic growth. It expresses that when bank rates are relatively low, customers find it favorable to borrow since the periodic repayments are low. The result persuaded spending thus enhanced GDP and economic growth. Most Islamic banks charge a lower Profit rate than other conventional banks due to religious beliefs. So to say, that borrowing encourages investment from both the local and international level and thus economic growth is improved day by day.

2.4.2 Political Stability

Economic growth and developments of a country depend on the Political stability of a country. It is the major economic driver to enhance the GDP of a country. We know that political stability in a country intensifies the GDP of an economy and this increases foreign investor confidence and thus economic growth is made sure. Islamic banking has a positive correlation with economic growth as it enhances local and foreign direct investment boosting the economy. Most Islamic countries have unrest political situation due to less qualified leadership. The realization of political stability in these nations would yield economic growth as the business environment will be conducive to both the local and the international investors.

2.4.3 Foreign Direct Investment

It is observed that Foreign Direct Investment plays a significant role in the growth of the economy. The macroeconomic policy includes economic and political determinants in domestic and outsourcing factors are thus applied to compare Iran's potential FDI attraction with seven other nations, Egypt, Indonesia, Malaysia, Pakistan, the Philippines, Thailand, and Turkey. The neo-classical production function including foreign capital stock and imports as inputs in addition to labor and domestic capital stock is applied to analyze the effect of FDI inflows on the economic growths of Iran and Pakistan Islamic banks over time, the infrastructure, the distance, the investment climate (governance) and the agglomeration economies are the key factors explaining European foreign investment decisions. The paper also highlights the role of other factors, such as the freedom of political and civilian, in explaining total FDI flows to the Mediterranean economies. Investments of banks enhance the growth rate of gross domestic product and exports are significant in stimulating domestic investment, which leads to more foreign direct investment.

2.4.4 Employment

Islamic banks have intensified employment levels directly and indirectly. Direct employment relates to the banks employees while indirect employment relates to suppliers, professionals among others. It is stated that the relationship between growth and employment are highly correlated. Islamic banking has brought about high employment

opportunities thus propelling economic growth. We know that regional employment growth signifies to the country's economic growth and that country will experience a balance of trade and eventually a balance or surplus in payment due to increase of import levels.

2.4.5 Government Expenditure

Government expenditure is a major determinant of economic growth. From the viewpoint of government expenditure it is a critical economic driver in that when the level of expenditure is high, money supply is also high in the economy thus driving economic growth. The amount and nature of government expenditure has a strong bearing on the economic growth of any country. When the government spends more, it stimulates demand which in returns sparks investment and thus it produces more of goods and services.

If the government expenditure is in productive sector, the economy grows at a high rate. Islamic banks also benefit from government spending as either its customers or the bank supplies materials or services to the government. Alternatively, when the government spends more, the suppliers come to borrow from the bank or deposit more money due to increase of money supply and thus the economy becomes upward.

2.5 Empirical Review

Ackermann & Jacobs (2008) analyzed and described the banking needs of South African Muslim corporate clients for Shari'ah-compliant banking products. The research tested five hypotheses to establish the need for cost-effective, Shari'ah-compliant asset-based financial products. It applied the market-driven element of the target cost model to analyze the clients requirements in terms of the costs associated with the product offering. The research findings indicated that South African Muslim corporate clients would buy Islamic banking products for religious reasons. It was found that price would be a determinant in evaluating a purchasing decision. The research further found that it is tenable that Muslim corporate clients would require asset-based financial products to possibly finance their capital investment strategies. This article highlights that it is vitally important for financial institutions to understand the needs of South African Muslim corporate clients for Shari'ah compliant banking products.

Kadubo (2010) investigated the factors influencing the development of Islamic banking in Kenya. The study adopted a case study approach focusing on four Islamic compliant banks in Kenya, which included the First Community Bank; Gulf African Bank; Dubai Bank; Kenya commercial Bank Ltd and Barclays Bank Ltd. A sample of 33 customers, who were the holders of accounts in the respective banks and 11 managers were involved. Data was collected by use of questionnaires. The study revealed Islamic banking compliant was driven by religious compliance and customers need being met. It also revealed that continuous review and improvement of Shari'ah compliant products together with diversifying market function would lead to drastic development and marketing of Islamic banking products. The study concluded that the factors that influence development of

Islamic banking products in Kenya are purely religious compliance and customers need being met.

Daud, Yussof and Abideen (2011) examined the perceptions of Nigerian Muslim Youths in Malaysia on the perceived role expected of the Central Bank of Nigeria in the establishment and operation of IBs in Nigeria. The study focused on the perceptions of students in three Malaysian universities i.e. Kolej Universiti Insaniah, Universiti Utara Malaysia and International Islamic University Malaysia. The sample of the study was made up of 100 questionnaires of which 85 percent were returned and usable. The data collected were subjected to statistical analysis using the SPSS version 18. One-Sample and Independent-Samples t-Tests were used for analyses. The finding revealed that the role of the Central Bank of Nigeria in the establishment and operation of IBs in Nigeria is of no significance. Other findings hold that the Central Bank of Nigeria should seriously promote adequate research in IBs, the legal framework of IBs should be further strengthened and that the Central Bank of Nigeria should collaborate with the Judiciary for the establishment of Shari'ah courts to adjudicate cases on IBs.

Yusuf and Mobolaji (2012) explored the Nigerian experience of Islamic micro insurance in poverty alleviation objective of the Central Bank. The study adopted a case study approach in assessing the performance and contribution of the Al-Baraka microfinance Bank based in Lagos since its inception. The concern was whether the Shariah-compliance could be a positive element towards the realization of the poverty alleviation objective of the government. In order to gain an in-depth understanding of the potential of Islamic micro-insurance in Nigeria qualitative research in the form of an explorative study was used. The study utilized both primary and secondary data to explore the performance of Al-Baraka microfinance house to see whether it was providing its services for all those living below the poverty line including the extreme poor. The study findings established that Islamic Micro Insurance Company was doing better than its conventional counterparts were. Abduh and Chowdhury (2012) investigated the long run and dynamic contribution by the Islamic banking between economic growth and development in the case of Bangladesh.

The quarterly time-series data of economic growth, total financing and total deposit of Islamic banking from 2004 to 2011 are used in this study. Using co-integration and Granger's causality method, Islamic bank financing was found to have a positive and significant relationship with economic growth both in the long and short run. This implied that the development of Islamic banking is one of the policies, which should be considered by the government to improve their income. Johnson (2013) examined the role of Islamic banking in economic growth. Using an exogenous instrument in 2SLS regressions, results show that Islamic bank is not significantly correlated with economic growth.

Most notably, including the Islamic banking instrument affects the strength of beta-convergence. The study found that Basic Solovian specifications show that convergence

occurs; countries with higher initial GDP per capita grow more slowly. After accounting for the intensity of Islamic banking, this effect becomes much less statistically significant, suggesting that some of the effect of convergence may operate through the propensity to adopt Islamic banking. Empirical analysis disaffirms the hypothesis that Islamic banks minimize the explanatory power of 18 legal origins on economic growth due to their independent implementation of Shariah law; the results show that accounting for Islamic banks has no effect on the determinative power of legal origin. In addition, the study established that the correlation of Islamic banking and financial deepening is largely dependent on legal origin, resulting in negative effects for countries with British legal origin and positive for those with French legal origin.

Sarwer, Ramzan and Ahmad (2013) examined the dynamic interactions between Islamic banking and economic growth in Pakistan, to see if the financial system affects and growth, transformation and growth of the financial system. The aim of the paper was to consider the opinions of the interviewees regarding the role of Islamic banking in Pakistan in economic development. Six interviewees were asked about the types of effects of Islamic banking on economic development in the Pakistan. They were asked about eight different types of effects. The study established that most respondents believe that Islamic banking in Pakistan had positive impact on economic development. The study also established that some scholars around the world consider the use of Islamic banking more convenient for economic development. Further, the findings also established that improving the infrastructure of Islamic finance in Pakistan could benefit economic development.

Gheeraert and Weill (2013) evaluated if the development of Islamic banking influences macroeconomic efficiency. The study analyzed the relation between Islamic finance and economic growth by applying the stochastic frontier approach to estimate technical efficiency at the country level for a sample of 70 countries. Unique hand collected database, which covers Islamic banks worldwide over the period 2000-2005 was used.

The study found that Islamic banking development favors macroeconomic efficiency. The study also established a support for a non-linear relation with efficiency for Islamic banking development, measured by credit or by deposits. The study concluded that increasing Islamic banking development enhances efficiency until a certain point beyond which expansion of Islamic banking becomes detrimental for efficiency.

Tabash and Dhankar, (2014c) assessed the contribution of Islamic finance in the growth of the economy of United Arab Emirates. To establish the relationship between development of Islamic finance and economic growth, time series data from 1990 to 2010 was used. The unit root test, co-integration test and Granger Causality tests were done.

The study findings established that there is a strong positive association between Islamic banks' financing and economic growth in the UAE, which reinforces the idea that a well-functioning banking system promotes economic growth. However, the results established

that a causal relationship happens only in one direction, i.e., from Islamic banks' financing to economic growth, which supports Schumpeter's supply-leading theory.

Tabash and Dhankar, (2014d) explored empirically the relationship between the development of Islamic finance system and economic growth and its direction in Qatar. Using econometric analysis, annually time-series data of economic growth and Islamic banks' financing from 1990 to 2008. The study used Islamic banks' financing funds given by Islamic banks as a proxy for the development of Islamic finance system and Gross Domestic Product (GDP), and Gross Fixed Capital Formation (GFCF) as proxies for real economic growth. For the analysis, the unit root test, co-integration test and Granger causality tests were done. The study findings established that in the long run, Islamic banks' financing is positive and significantly correlated with economic growth in Qatar which reinforces the idea that a well-functioning banking system promotes economic growth. Further, the findings established that Islamic banks' financing has contributed to the increase of investment in the long term and in a positive way in Qatar.

This research concluded that, the implementation of Islamic Banking System has a positive and significant impact on the value added in the agricultural, Industrial and service sector of an economy. However, some economists cite several factors which enable Islamic banking to play a more efficient role in economic growth and development.

2.6 Financial System

“Financial system” is a system that allows the exchange of funds between lenders, investors, and borrowers. Financial systems operate at national and global levels. They consist of complex, closely related services, markets, and institutions intended to provide an efficient and regular linkage between investors and depositors.

Money, credit, and finance are used as medium of exchange in financial systems. They serve as a medium of known value for which goods and services can be exchanged as an alternative to bartering. A modern financial system may include banks (public sector or private sector), financial markets, financial instruments, and financial services. Financial systems allow funds to be allocated, invested, or moved between economic sectors. They enable individuals and companies to share the associated risks.

2.6.1 Features of financial system

- i. It is a set of interrelated activities or services.
- ii. Services are working together to achieve predetermined goals.
- iii. The system allows transfer of money between savers and borrowers.
- iv. It is applicable at global, regional, and firm level.
- v. It includes Financial Institutions, markets, instruments, services, practices and transactions.
- vi. The main objective is to formulate capital, investment and profit generation.

2.6.2 Financial services

Financial services are offered by a large number of businesses that encompass the finance industry. These include credit unions, banks, credit card companies, insurance companies, stock brokerages, and investment funds.

2.6.3 Functions of financial system

There are many channels through which financial institutions affect growth. Banks in particular perform some very important functions for society and, in the process, significantly influence major economic variables. Of these functions two are especially important: one is intermediation between ultimate savers and borrowers and the other is the administration of the payments mechanism. (Iqbal and Ahmad, 2005:1). We will now investigate briefly functions of the financial system as follows:

a) Deposit mobilization and allocation

In each and every economic system and society there are two groups of people. The first are those who have surplus budgets and are savers. The 2nd are those who have deficit budgets and want to credit for investment or consumption. The hassle is that these two businesses are now not the equal and they have distinct tastes, motives, desires, information and abilities. So it is integral for there to be some establishments as intermediaries to be a part of them indirectly.

This process is effected both by ability of direct finance through securities markets or via the system of economic intermediation in the financial market, with the latter being more important. The importance of financial intermediation can be seen by the fact that around two-thirds of new investment passes through this in most countries, and even more in less developed countries. Thus development and financial intermediation are very closely linked to each other and financial sector development is a prerequisite for economic development. (Iqbal and Ahmad, 2005:1) Sirri and Tufano, 1995 describe mobilization as follows:

—Mobilization - pooling - involves the agglomeration of capital from disparate savers for investment. Without access to multiple investors, many production processes would be constrained to economically inefficient scales (Sirri and Tufano 1995, taken from Levine, 1997: 20).

Furthermore, mobilization involves the creation of small denomination instruments. These instruments provide opportunities for households to hold diversified portfolios, invest in efficient scale firms, and to increase asset liquidity. Without pooling, households would have to buy and sell entire firms.

By enhancing risk diversification, liquidity, and the size of feasible firms, therefore, mobilization improves resource allocation (Sirri and Tufano, 1995).

In addition there are several advantages of mobilization and allocation of savings which make them necessary in the modern economy. These advantages may include:

a) Feasibility of Investment in Large and Long Term Projects

Usually depositors are small units and their amount of money is small, while investors are interested in investing in substantial projects. Also, savers are usually interested in leaving their money for short time, while investors need credit for the long term, indicating that: Financial intermediaries remove this size mismatch by collecting small savings and packaging these to make them suitable to the needs of the users. In addition, users of funds in general need funds for relatively long-term deployments, which cannot be met by individual suppliers of funds. This creates a mismatch between the maturity and liquidity preferences individual savers and users of funds. The intermediaries resolve the conflict again by pooling small funds (Iqbal and Ahmad 2005: 2).

b) Facilitating Risk Amelioration

Risk is a prevailing factor in economic activities, especially for depositing and investment. There are several types of risk such as: credit risk, idiosyncratic risk and liquidity risk. Liquidity risk plays a negative role in investment and economic development because higher return projects have high liquidity risk.

Banking systems provide insurance to depositors against the idiosyncratic risk that a single investment pays no return and the liquidity risk that depositors may need to withdraw investments before returns are available. As a result, high-return projects with long gestation periods or high but diversifiable risk are more likely to be funded.

Besides the link between risk diversification and capital accumulation, risk diversification can also affect technological change, which in turn can affect economic growth. Agents are continuously trying to make technological advances to gain a profitable market niche. Besides yielding profits to the innovator, successful innovation accelerates technological change. Engaging in innovation is risky, however. The ability to hold a diversified portfolio of innovative projects reduces risk and promotes investment in growth-enhancing innovative activities (with sufficiently risk-averse agents). Thus, financial systems that ease risk diversification can accelerate technological change and economic growth (King and Levine, 1993c).

c) Monitoring Managers and Exerting Corporate Control

Naturally, everybody who lends money to a company is interested in monitoring it and its manager. As there are a lot of depositors who are worried about how their funds are used, the monitoring cost would be very high, so banks, on behalf of all depositors, monitor the firm and its managers. This in turn reduces the monitoring cost and encourages savings which increases economic growth.

Besides particular types of financial contracts, financial intermediaries (Banks) can reduce information costs even further. If borrowers obtain funds from many outsiders, financial intermediaries can economize on monitoring costs.

The financial intermediary mobilizes the savings of many individuals and lends these resources to project owners. This "delegated monitor" arrangement economizes on aggregate monitoring costs because a borrower is only monitored by the intermediary, not all individual savers (taken from, Levin.1997: 697).

b) Circulation of Money

Another factor which some economists emphasize as a facilitator of growth is the circulation of money by banks. By creating purchasing power, banks enable entrepreneurs to buy capital goods on the one hand and consumers to purchase consumption goods on the other hand. Schumpeter (1911) argues that: there is another method of obtaining money for this purpose, which claims our attention, because it, unlike the one referred to, does not presuppose the existence of accumulated results of previous development, and hence may be considered as the only one which is available in strict logic. This method of obtaining money is the creation of purchasing power by banks.

2.7 Financial Development and Banking Aspects

Every financial system usually provides special functions and services which can affect the mobilization of savings, the allocation of resources and economic development. Whenever they perform their functions better and more successfully, their development improves.

Financial development occurs when financial instruments, markets, and intermediaries ameliorate – though do not necessarily eliminate – the effects of information, enforcement, and transactions costs.

Thus, financial development involves improvements in the

- (i) Production of ex-ante information about possible investments,
- (ii) Monitoring of investments and implementation of corporate governance,
- (iii) Trading, diversification, and management of risk,
- (iv) Mobilization and pooling of savings, and
- (v) Exchange of goods and services.

Each of these financial functions may influence savings and investment decisions and hence economic growth. Since many market frictions exist and since laws, regulations, and policies differ markedly across economies, improvements along any single dimension may have different implications for resource allocation depending on other frictions (Levine, 2004: 5-6).

2.8 Correlation between Financial System and Economic Growth

Instead of discussing the relationship between financial (banking) systems and economic growth, economists usually discuss the relationship between financial development and economic growth, but both state the same reality.

Kar et al. (2011) focused on developing countries and also introduced new indicators of financial development with a view to establishing the causal relationship between financial development and economic growth. Using countries, which constitute the Middle East and North Africa (MENA) for the period 1980 to 2007, the study uses a simple linear model. This model defines economic growth as a function of financial development. Six new indicators of financial development was introduced and these include; i) the ratio of narrow money to income, ii) ratio of broad money to income, iii) ratio of quasi money to income, iv) ratio of deposit money bank liabilities to income, v) ratio of domestic credit to income, and vi) ratio of private sector credit to income. On the other hand, the real income was employed as a proxy for economic growth. The Granger Causality test was used to find out the causal relationship between financial development and economic growth. The study concludes that the direction of causality is bi-directional

Hassan et al. (2011) focused more on the low- and middle-income countries from 1980 to 2007. This study comprises 168 countries, which are classified by geographic regions, and uses the panel estimation techniques (i.e. the VAR models). The study came up with two important findings.

These include; a strong long-run linkage between financial development and economic growth, and two-directional causality exist between financial development and economic growth among the Sub-Saharan African countries, the East Asian countries, and the Pacific countries. This study emphasized the need for the adoption of long-run policy measures among the developing countries.

Ibrahim (2012) has examined the impact of financial intermediation on economic growth in Nigeria. Time series data from 1970 to 2010 were used. For the analysis, the unit root test and co-integration test were done accordingly and the error correction model was estimated using the Engle-Granger technique. The growth rate of the real gross domestic product is used as a proxy for this variable. For financial intermediation, two indicators commonly used in the literature are used as proxy. These are the ratio of broad money supply (M2) to nominal gross domestic product (GDP) and the ratio of domestic credit to the private sector (DCPS) to the nominal gross domestic product (GDP). While the former measures the capability of the banks to mobilize funds for investment purposes, the latter measures the financial opportunities available to firms, most especially new firms. The paper established that financial intermediation has a significant impact on economic growth in Nigeria.

However, not all agree with the importance of the financial system in the growth process. Lucas (1988:6) believes that economists badly over-stress 'the role of financial factors in economic growth, while Robinson (1952: 86) articulated the view of many when she wrote, 'where enterprise leads, finance follows'. According to this view economic growth is the reason for financial development. It creates demands for particular types of financial arrangements and the financial system responds automatically to these demands. However, the idea that there is a positive relationship between financial development and economic growth has attracted many economists since Walter Bagehot's time.

Schumpeter was the most famous theorist who strongly supported the idea that there is a positive relationship between well functioning banks and economic growth by providing credit to the entrepreneurs for the best projects which leads to technological innovation via mobilizing savings, evaluating projects, managing risk, monitoring managers, and facilitating transactions. As we see, Schumpeter believed that entrepreneurs have a critical role in economic development and financial intermediaries and bankers in particular have an important role in their financing.

Schumpeter believes that development is not possible without credit (see Schumpeter, 1911). He also explicitly rejects Ricardo's opinion about the inability of banking operations to increase wealth. Schumpeter (1911) says: "No one can reproach me with offending against, Say and Ricardo's statement that "bank operations" cannot increase a country's wealth.

McKinnon also supports the notion that there is relationship between financial systems and economic development. McKinnon (1973: 2) states that: —Money and finance, as governed largely by the banking system are given a degree of importance much greater than that accorded by most authors concerned with developmentl.

McKinnon also believes that capital markets can aid economic development via efficiency by increasing the return rate of existing capital stock. MacKinnon (1973:9) states: —The capital market in a developed economy successfully monitors the efficiency with which the existing capital stock is developed by pushing returns on physical and financial assets toward equality, thereby significantly increasing the average return. McKinnon also provides evidence from Argentina, Brazil, Chile, Taiwan, Korea, Indonesia, Germany and Japan. He suggests that a better functioning financial system leads to faster economic growth.

There is a large amount of literature that discusses the relationship between financial intermediaries and economic development. Beck et al (2000), Bekaert et al (2001) and Beck and Levine (2004) strongly supported the idea that there is a positive relationship between financial development and economic growth.

Levine et al (2000) evaluated whether the exogenous component of financial intermediary development influences economic growth and also whether cross- country differences in legal and accounting systems explain differences in the level of financial development. In this regard they used traditional cross-section, instrumental variables procedures and dynamic panel techniques. Their analysis shows that there is a strong relationship between the exogenous component of financial intermediary development and long-run economic growth. They also show that each of the three financial intermediary development indicators (private credit, commercial-central bank and liquid liabilities) is significantly correlated with economic growth at the five percent significance level.

Abu-Bader and Abu-Qarn (2005) examined the causal relationship between financial development and economic growth in Egypt for 1960-2001. They used Granger causality tests. They concluded that financial development promotes economic growth either through increasing investment efficiency or capital accumulation.

Beck et al (2000) evaluated the empirical relation between the level of financial intermediary development and (i) economic growth, (ii) total factor productivity growth, (iii) physical capital accumulation, and (iv) private savings rates. They used (a) a pure cross-country instrumental variable estimator to extract the exogenous component of financial intermediary development, and a new panel technique that controls for biases associated with simultaneity and unobserved country-specific effects. Beck et al (2000) found that there is a robust, positive link between financial intermediary development and both real per capita GDP growth and total factor productivity growth. The results indicate that this is not due to biases created by endogeneity or unobserved country-specific effects.

Bashir and Hasan (2003) examined the relationship between financial development and economic growth in some Muslim countries (Egypt, Jordan, Morocco, Tunisia and Turkey).

This mode offers an easy solution in explaining and predicting the values of a set of economic variables at any given point in time. VAR is a straightforward, powerful statistical forecasting technique that can be applied to any set of historical data. Like the structural model, the VAR system also generates a system of equations that can project the future path of economic variables by extrapolating from their past values. However, the main difference between the VAR system and structural models is that the VAR system is based entirely on empirical regularities embedded in the data. The structural model is tied closely to the economic theory. They utilized five variables for measuring financial development.

- (1) The ratio of bank credit to the private sector to total domestic credit (DCPR) with a higher ratio indicating a shift from public to private financing.
- (2) The ratio of domestic credit to GDP (DC) with a higher ratio indicating a higher level of domestic investment.
- (3) The ratio of M2 to GDP for measuring liquid liabilities in the economy with a higher ratio meaning higher intensity of the banking system. They stated that —the

assumption here is that the size of the financial system is positively associated with the financial services (King and Levine, 1993). They called this indicator financial depth and showed it as (M2).

- (4) The ratio of deposit money banks' assets to GDP (DPST). Bashir and Hasan (2003), explained that —like the previous one, this measure also indicates the intensity of the financial intermediaries since it corresponds to more financial services and, hence, more financial development.
- (5) The interest rate. Bashir and Hasan (2003) pointed out that: financial development is expected to benefit from interest rate liberalization in terms of higher savings rate and, consequently, a higher volume of investment.

They used the discounted rate (R) to measure the degree of financial liberalization in the economy. Furthermore, they used —the real rate of growth of GDP as an overall indicator of the possible efficiency-enhancing gains from financial liberalization.

Consequently, Bashir and Hasan's conclusions are as follows:

1- For Egypt their main indicator of financial depth (FDEP) had a positive impact on GDP growth. Bashir and Hasan (2003) also concluded that—other measures of financial development have a different impact on the rate of growth, with the interest rate R, having a positive impact for the first four years before becoming negative thereafter. The banking variable, DPST, also has a positive but insignificant impact on the GDP growth rate. Moreover, the FEVD analysis shows that the GDP growth rate accounts for less than four percent of its own variation, indicating that financial development has a strong impact on growth in Egypt. Furthermore, GDP growth has positive impacts on all financial variables included in the equation.

2-For Jordan Bashir and Hasan (2003) concluded that —DSPT, DCPR and FDEP have a positive effect on GDP growth, while R has a negative effect. The FEVD results indicate that the growth rate accounts for 44 percent of its variation, implying a strong effect on the growth rate from the financial variables. It is worth mentioning that GDP growth has a positive impact on the measure of financial depth (FDEP), DCPR and DPST.

3- For Morocco Bashir and Hasan (2003) concluded that —the GDP growth rate has a positive impact on all variables except R. More importantly, the financial depth variable affects growth positively. The FEVDs show that GDP growth rate accounts for 18 percent of its variables, a strong indication that the financial variables account for much of the variation in growth.

4- For Tunisia, Bashir and Hasan's (2003) VAR results show that —all variables affect each other positively except for R. The fact that GDP growth accounts for 39 percent of its own variation indicates a strong linkage between growth and financial development in that country.

5- For Turkey, Bashir and Hasan (2003) found that there is —a positive impact of FDEP on the growth rate, DC, DCPR and DPST. The empirical results also show the positive impact of the growth rate on all variables. The fact that GDP growth rate accounts for 55 percent of its own variation indicates that the linkage between the real and financial variables is not as strong as indicated on the other countries in the sample.

In addition, in order to understand the trend between financial and real variables they examined causality for five countries. Bashir and Hasan (2003) stated their results as: the time series analysis and data are more fruitful in investigating causality between finance and growth. When it comes to the question of causality, the answer depends very much on the institutional characteristics, including the type of financial system and the type of financial policies followed. More importantly, the financial indicators used tend to have significant explanatory powers in explaining the growth of the analysis.

2.9 Financial Characteristics of Economic Growth

We know that equilibrium of income and wealth is associated with an equilibrium level of debt and its counterpart in financial assets.

According to Gurley and Shaw's article (1955) financing generally takes place in three ways as follows:

a) **Self Finance:** In this way each person or company invests whatever they save. In fact if they have a balanced budget their expenditure is equal to their income and their investment is equal to their saving. Although, self-finance continues in most sophisticated economic systems, its importance has decreased significantly.

b) **External Finance:** This may take place in two forms:

(1) Direct Finance: In this way the deficit spending units borrow from the surplus spending units. If spending on capital formation is directly financed, debt tends to accumulate *pari passu* with wealth Gurley and Shaw (1955: 519).

(2) Indirect Finance: For this an intermediary is required. Indirect finance plays an important role in economic development and growth. Gurley and Shaw (1955: 535) stated that: Economic development is retarded if only self-finance and direct finance are possible, if financial intermediaries do not evolve. The primary function of intermediaries is to issue debt of their own, indirect debt in soliciting loanable funds from surplus spending units, and to allocate these loanable funds among deficit units whose direct debt they absorbed. When intermediaries intervene in the flow of loanable funds, the accumulation of financial assets by surplus spending units continues to equal the accumulation of debt by deficit units. The rise of intermediaries- of institutional savers and investors does not affect at all the basic equalities in a complete social accounting system between budgetary deficits and surpluses, purchases and sale of loanable funds, or accumulation of financial assets and debt. But, total

debt, including both the direct debt that intermediaries buy and the indirect debt of their own that they issue rises at a faster pace relative to income and wealth than when finance is either direct or arranged indirectly. Institutionalization of saving and investment quickens the growth rate of debt relative to the growth rate of income and wealth.

It can be seen from their analysis that in the case of the existence of financial intermediaries the rise of total debt is faster than income and wealth which can increase the growth rate, and banks are the most important of all financial intermediaries. They believe that there are some key functions for banks. First, borrowing loanable funds from suppliers and second, transmitting the borrowed funds to the demanders who have deficits in their budget. However, these bank functions ease borrowing and lending by increasing confidence between demanders and suppliers of credit.

King and Levine (1993b) designed some indicators of financial development in order to measure the services provided by financial intermediaries and some growth indicators as follows:

a) Financial Depth Indicator: Usually assumes that the size of financial intermediaries has a positive relationship with the financial services provided. This means that whenever the financial intermediaries are larger the financial services will be further expanded. So, King and Levine defined financial depth as —the overall size of the formal financial intermediary system, i.e., the ratio of liquid liabilities to GDP (King and Levine, 1993b:3).

b) Bank Indicator: This indicator has been designed to measure the relative importance of a specific financial institution. Despite some weaknesses in this indicator, it is useful if used as a complementary measure.

c) Private Indicator: This indicator and the next one are designed to measure the quality of distribution of domestic assets. A financial institution from which the state sector receives a considerable percentage of its credit is not able to evaluate managers, select investment projects, pool risk, and provide financial services such as financial systems that allocate credit to the private sector. —Thus, we compute the proportion of credit allocated to private enterprises by the financial system. This measure equals the ratio of claims on the non-financial private sector to total domestic credit (excluding credit to money banks) (King and Levine, 1993b:6).

d) GYP Indicator: They used this indicator as the growth indicator which is —the average long-run real per capita GDP growth (GYP) (King and Levine 1993b:7). Furthermore, they discussed the linkages between the financial indicators and the sources of growth. King and Levine (1993b) used cross-country evidence by using data from 80 countries for the period 1960-1989. After analyzing data using econometric methods, they concluded that various measures of the level of financial development are strongly associated with real per capita

GDP growth, the rate of physical capital accumulation, and improvements in the efficiency with which economies employ physical capital. Further, the predetermined component of financial development is robustly correlated with future rates of economic growth, physical capital accumulation, and economic efficiency improvements (King and Levine (1993b)).

2.10 Impact of Financial Systems on Economic Growth

In discussing this issue we should look at the factors which lead to economic growth and then investigate the ways which financial systems, especially the banking system, can affect these factors. There are some factors which accelerate economic growth and some factors which are moderators and decelerators of economic growth.

2.11 Reasons which Accelerate Economic Growth

a) **Physical Capital:** Physical capital plays an important role in almost all economic growth models, even in the conventional models; physical capital was introduced as the main and only effective factor. Many economists believed that the main problem for poor countries is their poverty and shortage of physical capital. Today, physical capital also has special importance.

b) **Human Capital:** The stock of competencies, knowledge, social and personality attributes, including creativity, embodied in the ability to perform labor so as to produce economic value. The importance of human capital has recently appeared in economic literature, especially economic development literature. In the past, economists concentrated on physical capital and not only declared inequality to be permissible but also encouraged it in the early stages of economic development. They believed that because the poor's propensity to consume is higher than that of the rich, we should permit the majority of national production to go to the rich in order to increase savings and consequently investment and physical capital. Since the 1970s a new idea has appeared which focuses on human capital. Supporters of human capital believe that although physical capital is a necessary condition for economic development, it is not a sufficient condition. What is more important than physical capital is human capital. This is because humans use and manage physical capital and without specialized workers and proper human capital, the physical capital will be wasted.

Therefore these new thinkers and economists place emphasis on equality and justice in obtaining growth and sustainable development (see for example Sen's works). He believes that in a society with a high poverty rate many people who are able to be entrepreneurs will be deprived of education. Consequently the society will be divested of their potential abilities.

c) **Efficiency:** Efficiency is an important issue in economic activity. Efficiency means a situation in which a firm has maximum production in its activity with a fixed amount of input or has minimum cost with a determined amount of production. Fried et al (1993) and

Coelli et al (1998) explain efficiency as follows: A production function is efficient, in the Pareto and Hoopman sense, when it represents the maximum output attainable from each input level, or the minimum level of each input leaving the output unchanged, as is well known from the theory of duality. Without efficiency, in fact, producers waste part of their input. Therefore, the banking system can influence economic growth by both its efficiency and the efficiency of those firms whose operations depend on the banking system.

2.12 Reasons which deteriorate Economic Growth

a) **Risk:** Generally, people are divided into three groups regarding risk: risk averter, risk taker and risk neutral. Most people are risk averters who do not take risks which have a negative effect on their activities. When one is thinking about investment, risk is a determining factor in decision-making. Even for risk takers who love risk it may be a negative factor for decision making regarding investment. Of course they are not as sensitive as risk averters in this regard. Hence, every factor which can decrease risks would be able to cause an increase in investment.

b) **Monopoly:** It is evident from the economic literature that competition is an important factor in efficiency and growth. When there are many firms which compete with each other by decreasing prices or increasing their efficiency, the rate of growth is expected to increase. Therefore monopoly, which is the opposite of competition, has a negative effect on efficiency, productivity and consequently growth.

c) **Government Ownership:** One subject which should be considered when discussing the relationship between the financial system and economic growth is the ownership of the banks. Government owned (henceforth state) banks provide an effective means for politicians to influence the allocation of credit, allowing them to support firms and enterprises that may further their political interests. This view, known as the political view of state banks', has a clear policy implication: privatizing state banks can improve the efficiency of credit allocation and, consequently, can have positive effects on the quality and quantity of investment.

Privatization of government-owned banks is also likely to promote financial development, since private banks would be in a better position to attract funds into the banking system than inefficient state-owned banks. (Demetriades and Andrianova, 2003:16)

2.13 Thought of Islamic Economics

Principally, when one is talking about Islamic banking, it should be considered as a part of the Islamic economic system which differs considerably from capitalist and socialist systems.

There are some assumptions in western economics which are debatable from the Islamic point of view. For example, from the western economists' point of view:

- (i) The basic assumption is that man is selfish by nature and he behaves rationally.
- (ii) Material progress is a supreme goal.
- (iii) Every person has an inherent tendency to maximize his material welfare and he also has enough knowledge and ability to decide what is good for him(Siddiqi, 1982:18).

In contrast, firstly, Islam encourages people to sacrifice in favour of other people, especially in favour of poor people.

There are many verses in the Holy Quran and also many traditions from the Holy Prophet (peace be upon him and his respected family) which encourage people to be altruistic and prefer others to themselves. For example, the Holy Quran, when talking about the Holy Prophet's comrades (Ansar) says positively and encouragingly that "they prefer migrants (Mohajerin) over themselves even the same things; and those who are secure from the greed of their own souls, (like these assisters) they have indeed attained salvation (the Holy Quran, chapter 59, verse 9). Also, in Chapter Baqarah Glorious God stated: (The pious are) those who believe in the unseen; are steadfast in performing prayer (five times a day) and spend out (to the needy) of what we have provided for them (the Holy Quran, chapter 2, verse 3). Furthermore, the Holy Quran introduces the righteous as those who — for Allah's pleasure they feed the needy, the orphan and the captive though themselves go hungry and they say: we only feed you to obey Allah's command and for His sake. Therefore, we expect neither your reward nor thanks (the Holy Quran, chapter 76, verses 8- 9).

There are many stories regarding the behaviour of the Holy Prophet (peace be upon him and his respected family) and his family showing that they preferred others to themselves. For example, Aisha, the wife of the Holy Prophet (PUHAHF) narrated: —The Prophet (PUHAHF) had never spent three consecutive days having eaten to his full when he left this world. Although he could have, had he wanted to; but he used to place others before himself [Al-Hamdan, n.d. taken from Mohammadi Rayshari (2009: 2)].

It should be noted that this does not mean that there is no selfishness in human beings, rather that despite the existence of selfishness in human wishes and human behaviour, which is actually necessary to sustain life, Islam (and religions in general) have educated people to prefer others to themselves by hoping for reward in the Hereafter. It should be clear from the above mentioned issues that belief in the Hereafter plays an important role in controlling and adjusting human behaviour even in economic issues.

Secondly, although economic growth, or in other words material progress, is an important issue encouraged by Islam, it is not the main aim from the Islamic point of view. One verse of the Holy Quran states: and to the tribe of Thamud their brother, Salih, (was sent). He said: O my people! Worship Allah, you have no other God save Allah; Allah is the one who produced you from the earth and has left its reclamation to you (the Holy Quran, chapter 11,

verse 61). God in this verse asks us to inhabit earth and develop it. What is important is that it is not a final adjective; rather it is a medium adjective.

Material progress is not the supreme adjective in an Islamic society. It is desirable goal but it is subservient to certain rewards in the hereafter. The prophet (Peace be upon him and his respected family) led a simple life. Material prosperity is a desirable in so far as it helps man to perform his duties toward God, society, family and himself. Taking material progress as the supreme adjective of life is opposed to the Islamic framework (Makian, 1997: 6).

Thirdly, although, the human being is unique among all creations regarding having the power of thought and even wisdom, which is one of the sources used by jurists for inference of the shariah commands and laws, human wisdom is not enough to understand what is best for him and that is why God has sent prophets to show the right way to the people. For instance, after determining the share of inheritance to be allocated to family members, the Holy Quran says: You do not know which of them, your parents or your children, will be useful to you; these fixed shares are decreed by Allah; and Allah is the Absolute Knowing Decreeer (Holy Quran, chapter 4, verse 11; See also the Holy Quran chapter 7, verse 187). So, according to Islam only God's knowledge is perfect.

As Islamic economics is different from capitalistic economics epistemologically, it needs a special methodology. There are two kinds of assumption in Islamic economics. First, those which are based on divine sources, such as the Holy Quran and Sunnah which are completely true and reliable and there is no need for verification at all regarding these, although some scholars' understanding of some of these sources, which are somewhat complicated in meaning, may be different and consequently should be counted as human knowledge. Second, assumptions based on human knowledge which are on a lower level of credibility and subject to criticism. The issue is that economics focuses solely on human knowledge which is not completely reliable and denies divine knowledge which is certain.

Thus on these basic assumptions Islamic economics has a different position. This provides, in part, need and justification for a separate methodology of Islamic economics. It only means that economics does not have any hard core of sure knowledge which may be treated as a point of reference and criteria for judging the truth and falsity of various theories. Therefore, there is a need for a methodology which not only provides basis for sure knowledge but also eliminates confusion of contradictory theories by laying down a criterion for judging the contending theories.

2.14 The Contribution of Full-Fledged Islamic Banking to the Growth and Development of Bangladesh Economy

Islamic banking has a positive impact on economic growth and development. Some economists even believe that because of the elimination of interest (riba), working

according to Profit and Loss Sharing (PLS), Islamic banking has a more important role than conventional banking systems in this regard. There are several empirical works regarding the role of Islamic banking in economic development. For instance: Ahmed (2005) investigated the role of the Islamic financial system in economic development. He first discussed the factors of economic growth and then analyzed the role of Islamic financial institution and instruments in facilitating the growth factors. Ahmed (2005) showed that there are operational problems related to the use of equity-based instruments to finance different financial growth factors, in particular working capital. Ahmed (2005) argued that debt contracts and leasing contracts cannot be used to finance working capital and also that there are no operational models for using murabahah and mosharakah to finance working capital. Ahmed (2005) believed that in order to solve the problem of financing different growth factors it is necessary to work on developing operational models of corporate finance in general and workable equity-based instruments and institutions in particular.

Sarker, Md. A. A. (1999) evaluated performances of Islamic banks in Bangladesh during the period of 1988-97. The paper used five efficiency test criteria (mainly financial ratios) to measure the performance of Islamic Banks. The paper reported that only Islamic Bank Bangladesh Limited, the first Islamic Bank in Bangladesh (established in 1983) maintained positive growth trend in deposits, advances and profits during the period under report. Investments under Musharaka, ideal partnership mode was below 3% of total investments and no investment was made under Mudaraba, another ideal mode during the period under report.

It has been observed that Islamic banking in Bangladesh where there is a lack of a well-defined regulatory and supervisory framework for Islamic banks for their effective functioning in line with the tenets of Shariah. The other major issues included absence of an interbank Islamic money market, presence of a discriminatory legal reserve requirement for Islamic and conventional banking, prevalence of a restrictive environment in the capital market, and the lack of legal support and protection of Bangladesh Bank to avoid the associated risks of Islamic banks. The paper suggested that Islamic banks in Bangladesh should have an independent banking act that controls, guides, and supervises their functions and provide legal support to the parties concerned.

Mahmud, Abdullah Al & Islam M. Muzahidul (2010) paper focuses on the comprehensive comparison about the performance of conventional and Islamic banking system operation in Bangladesh during 2000-2005. Some commonly used measures such as general business measures, profitability ratios; management soundness and social profitability have been applied to derive the objectives of the paper. The paper found that though both conventional and Islamic banking have contributed a lot to the economy of Bangladesh, there are two major functional differences. Firstly, the conventional banks follow borrowing and lending mechanisms while the Islamic banks abide by trading and investment mechanisms. Secondly, the conventional banks provide and receive interest for deposit and advance but

Islamic banks neither accepts nor pays interest in any of its activities and run business based on profit as a pricing tool instead of interest. The study reported better performance of Islamic banks as compared to that of conventional banks.

Sadekin, Md. Nazmus et. al., (2014) analyzed the performance, development and growth of selected five Islamic Banks in Bangladesh. Seven variables namely number of branches, number of employees, total deposits, total investments, total remittance, net Income and earnings per share during the time span of 2008 to 2012 has been used to derive results of the paper. Eight trend equations have been tested for different activities of the Islamic banks. They found that the trend value of branches, employees, deposits and net income are positive in case of all the selected banks. The trend value of branches, employees, deposits and net income is positive in case of all the selected banks. Square of correlation coefficient (r^2) has also been tested for all trend equations. They revealed that the r^2 of branches, deposits and net income is more than 0.5 implying that the future of the Islamic Banks in Bangladesh is very bright.

2.15 Conclusion

This chapter has been divided in to two sections. One is conceptual review and other is historical review. In this chapter I have focused on the relationship between the banking systems and economic development, and then the contribution of Islamic banking to the growth and development of Bangladesh Economy. For this reason the relevant literature has been reviewed and analyzed. The vast majority of the reviewed literature showed here a significant relation between the business development and the economic growth in several countries. It has also been confirmed from some research study of MINA countries and some middle-east countries that the economic growth and business development has been occurred from the application of Islamic Banking.

Review on the theoretical literatures it has been established that Islamic financing is based on several principles which emanate from the teachings of Islam. The profit sharing theory, Islamic banking theory, cost plus theory and the trust financing theory form the basis of Islamic banking and they aim to promote justice and fairness which in turn enhances economic growth. In addition, a review of the empirical literature has established that Islamic Banking leads to economic growth. However, Most of the studies on the role on Islamic banking were carried out in Islamic dominated countries mostly in the Middle East and Northern African Regions, which has included the countries like Qatar, U.A.E, Bangladesh, Tunisia, Bahrain, Pakistan and the Islamic republic of Iran. There are some theories and opinions regarding the role of financial systems, with an emphasis on the effect of the banking system on economic growth, have been discussed.

Chapter- Three

Economic Structure in Bangladesh

3.1 Introduction

The market-based economy of Bangladesh is the 31st largest by purchasing power parity and 42nd largest in the world in nominal terms. It is classified among the emerging market middle income economies and a Frontier market. An economic system is a system of production, resource allocation, exchange and distribution of goods and services in a society or a given geographic area.

The Bangladesh economy has emerged as one of the most sustainable growth economy in the world. The economy grew at an average rate of 6.20 percent over the last decade (FY2005-06 to FY2014-15). The GDP growth is estimated at 7.11 percent in FY2015-16, significantly up from 6.55 percent in FY2014-15. The per capita national income reached US\$1,465 in FY2015-16, up by US\$149 a year earlier. The macroeconomic stability has remained stable with the continuance of fiscal prudence, lower inflation, surplus current account balance and robust foreign exchange reserve. Inflation gradually came down and year-on-year inflation in FY2015-16 slid down to 5.92 percent from 6.41 percent in FY2014-15. Exports recorded a growth rate of 9.77 percent while import grew 5.45 percent in FY2015-16. Despite slightly contraction of remittances inflow, the decrease in the deficit of trade, service and primary income account, the current account balance recorded a surplus of US\$3,706 million. Aided by the increase in foreign direct investment and medium and long term loans in capital and financial accounts, the foreign exchange reserve crossed the US\$30 billion year mark. Exchange rate broadly remained stable during FY2015-16. Moreover, lending interest rate fell, which is expected to encourage investment further in the country.

As a developing country, Bangladesh was the world's 42nd largest economy as graded by the International Monetary Fund. At US\$1,500, the per capita income of the country is much lower than its neighbors India and Pakistan. During the first decade of the 21st century, Bangladesh's economy grew at a rate of 6%-7% annually.

3.2 General Features

Bangladesh is important for several different reasons. First of all is its geopolitical and strategic situation is different. It is located in such an area where its weather is considerable for producing garments items. Second is its size of population. Among them are its geographical location, its natural wealth, and its large number of population. According to the data of the year 2015, the total population of the country was 158.90 Million, with a population density of 1077 persons per square kilometre. Of the total population, 158.90 million³.

³ (Bangladesh Economic Review 2017, pxvii).

Furthermore, Bangladesh benefits from a six seasonal climate in every season. This kind of weather allows farmers of Bangladesh to produce a variety of different agricultural products in each season. Like other developing countries; there is a kind of duality in Bangladesh economy. The agricultural sector is representative of the traditional sector and industry is representative of the modern sector of the economy. Although in many areas modern cultivating machines are used in agriculture, a significant amount of farming is still done manually. However, there is a movement toward modernization in this sector too. In general, the modern sector is predominant in Bangladesh economy. In recent years the agricultural sector has become more mechanized and its share in industry has increased.

3.2.1 Economic System

Economic system is a type of social system. The mode of production is a related concept. Also we may say that the Economic system is a social science that analysis the production, distribution and consumption of goods and services. It's a mechanism which deals with the distribution and consumption of goods and services in a particular society.

Types of economic system: There are four major types of economic system in the world. These are

1. **Capitalist Economic system:** The entire economic sector owned by individual in a capitalist country
2. **Socialist Economic system:** Country having all the economic sectors controlled by the Government.
3. **Islamic Economic system:** Where Islamic law and institutions prevails.
4. **Mixed Economic system:** Co-existence of Capitalist and Socialist system prevail in public and private sectors.

Economic system in Bangladesh: In Bangladesh, the public and private based economy is existing together. As in Bangladesh the economy is lead by the public and private sectors, so mixed economic system is prevailing here.

Example: According to Wikipedia (2016), among 57 banks 8 are state-owned, 8 are Islamic and 41 are private.

Central Bank of Bangladesh, named Bangladesh Bank rules all over banks of Bangladesh. It shows the sense of mixed economy.

In a nutshell we may say that after 1975, it developed private sectors to develop its economy and became a country with mixed economic system which boosted our economic status a lot. Finally it can be said that mixed economic system is the best economic system for Bangladesh economy but it would be better if there exists full Islamic Economic system as lying high Iran, Sudan, Pakistan etc. Bangladesh is one of the largest producers of garments item which is the main sources of income for the government for many decades. This fact

affects almost all aspects of the country's economy as a defining characteristic. This chapter introduces the structure of the economic system in Bangladesh. Firstly, focusing on its features and secondly its financial system, particular in the banking system, will be considered. Thirdly, the share of each major sector in the country's economic development will be considered.

3.2.2 Global Economic Perception

The global economic recovery has weakened further amidst increasing financial turbulence. Major macroeconomic realignments are affecting prospects differentially across countries and regions. These include the slowdown and rebalancing in China; a further decline in commodity prices including oil; a related slowdown in the investment and trade; and declining capital flows to emerging markets and developing economies. The outcome of Brexit is still unfolding. A list of noneconomic factors together with geopolitical tensions is generating substantial uncertainty in global growth. This uncertainty is expected to take toll on confidence and investment through repercussions on financial conditions and market sentiments.

IMF in its World Economic Outlook (WEO) October 2016, projected the global growth at 3.1 percent for 2016, 0.1 percentage point lower than projection of the April 2016. Growth in advanced economies is projected to increase 1.6 percent in 2016, also 0.3 percentage point lower than April 2016 projection. On the other hand, growth in the emerging market and developing economies is projected to increase 4.2 percent in 2016, 0.1 percentage points higher than April, and 2016 projection. Global economy is projected to gather some pace in 2017 and expected to grow at 3.4 percent.

In the United States, growth in the first half of the year was weaker than expected, triggering a downward revision of 0.8 percentage points for the 2016. Despite signs of weakening growth, labour market indicators continued to improve. In addition, some indicators point to a pick up in the second half of 2016. In the euro area, growth was higher than expected in the first quarter of 2016, reflecting strong domestic demand and some rebound in investment. However, in light of the potential impact of increased uncertainty of the UK referendum, 2017 growth was revised down by 0.1 percentage points relative to April Outlook, while 2016 growth is still projected to be slightly higher, given the outcome of the first half of the year. In Japan, the first two quarters activities slightly better than expected despite the momentum of domestic demand remains weak and inflation has dropped. However, further appreciation of the yen in recent months is expected to take toll on growth in both 2016 and 2017.

Output growth in the first half of 2016 was somewhat better-than-expected in the emerging market and developing economies. The real economic activities of China were somewhat stronger, reflecting policy support of the government. Benchmark lending rates were cut five times in 2015, fiscal policy turned expansionary in the second half of 2016,

infrastructure spending picked up and credit growth accelerated. In India, economic activity remains buoyant, but the growth forecast for 2016-2017 was trimmed slightly, reflecting a more sluggish investment recovery. The economy of Russia shows stability following the rebound in oil prices. Brazil's economy shows some tentative signs of moderation from deep downturn. The downturn in sub-Saharan Africa, reflecting challenging macroeconomic conditions in its largest economies, which are adjusting to lower commodity revenues.

Geopolitical tensions are also taking a heavy toll on the outlook of several economies, especially in the Middle Eastern countries. Other ongoing concerns including climate related factors (e.g., drought in East and Southern Africa, diseases such as Zika virus in the Latin America and the Caribbean regions) may affect the global economic prospects.

3.3 An overview of Economic Structure in Bangladesh

Economic Sectors: The economic structure of Bangladesh can be divided into the following three main sectors. The economy of a Nation can be divided into various sectors to define the proportion of the population engaged in the activity sector. This categorization is seen as a continuum of distance from the natural environment. The continuum starts with the primary sector, which concerns itself with the utilization of raw materials from the earth such as agriculture and mining. From there, the distance from the raw materials of the earth increases.

3.3.1 Primary Sector

The primary sector of the economy extracts or harvests products from the earth. The primary sector includes the production of raw material and basic foods. Activities associated with the primary sector include agriculture (both subsistence and commercial), mining, forestry, farming, grazing, hunting and gathering, fishing, and quarrying. The packaging and processing of the raw material associated with this sector is also considered to be part of this sector. In developed and developing countries, a decreasing proportion of workers are involved in the primary sector.

Primary Sector in Bangladesh: With 45% of the workforce engaged in the primary sector (est. 2008), Bangladesh can be called an agrarian economy. Agriculture contributes 30% of the country's GDP and enables Bangladesh to achieve its macroeconomic objectives, including food security, poverty alleviation, human resources development and employment generation. Cooperatives are increasingly motivating farmers to employ modern machinery. Bangladesh primarily produces jute, rice, tobacco, tea, sugarcane, pulses and wheat. According to the composition of sub sectors, the crop sector contributes 72% of the production, followed by Fisheries at 10.33%, livestock at 10.11% and forestry at 7.33%. The unpredictable weather and natural calamities disrupt the country's economy frequently. To overcome this problem, the government has constructed several irrigation projects to conserve rainwater and control floods. The projects also include controlling pests and using high quality seeds.

3.3.2 Secondary Sector in Bangladesh

The secondary sector of the economy manufactures finished goods. All of manufacturing, processing, and construction lies within the secondary sector. Activities associated with the secondary sector include metal working and smelting, automobile production, garment and textile production, chemical and engineering industries, aerospace manufacturing, energy utilities, engineering, breweries and bottlers, construction, and shipbuilding.

This sector mainly comprises of small and medium enterprises that give employment to 30% of the country's workforce (est. 2008). It generates 25% of the GDP and 40% of the gross manufacturing output. Bangladesh's light engineering sector is one of the largest and most diverse, producing a wide variety of machinery and spare parts. There are several mills and factories, producing jute, garments, cotton, paper, textile, pharmaceuticals and fertilizers, among other things. Some major manufacturing industries are railways, tea plantation & processing industries, construction sector, ferry and transport. Infrastructure is developing swiftly in terms of water distribution, power supply, communications and transportation. Bangladesh features a prominent wealth of coal mines.

3.3.3 Tertiary Sector

The tertiary sector of the economy is the service industry. This sector provides services to the general population and to businesses. Activities associated with this sector include retail and wholesale sales, transportation and distribution, entertainment (movies, television, radio, music, theater, etc.), restaurants, clerical services, media, tourism, insurance, banking, healthcare, and law. In most developed and developing countries, a growing proportion of workers are devoted to the tertiary sector.

Tertiary Sector in Bangladesh: In the last two decades, Bangladesh has seen incredible growth in its service sector. As of 2008, 25% (est.2008) of the country's workforce was employed in this sector. Although this percentage is lesser than the primary and secondary sectors, a large part of the country's GDP comes from service sector. The hospitality industry, in particular, has shown considerable growth. Except above these sectors there are other two sectors. These are quaternary sector and Quinary Sector.

Quaternary Sector: The quaternary sector of the economy consists of intellectual activities. Activities associated with this sector include government, culture, libraries, scientific research, education, and information technology.

Quinary Sector: Some consider there to be a branch of the quaternary sector called the quinary sector, which includes the highest levels of decision making in a society or economy. This sector would include the top executives or officials in such fields as government, science, universities, nonprofit, healthcare, culture, and the media.

An Australian source relates that the quinary sector in Australia refers to domestic activities such as those performed by stay-at-home parents or homemakers. These activities are typically not measured by monetary amounts but it is important to recognize these activities in contribution to the economy

3.4 Over all Macroeconomic Scenario of Bangladesh

3.4.1 Economic Growth

In this section, we will first look at the trend of overall growth in GDP in the different economic sectors. The Bangladesh economy performed well in FY2015-16. The GDP growth picked up around half percentage point to 7.11 percent from 6.55 percent of previous fiscal year. This is the first time that, growth has exceeded 7 percent mark after persistent growth of around 6 percent.

Agriculture growth decelerated to 2.79 percent in FY2015-16 from 3.33 percent in the year before, caused by the decline in crop and horticulture growth from 1.83 percent in FY2014-15 to 0.88 percent in FY2015-16. Within agriculture, animal farming increased slightly to 3.19 percent in FY2015-16, from 3.08 percent in the previous year. Forest and related services grew by 5.12 percent, slightly higher than 5.08 percent in FY2014-15. Fishing sector moderated at 6.11 percent in FY2015-16 from 6.38 percent in FY2014-15. At constant prices, the contribution of broad agriculture sector is estimated at 15.35 percent of GDP in FY2015-16.

The growth in industry sector expended to 11.09 percent in FY2015-16, up by 1.42 percentage points compared with the previous fiscal year. The growth in manufacturing sector, accounts for 66.62 percent of industry sector output and 21.01 percent of GDP, accelerated by 1.38 percentage points to 11.69 in FY2015-16 percent compared with previous fiscal year. The growth in large and medium-scale manufacturing sector accelerated to 12.26 percent from 10.70 percent in FY2014-15. Similarly, the growth rate of small-scale manufacturing sector accelerated to 9.06 percent from 8.54 percent in FY2014-15. Mining and quarrying and electricity, gas and water supply sectors of the broad industry sector performed robust. However, construction sector growth decelerated marginally to 8.54 percent in FY2015-16 compared to the growth rate of previous fiscal year. The contribution of broad industry sector to GDP in FY2015-16 reached at 31.54 percent at constant prices.

Overall service sector growth has been estimated at 6.25 percent, up by 0.45 percentage point from FY2014-15. Among the broad service sector, except financial intermediation sector, all the sectors performed well compared with previous fiscal year. The share of service sector in GDP stood at 53.12 percent in FY2015-16.

According to the final estimates of BBS, per capita national income reached at US\$1,465 in FY2015-16, up by US\$149, from US\$1,316 of previous year. Likewise, per capita GDP reached at US\$1,385 in FY 2015-16, from US\$ 1,236 a year earlier.

3.4.2 Savings and Investment

Lack of savings is one of the most important problems with which developing countries have been faced (Wilson, 1995) and, despite the shortage of extra revenue in these countries to be saved, the banking system can play an important role in encouraging savings and guiding savings toward investment. So, it will be useful to discuss the process of these two effective variables in economic development. During FY2015-16, domestic savings reached 24.98 percent of GDP, significantly up by 2.82 percentage points from previous year. During the same period, national savings stood at 30.77 percent of GDP, also increased considerably by 1.75 percentage points from previous fiscal year.

Investment in FY2015-16 reached 29.65 percent of GDP, up by 0.76 percentage point in FY2014-15. The public investment decreased from 6.82 percent of GDP in FY2014-15 to 6.66 percent of GDP in FY2015-16. On the other hand, private investment increased from 22.07 percent of GDP in FY2014-15 to 22.99 percent in FY2015-16.

Gross investment as percent of GDP accelerated to 29.65 percent of GDP in FY2015-16, up from 28.89 percent of GDP a year earlier. The public sector investment moderated to 6.66 percent of GDP, down from 6.82 percent of previous year. However, the private sector investment increased to 22.99 percent of GDP in FY2015-16, from 22.07 percent in previous year. In absolute terms, private sector investment increased by 19.10 percent compared to the private sector investment of previous fiscal year.

Table 2: Consumption, savings and Investment (As percent of GDP, Base year: 2005-06)

Item	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1. Consumption	79.61	79.14	79.30	78.78	77.96	77.91	77.84	75.02
i. Public	5.09	5.07	5.09	5.04	5.12	5.34	5.40	5.89
ii. Private	74.52	74.06	74.21	73.74	72.85	72.57	72.44	69.13
2. Investment	26.19	26.23	27.39	28.26	28.39	28.58	28.89	29.65
i. Public	4.31	4.67	5.25	5.76	6.64	6.55	6.82	6.66
ii. Private	21.87	21.56	22.14	22.50	21.75	22.03	22.07	22.99
3. Domestic Savings	20.39	20.86	20.70	21.22	22.04	22.09	22.16	24.98
4. National Savings	28.66	29.49	28.95	29.86	30.53	29.23	29.02	30.77

Source: Bangladesh Bureau of Statistics

3.4.3 Inflation

Year-on-year inflation decreased to 5.92 percent in FY2015-16 relative to 6.41 percent in FY2014-15. The downward trend in inflation is largely driven by food-inflation. Food inflation declined in FY2015-16 to 4.90 percent from 6.68 percent in FY2014-15, while non-food inflation rose from 5.99 percent to 7.43 percent during the same period. On point-

to-point basis, inflation in June 2016 slid down to 5.53 percent from 6.25 percent in June 2015. During the same month, food inflation declined from 6.32 percent to 4.23 percent, while non-food inflation rose from 6.15 percent to 7.50 percent. Inflation has declined mainly due to reduction of commodity prices, including fuel in the international markets, satisfactory agricultural production in domestic level, normal flow in supply of goods and prudent macroeconomic management. Non- food inflation increased mainly due to increase in domestic demand, as well as increased in the flow of private sector credit.

Fiscal Sector

3.4.4 Revenue Mobilisation

Fiscal policy continued to focus on maintaining macroeconomic stability. The revenue mobilisation performance was broadly stable in FY2015-16 with a significant rise in revenue receipts. According to the preliminary data of Integrated Budget and Accounting System (iBAS++), total revenue receipt in FY2015-16 increased by 17.42 percent to Tk.1,71,386 crore over the previous year outturn. Total revenue receipts as percent to GDP reached 9.89 percent, up by 0.26 percentage point compared to the preceding year's revenue earnings.

According to iBAS++ preliminary data, the tax revenues from NBR sources increased by 17.94 percent to Tk.1,51,856 crore in FY2015-16 from Tk.1,23,977 crore in FY2014-15. Among the NBR sources of revenue, taxes on income and profit increased by 10.71 percent, import duties by 19.49 percent, Value Added Tax (VAT) by 20.27 percent and supplementary duties by 23.97 percent. Tax revenues from Non-NBR sources increased by 17.07 percent amounting to Tk.5,644 crore in FY2015-16 compared to 11.82 percent growth in FY2014-15. Non-tax revenues increased by 13.71 percent to Tk.19,521 crore from Tk.17,167 crore in FY2014-15.

3.4.5 Government Expenditure

In FY2015-16, the total expenditure rose by 11.54 percent over the previous year outturn (preliminary data of iBAS++). As percent of GDP, Government expenditure reached at 13.16 percent, 0.33 percentage point down compared to the preceding year's expenditure. The total expenditure under non-development budget increased by 11.77 percent to Tk.1,60,951 crore in FY2015-16 from Tk.1,44,003 crore in FY2014-15. Moreover, the Annual Development Programme (ADP) expenditure (excluding self finance project) increased by 10.99 percent to Tk. 67,010 crore in FY2015-16, from Tk.60,377 in FY2014-15.

3.4.6 Budget Balance and Financing

As per preliminary data of iBAS++, the budget deficit stood at 3.26 percent of GDP (excluding grants) in FY2015-16, of which 2.75 percent was financed from domestic sources and the remaining 0.51 percent from external sources.

3.5 Monetary and Financial Sector

3.5.1 Monetary Policy and Monetary Management

Monetary Policy

One of the main tools of central banks is the interest rate that it charges banks to hold their money overnight. This rate is ultimately passed on to the bank's depositors. Depositors, in turn, adjust their levels of savings and investment based on that rate. Take, for example, a high interest rate. At a high interest rate, it is very expensive to borrow money: investors will not want to invest because they have to pay a lot of interest on their loans. Savers, on the other hand, love high interest rates: they earn a lot simply by keeping their cash in the bank. High interest rates encourage savings and discourage investment.

The precise opposite is true for low interest rates. When rates are low, investors know they can borrow money to finance investments cheaply. At the same time, savers aren't earning much by keeping their money in the bank. Low interest rates encourage investment and discourage savings.

Much of a central bank's actions are focused on adjusting how much people save and invest. In Bangladesh the monetary policy statement (MPS) for the first half of FY2015-16 was drawn up in the back drop of sustained spell of CPI inflation moderation and growth supportive stance of monetary and financial policies pursued in the recent years. The MPS aimed to contain reserve money growth to 16.5 percent, broad money growth to 15.0 percent and private sector credit growth 14.3 percent as programme targets by December, 2015. The year-on-year reserve money growth (15.1%) in December 2015 remained within the target, despite a surge in net foreign assets (NFA) of Bangladesh Bank (BB), offset by the net domestic assets (NDA) by (-)Tk.19478.40 crore, arising from much lower credit demand of the Government from Bangladesh Bank.

Similarly, the broad money growth (13.1%) remained far below the target. However, private sector credit growth (14.2%) well used up the space provided in the monetary programme.

In the MPS for the second half of FY2015-16, Bangladesh Bank aimed to contain reserve money growth to 14.3 percent, broad money growth to 15.0 percent and the private sector credit growth to 14.8 percent. However, at the end of June, 2016 reserve money growth was unprecedentedly higher than the target due to Bangladesh Bank's absorption of excessive flow of foreign currency from the banking system. Likewise, the broad money growth exceeded by 1.35 percentage points from the programme targets. However, private sector credit growth exceeded by 1.98 percent points from the monetary programme target entailed improvement of investment climate.

3.5.2 Money and Credit Situation

During FY2015-16, the year-on-year growth of narrow money (M1) increased by 32.10 percent up from the growth of 15.53 percent in FY2014-15. The higher growth of M1 was mainly due to significant increase both in currency notes and coins (from 14.34 percent at the end of June, 2015 to 38.81 percent at the end of June, 2016) with the public and demand deposit growth (from 12.57 percent to 23.99 percent). Similarly, in FY2015-16, M2 increased by 16.43 percent, significantly higher than 12.42 percent growth a year earlier. During this period, growth of time deposit increased by 12.41 percent compared to increase of 12.13 percent mainly attributable to increase in broad money growth. On the other hand, reserve money increased by 30.12 percent at the end of June, 2016, as compared to 14.33 percent growth in the previous year. The increasing trend in growth of reserve money was mainly attributable to the higher growth in net foreign assets (NFA) of Bangladesh Bank by 23.16 percent. However, net domestic assets (NDA) of Bangladesh Bank plunge significantly at the end of June 2016.

Year-on-year growth in domestic credit was 14.04 percent during FY2015-16, significantly higher than 9.97 percent during FY2014-15. The net credit to the Government sector increased by 3.59 percent at the end of June 2016 as compared to the negative growth of 6.19 percent during the previous year. Private sector credit growth was 16.56 percent in FY2015-16, significantly higher than year-on-year growth of 13.19 percent in FY2014-15.

3.5.3 Interest Rate

The policy interest rate- repo and reverse repo rates have been kept unchanged at 7.25 percent and 5.25 percent respectively since October, 2011. Based on commendable macroeconomic stability and fall in deposit and lending interest rates, Bangladesh Bank has lowered both repo and reverse repo rates by 50 basis points to 6.75 percent and 4.75 percent respectively in January, 2016.

The weighted average interbank call money rate declined to 3.70 percent at the end of June 16, from 5.79 percent corresponding to the same month of previous year indicating required liquidity position in the banking system. The weighted average lending rate of commercial banks decreased to 10.39 percent at the end of June 2016 from 11.67 percent of end June 2015.

Similarly, the deposit rate decreased to 5.54 percent from 6.78 percent of the same period of previous year. The interest rate spread also decreased slightly to 4.85 percent at the end of June, 2016 from 4.87 percent of June, 2015.

3.5.4 Agriculture

Over the last few years, food production has been consistently on the rise. According to the Bangladesh Bureau of Statistics (BBS), food grains production stood at around 386.93 lakh MT in FY2015-16. During the period, total internal procurement of food grains was 12.30

lakh MT. Besides, total import of food grains through public and private sectors was 46.23 lakh MT (rice 2.57 lakh MT and wheat 43.66 lakh MT).

Different programmes have been launched to popularise the use of organic and balanced fertiliser in order to maintain soil fertility and productivity. Considering the importance of increasing agricultural productivity, an amount of Tk.7,000.00 crore was allocated in the revised budget of FY2015-16 to provide subsidy on fertiliser and other agricultural inputs. In addition, an amount of Tk.16,400.00 crore was targeted to be disbursed as agricultural credit against which Tk.17,646.46 crore was disbursed till June 2016, which was 107.60 percent of the target.

In FY 2015-16, fishing sector contributed 3.65 percent to the GDP and 23.81 percent to the country's total agricultural products. The total fish production in FY2014-15 was 37.03 lakh MT, which increased to 38.55 lakh MT in FY2015-16. It is mentionable that, Bangladesh has been ranked 4th in inland capture fisheries and 5th in aquaculture production in the world⁴.

3.5.5 Industry

The Government has undertaken initiatives to accelerate environment-friendly sustainable industrial growth in the country. In order to accelerate the pace of industrialisation, formulation of National Industrial Policy 2016 is under process. Some of the underlying objectives of the proposed Industrial Policy 2016 include sustainable and inclusive industrial growth through generation of productive employment to create new entrepreneurs, mainstreaming women in the industrialisation process and creation of international market linkage.

The Government is continuing its efforts to achieve this goal by providing loans and other ancillary supports through banks and other financial institutions. The Export Processing Zones (EPZs) are playing special role in the process of promoting rapid industrialisation and attracting Foreign Direct Investment (FDI). Both investment and exports in the EPZs are increasing gradually. However, in the FY2015-16, the total amount of investment in EPZs stood at US\$ 404.36 million, which is 0.49 percent lower than the investment made in the previous fiscal year.

3.5.6 State-owned Enterprises

During FY2014-15, the total operating revenue of all existing SOEs was Tk. 1,40,059.76 crore which increased by 2.78 percent from Tk.1,36,282.60 in FY2013-14. The value addition of these SOEs stood at Tk. 13,046.00 crore during FY2014-15, which was Tk. 11,344.00 crore in the previous fiscal year. The net profit of SOEs stood at Tk. 4,283.63

⁴ Bangladesh Economic Review-2016,Page#69, xxxv

crore in FY2014-15. According to revised estimate, net profit stood at Tk. 11,716.05 crore in FY2015-16.

Moreover, the SOEs contributed Tk. 1,240.00 crore to the public exchequer in FY2013-14. According to revised estimation, the contribution of SOEs to the public exchequer was Tk. 6,359.29 crore in FY2015-16. Moreover in FY2014-15, the Government provided grant/subsidy amounting to Tk. 1,328.78 crore to 11 public entities which stood at Tk. 1,824.53 crore as per revised estimate in FY2015-16. In FY2013-14, the total Debt Service Liabilities (DSL) against 112 SOEs stood at Tk. 29,110.00 crore.

3.5.7 Power and Energy⁵

Currently, 76 percent of the total population of the country has access to Electricity (including renewable energy). The total installed generation capacity stood at 14,565 MW in FY2015-16. The highest generation was 9,036 MW in FY2015-16. Furthermore, 45,850 million kilowatt-hours of electricity was produced in FY2014-15, which stood at 52,193 million kilowatt-hours in FY2015-16. In addition, system loss of transmission and distribution of electricity stood at 13.54 percent and 13.10 percent respectively in FY2014-15 and FY2015-16 against 27.97 percent of FY2001-02.

On the other hand, natural gas met almost 72 percent of the country's total commercial use of energy. A total of 26 gas fields have been discovered till now and the cumulative actual gas production is about 13.90 trillion cubic feet and recoverable net reserves are 13.22 trillion cubic feet. In addition, the country has about 10.91 million metric tons reserve of fuel oil.

According to Power System Master Plan, the government has set a target to increase installed electricity generation capacity to 24,000 MW by 2021 and 40,000 MW by 2031. It is expected that, after successful completion of the ongoing projects, daily gas production capacity will stand at 4,800 million cubic feet.

Besides these mineral resources like the Oil, Gas and Mineral Resources, Natural Gas Reserves, Coal, Hard Rock, Peat, White Clay, Silica Sand, Ordinary Stone are have important influence to our economy.

3.5.8 Transport and Communication

The Government has been implementing different projects with a view to building a well-knit and dependable transport and communication system in the country. The construction of two mega projects: Metro Rail Project and Padma Bridge Project are being implemented. The 20.1 kilometre MRT Line-6 (Metro Rail) would significantly reduce traffic jam in the mega city, Dhaka. The construction of 6.15 kilometre long Padma Bridge, along with

⁵ Bangladesh Economic Review-2016, Page# xxxvii

railway provision, is going on merely by the Bangladesh government's money. It is expected that the bridge will be functional by 2018. Moreover, feasibility study and preliminary design works of 22.4 kilometer Bus Rapid Transit (BRT) Line-3, a bus based mass transit implementation programme, have been completed.

Since 2009 Bangladesh Railway has newly constructed 232 km rail line, 67 station buildings, 179 bridges and converted 248 km railway track into Dual gauge track. Besides, 1,052 km railway track, 597 bridges, 160 station buildings, 288 passenger coaches, 277 wagons have been rehabilitated. To address the shortage of rolling stocks 20 MG locomotives, 26 BG locomotives, 119 passenger carriages and 20 sets DEMU, 165 BG and 81 MG tank wagons, 270 flat wagons and 30 brake vans have been procured.

In addition, to ensure efficient environment-friendly and secure use of waterways, the Ministry of Shipping has taken up various initiatives for development of internal water transport infrastructure including its maintenance, operation and control. Moreover, several measures have already been undertaken for capital dredging of dying river ways, development and maintenance of navigability of different river routes and ensuring safe movement of water crafts. Furthermore, initiatives for developing inland river ports, making circular waterways around Dhaka city operational, creating infrastructure facilities to carry container goods in inland waterways and preparing hydrographic charts using digital system are being implemented by the government.

A wide range of initiatives have been undertaken for the modernisation of telecommunication system as well as development and expansion of this sector. The numbers of mobile subscribers have increased beyond prediction totaling more than 13 crore in June 2016. Kaliakoir Hi-tech Park to be set up on 232 acres of land at Kaliakoir Upazila in Gazipur district under ICT division is now under construction. Some 70,000 jobs will be created once the park is established⁶.

3.5.9 Human Resources Development

The Government has included Human Resource Development (HRD) as one of the main goals of its development agenda. In order to achieve this goal, the Government has allocated nearly 20 percent of its budget to the HRD related sectors, such as: Education and Technology, Health and Family Welfare, Women and Children, Social Welfare, Youth and Sports development, Culture, Labour and Employment.

Various programmes have been undertaken including the adoption of the Education Policy, 2010 to create skilled and competent Human Resource by enhancing the quality of education while increasing accessibility to the secondary, higher secondary, technical and tertiary education. As a result of the Government's policy for recruiting 60 percent female

⁶ Bangladesh Economic Review-2016, Page# xxxviii

teachers in the government primary schools, the number of female teachers increased from 21 percent in 1991 to 66.4 percent in 2016.

Remarkable progress has been achieved in health sector due to priority attached by the Government to the Health, Nutrition and Population Sector concerns flagged under the Millennium Development Goals. As a result, both fertility and mortality rates have come down. Remarkable progress has also been made in reducing child and maternal mortality rates and in increasing average life expectancy. Malnutrition has decreased remarkably. Moreover, Bangladesh's position in the Human development Index (HDI) is gradually improving as a result of implementation of various development programmes.

3.5.10 Poverty Alleviation

The rate and depth of poverty has been significantly decreased during the last few years, by the government's relentless efforts to improve the socio-economic status of the poor. For a densely populated country like Bangladesh tackling poverty with limited resources is a huge challenge. Bangladesh, however has achieved remarkable success in poverty reduction.

According to the MDG Bangladesh Progress Report- 2015, incidence of poverty dropped on an average by 1.74 percentage points during the period of 2000-2010, against the MDG target of 1.20 percentage points. In addition, the rate of poverty was reduced to 24.4 percent in 2015; which was 31.5 percent in 2010. According to the BBS, the incidence of poverty has been estimated to fall below 23.2 percent in April-June, 2016.

The government has planned to deliver a sustainable Social Safety Net Programme for the hard core poor. For this reason, a total of Tk.35,975.00 crore was allocated to implement a good number of programmes under Social Safety Net Programme in the FY2015-16. This allocation is equivalent to 13.60 percent of the country's annual budget and 2.08 percent of GDP for FY2015-16. Implementations of all these development activities have enabled Bangladesh to meet one of the indicators of target-1 of MDG-1 by reducing the poverty gap ratio to 6.5 against the target of 8.0 by 2015.

Different banks and NGOs are also implementing development programmes undertaken by the Government with a view to eradicating poverty. Four commercial banks and a specialized bank disbursed a total amount of Tk. 32,822.17 crore as cumulative microcredit up to June, 2016. At the same time, the total recovered amount of these institutes was Tk. 34,843.43 crore. In addition, an amount of Tk. 1,57,643.41 crore was disbursed as microcredit through different ministries/divisions/agencies during FY2015-16. The credit recovered during the same period was Tk. 1,45,845.33 crore. Various ministries/divisions/agencies including the Finance Division are implementing microcredit and other programmes to reduce poverty in the country.

3.5.11 Private Sector Development

Private sector plays an important role in economic development of Bangladesh through direct contribution to consumption, investment and net export income. Investment, especially in the industrial and productive sectors facilitates the country achieve long-term development goals. The Government is implementing investment-friendly policies along with reforming rules and regulations to improve the overall investment scenario to attract local and foreign investors. At present, a number of development and technical projects are being implemented and thereby through private sector. In addition, Government has adopted the strategy of implementing infrastructure development projects on the basis of Public Private Partnership (PPP). In FY 2014-15, a total of 1,429 private projects were registered in BOI with recommended amount of Tk. 9,93,349 crore. In calendar year 2015, a total amount of US\$ 2,235 million entered the economy as Foreign Direct Investment (FDI) which was US\$ 1,527 million in 2014.

3.5.12 Environment and Development

Bangladesh has made significant progress towards achieving the target of 'safe drinking water supply and sanitation for all' as envisaged in the 7th goal of the MDGs. With a view to mitigating the risks arising from climate change, Bangladesh Climate Change Strategy and Action Plan 2009 (BCCSAP, 2009) has been adopted. To promote implementation of BCCSAP, the Government has constituted the Bangladesh Climate Change Trust Fund 2009 (BCCFT, 2009) and enacted the Climate Change Trust Act 2010. The Government allocated a total of Tk.3.100 crore for this fund up to the FY2015-16. Moreover, a multi-donor trust fund called 'Bangladesh Climate Change Resilience Fund (BCCRF)' has been constituted in 2011 in order to facilitate the projects which deal with climate change adaptation. The Finance Division has undertaken a Technical Assistance Project titled Inclusive budgeting and Financing for Climate Resilience (IBFCR) funded by UNDP at an estimated cost of Tk.185.20 million. The Ministry of Environment and Forest has undertaken a number of programmes for building mass awareness about protection of the Ozone Layer from depletion, the impending challenges of climate change and the necessity of working together with the government. The Ministry of Disaster Management and Relief is implementing various programmes in order to tackle eventual damages from natural disasters. The National Work Plan-2020 has been adopted considering the impotence of bio-diversity in maintaining ecological balance.

Capital Market

3.6 Capital Market Situation

3.6.1 Dhaka Stock Exchange (DSE) Ltd

The number of listed securities (including mutual funds and debenture) of Dhaka Stock Exchange (DSE) increased from 555 at the end of FY2014-15 to 559 at the end of FY2015-16. At the end of June, 2016, the total issued capital and debentures stands at Tk.112,741.00 crore up by 3.25 percent from Tk.109,195 crore for the same period of previous fiscal year.

The market capitalisation of all shares of the listed securities stood at Tk.318,574.93 crore (18.38% of GDP) at the end of FY2015-16, down from Tk.324,730.63 crore (21.42% of GDP) during the same period of previous year.

3.6.2 Chittagong Stock Exchange (CSE) Limited

The number of listed securities (including mutual funds and bonds) of Chittagong Stock Exchange (CSE) increased from 292 in FY2014-15 to 298 in FY2015-16. The issued capital increased by 12.92 percent from Tk.50,131 crore to Tk.56,608 crore during the same period. Market capitalisation of CSE at the end of FY2015-16 stood at Tk.2,49,684.89 crore (14.41% of GDP), down by 5.33 percent compared to market capitalisation of Tk.2,37,042.13 crore (15.64% of GDP) at the end of FY2014-15.⁷

3.7 External Sector

3.7.1 Export

Exports recorded a growth of 9.77 percent in FY2015-16, significantly up from 3.39 percent in the previous fiscal year. Export earnings during the period exceeded the annual target (US\$33,500 million) by 2.21 percent to US\$34,257 million. Export of woven garments and knitwear products increased by 12.81 percent and 7.47 percent respectively in FY2015-16 compared to the same period of previous year. Among the other major export items, earnings from leather and leather products (2.69%), pharmaceuticals (13.04%), petroleum products (282.99%), Jute and Jute goods (5.88%), agricultural products (1.71%) and engineering products (14.10%) contributed to the overall export growth, although export earnings declined by the frozen and live fish (5.68%) home textile (6.38%) and plastic products (11.50%).

The USA is the main destination of Bangladesh's export commodities. In FY2015-16, the export earnings from USA stood at US\$6,220.65 million, which is 18.16 percent of the total export. The second largest destination of country's export commodities are Germany (14.56%), followed by UK (11.13%) and French (5.41%).

3.7.2 Import

Import growth accelerated at 5.45 percent in FY2015-16, from 0.07 percent growth compared to the preceding year. The total value import (C&F) stood provisionally at US\$42,290.80 million during FY2015-16, up from US\$40,703.70 million (based on custom records) of the preceding year. Food grains (rice and wheat) import decreased by 29.11 percent in FY2015-16 compared to the previous fiscal year. However, consumer goods import increased by 14.30 percent during the same period. Intermediate goods import increased by 3.24 percent in FY2015-16. Within the intermediate goods, crude petroleum (21.49%) oil seeds (42.27%), chemicals (7.05%), pharmaceutical products (72.53%) and yarn (5.84%) contributed significantly to the overall increase of imports. In addition, capital goods import increased by 6.41 percent during same period. Within the capital goods,

⁷ Source: Bangladesh Economic Review 2016 page xxxvi-xi , Bangladesh Economic Review page 66-69

capital machinery import increased by 2.35 percent and other capital (including EPZ) increased by 7.24 percent. Moreover, import of fertiliser (16.95%), clinker (10.50%) and cotton (2.74%) declined compared to the earlier year.

China is the main source of import for Bangladesh. In FY2015-16, Bangladesh imported US\$12,691 million (29.57% of total imports) worth of commodities from China. The second largest source of import in Bangladesh is India (13.77%), followed by Singapore (5.25%) and Japan (4.84%).

3.7.3 Remittance

The inflows of remittances declined by 2.52 percent in FY2015-16, amounting to US\$14,931.14 million, compared to the growth of 7.65 percent a year earlier. The slowdown in investment and construction works in the Middle East countries due to low oil prices is mainly responsible for the deceleration in remittance inflows. However, the overseas employment increased substantially in recent times. In FY2015-16, 6.85 lakh went abroad for jobs, up by 48.27 percent compared to previous year. The ongoing initiatives to expand employment opportunities in the traditional markets, diplomatic efforts to explore new destination, provision of cheap credit to the expatriate workers and measures to improve skills of labour force to meet the demand of overseas labour markets will continue.

3.7.4 Balance of Payments

The trade deficit narrowed from US\$6,965 million in FY2014-15 to US\$6,274 million in FY2015-16. Despite 2.25 percent decline in inward remittances, lower trade deficit along with lower deficit in the service and primary income account, induced to achieve the higher current account surplus from US\$2,875 million in FY2014-15 to US\$3,706 million in FY2015-16. The capital and financial accounts recorded a surplus of US\$2,088 million, from US\$2,421 million over the same period. The surpluses in the current account balance along with the surpluses of capital and financial account, led to the overall balance increase amounting to US\$5,036 million from US\$4,373 million a year earlier. Higher FDI inflows, net medium and long term credits, large deficit in net trade credit led to the increase of overall balance of the Balance of Payments.

3.7.5 Foreign Exchange Reserve

Foreign exchange reserves exceeded the US\$30 billion mark in June 2016. On 30 June 2015, foreign exchange reserves stood at US\$25,020 million. Foreign exchange reserve continued to grow due to continued increase in the surpluses of overall Balance of Payment (BOP). On 30 June 2016 reserve reached US\$30,176 million, providing for 8 months of import coverage.

3.8 Money, Banking and Financial Sector Reforms

To reinforce the monitoring of liquidity measurement and management of the banks, two liquidity coverage measurements namely 'Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)' have been introduced.

To make risk management system of the banks more resilient and updated, a new reporting format namely 'Comprehensive Risk Management Reporting (CRMR)' has been introduced. Besides, to monitor the risk management activities more closely, banks have been instructed to submit Risk Management Report and meeting minutes of Risk Management Committee to Bangladesh Bank on monthly basis instead of quarterly basis.

To reinforce the importance of risk management activities and to establish a sound Risk management culture in the banks, it has been decided to consider the high and critical score in comprehensive risk management rating as negative indicator, along with others, while giving approval/NOC to banks for branch expansion, AD license, dividend declaration, etc. 12 Core Financial Soundness Indicators (FSI) and 9 Encouraged FSIs as on December, 2015 have been prepared and the uploading process of these on IMF recommended website is in process. By compiling data according to the IMF prepared template, the present position of financial indicators of the banking sector will be known.

National Strategy for Preventing Money Laundering and Combating Financing of Terrorism 2015-2017 has been formulated on the basis of Money Laundering and Terrorist Financing Risk and Vulnerabilities Assessment Report. The strategy document identifies the particular action plans for all the Ministries, Divisions and Agencies to develop an effective anti money laundering and combating financing of terrorism regime in Bangladesh

The Money Laundering Prevention (Amendment) Act, 2015 has been promulgated on 26 November, 2015 to further strengthen the legal structure of anti money laundering and combating financing of terrorism regime in Bangladesh. BFIU has been mandated as the national central agency in Bangladesh to prevent money laundering and terrorist financing.

3.9 Gross Domestic Product (GDP) at Current Prices

The final value of GDP at current market prices stood at Tk. 17,32,864 crore in FY2015-16, up by 14.32 percent of the previous fiscal year. At current prices, the estimated per capita GDP for FY2015-16 is Tk. 1,08,378, up by 12.89 percent from the per capita GDP of Tk.96,004 in FY2014-15. On the other hand, per capita national income stood at Tk. 1,14,621, up from Tk.1,02,236 in the previous fiscal year. In US dollar, per capita GDP and GNI stood at US\$1,385 and US\$1,465 respectively in FY2015-16 compared to US\$1,236 and US\$1,316 respectively in FY2014-15. In nominal US dollar term, per capita national income increased by 11.32 percent compared to the previous fiscal year. GDP, GNI, per capita GDP and national income during the period from FY2006-07 to FY2015-16 are shown in Table 3 and sector-wise GDP at current market prices are shown in Table 3.

Table 3: GDP, GNI, Per Capita GDP and GNI at Current Market Prices

Item	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
GDP (In Crore Tk.)	549800	628682	705072	797539	915829	1055204	1198923	1343674	1515802	1732864
GNI (In Crore Tk.)	585075	677072	760973	862142	988342	1144506	1295352	1433224	1614204	1832675
Population (In Crore)	14.18	14.38	14.58	14.78	14.97	15.16	15.37	15.58	15.79	15.99
Per Capita GDP (In Tk.)	38773	43719	48359	53961	61198	69614	78009	86266	96004	108378
Per Capita GNI (In Tk.)	41261	47084	52193	58332	66044	75505	84283	92015	102236	114621
Per Capita GDP (In US\$)	562	637	703	780	860	880	976	1110	1236	1385
Per Capita GNI (In US\$)	598	686	759	843	928	955	1054	1184	1316	1465

Source: Bangladesh Bureau of Statistics (BBS)

Table 4: Gross Domestic Product (GDP) at Current Market Prices (in Crore Taka)

Sector/Sub-sector	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1. Agriculture and Forestry	89986	97807	110990	125469	138879	148758	163968	176500	190315
a) Crops & horticulture	65730	71158	81405	91903	100899	106794	117903	126121	134322
b) Animal Farmings	14297	15830	17527	20171	22999	25359	27667	29885	33165
c) Forest and related services	9959	10819	12058	13395	14981	16605	18398	20494	22827
2. Fishing	20635	22793	24601	28482	31827	36995	42308	47581	53076
3. Mining and Quarrying	9110	10962	12645	14208	16650	19461	21080	23876	28578
a) Natural gas and crude petroleum	5387	6194	6803	6846	7366	7953	8156	9188	10706
b) Other mining & coal	3723	4769	5842	7363	9284	11508	12924	14688	17872
4. Manufacturing	101371	116197	128573	146503	167927	197127	223221	254483	295111
a) Large & medium scale	81066	91996	101619	116453	134397	158448	180382	205992	240164
b) Small scale	20305	24201	26954	30049	33530	38679	42839	48491	54947
5. Electricity, Gas and Water Supply	6441	7012	8346	11589	14189	16381	18401	19868	23829
a) Electricity	4950	5282	6003	8646	10189	12168	13834	15061	18447
b) Gas	1045	1249	1809	2339	3300	3448	3676	3787	4279
c) Water	445	481	533	605	701	766	891	1020	1103
6. Construction	38533	44180	49474	57072	68304	82432	90834	108484	126353
7. Wholesale and Retail Trade	86149	96094	106606	121332	137396	154579	172575	192585	214257
8. Hotel and Restaurants	4826	5790	7028	8228	9755	11263	13035	14928	17058
9. Transport, Storage & Communication	59620	67185	80454	94571	112702	124281	134317	150025	169145
a) Land transport	41888	46994	57574	68717	83345	92183	99311	112096	127895
b) Water transport	5111	5525	6386	6934	7089	7649	8064	8967	10207
c) Air transport	595	682	811	957	1022	1047	1116	1269	1352
d) Support transport services,	3137	3423	3826	4410	5391	6001	6672	7427	8031
e) Post and Tele communications	8889	10561	11858	13553	15854	17400	19154	20267	21681
10. Financial Intermediations	18702	20003	23448	27545	36316	42237	48563	55761	63601
a) Monetary intermediation (Banks)	15431	15817	17508	21522	29351	34727	40390	46644	53790
b) Insurance	2108	2626	3356	3786	4584	4920	5364	5938	6327
c) Other financial auxiliaries	1163	1560	2583	2237	2381	2590	2810	3180	3485
11. Real Estate, Renting and Business Activities	45118	49449	54432	60119	68715	78820	91229	106061	123740
12. Public Administration and Defence	19664	22464	25426	30282	33499	37678	44728	50674	66711
13. Education	14332	16250	18258	21392	25048	28429	32767	37624	46512
14. Health and Social Works	12164	13368	15326	17731	20133	23868	26924	30135	34758
15. Community, Social and Personal Services	72200	85366	95692	104608	117293	138952	156552	176402	194248
Tax less subsidy	29832	30152	36241	46698	56569	57662	63174	70815	85552
GDP at current market price	628682	705072	797539	915829	1055204	1198923	1343674	1515802	1732864
Growth rate	14.35	12.15	13.11	14.83	15.22	13.62	12.07	12.81	14.32

Source: Bangladesh Bureau of Statistics (BBS) 1

3.10 Growth of GDP by Sector

There 15 sectors of GDP of broad three sectors i.e. agriculture, industry and service. Production based estimate of GDP encompasses the value addition of 15 sectors. Some of the sectors are further divided into different sub sectors. All the 15 sectors are grouped into three broad sectors- agriculture, industry and service.

The broad agriculture sector consists of two sectors namely:

- (i) agriculture and forestry and
- (ii) fishing.

Similarly, the broad industry sector comprises:

- (i) mining and quarrying,
- (ii) manufacturing,
- (iii) electricity, gas and water supply and
- (iv) construction sector.

The broad service sector includes the collective outputs of the:

- (i) wholesale and retail trade,
- (ii) hotels and restaurants,
- (iii) transport, storage and communication,
- (iv) financial intermediations,
- (v) real estate renting and business activities,
- (vi) public administration and defence,
- (vii) education,
- (viii) health and social work and
- (ix) community, social and personal services.

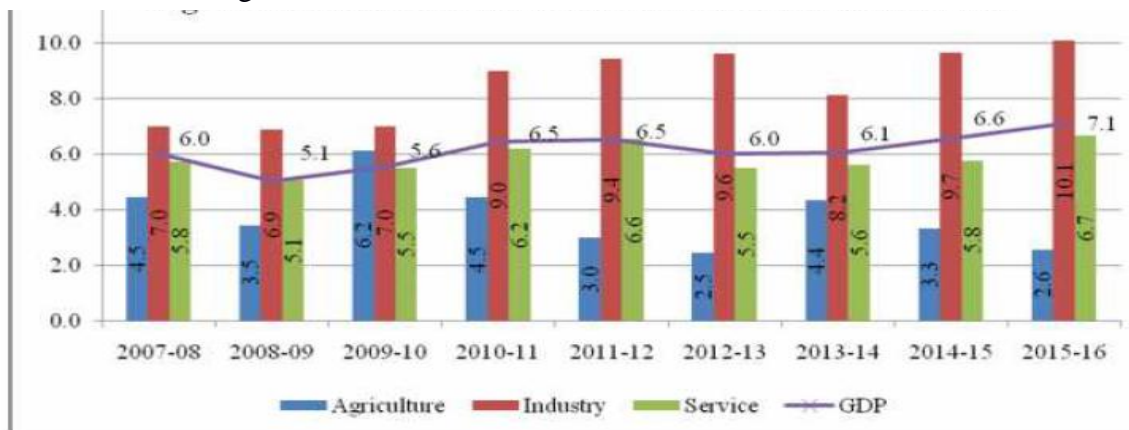
The growth rates of GDP by sectors at constant prices have been given below:

Table 5: Sectoral Growth Rate of GDP at Constant Prices (Base Year: 2005-06)
(in Percentage)

Sector/Sub-sector	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1. Agriculture and Forestry	3.87	3.09	6.55	3.89	2.41	1.47	3.81	2.45	1.79
a) Crops & horticulture	3.99	2.83	7.57	3.85	1.75	0.59	3.78	1.83	0.88
b) Animal Farmings	2.20	2.35	2.51	2.59	2.68	2.74	2.83	3.08	3.19
c) Forest and related services	5.26	5.54	5.34	5.56	5.96	5.04	5.01	5.08	5.12
2. Fishing	7.00	4.94	4.60	6.69	5.32	6.18	6.36	6.38	6.11
3. Mining and Quarrying	7.67	10.46	8.15	3.62	6.93	9.35	4.68	9.60	12.84
a) Natural gas and crude petroleum	6.63	9.49	8.52	0.68	3.78	7.55	2.47	8.73	11.77
b) Other mining & coal	9.79	12.39	7.43	9.34	12.58	12.34	8.20	10.90	14.42
4. Manufacturing	7.33	6.69	6.65	10.01	9.96	10.31	8.77	10.31	11.69
a) Large & medium scale	7.38	6.54	6.27	11.11	10.76	10.65	9.32	10.70	12.26
b) Small scale	7.15	7.30	8.17	5.67	6.58	8.81	6.33	8.54	9.06
5. Electricity, Gas and Water Supply	7.77	7.26	9.97	13.36	10.58	8.99	4.54	6.22	13.33
a) Electricity	7.21	7.13	10.50	15.82	10.97	9.69	1.69	6.09	14.20
b) Gas	8.53	10.33	8.78	0.07	7.45	5.91	10.93	5.16	9.91
c) Water	13.29	3.22	5.79	8.23	10.91	4.75	8.08	9.62	7.40
6. Construction	5.99	6.58	7.21	6.95	8.42	8.04	8.08	8.60	8.56
7. Wholesale and Retail Trade	7.27	5.86	5.85	6.69	6.70	6.18	6.73	6.35	6.50
8. Hotel and Restaurants	5.68	5.86	6.01	6.20	6.39	6.49	6.70	6.83	6.98
9. Transport, Storage & Communication	8.26	8.05	7.55	8.44	9.15	6.27	6.05	5.96	6.08
a) Land Transport	5.56	6.59	7.31	7.18	6.83	5.91	5.56	6.18	6.28
b) Water transport	3.15	3.11	3.19	2.92	3.10	3.21	3.15	3.62	3.20
c) Air transport	2.20	14.41	18.19	15.23	5.76	-1.64	0.61	8.71	1.48
d) Support transport services, storage	11.31	7.79	10.33	11.97	17.60	3.36	2.59	5.37	5.19
e) Post and Tele communications	22.71	15.88	9.02	13.77	16.92	9.67	9.56	6.11	6.81
10. Financial Intermediations	3.92	-0.03	6.25	10.44	14.76	9.11	7.27	7.78	7.74
a) Monetary intermediation (Banks)	2.23	-3.90	3.15	12.98	17.61	10.87	8.33	8.49	8.85
b) Insurance	11.87	16.80	19.08	3.69	4.41	0.61	1.55	3.95	0.54
c) Other financial auxiliaries	16.20	24.18	17.71	-2.54	2.33	3.14	3.63	4.68	4.54
11. Real Estate, Renting and Business Activities	3.79	3.83	3.85	3.88	3.92	4.04	4.25	4.40	4.47
12. Public Administration and Defence	6.51	7.11	8.23	8.84	7.53	6.53	6.89	9.82	11.43
13. Education	7.14	5.89	5.18	5.63	7.75	6.30	7.26	8.01	11.71
14. Health and Social Works	5.86	3.04	6.83	6.34	3.81	4.76	5.06	5.18	7.54
15. Community, Social and Personal Services	3.19	3.20	3.21	3.23	3.25	3.25	3.27	3.28	3.30
At Constant Price GDP Growth Rate	6.01	5.05	5.57	6.46	6.52	6.01	6.06	6.55	7.11

Source: Bangladesh Bureau of Statistics (BBS)

Figure 3: Broad Sectoral GDP Growth at Constant Prices



3.11 Sectoral Shares in GDP at Constant Prices

The share of the agriculture and forestry sector in GDP at constant prices stood at 11.70 percent in the FY2015-16, from 12.32 percent in FY2014-15. The contribution of fishing sector stood at 3.65 percent of GDP, from 3.69 percent of previous fiscal year. The overall contribution of broad agriculture sector dipped to 15.35 percent in FY2015-16, from 16.00 percent in FY2014-15.

During FY2015-16, within the industry sector, contribution of mining and quarrying sector slightly increased to 1.77 percent from 1.68 percent in FY2014-15. Contribution of manufacturing sector expanded to 21.01 percent of GDP in FY2015-16 compared to 20.16 percent of the previous fiscal year. The share of electricity, gas and water supply and construction sector also increased during this fiscal year compared to the share recorded a year earlier. On the contrary, the share of broad industry sector reached 31.54 percent in FY2015-16 from 30.42 percent of FY2014-15.

In FY2015-16, the share of overall service sector in GDP stood at 53.12 percent, slightly lower than the share of 53.58 percent in previous year. Within the broad service sector, the contribution of wholesale and retail trade sector (13.99%) was the highest, followed by transport, storage and communication (11.31%), community, social and personal services (9.18%) and real estate, renting and business activities (6.64%). The contribution of these sector slightly lower in FY2015-16 compared to the previous year shares. Moreover, the share of public administration and defence (3.63%), education (2.39%) and health and social works (1.84%) increased in FY2015-16 compared to previous fiscal year. Table 6 shows the sectoral share of GDP at constant prices during FY2007-08 to FY2015-16.

The economy of Bangladesh has made solid progress in transforming the economy from a rural-based agrarian economy towards a more modern urban-based manufacturing and services based economy. Over more than three decades the share of the industry sector including the manufacturing sector in GDP increased gradually and continued to increase in FY2015-16. Up to FY2000-01, the contribution of service sector was around 50 percent as

per base year FY1995- 96. As per new base year (FY2005-06), the service sector share reached 55.59 percent in FY2005-06 and in recent years it is around 53-54 percent of GDP.

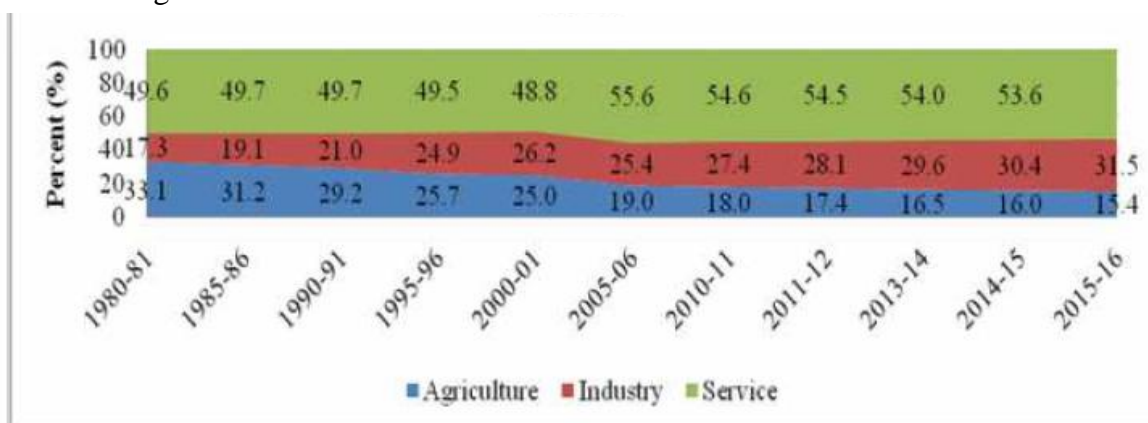
Table 6: Trend of Structural Transformation of Broad Sectoral Shares in GDP and Growth Rate at Constant Prices

Share (in percent)										
Sector	1980-81	1985-86	1990-91	1995-96	2000-01	2005-06	2010-11	2013-14	2014-15	2015-16
Agriculture	33.07	31.15	29.23	25.68	25.03	19.01	18.01	16.50	16.00	15.35
Industry	17.31	19.13	21.04	24.87	26.20	25.40	27.38	29.55	30.42	31.54
Service	49.62	49.73	49.73	49.45	48.77	55.59	54.61	53.15	53.58	53.12
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Average growth rate (in percent)										
Agriculture	3.31	3.31	2.23	3.10	3.14	5.50	4.46	4.37	3.33	2.79
Industry	5.13	6.72	4.57	6.98	7.45	9.80	9.02	8.16	9.67	11.09
Service	3.55	4.10	3.28	3.96	5.53	6.60	6.22	5.62	5.80	6.25
GDP (At producer prices)	3.74	3.34	3.24	4.47	5.41	7.18	6.64	6.15	6.54	7.17

Source: Bangladesh Bureau of Statistics (BBS).

Note: up to FY 2000-01, data used based on FY 1995-96 and others are based on 2005-06.

Figure 4: Trend in the Share of Broad Sector in GDP at Constant Prices



⁸Source: Bangladesh Bureau of Statistics (BBS).

⁹Note: up to FY 2000-01, data used based on FY 1995-96 and others are based on 2005-06.

3.12 Export Promotion Bureau (EPB)

In the wake of the establishment of the World Trade Organization to administer GATT 1994, GATS (General Agreement on Trade in Services) and TRIPS (Trade Related Aspects of Intellectual Property Rights) under an integrated Dispute Settlement Mechanism, the Bangladesh Export Promotion Bureau (EPB) will have to play a dynamic role to achieve the goals of Trade with the International/Regional Organizations.

⁸ Bangladesh economic review-2016 page xxxvi-xl

⁹ Economic Growth Taken from Bangladesh Economic Review-2016, page#15-22

3.13 Brief of RMG Sector

Since the late 70s government initiative such as special bonded warehouse schemes, duty drawback systems and export policy reforms (mid eighties) all helped the RMG sector to operate in almost a free trade environment. Currently, there are nearly 5,000 RMG firms in Bangladesh. More than 95 per cent of those firms are locally owned with the exception of a few foreign firms located in export processing zones. The RMG firms are located mainly in three main Cities: the Capital City Dhaka, the Port City Chittagong and the Industrial City Narayanganj. Garment companies in Bangladesh form formal or informal groups. The grouping helps to share manufacturing activities, and to diversify risks; horizontal as well as vertical coordination can be easily found in such group activities.

Readymade garments manufactured in Bangladesh are divided mainly into two broad categories: woven and knit products. Shirts, and trousers are the main woven products and undergarments, socks, stockings, T-shirts, sweaters and other casual and soft garments are the main knit products. Woven garment products still dominate the garment export earnings of the country. The share of knit garment products has been increasing since the early 1990s; and now accounts for just over 50% of the country's total RMG export earnings. Although various types of garments are manufactured in the country, only a few categories, such as shirts, T-shirts, trousers, jackets and sweaters, constitute the major production-share. The United States was the main export destination for Bangladeshi RMG products in the early 1990s followed by the European Union, but the European Union has surpassed the United States over time. These two destinations generate more than 90 per cent of the total RMG export earnings of Bangladesh.

It is important to note that the RMG sector helped to create jobs in complementary Industries or services, such as accessories, packaging, toiletries (demanded by newly employed female RMG workers), courier, finance, transport and telecommunications services, etc. BGMEA claims that the RMG sector creates as many jobs in these complementary enterprises as there are in RMG units themselves. Although RMG operates in a free trade enclave environment, its growth is clearly based on Bangladesh's comparative advantage in a labor- and non-skill intensive activity – one that has been sustained by trade and exchange liberalization.

In addition to speedy supply, the social dimensions of the RMG industry are getting more attention from consumers, social workers, welfare organizations and brand name international buyers. Currently, many international buyers demand compliance with their “code of conduct” before placing any garment import order.

3.14 Medium Term Prospect of Bangladesh Economy

FY2016-17 to FY2018-19 envisaged the macroeconomic and fiscal indicators for the budget year and projection of two outer fiscal years. Based on the prospects and potential risks in the context of global and domestic economic perspectives, MTMF set the GDP

growth target at 7.2 percent for FY2016-17, which will gradually increase to 7.4 percent in FY2017-18 and 7.6 percent in FY 2018-19. Investment in terms of GDP is expected to increase 31.0 percent in FY2016-17 from 29.4 percent in FY2015-16, will scale up to 31.8 percent in FY2017-18 and 32.7 percent in FY2018-19. The targeted investment of private and public sectors is likely to be 24.7 percent and 8.0 percent of GDP in FY2018-19.

The Government has been relentlessly trying to remove infrastructure deficit. Responding on the increasing demand for electricity, the generation capacity of electricity will be upgraded to 20,500 MW to ensure uninterrupted power supply by FY2018-19. Besides, initiatives have also been taken to augment gas exploration and import of Liquid Natural Gas (NLG). Construction of NLG terminal is in progress. For further development of transport and communication sectors, integrated development of road, rail and water ways will continue. Establishment of 100 economic zones by the next 15 years are in progress with a view to bringing out rapid economic development as well as industrialisation, production and employment. Up to June 2016, 46 economic zones have been approved. In addition, implementation of growth enhancing ten transformational projects at a fast pace. These are: Padma Bridge project, Padma Bridge Rail-link project, Cox's Bazar-Dohazari-Rumu-Ghumdhum Rail Line project, Mass Rapid Transit (MRT) Development project, Payra Sea Port project, Sonadia Deep Sea Port project, Matarbari Power Plant project, Rampal Coal-based Power Plant project, LNG Terminal project and Rooppur Nuclear Power Plant project.

In the MTMF for FY2016-17, the revenue target is estimated at 12.4 percent of GDP, which will go up to 12.7 percent in FY2017-18 and 13.1 percent in FY2018-19. All legal, procedural, 11 structural and administrative reforms have already been taken up for scaling up revenue earnings which is expected to continue over the medium term. Alongside, the implementation of the new Value Added Tax (VAT) law and supplementary duty act is expected to augment revenue mobilisation. Moreover, alternative dispute resolution and alignment of existing rates for non-tax revenue with current market prices will continue.

The Government has been pursuing a monetary policy stance to maintain macroeconomic stability and to keep inflation in check. The year-on-year inflation in FY2014-15 dipped to 6.41 percent from 7.35 percent in FY2013-14. While setting MTMF targets, it was expected that inflation will be sliding down to 6.2 percent in FY2015-16, and gradually come down to 5.8 percent in FY2016-17 and likely to close around 5.5 percent in the next two fiscal years. Moreover, in order to contain inflation, the Government keeps on taking initiatives such as increasing food production, ensuring uninterrupted food supply and food security. Based on growth targets and expected inflation, MTMF likely to set up the year-on-year growth of broad money within 15-15.5 percent, while keeping the private sector credit growth around 15 percent.

Alongside, the concerted efforts on exploring new labour markets and intensive diplomatic initiatives will increase expatriate employment and contribute towards sustaining the existing trends of remittance of flows. In FY2016-17, remittance inflows have been estimated to be 10.0 percent in FY2016-17 and 11.0 percent for next two fiscal years. The

current account balance (CAB) will decrease but expected to remain within manageable level. Appreciation pressures on exchange rate and heaping up the foreign exchange reserve would be offset by pursuing effective fiscal and monetary policy stances. The goal of maintaining macroeconomic stability together with expected GDP growth and target of inflation will be achieved if the future shocks from domestic as well as external sectors could be tackled properly.

3.15 Conclusion

In this chapter we have discussed the economic structure of Bangladesh. The global economic perception and the macroeconomic position of Bangladesh. Individual and government savings positions, rate of inflation, revenue mobilization and government expenditures, monetary and fiscal policies, Major Economic sectors of Bangladesh, power and energy, transportations, human resources development and poverty alleviations, private sectors development, capital market situations, external trade position and balance of payment and balance of trade, growth domestic products and sectoral share of GDP, Natural resources development, contributions of RMG sectors to the growth of GDP and overall Money, Banking and Financial Sector Reforms of Bangladesh economy.

Chapter: Four

The Banking Industry in Bangladesh with Elaboration of Islamic Banking System

4.1 Introduction

Islamic Banking Industry has been playing a crucial role in mobilizing deposits and financing key sectors of the economy in Bangladesh since its inception in 1983. Islamic banking is now spread over almost all the world, in both Muslim and non-Muslim countries, as a viable entity and financial intermediary. The second half of the twentieth century witnessed a major shifting of thinking in devising banking policy and framework on the basis of the Shariah.

4.2 The background of the Banking System in Bangladesh

Modern banking has a long history in Bangladesh. After liberation, the banks operating in Bangladesh (except those incorporated abroad) were nationalized. These banks were merged and grouped into six commercial banks. Of the total six commercial banks, Pubali Bank Ltd. and Uttara Bank Ltd. were subsequently transferred to the private sector with effect from January 1985. Rupali Bank was transferred as public limited company from December 1986. The rest three State Owned Banks were operating as public limited company from the quarter October-December, 2007. The two Govt. owned specialized banks were renamed as Bangladesh Krishi Bank and Bangladesh Shilpa Bank.

In March 1987 Bangladesh Krishi Bank was bifurcated and another specialised bank emerged as Rajshahi Krishi Unnayan Bank (RAKUB) for Rajshahi and Rangpur Division. Bank of Small Industries & Commerce Bangladesh Ltd. (BASIC) started its operation as a private bank from September 1988. Later on BASIC was brought under direct control of the Government and was reckoned to as a specialized bank with effect from June 1993. From July 1995 again the BASIC was categorized as a private bank and from 1997 Government decided to treat this bank as a Specialized bank again. But from January 2015 Government decided to treat this bank as a State Owned Bank. So in this booklet, from January to March, 2015 the BASIC has been treated as a State Owned Bank. Bangladesh Shilpa Bank (BSB) & Bangladesh Shilpa Rin Sangstha (BSRS) merged and renamed as Bangladesh development Bank Limited (BDBL) from the quarter January to March, 2010 treated as specialized bank. But from this quarter (April to June'15) according to Government decision BDBL is being treated as State Owned Bank. Standard Chartered Grindlays Bank was merged with Standard Chartered Bank during the Quarter January-March, 2003. American Express Bank also merged with Standard Chartered Bank during the quarter October-December, 2005. The Oriental Bank Ltd. an Islamic private bank was renamed as ICB Islamic Bank Ltd. from the quarter April-June, 2008. Credit Agricole Indosuez, a foreign private bank is renamed as Commercial Bank of Ceylon Ltd. from the quarter

October-December, 2003. Shamil Bank is renamed as Bank Al-Falah Ltd. from the quarter April-June, 2005. Arab Bangladesh Bank Ltd. is renamed as AB Bank Ltd. from the quarter January-March, 2008 and Social Investment Bank Ltd. is renamed as Social Islami Bank Ltd. from the quarter April-June, 2009. It is mentioned that First Security Bank Ltd. has started its operation according to Islamic Shariah from the quarter January-March, 2009, Shahjalal Bank Ltd. has started its operation according to Islamic Shariah from the quarter April-June, 2001 and it is renamed as Shahjalal Islami Bank Ltd. from the quarter April-June, 2004 and EXIM Bank Ltd. has also started its operation according to Islamic Shariah from the quarter July-September, 2004. The branches of foreign banks operating in Bangladesh are being treated as foreign private banks. Among all fourth generation Scheduled Banks “NRB Commercial Bank Ltd.”, “South Bangla Agriculture and Commerce Bank Ltd.”, “Meghna Bank Ltd.”, “The Farmers Bank Ltd.”, and “Union Bank Ltd.” have started their operation from the quarter April-June, 2013. “Midland Bank Ltd.”, “Modhumoti Bank Ltd.”, “NRB Bank Ltd.” Have started their operation from the quarter July- September, 2013. “NRB Global Bank Ltd.” has started their operation from the quarter October- December, 2013 and “Simanto Bank Ltd.” has started their operation from the quarter October- December, 2016. It is mentioned that Union Bank Ltd. based on Islamic Shariah.

All such banks operating in Bangladesh with different paid-up capital and reserves having a minimum of an aggregate value of Tk.50.00 lac and conducting their affairs to the satisfaction of the Bangladesh Bank have been declared as scheduled banks in terms of section 37(2) of Bangladesh Bank Order 1972. In terms of section 13 of Bank Company Act, 1991, the minimum aggregate value was Tk. 20 crore. From 30 March 2003 it was 100 crore. From 08 October 2007 it was Tk. 200 crore. From 11 August 2011 it has been raised at the minimum of Tk. 400 crore (as per Circular Letter. No. BRPD(R-1)717/2008-511 dated August 12, 2008).

4.3 Quantity and size of Banks in Bangladesh

At present (as on 31 December 2016) there are 57(Fifty Seven) Banks in Bangladesh.

4.3.1 State owned Banks

1. Agrani Bank Limited.
2. Janata Bank Limited.
3. Rupali Bank Limited.
4. Sonali Bank Limited.
5. Bank of Small Industries and Commerce Bangladesh Ltd.
6. Bangladesh Development Bank Limited.

4.3.2 Specialised Banks

1. Bangladesh Krishi Bank.
2. Rajshahi Krishi Unnayan Bank.

4.3.3 Private Banks

4.3.3.1 Foreign Private Banks

1. Standard Chartered Bank
2. State Bank of India
3. Habib Bank Ltd.
4. Citi Bank, N.A.
5. Commercial Bank of Ceylon Ltd.
6. National Bank of Pakistan
7. Woori Bank
8. The Hong Kong & Shanghai Banking Corporation Ltd.
9. Bank Al-Falah Ltd.

4.3.3.2 Local Private Banks (Incorporated in Bangladesh excluding Islamic Banks)

1. AB Bank Ltd.
2. National Bank Ltd.
3. The City Bank Ltd.
4. International Finance Investment and Commerce Bank Ltd.
5. United Commercial Bank Ltd.
6. Pubali Bank Ltd.
7. Uttara Bank Ltd.
8. Eastern Bank Ltd.
9. National Credit and Commerce Bank Ltd.
10. Prime Bank Ltd.
11. Southeast Bank Ltd.
12. Dhaka Bank Ltd.
13. Dutch Bangla Bank Ltd.
14. Mercantile Bank Ltd.
15. Standard Bank Ltd.
16. One Bank Ltd.
17. Bangladesh Commerce Bank Ltd.
18. Mutual Trust Bank Ltd.
19. Premier Bank Ltd.
20. Bank Asia Ltd.
21. Trust Bank Ltd.
22. Jamuna Bank Ltd.
23. BRAC Bank Ltd.
24. NRB Commercial Bank Ltd.
25. South Bangla Agriculture and Commerce Bank Ltd.
26. Meghna Bank Ltd.
27. Midland Bank Ltd.
28. The Farmers Bank Ltd.
29. NRB Bank Ltd.

30. Modhumoti Bank Ltd.
31. NRB Global Bank Ltd.
32. Simanto Bank Ltd.

4.3.3.3 Local Full-Fledged Islamic Banks

1. Islami Bank Bangladesh Ltd.
2. ICB Islamic Bank Ltd.
3. Al-Arafah Islami Bank Ltd.
4. Social Islami Bank Ltd.
5. Export Import Bank of Bangladesh Limited
6. First Security Islami Bank Ltd.
7. Shahjalal Islami Bank Ltd.
8. Union Bank Ltd.10

The total deposits of the Banking Industry is at the end of the year 2016 stood Tk.8,99,414.26 crore and total loans and advances stood at the end of the year 2016 stood Tk.6,68,656.58 crore only excluding bills. A short-note on total banking position in Bangladesh as on 31.12,2016 depicted below:

INDICATORS

Items	(Amount in Taka)	
	AS ON	
	December 31, 2016	September 30, 2016
Number of Banks	57	56
Number of Bank Branches	9,654	9,515
(Source: Banking Regulation and Policy Department, Bangladesh Bank)		
Deposits (Excluding Inter-Bank)		
a) Total Deposits	8,994,142,558,000	8,617,456,700,000
Urban	7,150,277,703,000	6,862,919,045,000
Rural	1,843,864,855,000	1,754,537,655,000
b) Number of Accounts	81,426,946	80,750,837
c) Average Deposits per account	110,457	106,717
Advances (Excluding Inter-Bank)		
a) Total Advances	6,686,565,794,000	6,285,349,944,000
Urban	6,006,568,561,000	5,654,860,121,000
Rural	679,997,233,000	630,489,823,000
b) Number of Accounts	10,139,617	9,934,475
c) Average Advances per account	659,450	632,681
Bank Credit (Advances+Bills)	6,962,424,751,690	6,566,231,699,000
Ratio of Advances to Deposits	0.74	0.73
Ratio of Bank Credit to Deposits	0.77	0.76
Rate of Interest on Deposits(Weighted Average)*	5.01	5.23
Rate of Interest on Advances(Weighted Average)*	9.86	10.16
Scheduled Banks' Investment (Excluding inter-bank)	2,140,844,300,000	2,150,091,600,000
Borrowings From Bangladesh Bank	229,946,100,000	179,234,000,000

* Weighted average rates of interest both for deposits and advances are calculated as the sum of product of each rate of interest and its corresponding amount of deposit/advance being divided by the total of those deposits or advances as the case may be.

4.4 Deposits by Category of Banks

The increased of Tk. 3,76,68.59 crore or 4.37% in total deposit liabilities during the quarter Oct.-Dec., 2016 over the preceding quarter Jul.-Sep., 2016 was shared by increased in Private Banks by Tk. 26,435.20 crore or 4.75%, Islamic Banks by Tk.7,418.95 crore or 4.40%, Foreign Banks by Tk. 152.34 crore or 0.41% and State Owned Banks by Tk.10,336.08 crore or 4.26%, Specialized Banks by Tk.744.96 crore or 2.96%. The net accretion in deposits during the quarter under review over the same quarter (Oct.-Dec., 2015) of the last year amounting to Tk.1,05,432.32 crore or 13.28% was due to increased in deposits of State Owned Banks by Tk.28,626.54 crore or 12.75%, in Private Banks by Tk.71,064.08 crore or 13.89%, in Islamic Banks by Tk.21,960.62 crore or 14.26%, in Specialized Banks increased by Tk.2,797.55 crore or 12.09%, and in Foreign Banks increased by Tk.2,944.15 crore or 8.50%. Of the total deposits of Tk.8,99,414.26 crore at the end of the quarter under review, the shares of State Owned Banks, Specialized Banks, Foreign Banks, Private Banks and Islamic Banks were Tk.2,53,187.30 crore (28.15%), Tk.25,935.08 crore (2.88%), Tk.37,573.08 crore (4.18%), Tk.5,82,718.80 crore (64.79%) and Tk.1,75,919.15 crore (19.56%) respectively. The position in respect of deposit liabilities by category of Banks is shown in Table-7.

Table 7: Deposits Distributed by Category of Banks (Taka in Crore)

At end of the quarter	State Owned Banks	Specialised Banks	Foreign Banks	Private Banks (Including Islamic Banks)	Islamic Banks	All Banks
2015						
Oct.-Dec.	224560.76	23137.53	34628.92	511654.72	153958.53	793981.94
	28.28%	2.91%	4.36%	64.44%	19.39%	100%
	(6.71)	(0.39)	(-1.11)	(3.7)	(3.82)	(4.21)
2016						
Jan.-Mar.	231373.54	24409.90	36740.59	515985.49	154994.84	808509.51
	28.62%	3.02%	4.54%	63.82%	19.17%	100%
	(3.03)	(5.5)	(6.1)	(0.85)	(0.67)	(1.83)
Apr.-Jun.	244047.79	25246.44	37242.56	540917.03	164351.40	847453.82
	28.80%	2.98%	4.39%	63.83%	19.39%	100%
	(5.48)	(3.43)	(1.37)	(4.83)	(6.04)	(4.82)
Jul.-Sep.	242851.22	25190.12	37420.74	556283.59	168500.20	861745.67
	28.18%	2.92%	4.34%	64.55%	19.55%	100%
	(-0.49)	(-0.22)	(0.48)	(2.84)	(2.52)	(1.69)
Oct.-Dec.	253187.30	25935.08	37573.08	582718.80	175919.15	899414.26
	28.15%	2.88%	4.18%	64.79%	19.56%	100%
	(4.26)	(2.96)	(0.41)	(4.75)	(4.4)	(4.37)

Note: 1. Figures in parentheses represent rates of growth in percent over the preceding quarter.

2. Minor differences may be observed due to rounding off.

4.5 Advances by Category of Banks

The State owned Banks accounted for 19.11% of the total advances at the end of the quarter under review. Advances made by State Owned Banks increased by 5.16% to Tk.127787.04

crore at the end of the quarter under review as compared to increases of 1.54% and increase of 7.42% at the end of the preceding quarter (Jul.-Sep., 2016) and the corresponding quarter (Oct.-Dec., 2015) of the last year respectively. The share of Specialized Banks' advances is 3.67% on the December 31, 2016. Advances classified by category of banks are shown in Table-8.

Table 8: Advances Classified by Category of Banks (Taka in Crore)

At end of the quarter	State Owned Banks	Specialised Banks	Foreign Banks	Private Banks (Including Islamic Banks)	Islamic Banks	All Banks
2015						
Oct.-Dec.	114160.68	22599.00	22772.91	420326.83	130407.87	579859.42
	19.69%	3.90%	3.93%	72.49%	22.49%	100%
	(7.42)	(1.03)	(1.57)	(6.51)	(6.04)	(6.26)
2016						
Jan.-Mar.	116243.74	22373.33	22271.69	432143.36	136257.52	593032.13
	19.60%	3.77%	3.76%	72.87%	22.98%	100%
	(1.82)	(-1)	(-2.2)	(2.81)	(4.49)	(2.27)
Apr.-Jun.	119665.15	23460.13	23981.02	454450.29	143339.83	621556.59
	19.25%	3.77%	3.86%	73.11%	23.06%	100%
	(2.94)	(4.86)	(7.67)	(5.16)	(5.2)	(4.81)
Jul.-Sep.	121512.08	23063.35	23756.37	460203.20	145955.75	628534.99
	19.33%	3.67%	3.78%	73.22%	23.22%	100%
	(1.54)	(-1.69)	(-0.94)	(1.27)	(1.82)	(1.12)
Oct.-Dec.	127787.04	23054.80	22894.88	494919.86	156274.27	668656.58
	19.11%	3.45%	3.42%	74.02%	23.37%	100%
	(5.16)	(-0.04)	(-3.63)	(7.54)	(7.07)	(6.38)

Note: 1. Figures in parentheses represent rates of growth in percent over the preceding quarter.
2. Minor differences may be shown due to separate rounding off.

4.6 Economic Purpose-wise Advances

Bulk of Advances (36.32%) was used for 'Trade' purpose followed by advances for 'Working Capital Financing' (19.44%) and 'Term Loan' (17.51%) at the end of the quarter Oct.-Dec., 2016. Trade loans increased by Tk.18125.22 crore or 8.06% to Tk.242867.72 crore and 'Term Loan' increased by Tk.6313.78 crore or 5.70% to Tk.117089.75 crore at the end of the quarter under review as compared to increases of 0.97% and increases of 5.27% respectively at the end of the preceding quarter (Jul.-Sep., 2016) and an increase of 9.04% & an increase of 8.57% respectively at the corresponding quarter (Oct.-Dec., 2015) of the last year. 'Transport' loans increased by 6.49% to Tk.5084.18 crore and 'Agriculture' loans increased by 1.79% to Tk.34377.92 crore as compared to increases of 0.26% & decreases of 1.70% at the end of the preceding quarter (Jul.-Sep., 2016) and an increase of 3.72% & an increase of 3.01% at the corresponding quarter (Oct.-Dec., 2015) of the last year respectively. 'Construction' loan increased by 11.42% to Tk.62914.57 crore and 'Capital Financing' loan increased by 2.25% to Tk.129982.64 crore and 'Consumer Finance' loan increased by 6.68% to Tk.55971.80 crore respectively at the end of the

quarter under review. 'Others' loans showed an increase of Tk.1953.83 crore to Tk.20367.99 crore at the end of the quarter under review as compared to the preceding quarter. Table -9 shows economic purpose-wise classification of advances.

Table 9: Economic Purpose-wise Classification of Advances (Taka in Crore)

At end of the quarter	Agriculture Fishing & Forestry	Industry		Construction	Transport	Trade & Commerce	Consumer Finance	Others	Total
		Term Loan	Working Capital Financing						
2015									
Oct.-Dec.	31333.37	105091.59	110033.09	48510.13	4405.47	216931.32	49028.75	14525.70	579859.42
	5.40%	18.12%	18.98%	8.37%	0.76%	37.41%	8.46%	2.51%	100%
	(3.01)	(8.57)	(2.78)	(1.43)	(3.72)	(9.04)	(5.36)	(4.63)	(6.26)
2016									
Jan.-Mar.	33244.19	104371.52	114303.26	54666.34	5235.61	214382.12	49757.02	17072.07	593032.13
	5.61%	17.60%	19.27%	9.22%	0.88%	36.15%	8.39%	2.88%	100%
	(6.1)	(-0.69)	(3.88)	(12.69)	(18.84)	(-1.18)	(1.49)	(17.53)	(2.27)
Apr.-Jun.	34360.51	105229.77	128695.08	54196.38	4762.23	222592.79	53201.98	18517.85	621556.59
	5.53%	16.93%	20.71%	8.72%	0.77%	35.81%	8.56%	2.98%	100%
	(3.36)	(0.82)	(12.59)	(-0.86)	(-9.04)	(3.83)	(6.92)	(8.47)	(4.81)
Jul.-Sep.	33774.75	110775.97	127119.78	56465.80	4774.41	224742.50	52467.62	18414.17	628534.99
	5.37%	17.62%	20.22%	8.98%	0.76%	35.76%	8.35%	2.93%	100%
	(-1.7)	(5.27)	(-1.22)	(4.19)	(0.26)	(0.97)	(-1.38)	(-0.56)	(1.12)
Oct.-Dec.	34377.92	117089.75	129982.64	62914.57	5084.18	242867.72	55971.80	20367.99	668656.58
	5.14%	17.51%	19.44%	9.41%	0.76%	36.32%	8.37%	3.05%	100%
	(1.79)	(5.7)	(2.25)	(11.42)	(6.49)	(8.06)	(6.68)	(10.61)	(6.38)

Note: 1. Figures in parentheses represent rates of growth in percent over the preceding quarter.
2. Minor differences may be shown due to separate rounding off.

4.7 Islamic Banking around the world

The twentieth century has witnessed a major shift of thinking in devising banking policy and framework based on Islamic Shariah. This new thought was institutionalized at the end of the third quarter of the century and emerged as a new system of banking called Islamic banking. The establishment of the Islamic Development Bank (IDB) in 1975 gave momentum to the Islamic Banking movement. Since the establishment of IDB, a number of Islamic Banking and financial institutions have been established all over the world irrespective of Muslim and non-Muslim countries. Over the past few decades, the Islamic financial industry has rapidly expanded worldwide. Currently about more than 300 Islamic financial institutions (IFIs) have total combined assets exceeding \$250 billion in more than 75 countries.

It is projected that this will be a \$trillion. The Islamic financial market is estimated to grow at annual rates averaging 15% in a year. Their rapid growth has gained considerable attention in international financial circles where various market participants have recognized promising potentials. Kuala Lumpur and Bahrain are the world's leading Islamic capital markets while Dubai and other players in the Middle-East are fast catching up. In the UK, the first Islamic bank has already opened its doors and Singapore has expressed its interest to be a leading Islamic financial centre, while China and India has expressed interest in Islamic banking. The Islamic finance market has become extremely sophisticated as well as increasingly competitive. Today, virtually all large western financial institutions are involved in Islamic finance whether through Islamic subsidiaries, "Islamic windows", or the

marketing of Islamic products. In recent years, a range of new Islamic products have appeared, such as Islamic bonds (or sukuk) and Islamic derivatives. While some of those products are widely accepted, others are still controversial¹¹.

4.8 Advantages of Islamic Banking

Some Islamic economists cite some advantages for Islamic banking compared with conventional banking. These advantages have been described below:

a) Efficient Use of Money: In an economy based on interest, there is a price for money which leads to some traders using bartering which is inefficient.

There is a strong school of economists who argue that interest based finance is sub-optimal on purely economic grounds. Despite the fact that the rate of interest operates in conventional economies as a price, monetary economists insist that a zero nominal interest rate is a necessary condition for optimal allocation of resources. The reason is simple. After switching from metallic to fiat money adding one marginal unit of real balances costs the community no real resources. Therefore imposing a positive price on use of money would lead traders to economize on the use of money, in their efforts to minimize transaction costs. They would therefore use some real resources instead of money.

In Islamic banking while the time value of money is maintained, there is no need to handle the complicated question of how to bring the rate of interest down to zero in order to reach the optimal allocation of resources. In a nutshell it may be said that Islamic finance is a short-cut to the efficiency in the financial sector.

b) Distribution of Risk between Entrepreneurs and Depositors: It is observed that while in the conventional banks all the business risks are imposed on the borrower. Only guaranteeing in advance a fixed return on a loan without taking risk into consideration in a banking system like Islamic Banking based on profit and loss sharing the risk is distributed between the partners.

c) The Importance of the Quality of a Business Plan is Greater Than the Credit Rating of Borrowers: As conventional banks receive a fixed amount as interest and there is no ownership relationship between the bank and the client, banks are not concerned with business plans. What is important for them is the credit rating of the borrowers which guarantees the return of the initial loan plus interest. In contrast, in Islamic banks, because of the existence of profit and loss sharing and because of the changeable profit, the quality of a business plan and the ability of borrowers (entrepreneurs) is more important than the credit rating of the borrowers.

¹¹ Annual Report 2016, SIBL Page#94

d) Stability: In the conventional banking system the relationship between banks and clients is based on debt. Borrowers have to pay the initial amount plus interest (there is no difference whether they make a profit or not) on the one hand and banks have to pay the initial amount plus interest to depositors on the other hand. As there are usually business cycles in the economy, during periods of recession borrowers are not only faced with problems regarding repayment of their loans but banks also have problems in connection with the repayment of deposits. In contrast, because of the profit and loss sharing factor in Islamic banking depositors automatically share the risk and there is no obligation to pay more than their profit before selling the goods for both investors and banks. Consequently, they are less likely to face major problems, especially bankruptcy.

e) Control of Excessive Credit Creation: In Islamic finance, there is a close relationship between money and the production of goods and services which are connected to each other. So it is not easy for banks to create money excessively. Al-Jarhi (2005: 20) states that:

All Islamic modes of finance involve money on the one hand and/or services on the other. Monetary flows through Islamic financial modes would have to be tied directly to commodity flows. In other words, Islamic finance removes the dichotomy between financial and real activities. Obvious, this leaves little room for excessive credit expansion, as the financed provided by financial institutions to business units is automatically earmarked for specific use.

f) Decrease of Moral Hazard and Adverse Selection: Since Islamic banks operate as universal banks they are likely to be more efficient in monitoring and surveillance, thereby reducing the risk of adverse selection and moral hazard (Al-Jarhi, 2005:20, cited in, Calomiris, 2000). As there are many finance applicants and banks do not have enough information to select the best, they are usually faced with adverse selection. The more information there is the less the adverse selection. It is obvious that because Islamic banks act according to the profit and loss sharing principle, they are likely to be more able to avoid adverse selection compared to conventional banks through more effective monitoring.

Since the Islamic banking system often acts according to profit and loss sharing, the motivation for moral hazard is stronger than for conventional banks. On the other hand, because of the existence of monitoring in Islamic banks the probability of moral hazard decreases. However, empirical works show that in bank systems such as Islamic banks and universal banks which use debt, equity finance and profit and loss sharing simultaneously, they are more likely to avoid moral hazard and adverse selection. According to Dewenter and Hess (1998):

Empirically, it has been found that if banks use a combination of debt and equity finance, this seems to carry several advantages to both banks and firms, confirming the theoretical

findings. Banking theory would indicate that banks would be relatively more exposed to adverse selection during economic upturns and moral hazard during downturns. Applied research has found that universal banks face lower risk than commercial banks during both upturns and downturns. In addition, the risk differential between universal banks and commercial banks gets wider and more significant during downturns (taken from Al-Jarhi, 2005:21).

Some advantages of Islamic banking can be summarized as follows:

- (i) There is a high level of variety and diversity with different levels of risk in the contracts (partnership contracts and exchange contracts) which can facilitate making contracts in Islamic banking for both savers and entrepreneurs.
- (ii) It is possible to establish financial institutions with different modes which can increase the stability of a financial system.
- (iii) It is expected that competition between Islamic banks with different models will increase the efficiency of the financial system.
- (iv) (iv)The financial needs of Muslims are a reality as with any nation and faith. These needs can be provided by Islamic banks in accordance with their belief. This public admission can have an important role in establishing a stable and efficient market.
- (v) In profit and loss sharing models, in all facility demands, profitability of the project is considered carefully, so the efficiency of Islamic banks would be expected to be greater than that of conventional banks.
- (vi) Islamic banks do not finance projects which are not acceptable to Islamic society which reflects its greater responsibility.
- (vii) Because of partnership contracts, the liabilities side of the balance sheet tends to become isochronous with the assets side, so Islamic banks are more resistant to external shocks and delayed repayment loans.
- (viii) Profit and loss sharing makes depositors sensitive to the operations of their banks, their transparency and their efficiency. On the other hand, banks try to evaluate the projects which they are asked to finance more carefully. According to Iqbal and Ahmad (2005:7):

4.9 Formation of Islamic Bank Consultative Forum (IBCF)

For effective interaction, communication and exchanges the ideas & views of Shariah banking development and its practices in Bangladesh among the Islamic banking and Islami Banking Branches of the conventional Banks, a forum called “Islamic Bank Consultative forum (IBCF)” was formed in 1995. IBCF may be called first ever organizational development in establishing Islamic Banking in Bangladesh where the member banks discuss together the problems and issues relating to the growth and development of Islamic Banking in Bangladesh and common strategy and policies are formulated for implementation through this common Forum. The immediate goals of the IBCF were to establish Central Shariah Board for all Islamic Banks in Bangladesh, Islamic Money Market, Islamic Insurance Company(s), innovation of new financial products.

Among them, Central Shariah Board is now functioning successfully. Bangladesh Government Islamic Investment Bond (BGIIB) and Islamic Money Market are the development of IBCF and Bangladesh Bank which are being enjoyed by almost all the Member-Banks. At present, 8(Eight) full-fledged Islamic Banks like (i) Islami Bank Bangladesh Limited (ii) EXIM Bank Limited (iii) Shahjalal Islami Bank Limited (iv) Social Islami Bank Limited (v) ICB Islamic Bank Limited (vi) Al-Arafah Islami Bank Limited and (vii) First Security Islami Bank and (viii) Union Bank Limited and 5 (five) numbers of Conventional banks having Islami Banking Branches like (i) Prime Bank Limited (ii) Dhaka Bank Limited (iii) Southeast Bank Limited (iv) AB Bank Limited and (v) Pubali Bank Limited are the members of IBCF¹².

4.10 Formation of CSBIBB (Central Shariah Board for Islami Banks of Bangladesh)

CSBIBB was formed in 2001 with the view to observance of uniform policies and practices of Islamic banking among the member banks. Currently 8 (Eight) full-fledged Islamic Banks and 10 (ten) conventional banks of Islamic banking Branches are the member of CSBIB. CSBIBB is mainly rest with the functions of (i) collections, translations & publications of Journals and References on Islamic Banking (ii) to arrange and undertake research programs, Training, workshop, seminar, symposiums (iii) gives award for contribution in Islamic Banking. Bangladesh Government Islamic Investment Bond In principal, the method of treasury functions and its management of an Islami bank are quite different from other conventional bank. To support the daily treasury functions of Islami banks, Ministry of Finance, Government of the Peoples' Republic of Bangladesh in the year 2004 introduced a very special type of Shariah based bond called "Bangladesh Government Islami Investment Bond." which is treated as a component of Statutory Liquidity Ratio (SLR).

The operation of 6-month, 1-year and 2- year Bangladesh Government Islamic Investment Bond introduced in Financial Year 2005 in accordance with the rules of Islamic Shariah where per unit bond price has been determined Taka 1,00,0000/-(Taka one lac). As per the rules, Bangladeshi institutions and individuals, and non-resident Bangladeshi, who agree to share profit or loss in accordance with Islamic Shariah, may buy this bond. As on end December 2014, the total sale value of this bond amounted to Taka 3.10 billion while balance of total amount of financing stood at Taka 10.75 billion and the net outstanding against the bond stood at Taka 7.65 billion. Social Islami Bank Limited has been actively involved in buying this bond and as on 31.12.2015 total outstanding buy amount (principal amount) of this bond stood at Taka 6.15 billion. Re-investment facility featured has been tagged with the bond and any Bangladeshi Institutions and Individuals, and non-resident Bangladeshi, who agrees to share profit or loss in accordance with Islamic Shariah, can accept borrowing from the fund¹³.

¹² (Annual Report 2016, SIBL Page# 95)

¹³ (Annual Report 2016, SIBL Page#94)

4.11 Islami Bank's Fund Market (IBFM)

Temporary arrangement of funds through MSD (Mudaraba Savings Deposit) and MSND (Mudaraba Special Notice Deposit) accounts:

In order to day to day liquidity management, Islami banks cannot take part in call money Market operation and other activities like REPO and Reverse REPO which are very common techniques widely used by the conventional banks. Besides that, the Islamic Money Market of Bangladesh is not well structured. To mitigate the immediate/short liquidity crisis and management of surplus funds overnight, Banks running under Shariah principles have an arrangement between themselves to maintain MSD (Mudaraba Savings Deposit) Accounts or MSND (Mudaraba Special Notice Deposit) Accounts for temporary transactions. Excess funds are placed to others banks and shortage of funds are replenished by calling other Islamic Banks or Islamic Banking Branches to deposit in these accounts. This technique is very popular among the Islamic Banks/ Islamic Banking Branches. Introduction of Islamic Inter Bank Fund Market (IIFM) Bangladesh Bank has introduced Islami Inter Bank Fund Market (IIFM) with a view to facilitating liquidity management of the Shariah-based Islamic banks. Islami Banks cannot borrow fund from the conventional call money market due to non-compliance of Shariah.

Moreover, absence of a Shariah-based money market refrain the banks to borrow fund from each other. Therefore, Islamic money market is integral to the functioning of the Islamic banking system in providing the Islamic financial institutions with the facility for funding and adjusting portfolios over the short-term. Financial instruments and inter-bank investment would allow surplus banks to channel funds to deficit banks, thereby maintaining the funding and liquidity mechanism necessary to promote stability in the system. Although the Islamic Shariah-based banks have about 20 per cent market share of the total asset and liability in the country's banking industry, they did not have any inter-bank money market (call money market) before. As a result, the banks were facing problems in managing excess liquidity, and on the other hand, if a bank needed fund to overcome sudden liquidity shortage, Islamic Banks had no option to manage fund except internal arrangement in between Shariah banks through MSD and MSND accounts operations. At present, Islamic banks are holding more than Tk 4000 crore as excess liquidity, which is now remained idle due to absence of a formal money market for them.

Introduction of IIFM has solved the problems of the Islamic banks and from now they are able to collect fund from inter-bank money market. Shariah-based banks transact with each other through a separate fund called IIFM and the central bank is the custodian of this fund. According to the rules, if any bank has excess fund, it will invest the amount in the IIFM for one day. Besides, another Islamic bank requiring fund can borrow funds from it from the IIFM for one day. The rate of profit in the Islamic bank money market is determined on the basis of the profit rates of the bank gives to its depositors on a three months' deposit. The

contract will be based on Mudaraba principle of Islamic banking law and the new system would open a new window of investment for the Islami banks having excess liquidity¹⁴.

4.12 Historical Background of Islamic Banking in Bangladesh

Bangladesh is the third largest Muslim country in the world with around 150 million population. The hope and aspiration of the people to run banking system on the basis of Islamic principles came into reality after the OIC recommendation at its Foreign ministers meeting in the year 1978 at Senegal to develop separate system of their own. After 5 years of their declaration, in 1983, Bangladesh established its first Islamic bank. At present as on December 31 2016 there are 8 full-fledged Islamic Banks with 1047 Branches. The Development of Islamic Banking in Bangladesh is remarkable. The incorporated of Islamic Banking business in Bangladesh, the 8 full-fledged Islamic Banks are shown below in a chronological business incorporation chart:

Table 10: Full-Fledged Islamic Banks in Bangladesh (Up to December 2016)

S.L.	Name of Islamic Banks	Date of In corp. as Islamic Bank	No. of Branches
01	Islami Bank Bangladesh Limited (IBBL)	30 March 1983	318
02	ICB Islamic Bank Limited (ICBIBL) ¹⁵	30 April 1987	33
03	Al-Arafa Islami Bank Limited (AIBL)	18 June 1995	140
04	Social Islami Bank Limited (SIBL)	22 November 1995	125
05	Shahjalal Islami Bank Limited (SJIBL)	10 May 2001	103
06	Export Import Bank of Bangladesh Limited	1 July 2004	113
07	First Security Islami Bank Limited (FSIBL)	1 January 2009	158
08	Union Bank Limited (UBL)	1 April 2013	57
	Total		1047

Sources: Activities of Bank, Bima and Financial Institutions 2016-2017, Bank and Financial Institution Division, Ministry of Finance, The Government of the People Republic of Bangladesh

Table 11: Islamic Banking Branches of Conventional Banks in Bangladesh (Up to December 2016)

S.L.	Name of Conventional Banks	Date of In corp. as Islamic Bank	No. of Islamic Banking Branches
01	Prime Bank Limited	1995	05
02	Southeast Bank Limited	2003	05
03	Dhaka Bank Limited	2003	02
04	The Premier Bank Limited	2003	02
05	Jamuna Bank Limited	2003	02
06	The City Bank Limited	2003	01

¹⁴ Annual Report 2016, SIBL Page#95-96

¹⁵ At the opening time (1987) its name was Al-Baraka Bank Bangladesh Limited, then renamed to The Oriental Bank Limited and now as ICB Islami Bank Limited.

07	AB Bank Limited	2004	01
08	Bank AL-Falah limited	2005	01
	Total		19

Sources: Activities of Bank, Bima and Financial Institutions 2016-2017, Bank and Financial Institution Division, Ministry of Finance, The Government of the People Republic of Bangladesh

Table 12: Islamic Banking Windows of Conventional Banks in Bangladesh (Up to December 2016)

S.L.	Name of Conventional Banks	Date of Incorp. of Islamic Banking activities	Number of Islamic Banking Windows
01	Bank Asia Bank Limited	2008	05
02	The Trust Bank Limited	2008	05
03	Sonali Bank Limited	2010	05
04	Agrani Bank Limited	2010	05
05	Pubali Bank Limited	2010	02
06	Standard Bank Limited	2009	02
07	Standard Chartered Bank	2004	01
	Total		25

Activities of Bank, Bima and Financial Institutions 2016-2017, Bank and Financial Institution Division, Ministry of Finance, The Government of the People Republic of Bangladesh.

In this chapter, In-Sha-Allah, we will discuss about the performance of the full-fledged Islamic Banks. Performance and contributions of Branches and windows of conventional Banks will not be discussed here as these banks' are participating partially in the total Islamic Banking Industry.

4.12.1 Corporate Profile of Islami Bank Bangladesh Limited

Islami Bank Bangladesh Limited (IBBL) was established as the first Shariah based bank in South and South- East Asia on March 13, 1983 with 70% of foreign shareholding including Islamic Development Bank (IDB) and 30% local sponsorship of which 5% share of Bangladesh Government. Since inception, Islami Bank Bangladesh Limited has been rendering its banking services by offering diversified and a wide range of deposit, investment & foreign exchange products coupled with technology based banking devices, which have successfully earned a huge clientele base. As a true reflection of the inner urge of the people of the country and to conduct all banking & investment activities based on Islamic Shari'ah, IBBL unveiled a new horizon and ushered in a new ray of hope towards realizing a long cherished dream of the people of Bangladesh for conducting their banking transactions in accordance with the spirit of Islam. After launching on the 13th March 1983 IBBL started its functioning on 30th March 1983 although the formal inauguration was on

12th August 1983. The first branch of the Bank (Local Office) is located at 75, Motijheel, Dhaka. At present IBBL is the highest corporate taxpayer among the local banks and is the second highest taxpayer in the banking sector of Bangladesh. After passing a long journey of continuous success and glory in almost all business indicators, the Bank is now running with Authorized Capital of Tk. 20,000 million and Paid up Capital of Tk.16,099.91 million. The aesthetically viewed 18-storied own building located at 40, Dilkusha Commercial Area, Dhaka is the Corporate Headquarter of the Bank.

One of the IBBL Financed Power Plants wealth maximization has never been among the prime objectives of IBBL. We extend our services to individuals of all walks of life with strong commitment in advancement and upliftment of economically backward segments. Focus on 'Maqasid-al-Shari'ah: IBBL does not merely focus on Shari'ah compliance issues ignoring the Maqasid of Shari'ah. Keeping Shari'ah compliance at the core of its value, IBBL focus on 'Makasid-al-Shari'ah' in all of its operational portfolios.

Mass Banking: For making banking facility available for maximum number of people, since inception IBBL has been providing mass banking instead of class banking. Around 1/5th of manpower is engaged to serve about 3% of the total investment under Rural Development Scheme (RDS).

Need-based Banking: In line with following need prioritization in financing as per Islamic Shari'ah, IBBL does not work to fulfill the need of few people rather focuses on the requirement of the real needs of the common people. Thus, IBBL strives to substitute the 'Greed-based Banking' through establishing 'Need-based Banking'.

Special Investment Scheme: To uplift the socio economic status of general people of all sectors and address the special needs of particular group of people IBBL has launched several special investment schemes. The supervision cost of these investments is high which makes our income lesser compared with other market participants.

Retail Banking Deposit Products in Islami Bank Bangladesh Limited:

Any financial institution especially a Bank can hardly prosper and compete with other banks effectively without multidimensional and diversified products. Keeping this in view, IBBL has introduced 26 deposit products so far.

A. Al-Wadeah Accounts

B. Mudaraba Accounts

Deposit Products in Local Currency:

1. Al- Wadeah Current Account(AWCA)
2. Mudaraba Savings Account(MSA)
3. Mudaraba Special Notice Accounts
4. Mudaraba Special Savings(Pension) Account

5. Mudaraba Term Deposit Account
6. Mudaraba Savings Bond Account
7. Mudaraba NRB Savings Bond
8. Mudaraba Hajj Savings Account
9. Mudaraba Waqf Cash Deposit Account
10. Mudaraba Monthly Profit Deposit Account
11. Mudaraba Muhor Savings Account
12. Students Mudaraba Savings Account
13. Mudaraba Farmers Savings Account
14. Mudaraba Upohar Deposit Scheme
15. Mudaraba Industry Employees Savings Account

Deposit Products in Foreign Currency:

1. Mudaraba Foreign Currency Account
2. Mudaraba Exporters' Retention Quota Account
3. Foreign Currency Account
4. Foreign Currency Account (REQ)
5. Foreign Currency Account of EPZ Enterprise
6. Resident Foreign Currency Deposit Account (RFCD)
7. Non-Resident Foreign Currency Account of Exchange Houses/Banks
8. Non-Resident Taka Account (NRTA) for Foreign Direct Investors
9. Non-Resident Investors Taka Account (NITA) Foreign Port-Folio Investors
10. Foreign Currency Account of EPZ Companies (FCA-EPZ)
11. Foreign Currency Account for Recruiting Agency of women workers abroad

Off-shore Banking Unit (OBU) Products

Deposit Products

Al- Wadeah Current Account (FCA)

Mudaraba Savings Account (MFCD)

Investment Products of Islami Bank Bangladesh Limited

The special feature of the Investment Policy of the Bank is to invest on the basis of profit-loss sharing system in accordance with the tenets and principles of Islamic Shariah. Earning of profit is not the only motive and objective of the Bank's Investment Policy rather emphasis is given in attaining social goal and objective in creating employment opportunities. Following modes are used for investment:

1. Bai-Murabaha
2. Bai-Muajjal
3. Bai-Istijrar
4. Bai Salam
5. Istisna'
6. Bai-As-Sarf

7. Mudaraba
8. Musharaka
9. Musharaka Documentary Bill(MDB) Inland
10. Musharaka Documentary Bill(MDB) Foreign Currency
11. Musharaka Investment in Potato Storage
12. Hire Purchase under Shirkatul Melk(HPSM)
13. Murabaha Post Import (MPI)
14. Murabaha Import Bills(MIB)
15. Murabaha Import L/C
16. Murabaha Foreign Currency Investment(MFCI) under EDF
17. Murabaha Foreign Currency Investment(MFCI) under Balance of MFCD A/C
18. Bai-Muajjal Back to Back Bills
19. Bai-As-Sarf(Foreign Documentary Bills:FDB)
20. Bai-As-Sarf(Foreign Currency Cheques/Drafts:FCD)
21. Quard against TDR
22. Quard against MSS

Well-fare Oriented Investment Schemes

Under consumer financing, the Bank finances to the individuals for meeting their personal family and household needs. The Bank has taken up various welfare oriented investment Schemes

Investment Scheme

1. Household Durables Scheme (HDS)
2. Housing Investment Scheme (HIS)
3. Real Estate Investment Program (REIP)
4. Transport Investment Scheme (TIS)
5. Car Investment Scheme (CIS)
6. Investment Scheme for Doctors (ISD)
7. Small Business Investment Scheme (SBIS)
8. Agricultural Implement Investment Scheme (AIIS)
9. Rural Development Scheme(RDS)
10. Micro Enterprise Investment Scheme (MEIS)
11. Urban Poor Development Scheme(UPDS)
12. Micro Industries Investment Scheme (MIIS)
13. Women Entrepreneurs Investment Scheme (WEIS)
14. Palli Griha Nirman Beniyog Prakalpa
15. NRB (Non Resident Bangladeshi) Entrepreneurs Investment Scheme(NEIS)
16. Solar Panel Investment Scheme(SPIS)

Foreign Investment Products

1. Bill Financing under Mudaraba Documentary Bills (Mura-UPAS) against Usance Import Bills
2. Bill Financing under Mudaraba Documentary Bills (HPSM-UPAS) against Usance Import Bills
3. Bill Financing under Mudaraba Investment for MDB in FC against Inland Export Bills
4. Import Financing
5. Export Financing
6. Short-term Murabaha
7. Post-Shipment Financing (Bai-As Sarf, MDB in FC)
8. Project Finance (HPSH Investment)¹⁶

Business Review

IBBL successfully mobilized Tk.681,352 million Deposit from 10,262,879 Depositors and deployed Tk.616,419 million as General Investment into 745,984 accounts up to 31st December 2016. In the year 2016, total income of the Bank was Tk.61,557 million and total Expenditure was Tk.47,032 million resulting in pre-tax profit of Tk. 10,299 million showing 13% growth in 2016 as against 14% growth in 2015. The Board of Directors of the Bank has recommended 10% cash Dividend to the shareholders for the year 2016.

General Investment

Total General Investment of the Bank increased to Tk. 616,419 million as on 31.12.2016 from Tk. 530,194 million as on 31.12.2015 showing an increase of Tk. 86,225 million, i.e. 16.26% growth.

Table 13: Sector-wise General Investment (Amount in million Taka)

Sl. No.	Sector	2016		2015	
		Amount	% to Total Investment	Amount	% to Total Investment
1	2	3	4	5	6
01	Industrial (Excluding SME)	219,377	35.59%	172,591	32.45%
02	Commercial	43,873	7.12%	36,854	6.93%
03	Real Estate	47,972	7.78%	44,159	8.30%
04	Agriculture (including investment in Fertilizer and Agriculture Implements)	15,425	2.50%	10,638	2.00%
05	Transport	7,592	1.23%	7,207	1.36%
06	SME	244,713	39.70%	229,864	43.22%
07	Others	37,467	6.08%	28881	5.74%
		616,419	100.00%	530194	100%

The Five Year Business Plan (2017-2021) of the bank is under implementation. The investment plan has been formulated keeping in view the national economic priorities and

¹⁶ IBBL Annual Report 2016 Page#171-173

diversification of the Investment portfolios by size, sector, geographical area, economic purpose, securities, administrative divisions and modes.

Agricultural Investment

Islami Bank Bangladesh Limited has been giving due importance on agricultural/rural investment from its inception. To make it more convenient, five investment schemes like Agricultural Implements Investment Scheme (AIIS), Rural Development Scheme (RDS), Micro Enterprise Investment Scheme (MEIS), Solar Panel Investment Scheme (SPIS) and Fruit Gardening Investment Scheme (Falbithi) have been introduced in 1992, 1995, 2005, 2011 & 2016 respectively. Falbithi is new Agricultural Investment product specially for Fruit Gardening. In every Financial Year (July to June), Bangladesh Bank declares their "Agricultural & Rural Credit Policy and Program" and they have fixed up a target for Agricultural and Rural Credit for each bank. In the Financial Year 2015-16, the Bank has disbursed Tk. 11,296.00 (achievement 133%) million in Agriculture sector among 144,538 farmers/investment clients.

Industrial Investment

Industrial development of the country falls under the priority areas of IBBL. The Bank has considerable amount of investment in the industrial sector. Total investment for projects finance together with Working Capital stood at Tk 219,377 million as on 31.12.2016 as against Tk. 172,591 million as on 31.12.2015. The Bank has deployed 35.59% of its total investment in industrial sector out of which export oriented textile and garment industries takes a share of 38.54% to Total Industry.

Trade Business (Import & Export) and Remittance

Import, Export & Remittance business stood at Tk.339,954 million, Tk.243,647 million & at Tk.279,980 million resulting total International business to Tk.863,581 million in the year 2016. International business is handled by 58 (Fifty Eight) Authorized Dealers (AD) branches in the year 2016.

Table 14: Five Years Performance of IBBL at a Glance

Sl. No.	Particulars	2016	2015	2014	2013	2012
Balance Sheet Matrix						
1	Authorized Capital	20,000.00	20,000.00	20,000.00	20,000.00	20,000.00
2	Paid up Capital	16,099.91	16,099.91	16,099.91	14,636.28	12,509.64
3	Share Premium	1.99	1.99	1.99	1.99	1.99
4	Reserve Fund	31,029.05	27,285.22	28,097.92	26,512.48	24,116.47
5	Retained Earnings	1,609.99	4,076.16	2,414.99	2,634.53	3,152.25
6	Shareholders Equity	48,738.95	47,461.29	46,622.62	43,760.68	39,780.35
7	Total Deposit	681,352.25	615,359.21	560,696.30	473,140.96	417,844.14
8	Total Investment	676,747.80	629,631.27	564,332.00	474,015.95	399,930.79
9	General Investment	616,418.91	530,194.50	463,475.47	403,194.80	372,920.72
10	Investment Deposit Ratio	86.43%	83.59%	79.88%	82.35%	85.18%
11	Total Assets (Including Contra)	936,945.69	859,201.05	765,241.27	664,554.96	592,580.50
12	Total Assets (excluding Contra)	797,699.66	725,821.12	652,422.04	547,229.63	482,536.32
13	Fixed Assets	15,586.91	15,836.48	15,926.36	15,732.81	14,808.23
Capital Measure Matrix						
14	Total Risk Weighted Assets (RWA)	467,212.42	410,332.28	378,742.72	319,215.90	311,511.60
15	Core Capital- Tier- I	40,848.31	38,649.85	35,025.95	32,222.40	28,249.95
16	Supplementary Capital (Tier- II)	9,708.15	9,195.48	13,543.92	13,189.60	13,803.20
17	Regulatory Capital (Tier I, II & III)	50,556.47	48,701.55	48,569.86	45,412.00	42,053.16
18	Statutory Capital (Paid up Capital & Statutory Reserve)	32,199.82	32,199.82	32,199.82	29,274.89	24,933.30
19	Equity/Capital Surplus/(Deficit)	3,835.22	6,812.10	10,695.59	13,599.40	10,901.96
20	Capital Adequacy Ratio	10.82%	11.66%	12.83%	14.26%	13.49%
Assets Quality Matrix						
21	Classified Investment	23,601.59	22,541.24	22,807.24	14,941.90	14,212.80
22	Classified Investment to Total Investment	3.83%	4.25%	4.92%	3.71%	3.81%
23	Provision against Classified Investment (Objective Criteria)	10,075.47	9,293.11	9,391.02	7,262.40	6,054.35
24	Provision against Writ Clients	10,478.16	8,458.39	3,963.70	1,775.40	-
25	General Provision against Unclassified Investment (Including OBU)	4,837.91	4,169.70	3,625.48	3,371.60	3,935.90
26	General Provision on Off Balance Sheet Items	1,392.46	1,333.80	1,128.20	1,137.20	1,100.45
Operating Performance Matrix						
27	Investment Income	52,942.09	48,152.28	49,109.96	48,145.46	43,672.23
28	Profit Paid on deposit	29,345.11	28,737.87	30,650.27	30,975.19	25,870.43
29	Net Investment Income	23,596.98	19,414.41	18,459.69	17,170.27	17,801.80
30	Non-Investment Income	8,615.36	8,399.62	8,937.07	7,972.88	6,345.56
31	Total Income	61,557.45	56,551.90	58,047.03	56,118.34	50,017.79
32	Administrative & other Exp.	17,687.22	13,466.17	12,074.13	11,039.15	8,724.65
33	Total Expenditure Excluding Provision	47,032.33	42,204.04	42,724.40	42,014.33	34,595.08

Source: Annual Report 2016 of IBBL P#198

Table 14 Continued

Sl. No.	Particulars	2016	2015	2014	2013	2012
34	Provision for Investment, Off Balance Sheet Items & Other Assets	4,705.68	5,492.84	4,790.91	3,029.26	3,512.07
35	Total Expenditure Including Provision	51,258.30	47,696.88	47,515.31	45,043.59	38,107.15
36	Net Profit before Tax	10,299.15	9,116.69	10,531.71	11,074.76	11,910.65
37	Net Profit after Tax	4,464.98	3,029.08	3,999.06	4,948.58	5,338.91
38	Provision for Income Tax	5,834.17	5,825.94	6,532.65	6,101.57	6,571.74
Foreign Business Matrix						
39	Import	339,954.00	343,668.00	316,975.00	285,890.00	284,588.00
40	Export	243,647.00	224,236.00	222,753.00	205,269.00	197,095.00
41	Remittance	279,980.00	321,066.00	308,722.00	286,956.00	300,915.00
42	Total Foreign Exchange Business	863,581.00	888,970.00	848,450.00	778,115.00	782,598.00
Network Distribution						
43	Correspondent Bank	259	241	220	331	320
44	Foreign Correspondent	584	573	550	490	476
45	Shareholder	44,126	47,909	60,857	62,772	60,302
46	Employee	13,569	13,622	13,547	12,980	12,188
47	Branch	*318	*304	*294	*286	*276
48	Sheba Ghar	33	4	-	-	-
49	No. of ATM	520	487	450	300	300
50	No. of IDM	122	51	33	-	-
Shareholders' Information						
51	Cash Dividend	10%	20%	15%	8%	8%
52	Stock Dividend	0%	-	-	10%	17%
53	Net Assets Value (NAV) per Share (Taka)	30.27	29.48	28.95	29.92	27.18
54	Earning per Share (Taka) (original)	2.77	1.88	2.48	3.40	4.42
55	Earning per Share (Taka) (restated)	2.77	2.04	2.48	3.07	3.65
56	Market Value per Share (Taka) (Highest)	34.80	31.60	36.80	45.00	59.00
Efficiency Ratio						
57	Gross Profit Ratio	52.33%	49.18%	47.20%	44.80%	48.28%
58	Cost of Fund	7.50%	7.62%	8.55%	9.45%	9.32%
59	Cost Income Ratio/Efficiency Ratio	0.76	0.75	0.74	0.75	0.76
60	Return on Equity (ROE)	9.28%	7.00%	8.85%	11.36%	13.42%
61	Return on Average Assets (ROA)	0.59%	0.44%	0.67%	0.96%	1.27%
62	Price Earning Ratio (Times)	10.11	11.54	11.24	12.35	12.21
63	Spread	4.45%	4.29%	4.27%	3.79%	4.10%
64	CRR	8.38%	7.12%	7.81%	7.24%	7.09%
65	SLR	12.59	18.50%	19.61%	23.51%	14.98%
66	Non Investment Income to Total Income	14.00%	14.85%	15.39%	14.21%	12.69%
Credit Rating Status						
67	Long Term	AA+	AA+	AA+	AA+	AA+
68	Short Term	ST-1	ST-1	ST-1	ST-1	ST-1
* Including 30 SME/Agriculture Branches						

Source: Annual Report 2016 of IBBL P#199

4.12.2 Corporate Profile of ICB Islamic Bank Limited

ICB Islamic Bank Limited, a second generation private Bank is the new legal name of former 'The Oriental Bank Limited' which was incorporated on April, 1987 as a Public Limited Company titled 'Al - Baraka Bank Bangladesh Limited' under the Companies Act, 1913. Certificate for commencement of business was issued to the Bank on April 30, 1987. Bangladesh Bank authorized to carry on the banking business in Bangladesh with effect

from May 4, 1987 to undertake and carry out all kinds of banking, financial and business activities, transactions and operations in strict compliance with the principles of Islamic Law (Shariah) relating to business activities in particular avoiding usury in investment and sales transactions and any practice which accounts to usury and actual banking operations commenced on May 20, 1987. Registrar of Joint Stock Companies & Firms approved the revised name (The Oriental Bank Limited) on December 31, 2002 and Bangladesh Bank approval was accorded on April 13, 2003. Switzerland based ICB Financial Group Holdings AG acquired the majority shareholdings of former Oriental Bank Limited, a Bangladeshi Shariah compliant Bank as on February 28, 2008. Emphasis has been given on improving the technology and infrastructure of the Bank, as well as retraining employees, with a view to providing an improved range of competitive products to customers. Currently, the Authorized Capital of the Bank is BDT 15,000.00 million and Paid-up Capital is BDT 6647.023 million as of December 31, 2016. Its vision is to stand out as a premier banking institution in Bangladesh and contribute significantly to the national economy.

The Bank is firmly committed to transparent, responsible and accountable corporate governance with the participation of strong and most capable team of professionals and under the policy directives and guidance of the Board of Directors of the Bank. The Bank provides high quality customer service through the integration of the latest and state of the art banking technology and product tools to achieve its success. Since the customers are given first priority. The Bank is trying hard to provide a spectrum of services to individual customers, small business entities or corporate clients. The aim is to deliver the best customer service by meeting the unique and specific needs in a professional, ethical and friendly manner. The Bank has thirty three (33) branches located at prominent and convenient places across the country.

ICB Islamic Bank Limited carries out business activities in keeping with its values and norms and with an understanding of the importance a large financial institution has for the society and the environment. It is taking steps towards Green Banking. In line with the vision and mission, The Bank always works for the customers' satisfaction and for the satisfaction of all stakeholders.

Deposit Products of the Bank are as follows:

1. Al-Wadiah Current Deposit Account
2. Mudaraba Savings Deposit Account
3. Mudaraba Short Notice Deposit Account
4. Mudaraba Deposit Scheme
5. Mudaraba Term Deposit Account
6. Foreign Currency Account
7. Insta Profit Term Deposit
8. Mudaraba Monthly Profit Term Deposit
9. Mudaraba Senior Citizens Account

10. Mudaraba Extra Savings Account
11. Mudaraba Student Account
12. Mudaraba School Banking
13. Mudaraba Children Savings Plan
14. Mudaraba Hajj Savings Plan
15. Mudaraba Home Savings Plan
16. Mudaraba Gradual Savings Plan

Investment Products of the Bank are as follows:

1. Bai-Murabaha
2. Bai-Muajjal
3. Ijara
4. Hire-Purchase under Shirkatul Melk(HPSM)
5. Murabaha Post Import Finance (MPI)

Table 15: Five Years Performance OF ICB Islami Bank at a Glance (amount in BDT million)

Sl No.	Particulars	2016	2015	2014	2013	2012
1	Authorized capital	15,000	15,000	15,000	15,000	15,000
2	Paid-up capital	6,647.023	6,647.023	6,647.023	6,647.023	6,647.023
3	Total capital (Tier-I & II)	(10,514.84)	(10,181.80)	(10,082.10)	(9,895.57)	(9,214.82)
4	Capital surplus/(deficit)	(14,514.84)	(14,182.51)	(14,082.10)	(13,895.57)	(13,214.82)
5	Capital adequacy ratio (CAR)	(108.49)	(98.76)	(97.27)	(89.97)	(73.33)
6	Total assets	12,257.72	12,752.90	14,022.94	14,302.84	15,118.74
7	Total deposits	10,893.98	11,107.04	12,015.69	11,970.13	12,381.39
8	Total investments	9,352.43	9,188.51	9,230.32	9,788.56	11,009.17
9	Import business handled	122.05	49.43	707.53	398.04	992.21
10	Export business handled	17.42	85.03	157.61	24.76	144.51
11	Guarantee business handled	10.09	9.81	0.77	1.11	24.96
12	Total contingent liabilities and commitments	217.43	215.87	219.34	249.43	272.38
13	Investments deposit ratio	86%	83%	77%	82%	89%
14	Percentage of classified investments against total investments	71.89%	76.14%	77.52%	73.31%	60.78%
15	Profit after tax and provision	(270.84)	(141.08)	(286.53)	(680.75)	(1,061.04)
16	Operating profit	(317.55)	(256.22)	(214.24)	(259.94)	65.35
17	Operating expenditure	475.02	497.85	536.50	584.06	580.69
18	Amount of classified investments during the year	6,621.41	6,995.80	7,155.18	7,175.92	6,691.03
19	Provisions kept against classified investments	3,902.72	3,952.72	3,980.02	4,118.17	3,841.38
20	Provision surplus/(deficit) against classified investments	40.39	66.88	16.54	-	-
21	Cost of fund	7.88%	7.60%	7.80%	8.27%	8.05%
22	Profit earning assets	9,572.39	10,107.45	11,410.10	11,626.57	12,297.57
23	Non-Profit earning assets	2,685.33	2,645.44	2,603.27	2,666.69	2,813.11
24	Return on investment (ROI) in shares and securities	2.13%	0.63%	3%	4%	1%
25	Return on assets (ROA)	(2.21%)	(1.11%)	(1.33%)	(4.76%)	(7.02%)
26	Income from investments in shares and securities	2.35	0.70	5.86	9.17	2.89
27	Earnings per share (Taka)	(0.41)	(0.21)	(0.43)	(1.02)	(1.60)
28	Operating Profit per share (Taka)	(0.48)	(0.39)	(0.32)	(0.39)	0.10
29	Price earnings ratio (times)	(12.52)	(20.73)	(12.76)	(9.76)	(4.70)
30	Dividend:					
	Cash	--	--	-	--	--
	Bonus Share	--	--	-	--	--
31	Net Asset Value Per Share (NAVPS)	(15.11)	(14.70)	(14.49)	(14.06)	(13.03)
32	Number of employees	501	566	617	656	688
33	Number of branches	33	33	33	33	33

Source: Annual Report 2016 of ICBIBL P#54

4.12.3 Corporate Profile of Al-Arafah Islami Bank Limited

With the objective of achieving success in life here & hereafter following the way directed by the Holy Quran and the path shown by Rasul (SM), Al Arafah Islami Bank Ltd was established (registered) as a public limited company on 18 June 1995. The inaugural ceremony took place on 27 September 1995. The authorized capital of the Bank is Tk. 15,000.00 million and the paid up capital is Tk. 9,943.06 million as on 31.12.2016.

Renowned Islamic Scholars and pious businessmen of the country are the sponsors of the Bank. 100% of paid up capital is being owned by local shareholders. The equity of the bank has stood at Tk. 21,337.48 million as on 31 December 2016, the manpower was 3,070 and the number of shareholders was 36,696. It has achieved a continuous profit and declared a good dividend over the years. High quality customer service through the integration of modern technology and new products is the tool of the bank to achieve success. The bank has a diverse array of carefully tailored products and services to satisfy customer needs. The Bank is committed to contribute significantly to the national economy. It has made a positive contribution towards the socio economic development of the country with 140 branches of which 24 is AD throughout the country.

Progress Analysis

At the end of 2016, the number of depositors stood at 1,389,670 and the accumulated deposit was Tk. 199,703.92 million. The total number of investors stood at 167,981 and total investment extended to Tk 196,519.38 million to different sectors of the economy. Apart from these, the Bank performed significant import and export business. During the year 2016 the total income was Tk. 21,621.69 million and total expenditure was Tk. 14,110.66 million. At the end of the year the profit before tax and provision stood Tk. 7,511.03 million.

Deposits and Investment:

The total deposit of the bank was Tk.199, 703.92 million at 31st December 2016 as against Tk.169,887.08 million at 31st December 2015 a growth of 17.55% of which Tk.2,541.33 million was bank deposit and Tk. 197,162.59 million was general deposit. The present strategy is to increase the deposit base through maintaining competitive profit rates and having low cost of funds to ensure a better spread with an average return on investment.

The investment of the bank has stood at Tk.196,519.38 million as on 31st December 2016 as against Tk. 162,503.14 (Net off PR) million in the previous year showing an increased by 20.93%. The investment portfolio of the bank is well diversified and covers a broad spectrum of businesses and industries including readymade garments, textile, edible oil, ship scraping, steel & engineering, chemicals, pharmaceuticals, cement, telecommunication, construction, health care, real estate, education, transport and investment under consumer schemes.

Various Deposit Products of the Bank

1. Al-Wadia Current Deposit
2. Mudara Savings Account
 - 2.1. Mudaraba Term Deposit
 - A). Mudaraba 36 Months
 - B). Mudaraba 24 Months
 - C). Mudaraba 12 Months
 - D).06 Monts
 - E).03 Months
 - F). 1 Months
3. Short Notice Deposit (SND)
4. Monthly Hajj Deposit
5. Monthly Installment Term Deposit
6. Monthly Profit Based Term Deposit
7. Monthly Savings Investment
8. One Time Hajj Deposit
9. A). Al Arafa Savings Bond (3 Years)
- B). Al Arafa Savings Bond (5 Years)
- C) Al Arafa Savings Bond (8 Years)
10. Marriage Saving Investment Scheme (MSIS)
11. Pensioners Deposit Scheme
12. Special Savings (Pension) Scheme
13. Cash Waqf
14. Lakhopati Deposit Scheme
15. Kotipati Deposit Scheme
16. Millionaire Deposit Scheme
17. Double Benefit Scheme
18. Triple Benefit Deposit Scheme
19. Probashi Kallyan Deposit Pension Scheme
20. Mudara Savings Deposit-Student
21. Farmers, Freedom Fighters Deposit Scheme¹⁷

Economic impact can be defined as any increase or decrease in productive potential of an economy. By analyzing the economic impact, we can understand how a bank adds value to the society. In 2016, total value added by AIBL was BDT 8,631.57 million as against BDT 6,899.06 million in 2015. Bank's direct contribution to the economy was BDT 2,613.76 million in the form of corporate income tax. The Bank distributed BDT 2,705.24 million for its total 3,070 officials in 2016 as against that of BDT 2,339.67 million for 2,810 in 2015.

¹⁷ (Annual Report 2016,AIBL PAGE#36)

At the end of 2016, the Bank mobilized total deposits of BDT 199,703.91 million and aided the economy in meeting its growth target by deploying BDT 196,519.38 million¹⁸.

Table 16: Five years Financial Highlights (Taka in BDT million)

Particulars	2012	2013	2014	2015	2016	Growth %
Income Statement						
Investment Income	14,998.60	17,966.32	19,725.91	18,568.00	18,830.15	1.41
Profit paid on Deposit	9,710.48	12,107.71	12,616.77	11,073.01	9,957.73	(10.07)
Net Investment Income	5,288.12	5,858.61	7,109.14	7,494.99	8,872.42	18.38
Non Investment Income	1,693.98	1,757.09	2,485.88	2,511.94	2,791.54	11.13
Non Investment Expenses	2,226.56	2,667.14	3,261.57	3,646.78	4,152.93	13.88
Net Non Investment Income	(532.58)	(910.05)	(775.69)	(1,134.84)	(1,361.39)	19.96
Profit Before Tax & Provision	4,755.54	4,948.56	6,333.45	6,360.15	7,511.03	18.10
Provision For Investment	811.44	588.15	1,846.86	1,796.68	1,547.87	(13.85)
Profit Before Tax	3,944.10	4,360.41	4,486.59	4,563.47	5,963.16	30.67
Provision For Tax (including Deferred Tax)	1,998.69	2,083.73	2,161.64	2,097.59	2,613.76	24.61
Profit After Tax	1,945.41	2,276.68	2,324.95	2,465.88	3,349.40	35.83
Balance Sheet						
Authorized Capital	10,000.00	15,000.00	15,000.00	15,000.00	15,000.00	-
Paid up Capital	7,130.98	8,343.25	9,469.58	9,469.58	9,943.06	5.00
Reserve Funds & Other Reserve	4,079.63	4,827.20	5,620.87	6,432.32	7,468.16	16.10
Shareholders' Equity (Capital & Reserve)	14,050.69	16,091.17	18,159.52	19,236.07	21,337.48	10.92
Deposits	118,683.39	140,980.55	166,851.17	169,887.08	199,703.91	17.55
Investment	106,650.42	125,715.39	146,740.37	162,503.14	196,519.38	20.93
Investment in Shares & Securities	5,511.24	7,138.93	9,120.90	8,851.13	9,058.68	2.34
Fixed Assets	2,394.62	2,517.22	2,661.11	3,057.38	3,240.18	5.98
Total Assets (Excluding off-balance sheet items)	149,320.36	173,161.63	210,439.01	229,106.66	272,900.04	19.11
Foreign Exchange Business						
Import Business	71,931.70	85,915.00	101,244.70	107,049.80	118,786.60	10.96
Export Business	58,476.60	68,980.30	75,843.90	79,362.90	88,152.20	11.07
Guarantee Business	1,955.72	2,006.61	3,365.27	4,471.41	4,981.34	11.40
Inward Foreign Remittance	23,120.40	7,042.50	8,541.10	9,498.00	11,735.40	23.56
Capital Measures						
Core Capital (Tier-I)	13,073.14	15,113.62	17,181.97	18,244.48	20,359.39	11.59
Supplementary Capital (Tier-II)	1,731.59	1,511.75	1,732.06	4,828.03	5,095.97	5.55
Tier-I Capital Ratio	10.38	13.33	12.74	13.17	11.92	(9.43)
Tier-II Capital Ratio	1.37	1.33	1.28	3.48	2.98	(14.33)
Total Capital	14,804.73	16,625.37	18,914.03	23,072.51	25,455.36	10.33
Total Capital Ratio	11.75	14.66	14.03	16.65	14.91	(10.45)
Investment Quality						
Volume of Non-Performing investment	1,783.60	3,598.83	6,982.60	7,713.67	8,994.98	16.61
% of NPLs to Total investment	1.63	2.77	4.50	4.66	4.54	(2.58)
Provision for Unclassified investment	1,021.15	749.60	938.27	1,090.27	1,352.83	24.08
Provision for Classified investment	711.63	1,128.03	1,518.78	2,100.27	2,586.67	23.16
Provision for Off Balance sheet Exposures	221.66	273.37	305.01	346.75	449.88	29.74
Share Information						
Number of Shares Outstanding	713,098,010	834,324,671	946,958,503	946,958,503	994,306,428	5.00
Earning per Share (Taka)	2.03	2.46	2.20	2.25	3.07	36.48
Book Value per Share (Taka)	19.70	19.29	19.18	20.31	21.46	5.64
Market Price per Share (Taka)	24.29	19.10	14.90	14.70	15.90	8.16
Price Earning Ratio (Times)	11.97	7.76	6.77	6.53	5.18	(20.75)
Price Equity Ratio (Times)	1.23	0.99	0.78	0.72	0.74	2.19
Dividend per Share						
Cash Dividend (%)			14.00	10.00	20.00	100.00
Bonus Share	17	13.50	-	5.00	-	(100.00)
Operating Performance Ratio						
Net Profit Margin%	5.88	5.70	5.88	4.91	4.60	(6.37)
Investment /Deposit Ratio	90.56	88.74	84.58	88.59	88.50	(0.10)
Return on Equity (ROE)%	13.85	14.15	12.80	12.82	15.67	22.21
Return on Assets (ROA)%	1.30	1.31	1.10	1.08	1.23	14.21
Cost of fund %	12.34	11.02	10.85	9.18	7.92	(13.73)
Cost /Income ratio in operating business (%)	31.89	35.02	33.99	36.44	35.60	(2.30)
Other Information						
Number of Branches	100	110	119	129	140	8.53
Number of Employees	2,110	2,387	2,649	2,810	3,070	9.25
Number of Shareholders	52,739	58,466	52,007	44,427	36,695	(17.40)

Source: Annual Report 2016 of AIBL, P#15

¹⁸ (AIBL Annual Report 2016 page#16)

4.12.4 Corporate Profile of Social Islamic Bank Limited

Total Deposit and total Asset of the Bank stood at Tk. 190,564.52 million and Tk. 227,704.18 million respectively as on 31st December, 2016 compared to Tk. 149,773.62 million and Tk. 180,112.11 million respectively as on 31st December, 2015 indicating growths of 27.24% and 26.42% respectively over the year 2015. The Bank achieved 29.88% growth in investment with a total investment portfolio of Tk. 174,196.13 million in 2016 compared to Tk. 134,116.85 million in 2015. Import business of the Bank stood at Tk. 104,270.60 million in 2016 with 22.81% growth over the previous year of Tk.84,906.70 million, while Export business of the Bank stood at Tk. 49,766.00 million in 2016 with (8.05%) growth over the previous year of Tk. 54,121.20 million. Total Foreign Remittance was Tk. 13,345.70 million in 2016 with 31.30% growth over the previous year of Tk.10,164.50 million. Total Foreign Exchange business of the Bank was Tk. 167,382.30 million in 2016 with 12.20% growth over the previous year's 149,192.4 million. Most importantly, we were undaunted in our efforts to make non-performing assets of the Bank more performing. In 2016 the classified investment of the Bank increased to 4.44% of the total investment. It was 3.84% in the year 2015. Capital Adequacy Ratio is successfully being maintained throughout the year 2016 at 11.55% against 12.33% (consolidated) in 2015.

Deposit Products

1. Al- Waddeeah Current Account
2. Mudaraba Savings Account
3. Mudaraba Term Deposits Account
4. Mudaraba Notice Deposits Account
5. Mudaraba Scheme Deposits
6. Al- Waddeeah Current Deposit (AWCD)
7. Cash Waqf Deposit Account
8. Mudaraba Hajj Savings Deposit
9. Mudaraba Pension Savings Deposit
10. Mudaraba Education Deposit
11. Mudaraba Monthly Savings Deposit
12. Mudaraba Monthly Profit Deposit
13. Mudaraba Bashansthana Savings Deposit
14. Mudaraba Millionaire Savings Deposit
15. Mudaraba Lakhpoti Deposit Scheme
16. Mudaraba Double Benefit Deposit
17. Mudaraba Marriage Savings Deposit
18. Mudaraba Moharana Savings Deposit
19. Subarnalata Special Deposit (Women)
20. Mudaraba Sonali Din Special Deposit Scheme

Investment Products

- i. Bai-Murabaha
- ii. Bai-Muazzal
- iii. Musharaka
- iv. Mudaraba
- v. Hire purchase under shirkatul Melk
- vi. Bai-Salam
- vii. Quard
- viii. Documentary Bill Purchase
- ix. Retail Finance
- x. Family Empowerment Islamic Micro Finance,
- xi. Employees Investment Schemes

Table 17: Five Years Performance of SIBL at a Glance (Amount in million Taka)

SL	Particulars	2012	2013	2014	2015	2016
01	Authorized Capital	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00
02	Paid-up Capital	6393.92	7031.42	7031.42	7031.42	7382.99
03	Total Shareholders Equity	10181.97	11083.43	12143.38	12950.32	14187.80
04	Capital Base (Tier I & II)	10596.51	11623.52	13078.26	16916.08	19195.04
05	Total Deposits	93594.29	102104.48	124535.01	149773.62	190564.52
06	Client Deposits	81091.39	95984.82	109040.63	138537.32	178846.14
07	Investments (General)	76024.97	85922.33	107899.96	134116.85	174196.13
08	Investments (Shares & Securities)	6144.01	8538.18	7823.73	9222.39	12310.58
09	Foreign Exchange Business	126519.90	132374.70	139910.11	149192.40	167382.30
10	Operating Profit	3617.82	2924.55	3964.27	4849.82	5698.08
11	Profit before Tax	2747.89	2024.66	3307.52	3479.17	4192.19
12	Fixed Assets	2249.95	2653.88	2675.86	3072.04	3257.52
13	Total Assets	115165.95	126616.56	1537374.67	180112.11	227704.18
14	Stock Dividend	10.00%	0.00%	0.00%	5.00%	-
	Cash Dividend	5.00%	12.00%	18.00%	15.00%	20.00%
15	Investments as a % of total deposits	81.23%	84.15%	86.64%	89.54%	91.41%
16	Investments as a % of Client deposits	89.19%	86.78%	89.52%	88.52%	89.86%
17	Capital to Risk Weighted Asset Ratio	11.52%	11.58%	11.36%	12.33%	11.55%
18	Ratio of Classified Investments to Total Investments	3.33%	5.35%	4.56%	3.84%	4.44%
19	No. of Foreign Correspondents	505	490	470	443	591
20	Number of Employees	1625	1802	1922	2130	2363
21	Number of Branches	86	94	100	111	125
22	Book Value per Share	10	10	10	10	10
23	Earning per Share (Restated)	2.25	1.74	2.71	2.81	3.10
24	Credit Rating by	*ECRL	ECRL	ECRL	ECRL	ECRL
	Long Term	AA-	AA-	AA-	AA-	AA-
	Short Term	ECRL-2	ECRL-2	ECRL-2	ECRL-2	ST-2

*ECRL-Emerging Credit Rating Limited

Source: Annual Report 2016 of SIBL P#59

4.12.5 Corporate Profile of Shahjalal Islami Bank Limited

Shahjalal Islami Bank Limited, a Shariah Based Commercial Bank in Bangladesh, was incorporated as a Public limited company on 1st April, 2001 under Companies Act 1994. The Bank commenced commercial operation on 10th May 2001 by opening its 1st branch, i.e. Dhaka Main Branch. As on 31 December 2016 the bank had 103 branches across the country with diversified deposits and investment products. Its vision is to be the best private commercial bank in Bangladesh in terms of efficiency, capital adequacy, asset quality, sound management and profitability. Shahjalal Islami Bank has established correspondent

relationship across the world with major foreign banks. The number of correspondent banks stood at 430 as on December 31, 2016 across 61 countries.

Review of the Performance

During the year under review, the bank maintained the progress of business through its 103 branches. The operating profit before tax stood at Tk. 2,306.08 million. Net profit attributable to shareholders reached to Tk. 1,557.37 million. Capital to Risk Weighted Assets Ratio of the Bank was 11.54 percent comprising maximum under Tier-I, which was above the stipulated rate of 10 percent. Out of deposit of Tk. 124,409.83 million, the bank could deploy Tk. 122,998.38 million in investment as on December 31, 2016. The Bank handled total Foreign exchange business of Tk. 188,549 million in the year 2016.

Deposit products

1. Al- Wadia Current Deposit
2. Mudaraba Saving Deposit
3. Mudaraba Special Notice Deposit
4. Mudaraba Term Deposit Receipt
5. Mudaraba Foreign Currency Deposit
6. Mudaraba SJIBL School Banking
7. Mudaraba Money Spinning
8. Mudaraba Savings Payroll Account
9. Mudaraba Millionaire Scheme
10. Mudaraba Monthly Income Scheme
11. Mudaraba Double/Triple Benefit Scheme
12. Mudaraba Hajj Scheme
13. Mudaraba Cash Waqf Deposit Scheme
14. Mudaraba Monthly Deposit Scheme

Investment products

Corporate (Mode)

1. Bai-Murabaha
2. Bai-Muajjal
3. Bai Salam
4. Hire Purchase Under Shirkatul Melk
5. Ijara
6. Quard-e-Hasana

Retail Investment Products

1. Household Durable Scheme
2. Housing Investment Scheme
3. Car Investment Scheme
4. Semi-Pucca Housing Investment Scheme

5. Investment for Self-Employment
6. Investment Scheme for Executives
7. Investment Scheme for Doctors
8. Investment Scheme for Marriage
9. Investment Scheme for overseas Employment
10. Investment Scheme for Education
11. Agri Investment programme
12. SME Investment Products

Table 18: Five Years Financial Performance of SJIBL at a glance (Amount in million taka otherwise specified)

SL	Items	2016	2015	2014	2013	2012
A. Financial Position						
1	Authorized Capital	10,000	10,000	10,000	10,000	6,000
2	Paid up Capital	7,347	7,347	7,347	6,679	5,566
3	Reserve and Surplus	5,510	4,907	4,352	4,272	4,080
4	Total Shareholders' Equity	12,857	12,254	11,698	10,951	9,646
5	Total Deposits	124,410	109,259	98,601	96,481	102,177
6	Total Investments	122,998	96,835	84,062	85,707	96,185
7	Investment in Share and Securities	7,593	6,184	7,309	7,221	5,163
8	Fixed Assets	3,433	3,299	3,165	2,955	2,898
9	Total Assets (excluding off-balance sheet items)	167,245	137,870	126,758	128,554	132,823
10	Total Contingent Liabilities and Commitments	63,326	43,526	40,229	45,433	47,869
11	Profit Earning Assets	138,949	108,012	97,873	100,434	110,420
12	Non-profit Earning Assets	28,296	29,858	28,885	28,120	22,403
B. Operating Result						
1	Investment Income	11,154	10,510	11,364	13,615	15,242
2	Profit Paid on Deposit	6,986	6,943	8,209	10,578	11,170
3	Net Investment Income	4,168	3,567	3,156	3,037	4,072
4	Total Income	12,965	12,098	13,225	15,609	17,439
5	Total Expenditure	9,985	9,721	10,892	12,915	12,992
6	Operating Profit	2,979	2,377	2,333	2,694	4,447
7	Profit before Tax	2,306	1,758	776	2,383	3,535
8	Profit after Tax	1,557	1,290	747	1,305	1,730
C. Capital Adequacy						
1	Risk Weighted Assets	124,704	98,790	93,820	88,702	89,811
2	Minimum Capital Requirements (MCR)	12,470	9,879	9,382	8,870	8,981
3	Tier 1 Capital	12,857	12,254	11,698	9,951	9,646
4	Tier 2 Capital	1,529	1,101	1,075	1,189	1,409
5	Total Regulatory Capital (Tier 1 & Tier 2)	14,386	13,355	12,773	11,140	11,055
6	Capital Surplus	1,916	3,476	3,391	2,270	2,074
7	Tier 1 Capital Ratio (%)	10.31	12.40	12.47	11.22	10.74
8	Tier 2 Capital Ratio (%)	1.23	1.12	1.14	1.34	1.57
9	Total Capital to Risk-weighted Assets Ratio (Basel-III/II) (%)	11.54	13.52	13.61	12.56	12.31
D. Investment Quality						
1	Volume of Non-performing Investment	5,782	6,261	6,612	5,543	2,842
2	Amount of Provision kept against classified Investment	1,431	1,850	2,379	1,512	1,073
3	Amount of Provision kept against unclassified Investment	896	781	670	734	968
4	Amount of Provision kept against Off Balance Sheets Exposures	633	435	404	454	441
5	Classified Investment as % of Total Investment	4.70	6.47	7.87	6.47	2.96

Source: Annual Report 2016 of Shahjalal Islami Bank Limited, Page #46

Table 18 Continued (Amount in million taka otherwise specified)

SL	Items	2016	2015	2014	2013	2012
E. Foreign Exchange Business						
1	Import Business	100,419	85,959	83,731	81,926	111,837
2	Export Business	84,769	82,571	76,734	84,809	110,789
3	Inward Foreign Remittance	3,361	3,544	3,209	2,584	2,927
F. Profitability, Performance and Liquidity Ratio						
1	Net Asset Value per Share (Taka)	17.50	16.68	15.92	16.40	17.33
2	Investment to Total Deposit Ratio (%)	85.98	82.77	80.82	84.32	89.64
3	Return on Equity (%)	12.40	10.78	6.60	12.67	17.01
4	Return on Assets (ROA) (%)	1.02	0.98	0.59	1.00	1.44
5	Operating Income Ratio (%)	22.98	19.65	17.64	17.26	25.50
6	Gross Income Ratio (%)	46.11	42.61	37.93	32.23	35.95
7	Net Income Ratio (%)	12.01	10.67	5.65	8.36	9.92
8	Cost of Deposit (%)	5.78	6.78	7.96	9.66	10.27
9	Cost of Fund (%)	8.24	9.53	10.34	11.65	11.88
10	Return on General Investment (%)	10.06	11.74	12.77	14.32	15.23
11	Net operating Cash flow per Share (Taka)	5.27	(7.50)	3.81	9.84	9.22
12	Profit Per Employee	1.36	1.10	1.09	1.24	2.38
G. Dividend						
1	Cash Dividend	10%*	13%	10%	-	-
2	Stock Dividend	5%*	-	-	10%	20%
3	Dividend Coverage Ratio (Times)	1.41	1.35	1.02	1.24	1.00
4	Market capitalization	11,020	9,918	8,449	11,200	15,863
<i>*Proposed by the Board of Directors</i>						
H. Shareholders Information						
1	No. of Share Outstanding (million share)	734.69	734.69	734.69	667.90	556.58
2	Earnings Per Share (Taka)	2.12	1.76	1.02	1.78	2.59
3	Number of Shareholders	52,614	63,480	82,713	85,944	75,515
5	Market Value Per Share (Taka)	15.00	13.50	11.50	16.77	28.50
6	Price Earning Ratio	7.08	7.67	11.27	8.60	9.17
I. Other Information						
1	Number of Branches	103	93	93	92	84
2	Number of Brokerage House Branches	8	8	8	8	8
3	Number of Employees	2,191	2,156	2,145	2,173	1,881
4	Number of foreign Correspondents	430	436	419	397	415

Source: Annual Report 2016 of Shahjalal Islami Bank Limited, Page#47

4.12.6 Corporate Profile of Export Import Bank of Bangladesh Limited

Export Import Bank of Bangladesh Limited was established in the year 1999 under the leadership of Late Mr. Shahjahan Kabir, Founder Chairman who had a long dream of floating a commercial bank which would contribute to the socio-economic development of our country. Mr. Nazrul Islam Mazumder who is an illuminated business icon in the Garments business in Bangladesh became the Honorable Chairman after the demise of the honorable founder chairman. He is also the chairman of Bangladesh Association of Banks (BAB).

The Bank starts functioning from 3rd August, 1999 with its name as Bengal Export Import Bank Limited. On 16th November 1999, it was renamed as Export Import Bank of Bangladesh Limited. Under the leadership of Mr. Lakiotullah, the Bank has migrated all of its conventional banking operation into Shariah Based Islami Banking in the year July 2004. EXIM Bank now using the world renowned core banking software TEMENOS T24 for functioning all types of banking transactions.

Deposit products of EXIM Bank

A. Retail Banking

Deposits Products

1. Al- Wadia Current Deposit
2. Mudaraba Savings Account
 - 2.1. Mudaraba Term Deposit
 - 2.2. Mudaraba Deposit Schemes
 1. Mudaraba Super Saving Scheme
 2. Mudaraba Monthly Saving Scheme
 3. Mudaraba Multiplus Saving Scheme
 4. Mudaraba Hajj Deposit Scheme
 5. Mudaraba Education Deposit
 6. Mudaraba Su-Grehini Monthly Savings Scheme
 7. Mudaraba Femina Monthly Savings Scheme
 8. Mudaraba Senior Monthly Savings Scheme
 9. Mudaraba Monthly Income Deposit Scheme
 10. Mudaraba Su-Grehini Monthly Benefit Scheme
 11. Mudaraba Femina Monthly Benefit Scheme
 12. Mudaraba Senior Monthly Benefit Scheme
 13. Mudaraba Multiplus Saving Scheme
 14. Mudaraba Super Saving Schem
 15. Mudaraba Hajj Deposit Scheme
 16. Mudaraba Denmohor / Marriage Deposit Scheme
 17. Mudaraba EXIM Student Saver
 18. Mudaraba Millionaire Deposit Scheme
 19. Mudaraba Kotipoti Saving Scheme
 20. EXIM RUHAMA- (Three Years' Probable Double Benefit Scheme)
 21. EXIM ZIADAH - (Five Years' Probable Triple Benefit Scheme)
 22. EXIM KRISHI - (Mudaraba Krishi Monthly Deposit Scheme)
 23. EXIM SHWAPNO - (Mudaraba Housing / Entrepreneurship Development Scheme)
- B. Corporate Banking
- C. SME Banking
- D. Agri Banking
- E. Remittance

Business Performance of the Bank

Deposit of the Bank

Total Deposit of the Bank was Tk. 248,540.44 million as on 31 December 2016 against Tk. 225,064.54 million as on 31 December 2015. The growth rate of Deposit was 10.43% in the year 2016. This growth in deposit has enabled the bank to keep Investment Deposit Ratio at 89.38% which is within the regulatory limit of 90%. Bank employs its best efforts to increase the proportion of low/no cost deposit and achieve an ideal deposit mix. With the expansion of branch networks, service quality, competitive profit rate and innovative deposit products, bank continues to accelerate the growth of deposits.

Investment products of EXIM Bank

The main investment businesses are focused on the following sectors/areas

- i. Ready Made Garments
- ii. Hospitals & Clinics
- iii. IT Related business
- iv. Agricultural and Agricultural developments items
- v. Fishing and fishing business promotion
- vi. Telecommunication
- vii. Transportation and communication
- viii. Forestry and furniture
- ix. Construction business and housing development
- x. Leather and leather goods
- xi. Plastic and other synthetics
- xii. Entertainment
- xiii. Photography
- xiv. Ceramic
- xv. Hotel & tourism
- xvi. Warehouse and container services
- xvii. Printing and packaging
- xviii. Gunning and Bailing
- xix. Pathological Laboratories
- xx. Cold Storages
- xxi. Horticulture- Flower growing and marketing
- xxii. Food and oil processing plants
- xxiii. Other admissible trading and intermediaries

Investments (General)

Total Investment (General) of the Bank stood at Tk.222,155.35 million as on 31 December 2016 against Tk.196,311.42 million as on 31 December 2015 registering a growth of 13.16%. As on 31 December 2016 Classified Investment to total Investment ratio was 5.23%. Bank maintained required provision against Investment (General) for the year 2016.

Investment (General) has increased significantly over the years due to the existence of innovative Investment products.

Mode-wise Investment

Bank has launched a number of Shariah based Investment products under different mode of Investment which help meeting demand of all types of customer.

Table 19: Shariah based Investment products and growth of EXIM Bank Limited in 2016

SL.	Particulars	2016	2015	Growth %
1	Bai-Muazzal	93,574.34	81,416.81	14.93
2	Bai-Murabaha	19,002.07	20,521.00	-7.40
3	Bai-Salam	5,446.62	3,888.80	40.06
4	Izara Bill Baia (Commercial)	92,435.62	80,487.63	14.84
5	Izara Bill Baia (Staff)	1,916.39	1,953.19	-1.88
6	Quard	1,507.30	712.47	111.56
7	Bai-As-Sarf (FDBP)	253.69	271.35	-6.51
8	Musharaka Documentary Bill (MDB)	1,433.66	1,650.97	-13.16
9	Mudaraba Import Bill(UPAS)	6,211.65	4,769.45	30.24
10	Murabaha Import Bill(MIB)	374.02	639.75	-41.54
		222,155.35	196,311.42	13.16

Source: EXIM Bank, Annual Report, 2016

Major Industry-wise Investment

Bank is continuing its efforts to diversify its product in various sectors. Major industry-wise investment of the Bank is presented in the table.

Table 20: Major Industry-wise Investment of EXIM Bank Limited in 2015 and 2016

SL. No.	Particulars	2016	2015	Growth %
1	Garments	28316.17	20093.59	40.92
2	Textile	16178.80	12736.39	27.03
3	Agrobased Industry	15150.03	17593.40	-13.89
4	Other industry	58698.97	15732.52	273.11
5	Trading and others	103811.37	130155.52	-20.24
	Total	222,155.35	196,311.42	13.16

Source: EXIM Bank, Annual Report, 2016

Foreign Business of EXIM Bank

Foreign Remittance

In the year 2016, Bank received BDT 4.03 billion (equivalent USD 0.05 billion) as foreign remittances. Inward Remittance plunged by 6.90% in the year 2016 than that of 2015.

Import Performance

In the year 2016, import business of the bank was BDT 153.93 billion (equivalent USD1.96 billion) by handling 43,418 number of import letter of credits. Import Business increased by 0.80% in 2016 than that of 2015.

Export Performance

In the year 2016, Export business of the bank was BDT 147.51 billion (equivalent USD 1.88 billion). The growth of export businesses is 1.17% in the year 2016 compare to 2015.

Table 21: Five Years Financial Performance of EXIM Bank at a Glance¹⁹ (Amount in million Taka)

Sl No.	Particulars	2012	2013	2014	2015	2016
1	Authorized Capital	20,000.00	20,000.00	20,000.00	20,000.00	20,000.00
2	Paid-up Capital	10,514.86	11,566.35	12,838.65	14,122.51	14,122.51
3	Shareholder's Equity	16,550.20	20,499.14	22,977.06	25,122.42	26,467.75
4	Total Capital (Tier I + Tier II)	18,104.94	21,064.26	23,385.94	28,195.39	29,661.70
5	Statutory Reserve	4,587.47	5,236.93	6,118.31	6,869.91	7,846.41
6	Total Assets	166,997.93	195,542.25	232,833.95	265,148.42	291,133.91
7	Total Liabilities	150,447.73	175,043.10	209,856.89	240,025.99	264,666.16
8	Total Deposits	140,025.42	165,391.58	200,009.00	224,770.89	248,223.61
9	Total Investment (General)	119,360.07	145,002.00	179,165.57	197,536.57	223,396.92
10	Investment (Shares & Securities excluding Subs.)	10,345.38	11,443.56	15,571.55	17,581.62	16,473.51
11	Total Contingent liabilities	63,950.48	60,119.38	65,616.80	69,852.49	70,600.46
12	Total Risk Weighted Assets	166,630.44	159,662.18	199,902.66	234,174.26	252,005.99
13	Total Fixed Assets	439.48	3,190.36	3,311.71	5,635.01	5,671.54
14	Total Income	20,345.73	23,707.60	25,801.24	27,162.03	25,957.45
15	Total Expenditure	15,051.55	18,754.89	19,665.52	20,775.08	20,008.21
16	Profit before provision and tax	5,294.18	4,952.71	6,135.72	6,386.95	5,949.24
17	Profit before tax	3,613.90	3,238.75	4,410.91	3,664.31	4,998.48
18	Net profit after provision and tax	2,083.08	1,885.61	2,465.68	2,086.55	3,039.76
19	Foreign Exchange Business	270,081.50	268,652.68	284,984.68	302,266.40	305,465.70
	a) Import Business	143,314.40	135,409.88	146,795.57	152,703.30	153,930.50
	b) Export Business	120,996.90	130,353.32	134,412.44	145,796.40	147,508.70
	c) Remittance	5,770.20	2,889.48	3,776.67	3,766.70	4,026.50
20	No. of Foreign Correspondent	398	386	398	383	390
21	Profit earning assets	132,808.14	161,424.61	191,972.21	219,538.74	230,465.98
22	Non profit earning assets	34,189.79	34,117.64	40,861.74	45,609.68	60,667.93
23	Investment as a % of total Deposit	85.24%	87.67%	89.58%	87.88%	90.00%
24	Capital Adequacy Ratio	10.87%	13.19%	11.70%	12.04%	11.77%
25	Dividend	10.00%	11.00%	10.00%	12.00%	15.00%
	Cash	-	-	-	12.00%	15% Proposed
	Bonus	10.00%	11.00%	10.00%	-	-
26	Rights Share	-	-	-	-	-
27	Net Asset Value Per Share	15.74	17.72	17.90	17.79	18.74
28	Earning per share (EPS)	1.98	1.63	1.92	1.48	2.15
29	Price earning ratio (times)	10.14	7.80	5.74	5.54	5.63
30	Return on Equity (ROE) after tax	13.43%	10.18%	11.34%	8.68%	11.78%
31	Return on Assets (ROA) after tax	1.40%	1.04%	1.15%	0.84%	1.09%
32	No. of Shareholders	139,482	154,398	140,061	116,206	96,036
33	Number of Employees	1918	2236	2465	2700	2747
34	Number of Branches	72	80	87	103	113

¹⁹ Source: Annual Report 2016 of EXIM Bank P#16

4.12.7 Corporate Profile of First Security Islami Bank Limited

At the end of 2016 the total branches stood at 158, ATM 123 and collection booths 9. It is observed that at the end of the year 2016 total deposit stood at Tk.27425.29 crore and Investment at Tk.22,606.53 and total profit before tax and provision Tk.372.86 crore. The classified investment stood at 2.58%, Inward Foreign Remittance at 777.89 crore, export 896.75 crore and import 6372.13 crore. They are also operating Merchant Banking activities in the capital market through First Security Islami Capital & Investment Limited²⁰.

Deposit Products of the Bank are as follows:

- i. Al-Wadiah Current Deposit Account
- ii. Mudaraba Term Deposit Account
- iii. Mudaraba Double Benefit Deposit Scheme
- iv. Mudaraba Monthly Savings Deposit Scheme
- v. Mudaraba Monthly Benefit Savings Scheme
- vi. Mudaraba Savings Deposit
- vii. Mudaraba Hajj Deposit Scheme
- viii. Mudaraba Student SB Account
- ix. Mudaraba Salary Account
- x. Mudaraba Senior Citizens Account
- xi. Mudaraba Marriage Scheme
- xii. Mudaraba Health Care Scheme
- xiii. Mudaraba Education Deposit Scheme
- xiv. Mudaraba Pension Deposit Scheme
- xv. Mudaraba Millionaire Deposit Scheme
- xvi. Mudaraba Kropoti Deposit Scheme
- xvii. Mudaraba Triple Times Deposit Scheme
- xviii. Mudaraba Four Times Deposit Scheme
- xix. Mudaraba Probashi Deposit Scheme
- xx. Mudaraba Money Plant Deposit Scheme
- xxi. Mudaraba Griheni Deposit Scheme
- xxii. Mudaraba Gift Cheque
- xxiii. Agent Savings A/C-Mobile Bank
- xxiv. Mudaraba New Generation Savings Scheme
- xxv. Mudaraba New Generation Deposit Scheme
- xxvi. Mudaraba Shramajibi Savings
- xxvii. Mudaraba Cash Waqf Deposit Scheme

Investment Products of the Bank are as follows:

- i. Bai-Murabaha General
- ii. Bai-Murabaha against MTD

²⁰ (Annual Report 2016, page#31, First Security Islami Bank Limited)

- iii. Bai-Murabaha Post Import(LTR)
- iv. Bai-Murabaha Post Import(Pledge)
- v. Bai-Murabaha Real Estate
- vi. Bai-Murabaha Import Bill
- vii. Bai-Murabaha Export
- viii. Bai-Murabaha SME Investment
- ix. Mudaraba Foreign Currency Investment(EDF)
- x. Inland Documentary Bills Purchase(Foreign Currency Bills)
- xi. Bai-Muajjal
- xii. Pre-Shipment Investment
- xiii. HPSM Transport
- xiv. HPSM Real Estate
- xv. HPSM Consumer
- xvi. HPSM Agriculture
- xvii. HPSM SME
- xviii. HPSM House Building –Staff
- xix. Agriculture Investment
- xx. Investment against Provident Fund(Staff)
- xxi. Investment against Car Lease Scheme
- xxii. Quard against MTDR, xxiii.Wazirat Bill Wakalah and xxiv.Ijara

Table 22: Five years Performance of FSIBL at Glance²¹ (Amount in Million Taka)

No.	Particulars	2012	2013	2014	2015	2016
01.	Authorized Capital	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00
02.	Paid-up Capital	3,740.35	4,114.38	4,114.38	6,788.74	6,788.74
03.	Shareholders' Equity	5,714.10	6,613.08	8,375.79	9,694.54	10,759.84
04.	Total Regulatory Capital	8,209.77	9,494.56	12,557.89	12,901.11	14,576.62
05.	Statutory Reserve	1,004.57	1,310.40	1,609.27	1,902.25	2,412.13
06.	Total Assets	129,937.81	162,033.22	204,876.46	256,604.94	301,669.25
07.	Total Liabilities	124,223.70	155,420.14	196,229.71	246,612.43	290,608.81
08.	Total Deposits	109,905.57	139,503.93	182,503.18	231,259.39	274,224.78
09.	Total Investment	96,304.23	114,328.75	152,370.71	187,239.08	225,889.89
10.	Total Contingent Liabilities	9,248.23	11,865.56	23,664.96	25,847.30	33,568.78
11.	Total Risk Weighted Assets	80,409.90	91,915.20	105,330.30	123,756.63	135,866.72
12.	Total Fixed Assets	2,032.85	2,517.38	3,132.83	3,261.04	3,450.12
13.	Operating Income	3,783.84	4,477.95	5,262.60	6,402.67	8,137.94
14.	Operating Expenditure	1,831.88	2,434.14	2,989.70	3,851.39	4,409.31
15.	Profit before Provision & Tax	1,951.96	2,043.82	2,272.90	2,551.27	3,728.62
16.	Profit before Tax	1,503.22	1,543.26	1,553.64	1,541.95	2,555.72
17.	Net profit after Provision & Tax	762.71	776.48	694.28	853.54	1,410.33
18.	Foreign Exchange Business:	36,067.20	25,804.80	60,910.00	62,390.00	80,470.00
	a) Import Business	24,056.20	12,177.00	40,310.00	48,860.00	63,720.00
	b) Export Business	7,279.40	6,500.00	16,440.00	7,870.00	8,970.00
	c) Remittance	4,731.60	7,127.80	4,160.00	5,660.00	7,780.00
19.	Profit Earning Assets	112,230.53	135,976.12	177,645.17	215,821.39	255,771.68
20.	Non Profit Earning Asset	17,707.27	26,057.11	27,231.29	40,783.55	45,897.57

No.	Particulars	2012	2013	2014	2015	2016
01.	Investment as a % of Total Deposit	87.62%	81.95%	83.49%	80.96%	82.37%
02.	Capital Risk Assets Ratio (CRAR)	10.21%	10.33%	11.92%	10.42%	10.73%
03.	Earnings Per Share (EPS) (Tk.)	1.85	1.89	1.02	1.26	2.08
04.	Price Earnings Ratio (Times)	10.00	7.99	10.69	6.98	6.68
05.	Return on Assets (ROA)	0.69%	0.42%	0.38	0.31	0.51
06.	Net Asset Value Per Share (Tk.)	15.28	16.07	20.35	14.28	15.85
07.	Cost of Fund	11.00%	11.64%	11.76%	10.81%	9.21%
08.	No. of Foreign Correspondents	1,400	1,400	1,400	1,400	1,400
09.	Dividend:					
	a) Cash	Nil	10%	Nil	10%	5%
	b) Bonus	10%	Nil	10%	Nil	5%
10.	Rights Offer	Nil	Nil	50%	Nil	Nil
11.	Number of Shareholders	89,994	90,985	82,803	72,371	61,923
12.	Number of Employees	2,090	2,367	2,673	2,820	3,224
13.	Number of Branches	100	117	137	148	158

4.12.8 Corporate Profile of Union Bank Limited

Union Bank Limited has been able to make an operating profit of BDT 1775.61 million as on 31 December 2016. The net profit is a result of strong performance across all the business lines. UBL's personal banking strategy with Shariah Based product and services have enabled the bank to diversify its customer services. At the same time the bank continued to stay close to its corporate and commercial clients particularly the family owned businesses which contribute to agricultural industry to ensure the UBL remains their preferred banking partner in the coming years. Bank was able to make an operating profit of BDT 1775.61

²¹ Source: Annual Report 2016 of FSIBL P#10

million as on 31st December 2016 that is 69.95% increase against BDT 1044.81 million of the previous year. At the same time, total deposits of the Bank are BDT 74,250.56 million which is 33.65 percent increase against BDT 55,555.44 million of the previous year and total investment is BDT 67,150.19 million against BDT 45,592.87million of the previous year which is 47.28 percent increase. Total Assets of the bank is BDT 83,917.24 million as on 31st December 2016 million of the previous year.

Principal Deposit Products of the Bank are as follows:

1. Al-Wadiah Current Deposit Account
2. Mudaraba Savings Deposit Account
3. Mudaraba Savings Salary Account
4. Mudaraba School Banking Saving Account
5. Mudaraba Short Notice Deposit Account
6. Mudaraba Term Deposit Account
7. Mudaraba No Fill Saving Account

Present Scheme Products of the Bank are

- i. Mudaraba Pension Prokalpa
- ii. Mudaraba Millionaire Savings Scheme (Lacpoti)
- iii. Mudaraba Monthly Saving Scheme
- iv. Mudaraba Marriage Saving Scheme(Sohozatri)
- v. Madaraba Hajj Saving Scheme(Denmohor)
- vi. Mudaraba Crorepoty Sanchaya Prokalpa
- vii. Mudaraba Monthly Profit Scheme (Prerona)
- viii. Mudaraba Double Benefit Deposit Scheme(Somriddhi)
- ix. Mudaraba Baraka Deposit Scheme

Investment Products:

- i. Bai-Murabaha (Hypo)
- ii. Bai- Istisna (Pre-Shipment Investment)
- iii. Bai-Salam
- iv. Bai-Muajjal Investment
- v. Quard against MTDR
- vi. Hire-Purchase under Shirkatul Melk (HPSM)

Services:

ATM Banking and SMS Banking ²²

²² (Annual Report of UBL 2016, Page#37)

Table 23: Financial Performance of UBL at a Glance ²³ (Amount in million Taka)

SL No.	Particulars	2013
1	Authorized capital	10,000.00
2	Paid - up capital	4,280.00
3	Shareholder's Equity	4,513.09
4	Total capital (Tire - 1 + Tire - 2)	4,588.19
5	Statutory Reserve	33.46
6	Total Assets	17,081.14
7	Total Liabilities	12,568.05
8	Deposits	12,165.19
9	Total Investment and Advance	7,308.82
10	Total contingent Liabilities	7.17
11	Total Risk Weight Asset	13,313.60
12	Total Fixed Assets	86.29
13	Operating Income	401.56
14	Operating Expenditure	155.27
15	Profit before provision & Tax	246.29
16	Profit before Tax	167.34
17	Net profit after provision & Tax	87.34
18	Foreign Exchange Business:	-
	a) Import Business	-
	b) Export Business	-
	c) Remittance	-
19	No. of Foreign Correspondent	-
20	Profit Earning Assets	14,085.15
21	Nonprofit Earning Assets	2,995.98
22	Investment as a % of Total Deposit	60.08%
23	Capital Adequacy Ratio	34.46%
24	Dividend:	-
	a) Cash	-
	b) Bonus	-
	c) Right Share	-
25	Cost of Fund	7.78%
26	Net asset value per share	-
27	Earnings per share (EPS)	0.20
28	Price Earnings Ratio (times)	-
29	Return on Assets (ROA)	1.44%
30	No. shareholders	-
31	Number of Employees	317
32	Number of Branches	11

²³ Source: Annual Report 2013 of Union Bank P#6

Table 23: Continued ²⁴

Amount in million Tk.			
SL No.	Particulars	2014	2013
1	Authorized capital	10,000.00	10,000.00
2	Paid - up capital	4,280.00	4,280.00
3	Shareholder's Equity	4,623.64	4,513.09
4	Total capital (Tier - 1 + Tier - 2)	4,943.64	4,588.19
5	Statutory Reserve	75.58	33.46
6	Total Assets	40,951.53	17,081.14
7	Total Liabilities	36,327.89	12,568.05
8	Deposits	34,767.31	12,165.19
9	Total Investment and Advance	28,277.79	7,308.82
10	Total contingent Liabilities	1,474.49	7.17
11	Total Risk Weighted Asset	34,552.80	13,313.60
12	Total Fixed Assets	411.28	86.29
13	Operating Income	982.34	401.56
14	Operating Expenditure	526.89	155.27
15	Profit before provision & Tax	455.45	246.29
16	Profit before Tax	210.55	167.34
17	Net profit after provision & Tax	110.55	87.34
18	Foreign Exchange Business:		-
	a) Import Business	1,514.16	10.33
	b) Export Business	8,698.41	0.65
	c) Remittance	2.73	-
19	No. of Foreign Correspondent		-
20	Profit Earning Assets	36,497.95	14,085.15
21	Non profit Earning Assets	4,453.58	2,995.98
SL No.	Particulars	2014	2013
22	Investment as a % of Total Deposit	81.33%	60.08%
23	Capital Adequacy Ratio	14.31%	34.46%
24	Dividend:	-	-
	a) Cash	-	-
	b) Bonus	-	-
	c) Right Share	-	-
25	Cost of Fund	12.36%	7.78%
26	Net asset value per share		-
27	Earning per share (EPS)	0.26	0.20
28	Price Earnings Ratio (times)	-	-
29	Return on Assets (ROA)	1.11%	1.44%
30	No. of Shareholders	26	26
31	Number of Employees	600	317
32	Number of Branches	27	11

²⁴ Source: Annual Report 2014 of Union Bank P#6

Table 23 Continued ²⁵ (Amount in million Taka)

SL No.	Particulars	2015	2014
1	Authorized capital	10,000.00	10,000.00
2	Paid - up capital	4,280.00	4,280.00
3	Shareholder's Equity	5,111.96	4,623.64
4	Total capital (Tier - 1 + Tier - 2)	5,607.88	4,943.64
5	Statutory Reserve	233.24	75.58
6	Total Assets	63,059.96	40,951.53
7	Total Liabilities	57,948.00	36,327.89
8	Deposits	55,568.42	34,767.31
9	Total Investment and Advance	45,592.87	28,277.79
10	Total contingent Liabilities	4,642.78	1,474.49
11	Total Risk Weighted Asset	42,247.72	34,552.80
12	Total Fixed Assets	679.20	411.28
13	Operating Income	2,061.29	982.34
14	Operating Expenditure	1,016.47	526.89
15	Profit before provision & Tax	1,044.81	455.45
16	Profit before Tax	788.31	210.55
17	Net profit after provision & Tax	488.31	110.55
18	Foreign Exchange Business:		
	a) Import Business	5,958.60	1,514.16
	b) Export Business	15,816.42	8,698.41
	c) Remittance	919.66	2.73
19	No. of Foreign Correspondent		
20	Profit Earning Assets	55,788.92	36,497.95
21	Non profit Earning Assets	7,271.04	4,453.58
SL No.	Particulars	2015	2014
22	Investment as a % of Total Deposit	82.05%	81.33%
23	Capital Adequacy Ratio	13.27%	14.31%
24	Dividend:		-
	a) Cash		
	b) Bonus		
	c) Right Share		
25	Cost of Fund	11.82%	12.36%
26	Net asset value per share		
27	Earning per share (EPS)	1.14	0.26
28	Price Earnings Ratio (times)		-
29	Return on Assets (ROA)	1.66%	1.11%
30	No. of shareholders	26	26
31	Number of Employees	832	600
32	Number of Branches	44	27

²⁵ Source: Annual Report 2015 of Union Bank P#8

Table 23 Continued ²⁶(Amount in million Taka)

SL No.	Particulars	2016	2015
1	Authorized capital	10,000.00	10,000.00
2	Paid - up capital	4,708.00	4,280.00
3	Shareholder's Equity	6,012.42	5,111.96
4	Total capital (Tier - 1 + Tier - 2)	6,774.24	5,596.68
5	Statutory Reserve	527.66	233.24
6	Total Assets	83,917.24	63,048.76
7	Total Liabilities	77,904.82	57,936.81
8	Deposits	74,250.56	55,555.44
9	Total Investment and Advance	67,150.19	45,592.87
10	Total contingent Liabilities	6,465.39	4,642.78
11	Total Risk Weighted Asset	58,315.04	42,247.72
12	Total Fixed Assets	829.42	679.20
13	Operating Income	3,179.45	2,061.29
14	Operating Expenditure	1,403.84	1,016.47
15	Profit before provision & Tax	1,775.61	1,044.81
16	Profit before Tax	1,472.11	788.31
17	Net profit after provision & Tax	849.61	488.31
18	Foreign Exchange Business:		
	a) Import Business	14,658.80	5,958.60
	b) Export Business	30,973.50	15,816.42
	c) Remittance	3,268.60	919.66
19	No. of Foreign Correspondent	123.00	103.00
20	Profit Earning Assets	74,360.93	55,789.91
21	Non profit Earning Assets	9,556.31	7,258.86
SL No.	Particulars	2016	2015
22	Investment as a % of Total Deposit	90.44%	82.07%
23	Capital To Risk weighted Assets Ratio (CRAR)	11.62%	13.25%
24	Dividend:		
	a) Cash		
	b) Bonus		
	c) Right Share		
25	Cost of Fund	9.53%	11.82%
26	Net asset value per share		
27	Earning per share (EPS)	1.80	1.04
28	Price Earnings Ratio (times)		
29	Return on Assets (ROA)	1.16%	0.94%
30	No. of shareholders		
31	Number of Employees	1,051	832
32	Number of Branches	57	44

4.13 Conclusion

The main aim of this chapter has been to consider the Islamic Banking in Bangladesh by focusing on the financial system. However, in recent years some structural reforms have been made in the banking system, such as the establishment of an allowance for private credit institutes and banks. There are 6 state-owned Banks namely Agrani, Sonali, Janata,

²⁶ Source: Annual Report 2015 of Union Bank P#9

Rupali, BASIC and BDBL Bank and 2 specialized governments Banks namely Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank and 49 local and foreign commercial Banks in Bangladesh. We know that the agricultural sector is the representative of the traditional sector and industry is representative of the modern sector of the economy. Regarding the share of economic sectors in the economy, this chapter has shown that the strongest sector in Bangladesh is the service sector where near about (75-80)% is parked. Second is the Industry sector where (18-20) % of investment of Islamic Banks is parked and only (1-2)% of Agriculture investment of total investment of Islamic Banks is parked.

Chapter: Five

Objectives, Functions and Products of Islamic Banking in Bangladesh

5.1 Introduction

In this chapter I have explained the objectives of Islamic Banking in Bangladesh. Also the products of deposit and investment has been discussed as per guide line of Bangladesh Bank. Guidelines for Foreign inward and outward Remittance, the process and procedure of Import and Export business has been discussed in this Chapter.

5.2 Objectives of the Islamic Banking System in Bangladesh

Every banking system has special objectives to which all banking activities should conform. While in conventional banking systems these aims are mainly economic, in Islamic banking, ethical issues are important too. As the banking system in Bangladesh is not only Islamic one, the traditional is also here. So the Islamic Banks have to follow the guideline, circulars of Central Bank (Bangladesh Bank). Some of the main objectives of the Islamic banking system in Bangladesh are described below:

5.2.1 Formation of Financial System on Perfection and Justice

It is worth mentioning that justice in Islam is a very important issue, such that according to the Holy Quran, justice was the main purpose for God sending the prophets. We indeed sent our messengers with clear proofs and sent down to them the books and the balance in order for people to act based on justice; we sent iron which has harshness and benefits for people and in order for God to know those who support him and his messengers through (their belief) in the invisible world; surely God is Powerful and Mighty.

There are many verses in the Holy Quran that emphasize justice both in private and social aspects. Furthermore, there are large numbers of traditions from the Holy Prophet (PBUH) which talk about justice, its meaning and its importance in Islam. For example the Prophet Mohammad (PBUH) said—definitely, the most beloved of people for God in the Hereafter and nearest to him is the just leader.

It is found that the establishment of a monetary and credit system based on fairness and justice for the purpose of regulating the sound circulation of money and credit to enhance the health and growth of the country's economy.

5.2.2 Augmenting the Strength and Growth of the Economy

One threat which definitely affects efficiency and the effect of the banking system on economic development is corruption. In developing countries, because of a shortage of capital, access to capital and facilities creates an opportunity for investment and

consequently for becoming rich. In addition, the only place which provides cheap money (Plastic money) is the banking system.

A lot of people of Bangladesh are close to obey the Shariah rules in mind. For this reason the new banking system in Bangladesh emphasized not only the strength of the banking system but also the overall conditions of the economy. Economic growth is another aim of the Islamic banking system in Bangladesh and it is closely related to the strength of the economy. This is because, when corruption exists in the banking and economic system, resources cannot be allocated efficiently and consequently economic growth is negatively affected.

5.2.3 Making Financial Bridge between Depositors and Investors

It is the aim of any banking system to facilitate cooperation between surplus deposit holders and financial facilities seekers i.e. investors who use the fund to create Micro-Economic wave in the society.

5.2.4 Conservation of Exchange Value of Goods

Maintenance of currency value is a very important issue. It is necessary for every banking system to be able to prevent fluctuation in the currency value.

5.2.5 Expansion of social well-fare

Confirming payment and receipt of goods, exchanges value of transactions of foreign trade are some of the services provided by a banking system which have an important role in economic activities and consequently economic development.

5.2.6 Alleviation of poverty from the Society

By ensuring micro-finance to the hard-core poor people in a group which is being done by the Islamic Bank Bangladesh Limited, the poverty is being alleviated from the society since inception of this programme

5.3 Functions

There are many functions of Islamic Banking in Bangladesh .But it may be said that the most important functions of the banking system are the mobilisation and allocation of monetary resources (deposits) and implementation of monetary policy. So in this section we will concentrate on these. It is essential to discuss the general conditions for granting facilities. Since Islamic banks are trustees and agents of depositors and they must strive to protect the deposits of their customers on the one hand, and pursue the objectives of the Islamic Economic System on the other hand, it is essential to explore the following important points.

Trustworthiness of Applicants

Basically, since the Islamic banking system must provide prosperity and ethical values and is also responsible for protecting the savings of depositors, it is the duty of managers to provide facilities to credible people and they should be more careful than conventional banks in this regard. However, this will have many positive effects and uses such as:

- i. Dignity of Piety and Trust: Piety and trust is the most valuable objective in Islamic Ideology and the Islamic economic system and consequently the Islamic banking system must concentrate on it in its programs.
- ii. Encouragement of Honesty and Punishment of Bad Behavior: Honesty is very important in Islam. So Islam tries to encourage people to be honest. One way to improve honesty in society is to behave differently toward honest and dishonest people. Therefore, Islamic banks should also behave in a way that leads to the encouragement of valuable account holders and punishment of bad behaviour.
- iii. Distribution of Wealth in Favor of Righteous and Helpful People and Consequently Growth of Charity in the Community
- iv. Optimum use of resources: Prohibition of prodigality is an important issue in Islam; therefore, Islamic Banks must be careful to provide financial facilities to the best projects.

Products of Islamic Banking in Bangladesh

5.3.1 Deposit Products of Islamic Banking in Bangladesh

Since there is usually resource scarcity, especially in developing countries, the mobilization of monetary resources plays an important role in the ability of banking systems to finance productive sectors. In conventional banks the most important instrument used in this regard is the loan with interest. Due to the prohibition of interest in Islam, the Islamic banking system has had to introduce new instruments for this aim. Therefore, there are several accounts in Islamic banking some which are similar to conventional bank accounts and some which have major differences. The Deposit Products used in Islamic Banking system of Bangladesh are as follows:

5.3.1.1 Type of Deposit Products

As per Guidelines for Conducting Islamic Banking: November 2009, Bangladesh Bank, the Shariah principles for receiving deposits for Islamic banks are under two principles:

- i) Al-Wadeeah principle**
- ii) Mudaraba principle**

5.3.1.1 i. Al-Wadeeah

Fund which is deposited with Banks by the depositors with clear permission to utilize invest the same is called Al-Wadeeah. Islamic banks receive deposits in Current Accounts on the basis of this Al-Wadeeah Principle. Islamic banks obtain permission from the Al-Wadeeah depositors to utilize the Funds at its own responsibility and the depositors would not share

any profit or loss earned/incurred out of using of this funds by the bank. The banks have to pay back the deposits received on the principle of Al-Wadeeah on demand of the holders. The depositors have to pay government taxes and other charges, if any.

5.3.1.1 ii Mudaraba

Mudaraba is a partnership of labour and capital, where one partner provides full capital and the other one manages the business. The capital provider is called Sahib-Al-Maal and the user of the capital is called Mudarib. As per Shariah principles, the Mudarib will conduct the business independently following Shariah principles. The Sahib-Al-Maal may provide advices, if he deems fit but he cannot impose any decision over the Mudarib. Profit, if any, is divisible between the Sahib-Al-Maal and the Mudarib at a predetermined ratio, while loss, if any, is borne by the Sahib-Al-Maal. Mudarib can not avail of any salary or remuneration against his labour as a manager or conductor of the enterprise/business. The deposits, received by Islamic banks under this principle are called Mudaraba Deposits. Here, the depositors are called Sahib-Al-Maal and the bank is called Mudarib.

The Mudaraba deposits include:

- i) Mudaraba Savings Deposits (MSD)
- ii) Mudaraba Short Notice Deposits (MSND)
- iii) Mudaraba Term Deposits (MTD).

Different Islamic banks have developed various deposit schemes on the basis of this Mudaraba principle such as monthly deposit-based Hajj Scheme, Monthly/One time deposit-based Term Deposit Scheme, Monthly Mudaraba Profit Deposit Scheme, Monthly Mudaraba Marriage Savings Scheme, Mudaraba Savings Bond etc.

5.3.2 Investments Products

It is assumed that allocation of monetary resources in conventional banks is in the form of a loan with interest, and all individuals or companies that need credit and prefer to use conventional banking system financing, use loan-with-interest contracts. However, allocation of monetary resources in Islamic banking takes place in several ways.

5.3.2.1 Types of Investment Products

Islamic banks do not directly deal in money. They run business with money. The funds of Islamic banks are mainly invested in the following modes:

- i) Mudaraba;
- ii) Musharaka;
- iii) Bai-Murabaha (Murabaha to the purchase orders);
- iv) Bai-Muajjal;
- v) Salam and parallel Salam;
- vi) Istisna and parallel Istisna;
- vii) Ijara;

- viii) Ijarah Muntahia Bittamleek (Hire Purchase);
- ix) Hire Purchase Musharaka Mutanaqisa (HPMM);
- x) Direct Investment;
- xi) Investment Auctioning etc.
- xii) Quard
- xiii) Quard Al Hassan etc²⁷.

5.3.2.1 i. Mudaraba

Mudaraba is a shared venture between labour and capital. Here Bank provides with entire capital and the investment client conducts the business. The Bank, provider of capital, is called Sahib-Al-Maal and the client is called Mudarib. The profit is to be distributed between the Bank and the investment client at a predetermined ratio while the bank has to bear the entire loss, if any.

More issues about modharabah

Furthermore, according to Shiah jurisprudence, the capital should be paid in cash, so delivery of goods instead of cash is not acceptable. In addition, all modharabah costs should be paid by the owner of the capital but, because some costs are not predictable, the owner of the capital pays predictable costs and the agent is engaged to pay the probable remaining costs by including conditions in the contract. Anyway, the costs which are paid by the owner of the capital in internal trade are as follows:

- 1- Price of goods.
- 2- Transportation costs.
- 3- Insurance costs.
- 4- Storekeeper costs.
- 5- Impaction costs.

These costs are in fact necessary capital in internal trade. However, in international trade, custom duties are added to the above mentioned costs. As mentioned before, if additional costs exist they will be paid by the agent.

Determination of the bank's share in the profit in modharabah

In Bangladesh, Bangladesh Bank determines an expected profit rate for any contract or for any economic sector. The role of this rate appears in the evaluation of the project in order to be selected as accepted for financial facilities. This means that only those projects which have a profit of which the bank's share is not less than the accepted percentage for receiving facilities can be approved. In this regard, the bank predicts the profit of the project and determines its share in the profit in order to gain the expected profit. For example, if we assume that the expected profit rate for modharabah in the banking system is 15% we should first determine the probable profit rate. This rate is calculated by using this formula:

²⁷ Guidelines for Conducting Islamic Banking: November 2009

$$R = [(P-C)/C] (12/M).100,$$

R = Predictable profit rate of the project.

P = Total sale price.

C = Total costs (transportation costs, insurance costs, storekeeper costs, impaction costs and custom duties).

M = Duration of the modharabah.

Let us assume that a trader asks for financial facilities in order to export X goods. If we predict that P = £90,000, C = £75,000 and M = 4 month, the predictable profit rate would be calculated as: $R = [(90000-75000)/75000] (12/4) 100 = 60$

This means that the total predicted profit will be 60%. Now the bank should decide what percentage of this profit should be its share. If the expectable profit rate is 15%, then the bank's share should be 33.3% which can be achieved by using a simple ratio as follows:

$$60 \quad 100$$

$$15 \quad ? = 100 (15)/60 = 25$$

After this conclusion, the bank decides to finance the project and determines 25% as its share in the total profit. In the end, the bank should ask for its share. So, if the real profit is equal to the predicted profit, the bank will benefit 15%, but if the total real profit is more or less than the predicted profit, the bank will benefit more or less than the expected profit respectively. It is worth mentioning that this rate is the yearly rate of profit and if 12/M is omitted from the formula, the result would show the profit rate for the period of the contract, which in this case will be 6.67%.

5.3.2.1 ii. Musharaka

Musharaka means partnership business. Every partner has to provide more or less equity funds in this partnership business. Both the Bank and the investment client reserve the right to share in the management of the business. But the Bank may opt to permit the investment client to operate the whole business. In practice, the investment client normally conducts the business. The profit is divided between the bank and the investment client at a predetermined ratio. Loss, if any, is to be borne by the bank and the investment client according to capital ratio.

5.3.2.1 iii. Bai-Murabaha

Contractual buying and selling at a mark-up profit is called Murabaha. In this case, the client requests the Bank to purchase certain goods for him. The Bank purchases the goods as per specification and requirement of the client. The client receives the goods on payment of the price which includes mark-up profit as per contract. Under this mode of investment the purchase/ cost price and profit are to be disclosed separately.

5.3.2.1 iv. Bai-Muajjal

Meaning: "Bai-Muajjal" means sale for which payment is made at a future fixed date or within a fixed period. In short, it is a sale on Credit. It is a contract between a buyer and a seller under which the seller sells certain specific goods (permissible under Shariah and Law of the Country), to the buyer at an agreed fixed price payable at a certain fixed future date in lump sum or within a fixed period by fixed installments. The seller may also sell the goods purchased by him as per order and specification of the buyer In Bank's perspective, Bai-Muajjal is treated as a contract between the Bank and the Client under which the bank sells to the Client certain specified goods, purchased as per order and specification of the Client at an agreed price payable within a fixed future date in lump sum or by fixed installments.

5.3.2.1 v. Bai-Salam and Parallel Salam

Salam means advance purchase. It is a mode of business under which the buyer pays the price of the goods in advance on the condition that the goods would be supplied / delivered at a particular future time. The seller supplies the goods within the fixed time.

Parallel Salam: Parallel Salam is a Salam contract whereby the seller depends, for executing his obligation, on receiving what is due to him - in his capacity as purchaser from a sale in a previous Salam contract, without making the execution of the second Salam contract dependent on the execution of the first one.

The following conditions are essential in the contracts of Murabaha, Bai-Muajjal and Salam. The respective contracts must include the following aspects regarding the goods:

Number/Quantity

Quality

Sample

Price and amount of profit

Date of supply/time limit

Place of supply

Who will bear the cost of supply?

Timeframe for payment in case of Bai-Murabaha and Bai-Muajjal.

5.3.2.1 vi. Istisna and parallel Istisna

A contract executed between a buyer and a seller under which the seller pledges to manufacture and supply certain goods according to specification of the buyer is called Istisna. An Istisna agreement is executed when a manufacturer or a factory owner accepts a proposal placed to him by a person or an Institution to produce/manufacture certain goods for the latter at a certain negotiated price.

Here, the person giving the order is called Mustasni, the receiver of the order is called Sani and the goods manufactured as per order is called Masnu. An order placed for

manufacturing or producing those goods which under prevailing customs and practice are produced or manufactured will be treated as Istisna contract.

Conditions & characteristics of Istisna are enumerated below:

- a) The concerned Agreement must contain the details, such as, the type, class, quantity and features of the goods to be produced, so that no misunderstanding is created later on.
- b) The price has to be settled; payment time/schedule and modes thereof is to be predetermined.
- c) When, where and on whose cost the goods to be supplied has to be clearly mentioned.
- d) If agreed by both parties, payment may be made in advance to the seller in part or in full or may be deferred to be paid in due course/ agreed time.
- e) Generally timeframe is not mandatory for supplying the goods under Istisna agreement. It may be executed without determining timeframe. But in case of bank, timeframe for supplying goods must be determined to avoid any dispute in future.
- f) Condition for imposing stipulated compensation/penalty may be included in the Istisna agreement against the party who breaches the terms of the agreement causing the other party to suffer. But no compensation/penalty would be imposed on any party if it happens for any valid reason or unavoidable circumstances.
- g) As per opinion of the contemporary jurists, the compensation in case of Istisna may be treated as legal income.

Parallel Istisna: If it is not stipulated in the contract that the seller himself would produce/provide the goods or services, then the seller can enter into another contract with third party for getting the goods or services produced/ provided by the third party. Such a contract is called Parallel Istisna. This may be treated as a sub-contract. The main features of this contract are:-

- i. The original Istisna contract remains valid even if the Parallel Istisna contract fails and the seller will be legally liable to produce/ provide the goods or services mentioned in the Istisna contract.
- ii. ii) Istisna and Parallel Istisna contracts are treated as two separate contracts.
- iii. iii) The seller under the Istisna contract will remain liable for failure of the sub-contract.

5.3.2.1 vii. Ijara

The mode under which any asset owned by the bank, by creation, acquirement / or building-up is rented out is called Ijara or leasing. In this mode, the leasee paysthe Bank rents at a determined rate for using the assets/properties and returns the same to the Bank at the expiry of the agreement. The Bank retains absolute ownership of the assets/properties in such a case. However, at the end of the leased period, the asset may be sold to the client at an agreed price.

5.3.2.1 viii. Ijarah Muntahia Bittamleak (Hire-Purchase)

Under this mode, the bank purchases vehicles, machineries and instruments, building, apartment etc. and allowed clients to use those on payment of fixed rents in installments with the ultimate objective to sell the asset to the client at the end of the rental period . The client acquires the ownership/ title of the assets/ properties subject to full payment/ adjustment of all the installments.

5.3.2.1 ix. Hire-purchase Musharaka Mutanaqasa (HPMM)

Hire-purchase Musharaka Mutanaqasa means purchasing and acquiring ownership by one party by sharing in equity and paying rents for the rest of the equity held by the Bank/or other party. Under this mode, the Bank and the client on contract basis jointly purchase vehicles, machineries, building, apartment etc. The client uses the portion of the assets owned by the bank on rental basis and acquires the ownership of the same assets by way of paying banks portion of the equity on the assets in installments together with its rents as agreed upon.

The features of this mode are elaborated below:

- a) The client applies to the Bank expressing his/her wishes to purchase the assets/properties and the bank accords its approval after proper evaluation/ scrutiny.
- b) The client deposits his/her share of equity with the bank after obtaining approval and the bank pays total price of the assets/properties together with its equity.
- c) Before purchase of the assets/properties an agreement is executed stipulating the actual prices, monthly rents, price of the bank's portion of the assets/properties, payment schedule and installment amount and the nature of the security etc.
- d) The bank shall rent out its own portion of the assets/properties to the client as per terms & conditions of the agreement.
- e) The client (Hirer) pays off in installments bank's portion of equity on the assets together with its fixed rent as per the terms and conditions of the agreement.
- f) With the payment of installments by the client, the ownership of the bank in the assets/properties gradually diminishes, while that of the client increases.
- g) The amount of the rent receivable by the bank reduces gradually proportionate to the increase in the ownership of the client on the assets/properties.
- h) The client acquires full ownership of the goods/assets after payment of the entire dues of the bank.
- i) The client may acquire the full ownership of the assets/properties before expiry of the deal by paying off the entire dues to the bank.
- j) The rent remains payable in proportion to Bank's ownership, if the client fails to pay the due installment(s).
- k) The bank can take of the assets / properties under its control, if the client fails to pay the installment(s) as per the terms and conditions of the agreement.

- l) The ownership of the assets/properties remains with the bank until the entire equity provided by the bank together with the fixed rent is fully paid off. On full payment/adjustment of Bank's dues, it transfers the ownership to the client.
- m) The amount which the bank receives as rent is its income. The rent should not treat as a part of the equity in any way.

5.3.2.1 x. Direct Investment

Under this mode, the bank can under its full proprietorship conduct business by directly investing in the industries, trading, transports etc. In these cases, the profit/loss fully goes to the bank.

5.3.2.1 xi. Investment Auctioning

Selling by auction of those assets/goods acquired by the bank through direct investment is called Investment auctioning. Generally, the bank establishes industrial units by direct investment, makes the same operationally profitable and then sells out on auction. This mode of investment is very helpful for industrialization of the country.

5.3.2.1 xii. Quard and Quard-Al Hassan

It is a mode to provide financial assistance/ loan with the stipulation to return the principal amount in the future without any increase thereon. This is a benevolent loan that obliges a borrower to repay the lender the principal amount borrowed on maturity. The borrower, however, has the discretion to reward the lender for his loan by paying any amount over and above the amount of the principal provided there will be no reference (explicit or implicit) in this regard. If a bank provides its client any loan, it can receive actual expenditure relating to the loan as service charge only once. It can not charge annually at a percentage rate. If a loan is provided against the money deposited by a client in the bank, it has the right not to pay any profit against the amount of money given as loan. But profit should be paid on the rest of the amount deposited as per previous agreement.

5.4 Investment System for import/export business as per Islamic Shariah Principal

5.4.1 Investment for Import Business

The import business is broadly divided into the following three categories:-

- i) Import of Commercial goods.
- ii) Import of raw materials for production purpose.
- iii) Import of capital / machineries.

The importers avail of investment facilities against all kinds of imports. But in case of imports under category (i) Import of Commercial goods and (ii) Import of raw materials for production purpose, investments are made under the Shariah approved Bai-Murabaha and Bai-Muajjal modes and in case of import under category (iii) Import of capital / machineries, investment is made under the Shariah compliant mode of Hire Purchase under Shirkatul Melk (HPSM). Investment facilities are also provided for import business through

Bai-Salam, Musharaka and Mudaraba modes. Besides, the Islamic banks will fully abide by the national and international norms and guidelines relating to export/import business.

5.4.1.1 Import under the Bai-Murabaha system

Definition of the Bai-Murabaha: Bai-Murabaha is a contract between a buyer and a seller under which the seller sells certain specific goods permissible under Islamic Shariah and law of the land to the buyer at a price determined by charging agreed profit, margin or mark-up over the cost price. In this case, the buyer either makes cash payment to receive the goods or is allowed to make payment by installments or on a fixed future date. The profit mark-up may be fixed in lump sum or in percentage over the cost price of the goods.

Some important features of the Bai-Murabaha mode of investment

- a) The client (buyer) requests the bank to purchase particular goods and promises to purchase the same from the bank at a price fixed by charging profit over the cost price.
- b) Under the Bai-Murabaha mode of investment there is no scope to increase the price once it is fixed.
- c) After buying the goods, the Bank has to bear all the risk until goods are actually delivered to the client.

Import of goods under Bai-Murabaha mode of investment

In the import business, the importer provides an irrevocable letter of authority to the Bank to import specific goods on behalf of him (the client) from the foreign seller and promises to buy the same from the Bank. In this case, the Bank is designated as a consignee in the Bill of lading and later on the Bank hands over the same to the importer through endorsement i.e. the ownership of the goods is transferred to the importer. As per uniform customs and practices, the seller lodges his claim or places claim for dues to the buyer's Bank through the bill of exchange and the buyer's bank discharges the claim on behalf of the buyer. The above import system is fully approved/ supported by the Islamic Shariah.

In the import business, Bai-Murabaha investment is accomplished through a single deal at the time of opening L/C, Bills and Shipment. For example:

- a) Murabaha Import L/C (MIL)
- b) Murabaha Import Bills (MIB)
- c) Murabaha Post Import(MPI)

Murabaha Post Import (MPI)

The importers apply for investment facility against imported goods after shipment for payment of the invoice values of the goods to the seller/supplier including custom duty, VAT and other expenses. In such a case, Islamic banks allow a Bai-Murabaha investment facility under single deal concept. It is so called as the Letter of Credit. Bills and the

handling of Post-shipment are settled under one agreement while opening the letter of credit for importing the goods.

Accounting procedure for purchase price, profit and sale price

- a) Price payable to the supplier
- b) Other expenses related with purchase
 - i) Conveyance - TA/DA
 - ii) Commission payable to the agents.
 - iii) The expenditures in connection with supplier's payment.
 - iv) Transportation cost up to the Bank's godown.
 - v) Transit Insurance and other expenses.
 - vi) Godown rent and salary of officials etc. incurred before sale of goods.

5.4.1.2 Import under the Bai-Muajjal mode of investment

The term Bai-Muajjal means "deferred payment sale" or "Sale on Credit": Under this mode of investment a contract is made between the buyer and seller for buying and selling of goods approved by Islamic Shariah and law of the land on the stipulation to pay the agreed price at a specific future date or by fixed installments.

Some important features of the Bai-Muajjal mode of investment

Most of the features of Bai-Murabaha and Bai-Muajjal are alike excepting the following:

1. Bai-Muajjal sale is executed completely on deferred payment system
2. The sale price is determined adding the profit with cost price. It is not necessary to disclose the cost price and the profit mark-up separately to the client. But in Bai-Murabaha, the cost price and the profit mark-up ratios are to be disclosed separately to the client.
3. The accounting procedure for imported goods under both the Bai-Muajjal and Bai-Murabaha mode are alike. But so far as contract is concerned they are different. Bai-Murabaha contract and Bai-Muajjal contract are executed for imports under Bai-Murabaha and Bai-Muajjal modes respectively.
 - b) The bank leases its portion at a certain rent.
 - c) The Bank sells its portion to the client on receipt of the price under this system.

5.4.1.3 Import under Musharaka mode of investment

Definition of Musharaka: Musharaka is a Shariah compliant mode of investment wherein the bank and the client jointly provide the capital. Here no pre-fixed profit is earmarked like in Bai-Murabaha or Bai-Muajjal. Profit, if any, is distributed as per agreement between the client and the bank while the loss, if any, is shared according to capital ratio.

Some general features of Musharaka mode of investment:

- a) The Musharaka agreement shall clearly laid down the amount of capital investment to be provided by the bank and the client and the profit/loss sharing ratio as agreed between them.
- b) The actual profit of the business is to be distributed between the bank and the client as per the agreed ratio. But loss, if any, is to be borne by them as per ratio of the capital.
- c) The client shall properly maintain ledger, register, books of accounts etc. and have to show those to any authorized person of the bank on demand.
- d) For the success of client's business the bank shall have the right to give any decision and supervise the business activities.

Before establishing Letter of Credit, the bank shall receive an application from the client in prescribed form which shall include the following aspects:

- a) The price of goods to be imported, C&F price as per quotation/indent.
- b) Wholesale/retail price of every unit/ton/bag/carton.
- c) Import cost including estimated import expenditures.
- d) Expected sale price of imported goods.
- e) Per unit/ton/bag/cartoon expected sale price of the imported goods.
- f) Particulars of any other expenditure in addition to the imported cost.
- g) Estimated net profit.
- h) Capital and profit /loss sharing ratios.

The Bank shall, thereafter, receive the equity portion of the client and after completion of documentation shall make payment against the import liability and all expenses related to it as per the Musharaka agreement. If there is profit, bank shall receive its share of profit as per agreement and in case of loss, shall bear the same according to capital ratio. Fixation of liability in case of loss: If loss is incurred after performing all duties and responsibilities as per agreement, then the loss would be borne by the bank and the client according to capital ratio. But if the loss is incurred due to carelessness, negligence or breach of any condition by the client, then the client would be liable to bear the loss.

5.4.1.4 Import under Mudaraba mode of investment

Definition of Mudaraba: Under the Mudaraba mode of investment, the client or businessman or capital user does not invest any capital. In this case, the bank alone invests all the required capital and the entrepreneur (the client) directly manages and looks after the business. Under this mode, the bank bears all the expenditures related to imports. In this case, the Bank supervises the use of capital, system of business operation and income of the business etc. The client maintains all the registers, documents and accounts concerning buying & selling of the goods. In this case, profit, if any, is distributed between the bank and the client as per the agreed ratio and loss is fully borne by the Bank.

5.4.2 Investment in exports business

To accomplish export process/ order as per the terms and conditions of the letter of credit (L/C) and the agreement executed between the seller and buyer, an exporter needs financial and other banking facilities on urgent basis. So, it is one of the important functions of a bank to provide investment and banking facilities to the exporter at different stages of export business. An exporter needs financial facilities at two stages of export process such as:

- a) At pre-shipment stage, and
- b) At post-shipment stage.

Hence, financial facilities to export sector may be classified as:

- a) Pre-shipment Finance.
- b) Post-shipment Finance.

Financial assistance/facilities complying Shariah principles are provided at both the stages of export process.

5.4.2.1 Investment at Pre-Shipment stage as per Islamic Shariah

An exporter needs various financial facilities till shipment of goods. Finance is needed for procurement of raw materials and to meet transportation and other related cost up to shipment.

Pre-shipment facilities are generally provided for the following purposes:

- i) To procure raw-materials.
- ii) To process the exportable goods.
- iii) For transportation and packaging.
- iv) For payment of insurance premium.
- v) For payment of water, electricity and gas bills etc.
- vi) For payment of wages and salary/bonus to employees.
- vii) For payment of freight of the ship.

5.4.2.1.1 Back to Back Letter of Credit (Back to Back L/C)

Bank extends Back to Back letter of credit (L/C) facility to exporters to procure/import raw-materials for producing/manufacturing exportable goods at pre-shipment stage under the mode of Bai-Muajjal. Initially, no financial facility from the Bank is required when the back to back L/C is opened. But if the exporter fails to pay the L/C value at maturity or on due date, the bank provides financial facilities to the client under Bai-Muajjal mode.

5.4.2.1.2 Bai-Murabaha TR (Trust Receipt)

To procure/purchase raw-materials for executing export order the bank provides investment facilities to the client under the mode of Murabaha TR. In this case, the bank obtains Trust Receipt signed by the client and handover the imported goods to the exporter.

5.4.2.1.3 Bai-Salam

1. Under the Bai-Salam mode of investment, payment is made in advance to purchase the goods and the supplier makes promise to deliver the goods at a future date.
2. Investment under Bai-Salam mode is made to meet other expenses of the exporter excepting the manufacturing cost of exportable goods. The Bank purchases portion of the exportable goods under the Bai-Salam mode and makes advance payment for the same on the condition that arrangements will be made by the exporter to export the goods purchased by the bank along with other goods of the exporter.
3. Fixing purchase price of the goods and recovery of bank's investment:
 - a) The purchase price is determined by deducting estimated profit of Bank's purchased portion of the exportable goods. The bank recovers its dues after realization of export proceeds.

5.4.2.1.4 Musharaka

Pre-shipment investment may be made under Musharaka mode of investment if there is any pre-determined investment arrangement.

5.4.2.2 Investment at Post-Shipment stage as per Islamic Shariah

Bank provides post-shipment investment facilities through Negotiation (FBN) and purchase of export bills. It normally negotiates or purchases the export documents if the documents/bills prepared by the exporter are found in order/correct in all respect. The bank adjusts the liabilities against FBN/FBP after receiving the export proceeds and earns exchange income from this. This mode of investment is in compliance with the Islamic Shariah.

Other Functions:

5.5 Remittance or Money Transfer

Islamic banks can transfer money through D.D, T.T, T.C etc. and collect the bills (cheque, Draft, Payment order etc.) and realise commission or service charges within the norms of Shariah.

5.6 Miscellaneous Banking Services

Islamic banks can render miscellaneous banking services like locker services, receipt and payment of clients' bills, issuance of Guarantee and working as agents of clients against commission or service charges. Collection of service charges or commissions for rendering those services are permissible under Shariah.

5.7 Central Banks and Monetary Policies

Central banks and their policies play an important role in the stability of economy and economic development. In conventional banking systems, there are some instruments for the performance of monetary policies, such as interest rates and open market operations. Of all instruments, interest rates play the most important role in this matter. In times of

inflation, when reduction of liquidity is required, central banks increase the interest rate. As a result the price of bonds decreases and people buy more bonds than before. This leads to a decrease in liquidity and consequently to decrease in the inflation rate. In contrast, in times of stagnation when expansionary policies are required, central banks decrease the interest rates in order to increase the price of bonds and people sell more bonds than before. This leads to an increase in liquidity and consequently stagnation decreases and inflation increases.

a) Fixing a Minimum and/or Maximum Ratio of Profit for Bank Share

Fixing a minimum and/or maximum ratio of profit for banks in their joint ventures and modharabah activities; these ratios may vary for different fields of activities. In the modharabah contract the share of profit of each party must be determined at the time of the contract. It can be divided 50/50 between the bank and the client or 60/40 and so on. If the share of the bank is high, demand for facilities will decrease, so during the inflationary period the central bank determines a high ratio of profit for banks. In this situation demand for financial facility via modharabah decreases and causes a decrease in liquidity. Consequently, by assuming the stability of other factors, it leads to a decline in inflation. In contrast, in times of depression an expansionary monetary policy is carried out by decreasing the ratio of profit to banks share. However, this issue leads to an increase in demand for financial facility via modharabah which causes increase in liquidity and consequently a decrease in depression and increase in inflation.

b) Designation of Various Fields for Investment and Partnership and Fixing the Minimum Prospective Rate of Profit

One instrument for monetary policy by the Central Bank of Bangladesh is the —designation of various fields for investment and partnership within the framework of the approved economic policies, and the fixing of the minimum prospective rate of profit for the various investment and partnership projects; the minimum prospective rate of profit may vary with respect to different branches of activity. One instrument for the performance of monetary policy by the Central Bank is the determination of some fields in which the banking system can invest or share in. In times of inflation these fields are decreased and in times of depression they are increased. Moreover, as there are several applicants for banking system facilities with different projects at any time, and the bank has to decide to finance some of them on the one hand, and has a responsibility to protect the savings of their depositors on the other, the Central Bank of Bangladesh determines an expected minimum rate of profit which banks have to consider when providing facilities to the projects.

This means that banks are responsible for assessing a project to understand how much the profit of that project will be and consequently approximately how much the bank's share will be. After assessment, if the approximate rate of return is the same or higher than the minimum prospective rate of profit it will be accepted, otherwise, it will be rejected. It is clear that the Central Bank of Bangladesh is able to implement its monetary policies by

changing the minimum prospective rate of profit. However, it should be mentioned that the minimum prospective rate of profit cannot be demanded by banks, it is only used as an assessment of the project and the amount which banks can demand as their share depends on the real profit obtained by the project.

c) Fixing a Minimum and Maximum Margin of Profit

Fixing a minimum and or maximum margin of profit as a proportion of the cost price of the goods transacted, for banks in installment and hire-purchase transactions. In installment and hire-purchase transactions, banks usually add a percentage to the cost price of the goods and properties transacted as their profit. The Central Bank of Bangladesh determines the maximum and minimum of this percentage and uses it as a monetary policy instrument. This means that in times of depression when expansionary policy is required, the Central Bank decreases these ratios in order to demand an increase in financial facilities. In contrast, in the inflationary period, when deflationary policy is required, the Central Bank increases them in order to decrease the demand for credit and consequently bring about liquidity and inflation.

d) Determination of Types and the Minimum and Maximum Amount of Commission

Another instrument for monetary policy by the Central Bank of Bangladesh is —Determination of types and the minimum and maximum amount of commissions for banking services (provided that they do not exceed the cost of the service rendered) and the fees charged for putting to use the deposits received by the Banks. Determination of types and the minimum and maximum amount of commissions for banking services affect the demand side of credit. Banks provide some services, including Qardh–Al-Hasanah, to their customers and receive commission for their services. As we know, no interest can be charged on Qardh-Al-Hasanah, but banks receive commission. The amount of commission may be determined by the Central Bank.

Although it is another monetary policy instrument in the Islamic banking system in Bangladesh, it cannot have an effective role in decision-making by customers because it cannot be more than the cost of the service rendered and usually the changes are not significant. As mentioned before, banks in the Islamic banking system of Bangladesh are agents of the depositors and receive honorarium for putting to use the deposits received. Because of the determination of this honorarium by the Central Bank it can be another monetary policy instrument in the Islamic banking system in Bangladesh, which can affect savings by changing them by affecting the supply side. When the banking system increases its honorarium the supply of deposits to the banking system decreases. In this situation the effect of this policy on inflation or depression is not clear because when deposits decrease, it is true that supply of credit decreases but it remains in the hands of the people and they may use it for economic activities instead of giving them to the bank as deposits. On the other hand in this situation they may increase their consumption which can have a positive effect on inflation.

e) Determination of the Minimum and Maximum Ratio in Joint Ventures

Determination of the minimum and maximum ratio in joint ventures, modharabah, investment, hire-purchase, installment transactions, buying and selling on credit, forward deals and Qardh-Al-Hasanah for banks or any thereof with respect to various fields of activity; also fixing the maximum facility that can be charged to each customer. Another instrument for monetary policy in Islamic Banking in Bangladesh is the determination of some limitations or expansions on facilities which can pay. The Central Bank of Bangladesh usually determines the amount which banks can offer for each kind of contractor and even for each customer. However, the Central Bank of Bangladesh increases the ratio in times of stagnation and decreases it in times of inflation.

f) Open Market Operation

Operating on the open market is another instrument for central banks regarding monetary policy. It is a very important instrument in open market operation (OMO) for both conventional banks and Islamic banks, but some economists doubt its usefulness for Islamic countries. Open market operations (OMOs) are among the most important tools of monetary policy in market economies today, since they allow central banks to control monetary aggregates easily, and with minimal unwarranted effects on interest rates. So, it may be said that in some Islamic countries, Islamic banks are not directly influenced by interest rate changes. The most common instrument used in (OMO) is government securities. Principally, there are two characteristics in these securities which are selected as main instruments in (OMO); firstly, their risk-free nature and secondly their high level of liquidity. The virtually risk-free nature of those securities, together with their liquidity caused by the central banks' readiness to buy them at or near market prices, results in high degrees of market activity. This activity, in turn, enhances the liquidity of the market in government securities and allows central banks to use OMOs as a primary tool of monetary policy. Due to their need for a highly liquid outlet for excess funds, banks have become the major participant in primary auctions and secondary markets where such government securities (especially short-term) are traded.

5.8 Central Bank and Maintenance of Currency Value

Despite maintenance of currency value being one of the most important functions of the Central Bank of Bangladesh. It is worth mentioning that this issue does not depend on Islamic banking rather it depends on the banking system structure and government policies. The main condition for central banks to be able to protect currency value is their independency. Central banks should be able to reject government requests regarding issuing money and increasing liquidity. As the Chair of the Central Bank of Bangladesh is selected by the government and is responsible to the government, this caused the Central Bank to be considered as an agent of the government.

5.9 Conclusion

This chapter has aimed to answer some of the research questions including: (1) How does Islamic banking work in Bangladesh? (2) Is the banking systems of 8 full-pledged Islamic Banks are in Bangladesh really Islamic one? To answer these questions, first of all basic conditions for accuracy of contracts has been considered, including: necessity of determining the subject of the contract and necessity of the purpose for the contract being shariah-compliant. Objectives of the Islamic Banking System in Bangladesh, Formation of Financial System on Perfection and Justice, Enhancing the Health and Growth of the Economy, Creation of Necessary Facilities for the Extension of Cooperation between Depositors and Investors, Maintenance of Currency Value, Facilitating Payment and Receipt, Exchanges, Transactions and Other Services, Functions of Islamic Banking in Bangladesh, Mobilization of Monetary Resources (Deposits).

The purposes of Islamic Banking are to establish a monetary and investment system based on fairness and justice; to enhance the health and growth of the economy; to create the necessary facilities for the extension of cooperation between depositors and investors, to maintain the currency value and facilitate payment and receipt, exchanges, transactions and other services. Although the banking system has several functions in Bangladesh, this chapter focused on its most important duties, namely the mobilisation of monetary resources (deposits) and the allocation of monetary resources (deposits) and monetary policies by the Central Bank.

In the Allocation of Monetary Resources (deposits) section, all contracts used in this section are divided into three types. The first are loan contracts on which no interest or profit is charged. The only contract in this regard is Qardh-Al-Hasanah (interest free loan). The second type is partnership contracts which are based on profit and loss sharing, including: modharabah (bailment of capital). However, in these contracts, conditions provided in the contract itself or in another contract have been used to overcome problems caused by partnership. The third type is exchange contracts which include: salam transactions (post delivery sale), hire-purchase in which a fixed profit rate can be determined in advance. In addition there is another way for allocation of the money resources used in Bangladesh which has an important role in the economic development. A main function of the central banks is performance of monetary policy and these policies in conventional banks are mainly based on interest which is prohibited in Islam. The Central Bank of Bangladesh designed special instruments which are shariah-compliant as follows:

- (1) Fixing a minimum and/or maximum ratio of profit for bank share.
- (2) Fixing a minimum and maximum margin of profit.
- (3) Prospective rate of profit.
- (4) Designation of various fields for investment and partnership and fixing the minimum.
- (5) Determination of types and the minimum and maximum amounts of commission.
- (6) Determination of the types, amounts and minimum and maximum bonuses.
- (7) Determination of the minimum and maximum ratio in joint ventures.

Chapter: Six

Research Methodology

6.1 Introduction

The aim of this research is to Measure the Contribution of Full-Fledged Islamic Banking to the Growth and Development of Bangladesh Economy. In this view point this chapter includes the research design, the population of the study, data collection procedure and finally the data analysis technique. The theoretical approach of this study is mostly based on shariah principle and divine sources. To confirm that the Islamic banking system of Bangladesh is shariah-compliant the jurists' opinions (fatva) are used which are based on four reasons (evidences and sources). For Muslims the authoritative source of guidance is the Holy Quran, the revealed word of Allah, and the Hadith, the sayings and practices of the Prophet Muhammad and his companions, referred to as the Sunnah. Since the time of the Prophet over 1440 years ago there have always been differences of opinion in the interpretation of how this guidance should be interpreted and applied. The Islamic scholars who specialised in this interpretation are referred to as the ulama or foqhaha, the latter being derived from fiqh, the study of Islamic law.

The study of economic and financial transactions from an Islamic perspective is referred to as fiqh muamalat, that branch of Islamic jurisprudence that is concerned with commerce and other economic activities. The leading Islamic bank in Indonesia, the most populous Muslim country, is Bank Muamalat, an institution that tries to apply fiqh muamalat in all its financial dealings (Wilson, 2008:177-195). Furthermore, we will utilise some theories and also the opinions of some economists, Muslim and non-Muslim, in investigating the role of banking systems in general and Islamic banking in particular in economic growth and development of a country.

In this section the following discussions will be carried out:

- (i) Introducing modality of performance of shariah law for Islamic Banking in Bangladesh.
- (ii) Review of literature on the role of the banking system in general and Islamic banking in particular in economic growth and development.
- (iii) Islamic banking in Bangladesh, its background and circumstance of its activity in Bangladesh, especially, financial instruments.
- (iv) Ways of making sure that Islamic banking in Bangladesh is shariah-compliant.

For this reason first of all, we would examine and deliberate whether Islamic banking in Bangladesh is shariah-compliant. There are some issues in Islamic banking in Bangladesh which are debatable, such as, in-part-payment of profit rate, expected profit rate. These are actually challengeable; some people believe that these are the same as usury because, when

banks promise depositors to pay them in–part-payment and guarantee the amount or when banks impose paying expected profit rates upon credit demanders, this only means they will give a fixed amount to the depositors and ask a fixed rate from credit demanders which is the same as an interest rate. These issues have been analyzed carefully in order to avoid misunderstanding.

Secondly, the effect of Islamic banking in Bangladesh on economic growth and development has been examined. This is also a controversial issue among economists. In Bangladesh there are 8(eight) Banks which deal full-fledged Islamic Banking. These are i.e. i). Islami Bank Bangladesh Limited, ii).AL-Arafa Islami Bank Limited, iii).Social Islami Bank Limited, iv). Export Import Bank of Bangladesh Limited, v).First Security Islami Bank Limited vi).Shahjalal Islami Bank Limited, vii).ICB Islami Bank and viii).Union Bank.It is mentionable here that for discussing the contribution of Islamic Banking to the Growth and Development of Bangladesh Economy I have used data for the period from 2011-2012 to 2015-2016.

We know that the Banking system in Bangladesh is based on Calendar year but the economic system in Bangladesh is based on Fiscal Year.To find out the contribution of Islamic Banking the Annual and Half-yearly data has been converted to the fiscal year. The system has been depicted at chapter-eight. As Union Bank has started its operation from 20th May 2013.So comparative data has been found insufficient to analyse the contribution of the Bank's to the Economy in the year 2012 and 2013. It is important to demonstrate trends of deposits and Investments of these Banking systems. Here, there exist some theoretical approaches which refer to whether Islamic banking in its nature improves efficiency and consequently economic development, reduces it or is neutral in this regard. So, in this research both theoretical and empirical research methods have been used. Also, as there are some empirical issues which should be considered in the analyses, both qualitative and quantitative research methods has been utilized.

6.2 Meaning and Definition

Methodology means understanding or studying appropriate methods of research. Researchers usually aim to solve problems or to find new phenomena. As Sekaran (2003:3) states Research, a somewhat intimidating term for some is simply the process of finding the solution to a problem after a thorough study and analysis of the situational factors. Sekaran (2003:5) also defines research as an organized investigation into a specific problem, undertaken with the purpose of finding answers or solutions to it. In essence, research provides the needed information that guides managers to make informed decisions to successfully deal with problems. Generally, there are two kinds of research method: theoretical method and empirical or applied research method. While theoretical research principally aims to improve knowledge in different areas, applied research, mainly aims to solve some current problems. According to Sekaran (2003:8) research done with the intention of applying the results of the findings to solve specific problems currently being

experienced in the organization is called applied research. In every research, researchers should use a method or a set of methods which enables them to reach the answer to their question or a new hypothesis. This set of methods is the methodology. Methodology has been defined as a set of methods and principles used to perform a particular activity (Wehmeier and Ashby, 2000:803). It is therefore fundamental to the construction of all forms of knowledge.

6.3 Research Methods

This study employed both quantitative and qualitative methods as a combined research approach (also called integrated approach). Data and information were collected from both primary and secondary sources in two phases. First, the study has analyzed available literatures and documents to understand the theory and framework and study instruments regarding Banking (Full-Fledged Islamic Banking) industry and its process of contribution to the growth and development of Bangladesh Economy. Secondly, a survey questionnaire has been set to assess the effect of contribution to the growth and development of Bangladesh Economy. The questionnaire was initially prepared in English and translated into Bangli language, then was retranslated to check consistency. Filled questionnaires were back-checked daily for their completeness by the researcher. Primary Data were collected through structured interview with the 55 respondents of the study area. The study approach was participatory in nature which ensured meaningful participation of a range of stakeholders in the entire process of the study.

6.4 Quantitative and Qualitative Methods

Generally, there are two kinds of research methods: quantitative and qualitative. Quantitative research methods are usually related to secondary data and numbers. They are also related to statistical and mathematical models. Data which is collected by quantitative methods can be explained descriptively or analytically using mathematical and statistical models. In contrast, qualitative methods are used for research which is not related to numbers, but to qualitative issues. In this kind of research method, primary data are obtained and analyzed. The difference between the two kinds of method goes back to the epistemological issue which creates a general framework for approaching an investigation. According to Cassell and Symon (1994:2) a key straight-point is the recognition that the two different approaches rely on different underlying epistemologies. Philosophically, quantitative methods are related to positivism. The philosophies behind the two sets of techniques are very different.

To summarize: the assumption behind the positivist paradigm is that there is an objective truth existing in the world which can be revealed through the scientific methods where the focus is on measuring relationship between variables systematically and statistically Cassell and Symon (1994:2). Also, Giorgi (1970) and Spiegelberg (1972) point out that adopting qualitative (phenomenological) approaches implies taking a different perspective on human

behaviour from that adopted in utilizing quantitative (positive) approaches (taken from Cassell and Symon, 1994:2).

Furthermore, Bryman (1988: 106) states that there have been two distinct explanations of the differences between qualitative and quantitative research. There is the epistemological account outlined above but there is also the technical account: The alternative standpoint is to suggest that quantitative and qualitative research is each appropriate to different types of research problem, implying that the research issue determines (or should determine) which style of research is employed (taken from Cassell and Symon (1994:3). However, despite many papers and books having been published on qualitative methods, there is not an agreed definition for it. According to Van Mannen (1979:520) —the label qualitative methods has no precise meaning in any of the social sciences.

It is at best an umbrella term covering an array of interpretative techniques which seek to describe, decode, translate and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world. Also, Fryer (1991:3) points out that qualitative researchers are characteristically concerned in their research with attempting to accurately describe, decode and interpret the precise meaning to persons of phenomena accruing in their normal social contexts and are typically pre-occupied with complexity, authenticity, contextualization, shared subjectivity of researcher and researched and minimization of illusion. Qualitative research genres have become increasingly important modes of inquiry for the social sciences and applied fields (Marshal and Rossman, 1999:1).

6.5 Conceptual Thought of Research Methodology

6.5.1 Research Design of the study

The choice of an appropriate research design is essential for a scientific study since it gives frameworks of what the researcher do from setting the research question to the operational implications of the data analysis. A research design is the arrangements of conditions form collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. The study focused to find out the contribution of Islamic Banking to the growth and development of Bangladesh Economy. Hence, descriptive and analytical research designs were chosen. Because descriptive research design helps to describe the current practices and events while analytical research design enables to establish relationship between variables. Here the research design of the present study was survey type.

6.5.2 Study Area

The study was conducted at Dhaka City and out side Dhaka City in Bangladesh. However, in the field of study I have tried my best to understand to measure the following specific objectives:

- i. To measure the Contribution of Islamic Banking to the Agricultural Growth and Development of Bangladesh Economy.
- ii. To measure the Contribution of Islamic Banking to the Industrial Growth and Development of Bangladesh Economy.
- iii. To measure the Contribution of Islamic Banking to the Growth and Development of Service Sectors of Bangladesh Economy.
- iv. To find out the problems and limitations of Islamic Banking Services and Suggestion of the remedial measures to accelerate the Economic Growth and Development of Agriculture, Industry and Service Sector of Bangladesh.
- v. To explore the potentials of Islamic Banking Services to the Economic Growth and Development of Bangladesh.
- vi. To identify the role of Shariah Supervisory Committee in ensuring the contribution of Islamic Banking Services to the Economic Growth and Development of Bangladesh.

6.5.3 Defining Study Population

Total population sampling is a type of purposive sampling technique that involves examining the entire population (i.e. the total population) that have a particular set of characteristics (e.g. specific attributes/traits, experience, knowledge, skills, exposure to an event etc.) When discussing qualitative research, the issue of sampling has little significance as the main aim of most qualitative enquiry is either to explore or describe the diversity in a situation, phenomenon or issues. However, I have tried to select an appropriate combination of interviewees.

In this case I have selected the interviewees as Bankers, Customers, Controlling Authority (Bangladesh Bank) and Academician (Bangladesh Institute of Bank Management). The study period has been on the data of 5 years of the respective Banks from 2011-2016. Respondents have been 55 number. The site of my study area is Dhaka Division and Business Growth Centers considered Dhaka city and outside Dhaka i.e. Narayanganj City. As my study is on the 8 full-pledged Islamic Banks, so I have selected 8 Managers from Dhaka City and 8 Managers from outside of Dhaka city i.e. Narayanganj. From 8 Banks interview has been taken from 32 clients ($2 \times 2 \times 8 = 32$) where 16 is deposit clients and 16 investment clients. Interview has been taken from controlling authority i.e. 4 Officials of Bangladesh Bank level from Deputy Director to General Manager. Also Interview has been taken from Academician i.e. 3 members of Bangladesh Institute of Bank Management from the level of Assistant professor to Professor. So from the part of management interview has been taken of 23 persons ($4BB + 3BIBM + 16BM = 23$) and 32 clients from different 8 Islamic Banks ($16 \text{ city} + 16 \text{ outside city} = 32$).

6.5.4 Using of Data Analyzing Scale

Data have been collected and examined and analyzed by using the world famous scale i.e. Likert Scale of Symmetric method to Measure the Contribution of Full-Fledged Islamic Banking to the Growth and Development of Bangladesh Economy.

6.5.5 Sampling Method

Basically, random sampling method was used for qualitative analysis so as to get the best information to achieve the objectives of the study. This method gave flexibility to the researcher to pick up only people who are likely to have the required information and be willing to share it. Moreover, the sampling method helped to ensure representation of different variation of service providers as well as service seekers and also academicians. In other words, heterogeneity in the composition of sample of service seekers and providers (age, sex, education, and profession) was attempted to maintain as possible. Therefore in this study a combination of quantitative and qualitative methods were used. The question might arise why combination of these methods were used. Because, it is advantageous to a researcher to combine methods to better understand a concept being tested or explored. Each approach has its strength and its weakness, and reliance on anyone method is not appropriate. Therefore, in this research quantitative and qualitative research methods were used to better understanding as well as in depth to know the domain of the study.

6.5.6 Sample Size

In this research there are 55 respondents. This study used two stage sampling method. In stage-I, 8 full-fledged Islamic Banks were selected out of 23 Islamic Banks based on 8 full-fledged Islamic Banks, 8 Conventional Banks having 19 Branches and 7 conventional Banks having 25 windows considering the data period as on December 31 2016. It is found that all of these selected 8 Banks situated Dhaka and outside Dhaka (Narayanganj) in Bangladesh. In stage-II, from all these 8 full-fledged Islamic Banks 4 customers (2 from city and 2 from outside city and one from deposit customer and one from investment customer), 4 from controlling Authority (Bangladesh Banks, Level General Manager, Deputy General Manger, Joint Director and Director), 3 academicians (level –Professor, Associate Professor and Assistant Professor) in Dhaka City as shown in the following table 24, 25 and 26

Table-24: Selection of Sample from Customers

Sl.	Name of the Bank	Deposit Customer City	Investment Customer Outside City	Total
1.	Islami Bank Bangladesh Limited	2	2	4
2.	AL-Arafa Islami Bank Limited	2	2	4
3.	Social Islami Bank Limited,	2	2	4
4.	Export Import Bank of Bangladesh Limited	2	2	4
5.	First Security Islami Bank Limited	2	2	4
6	Shahjalal Islami Bank Limited	2	2	4
7	ICB Islami Bank Limited	2	2	4
8	Union Bank Limited	2	2	4
Total		16	16	32

Table-25: Selection of Sample from Management Level

Sl.	Name of the Bank	Management (Level City)	Management (Level Outside City)	Total
1.	Islami Bank Bangladesh Limited	1	1	2
2.	AL-Arafa Islami Bank Limited	1	1	2
3.	Social Islami Bank Limited,	1	1	2
4.	Export Import Bank of Bangladesh Limited	1	1	2
5.	First Security Islami Bank Limited	1	1	2
6	Shahjalal Islami Bank Limited	1	1	2
7	ICB Islami Bank Limited	1	1	2
8	Union Bank Limited	1	1	2
Total		8	8	16

Table-26: Selection of Sample from Controlling Authority and Academicians

Sl.	Name of the Organization	Position	Total
1.	Controlling Authority(Bangladesh Bank)	GM, DGM, JD, DD	4
2.	Academicians (Bangladesh Institute of Bank Management)	Professor, Associate Professor and Assistant Professor	3
Total			7
Grand Total			55

6.5.7 Sampling Technique

Random sampling is a sampling technique in which researcher relies on judgment when choosing members of population to participate in the study. Random sampling is a probability sampling method and it occurs when “elements selected for the sample are chosen by the judgment of the researcher. Researchers often believe that they can obtain a representative sample by using a sound judgment, which result in saving time and money”.²⁸ In this research random sampling method was used.

6.5.8 Sources of Data

Generally, there are two different sources of collecting data, viz., primary sources and secondary sources. The present study is based on both primary and secondary sources of data. Primary data were collected from the 55 respondents of the study area using structured interview data collection techniques. On the other hand, the study used different relevant publications, dissertations, books, journal articles, reports, and websites etc. as sources of

²⁸Black, K. (2010) “Business Statistics: Contemporary Decision Making” 6th edition, John Wiley & Sons

secondary data. Primary data were collected from the particular areas of Dhaka City and Outside of Dhaka City in Bangladesh.

6.5.9 Sources of Secondary Data

The secondary data were collected from the following sources:

- a) Schedule Banks' Statistics from Central Bank i.e. Bangladesh Bank and its reports and balance sheets for different years.
- b) Data from Publications of Bangladesh Bureau of Statistics.
- c) Data from Islamic Banking Wings, Bangladesh Bank.
- d) Research Department of Bangladesh Bank.
- e) Activities of Bank, Bima and Financial Institutions, Bank and Financial Institution
- f) Division, Ministry of Finance Bangladesh
- g) Necessary data have been collected from the Ministry of Finance.
- h) The Annual Reports of eight full-fledged Islamic Banks.
- i) Different Books, Journals, Articles, Magazines and Newspapers.
- j) Websites of Bangladesh Bank

After collecting these data, I have performed some necessary calculations upon these data and have been analyzed descriptively.

6.5.10 Study Period: The study period has been selected for the fiscal year 2011-2012 to 2015-2016. Total length of periods 5 years.

6.5.11 Data Collection Method

The study was conducted based on both primary and secondary data. Primary data were collected through interviews and Questionnaire survey. Structured questionnaire containing closed ended was used. A survey through a standardized questionnaire was conducted to collect qualitative information from the respondents.

6.5.12 Survey Questionnaire

For unique and exploratory research new information must be required. Questionnaire survey is the easiest and most widely used instrument for data collection in this regard. This method allows the researcher to come in direct contact with the respondents, to observe their attitude during answering time and to analyze the issue under study in ordinary setting. The questionnaire precise enough to meet the objectives of the study research questions. The purpose and objectives of the study were explained to the respondents as simply as possible allocating sufficient time so that they swallow up the idea and can come back with spontaneous thoughts.

6.5.13 Data Processing and Analysis

In qualitative study the researcher has the freedom to marshal gathered data to meet the desired objectives of the study. Partial data of questionnaire survey was processed using simple statistics. The rest of the data were explained carefully to meet the aim of the study and research question and also attempted to establish relation among the variables. Some important and strong statements were referred in the analysis part to add value to the findings. Computer Program Microsoft Excel was used for data analysis for finding the relation among the GDP, Savings, Investments and other determinants of GDP. Hence data were analyzed according to the objectives of the study. Tables, graphs and statistical analysis were done by respective Computer Program. Data analysis entails examining the data collected and making deductions and inferences.

6.6 The Emperical Analyses

The **Emperical analysis has been divided** into two parts: Quantitative analysis and Qualitative analysis. These are discussed below.

6.6.1 Quantitative analysis

In this section the secondary data has been collected from different sources, namely: The Schedule Banks' Statistics published by Bangladesh Bank, Bangladesh Economic Review(2011 to 2016),The Financial Activities of Bank, Bima and Financial Institutions , Finance Division, Ministry of Finance, Bangladesh Bank Annual Report (2016), Bangladesh Bureau of Statistics (2016), Bangladesh Bank, Annual Report of 8 full-pledged Islamic Banks for the year 2011 to 2016 and performance of different banks in Bangladesh :

- (i) Examination of the main features of Bangladesh economy in general and the banking system in particular by using above mentioned data on the subject.
- (ii) Analysis of economic development financing by the banking system in Bangladesh through the report of Central Bank of Bangladesh and other related reports.

For this reason, firstly the trend of mobilisation of deposits, which is the main factor for the banking system to finance economic development, has been examined. Secondly, the allocation of financial resources to the economic sectors in general and their allocation to the productive economic sectors in particular have been analysed. As the whole banking system in Bangladesh is not the fully Islamic and there are a lot of conventional banks. The increase in GDP all comparisons have been carried out in real terms and also the ratio of deposits and credit to the GDP.

In this section the secondary data has been collected from different sources, namely: The Schedule Banks' Statistics, Financial Statements and Annual Reports of different schedule Banks for the period from 2011 to 2016), Guidelines for Conducting Islamic Banking (issued by Bangladesh Bank),Data collected from Bangladesh Bureau of Statistics,

Bangladesh Economic Review-2011 to 2016, Sixth Five Year Plan Part-2, Annual Report of Bangladesh Bank(July 2015-June 2016)

This collected data has been analysed descriptively.

This section will involve the following:

- (i) Examination of the main features of the Bangladesh economy in general and the banking system in particular by using above mentioned data on the subject.
- (ii) Analysis of economic development financing by the banking system in Bangladesh through the Central Bank of Bangladesh's reports and other related reports.

For this reason, firstly the trend of mobilisation of deposits, which is the main factor for the banking system to finance economic development, has been examined. Secondly, the allocation of financial resources to the economic sectors in general and their allocation to the productive economic sectors in particular have been analysed. As the whole banking system in Bangladesh is Islamic (eight Banks is in full-fledged) and conventional banks (the rest 49). There will be a comparative study between two banking systems.

6.6.2 Qualitative analysis

Islamic banking as a system is a new experience in the world and there is not enough literature to deliberate this system and its effect on economic factors in depth. Therefore, qualitative research method would be useful both in finding new data for our analysis and in creating new literature in this regard. Furthermore, it would permit the researcher to build up an overall picture of the issue. In addition, it is a good instrument for deliberating its compliance with shariah. The importance of qualitative research increases significantly because these questions may be asked on banking system officials directly. Thus, qualitative research has been selected as part of this research to cover answering questions regarding shariah and effects on economic development. Qualitative research can be conducted by several methods each of which is appropriate for specific research. For example it can be conducted using questionnaires or interviews. Also, interviews can be conducted using structured interviews, unstructured interviews, semi structured interviews or group-focused interviews.

The choice of method depends on the type and purpose of research and somewhat to the researcher's interest. In this research the structured interview has been selected for primary data collection.

6.7 Types of Interviews

Singleton and Straits (2005) argue that there are three main types of interview methods: **Structured, Unstructured and Semi-structured interviews**. In addition Collis and Hussey (2003) mention that there is a fourth type of interview method which is in the form of **Group interview** (taken from Aboo Ravi. 2009).

6.7.1 Structured Interviews

In this research, the Structured Interview has been selected rather than other types of interview and questionnaire. This is because: (i) People, especially well-known people prefer interviews to questionnaires. Because when the topic is seen by interviewees as relevant to their current jobs, people cooperate and mostly prefer to be interviewed rather than having to complete a questionnaire.

6.7.2 Conducting interviews

In order to make the interview easier for interviewees, all interviews were conducted at their work place or in a place or way suggested by them. In addition, as the research has two chapters related to the qualitative research method, one to examine of the shariah-compliance of the banking system and the other to discuss the contribution of Islamic banking to economic growth and development, the shariah scholar was replaced by a well-known active researcher in Islamic banking for interview regarding the contribution of Islamic banking to economic growth and development.

6.8 Conclusion

The aim of this research is to analyse the contribution of Islamic banking to economic growth and development. For this reason, the research has been divided into two sections. In the first section the shariah-compliance of Islamic banking has been investigated and in the second section its contribution to the economic growth and development has been examined. Thus, this chapter was designed to discuss the methods which are appropriated to these aims. In the first section, the theoretical approach of this study is mostly based on shariah principles and divine sources. To prove that the Islamic banking system of 8 Islamic Banks in Bangladesh is shariah-compliant. Furthermore, to examine the role of the banking system in general and Islamic banking in particular in economic growth and development theoretically, some evidences from literature and from the economists' point of view were utilised. In the empirical section two research methods were conducted, namely quantitative research method and qualitative research method. In the quantitative research method, some secondary data was collected from Annual Report, Central Bank's report, Journal and data from different financial sources and from the finance ministry and important financial books and office. Also, in the qualitative research method, primary data was collected by structured interview for both examination of shariah-compliance and contribution to the economic growth and development.

Chapter: Seven

Measuring the Contribution of Full-Fledged Islamic Banking to the Growth and Development of Bangladesh Economy (Quantitative Analysis)

7.1 Introduction

It is generally accepted that finance, especially banking, plays an important role in economic growth and development, while in developing countries, shortage of finance is regarded as a major constraint of development. The most important issue in the contribution of Islamic banking to economic growth and development is the ability of the banking system to encourage people to save, to attract savings as deposits, and also to allocate deposits mainly to the productive sectors.

There is often insufficient money available to finance worthwhile projects and the price of loanable funds is usually high, reflecting the shortage of savings. In low income countries, it is not surprising that saving rates are low, because most disposable income has to be used to purchase necessities for everyday living, and many families simply cannot afford to make financial provision for the future, even though this leaves them insecure and vulnerable. (Wilson, 1995:76) Bangladesh has been enriched to be a developing country from least developing country in the year 2018.

Although RMG exporting countries are different from other developing countries due to foreign remittance and export proceeds, individual savings, deposits and capital accumulation are also important to them for economic growth and development. It is a fact that export proceeds play a dual role in our country. On the one hand they create a facility for investment by governments, which are useful for economic development, but on the other hand they encourage consumption and inflation. For example, average consumption in Bangladesh is very high in comparison with other developing countries; it is said that it is near to that of developed countries. As, due to outbreak of speculation during the time of inflation, high inflation rates usually work against economic development, it would be more effective and more sustainable if financing the economy and investment relied on national savings rather than export earnings.

Principally Banking system can affect economic development in two ways: First, by increasing the productivity of the existing capital; second, by increasing the quantities of savings and deposits and allocating them to the most efficient projects. One of the most important roles of banks is to encourage people to decrease their consumption and increase their savings by giving them a proper reward for savings. Another important role for banks is to allocate deposits to the most efficient projects. However, in general the modern sector is predominant in Bangladesh's economy.

In this chapter, In-sha-Allah, we will measure how the full-fledged Islamic Banking contribute to the Growth and Development of Bangladesh Economy. Especially the trend of Economic Growth and Development will be discussed and later on we will measure how the Islamic Banks contribute to the growth and development of major economic sectors i.e. i) Agricultural sector, ii) Industrial sector and iii) Service sector of Bangladesh for the period 2011-2012 to 2015-2016.

7.2 Definition of Gross Domestic Product, Gross National product, Purchasing Power Parity, Gross National Income, Real GDP, Nominal GDP, GDP deflator, Nominal GDP versus Real GDP

Gross Domestic Product (GDP):

GDP is the final value of the goods and services produced within the geographic boundaries of a country during a specified period of time, normally one year.

GDP (as per output method) = Real GDP (GDP at constant prices) – Taxes + Subsidies.

Gross National product (GNP) at market price is defined as “the market value of all the final goods and services produced in the domestic territory of a country by normal residents during an accounting year including net factor income from abroad.

Purchasing Power Parity (PPP): There are two ways to measure GDP (total income of a country) of different countries and compare them. One way, called GDP at exchange rate, is when the currencies of all countries are converted into USD (United States Dollar). The second way is GDP (PPP) or GDP at Purchasing Power Parity (PPP).

Calculation process of PPP: The actual purchasing power of any currency is the quantity of that currency needed to buy a specified unit of a good or a basket of common goods and services. Purchasing power is determined in each country based on its relative cost of living and inflation rates.

Gross National Income: Gross National Income (GNI) is defined as Gross Domestic Product, plus net receipts from abroad of wages and salaries and of property income, plus net taxes and subsidies receivable from abroad.

Net National Income = Net National Product-Indirect Tax²⁹

It can be expressed as

NNI = C+I+G+(NX)+Net Foreign Factor Income-Indirect Taxes manufactured Capital Depreciation

²⁹ The Economic Times Retrieved 23-02-2019

Where,

C = Consumption

I = Investment

G = Government Expenditure

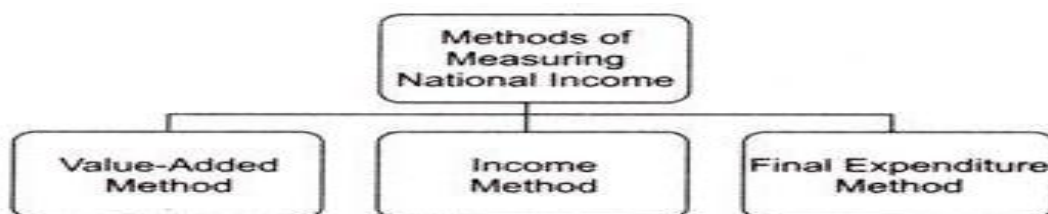
NX = Net Exports (Export-Import)

This formula uses for the expenditure method of national accounting

Wages and salaries from abroad are those that are earned by residents who essentially live and consume inside the economic territory but work abroad (this happens in border areas on a regular basis) or for people who live and work abroad for only short periods (seasonal workers) and whose centre of economic interest remains in their home country. Guest-workers and other migrant workers who live abroad for twelve months or more are considered to be resident in the country where they are working. Such workers may send part of their earnings to relatives at home, but these remittances are treated as transfers between resident and non-resident households and are recorded in national disposable income but not in national income. Property income from/to abroad includes interest, dividends and all or part of the retained earnings of foreign enterprises owned fully or in part by residents (and vice versa).

National income is the total money value of goods and services produced by a country in a particular period of time. The duration of this period is usually one year. National income can be defined by taking three viewpoints, namely production viewpoint, income viewpoint, and expenditure viewpoint. Based on these viewpoints, there are three different methods of estimating national income, which are shown in Figure-5:

Figure-5: Different Methods of Measuring National Income



For calculating national income: An economy is looked upon from three different angles, which are as follows:

Production units in an economy are classified into primary, secondary, and tertiary sectors. On the basis of this classification, value-added method is used to measure national income. Economy is also viewed as a combination of individuals and households owing different kinds of factors of production. On the basis of this combination, income method is used for estimating national income. Nominal GDP takes into account all of the changes that occurred for all goods and services. Economy is viewed as a collection of units used for

consumption, saving, and investment. On the basis of this collection, final expenditure method is used for calculating national income.³⁰

Nominal GDP

The nominal GDP is the value of all the final goods and services that an economy produced during a given year. It is calculated by using the prices that are current in the year in which the output is produced. In economics, a nominal value is expressed in monetary terms. For example, a nominal value can change due to shifts in quantity and price. If prices change from one period to the next and the output does not change, the nominal GDP would change even though the output remained constant.

Real GDP

The real GDP is the total value of all of the final goods and services that an economy produces during a given year, accounting for inflation. It is calculated using the prices of a selected base year. To calculate Real GDP, you must determine how much GDP has been changed by inflation since the base year, and divide out the inflation each year.

GDP deflator: A measure of the level of prices of all new, domestically produced, final goods and services in an economy. It is calculated by computing the ratio of nominal GDP to the real measure of GDP.

Calculating the GDP Deflator

The GDP deflator is calculated by dividing nominal GDP by real GDP and multiplying by 100.

$$\text{GDP deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

GDP Deflator Equation: The GDP deflator measures price inflation in an economy. It is calculated by dividing nominal GDP by real GDP and multiplying by 100.

Consider a numeric example: If nominal GDP is \$100,000, and real GDP is \$45,000, then the GDP deflator will be 222 (GDP deflator = \$100,000/\$45,000 * 100 = 222.22). In the U.S., GDP and GDP deflator are calculated by the U.S. Bureau of Economic Analysis.

Nominal GDP versus Real GDP

Nominal GDP, or unadjusted GDP, is the market value of all final goods produced in a geographical region, usually a country. That market value depends on the quantities of goods and services produced and their respective prices. Therefore, if prices change from one period to the next but actual output does not, nominal GDP would also change even

³⁰source: <http://www.economicdiscussion.net/national-income/methods-for-calculation-of-national-income/3961>

though output remained constant. In contrast, real gross domestic product accounts for price changes that may have occurred due to inflation. In other words, real GDP is nominal GDP adjusted for inflation. If prices change from one period to the next but actual output does not, real GDP would be remaining the same. Real GDP reflects changes in real production. If there is no inflation or deflation, nominal GDP will be the same as real GDP.

7.3 Calculating GDP

Written out, the equation for calculating GDP is: $GDP = \text{private consumption} + \text{gross investment} + \text{government investment} + \text{government spending} + (\text{exports} - \text{imports})$. For the gross domestic product, “gross” means that the GDP measures production regardless of the various uses to which the product can be put. The following equation is used to calculate the GDP:

$$GDP=C+I+G+(X-M)$$

Production can be used for immediate consumption, for investment into fixed assets or inventories, or for replacing fixed assets that have depreciated. “Domestic” means that the measurement of GDP contains only products from within its borders.

The following items are not included in GNP/GDP:

- i) Purely financial transactions: For example,
 - (a) Buying and selling of securities, shares, bonds etc.
 - b) Government transfer payments
 - c) Private transfer payments
- ii) Transfer of second-hand or used-goods
- iii) Non-market goods and services: These refer to activities of acquiring goods and services not through regular market transaction. Therefore, goods which are produced and consumed without using organized market are not included of house-wife, small items produced for self-consumption, electric faults repaired by the house-owner himself, vegetables grown in kitchen garden, barter transactions.
- iv) Illegal activities: Examples are: Gambling, smuggling, sale of illegal arms, drug trafficking etc.
- v) The value of leisure: Reasonable leisure, no doubt, no doubt is helpful in increasing efficiency and productivity of a worker. But there is tendency among people to enjoy more leisure with increase in income.

GDP per capita is a measure of a country's economic output that accounts for its number of people. It divides the country's gross domestic product by its total population. That makes it

the best measurement of a country's standard of living. It tells you how prosperous a country feels to each of its citizens.

7.4 GDP at Current Market Prices and Constant Prices

GDP is measured in two ways i.e. one is current market prices and another is constant market prices.

Current Market Price: When final goods and services are included in GDP and it is valued is called GDP at current market i.e. prices prevailing in the year for which GDP is being measured is called GDP at current market price or nominal GDP. For example nominal GDP 2015-2016 is the value of output produced in 2015-2016 at the market prices that prevailing in 2015-2016.

Constant Market Prices: Constant prices refer to prices prevailing in some carefully chosen year called base year. Mind that a base year is a nominal year devoid of price fluctuations. Presently, in Bangladesh 2005-2006 is taken as the base year for estimating GDP (or any other related aggregate) at constant price.

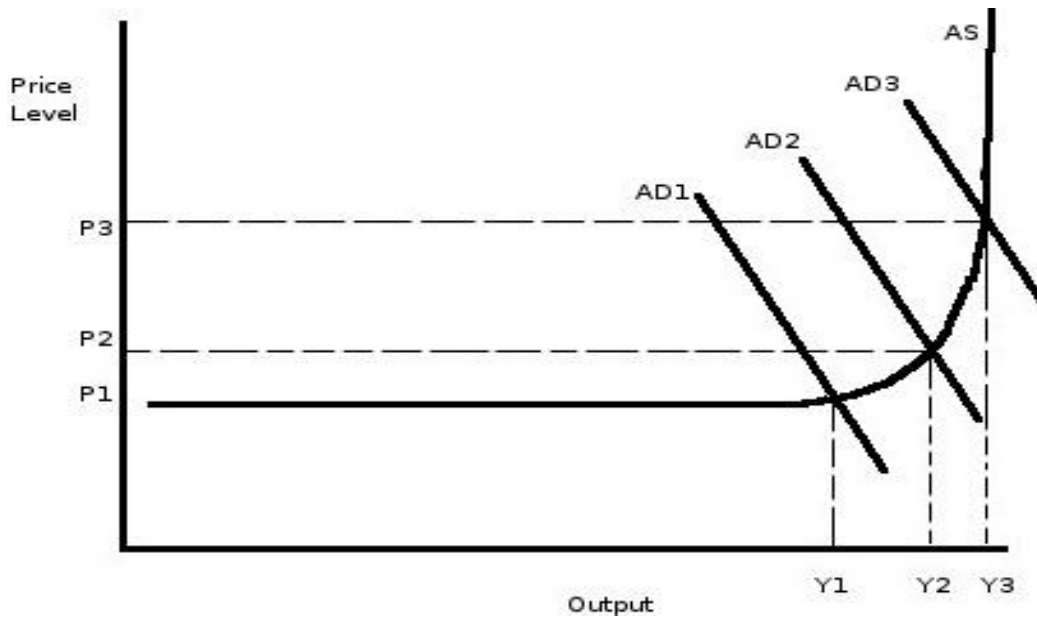
Types of Inflation

The reasons for inflation depend on supply and demand. Depending on the type of inflation, changes in either supply or demand can create an increase in the price level of goods and services. In Keynesian economics, there are three types of inflation.

Demand-Pull Inflation

Demand-pull inflation is inflation that occurs when total demand for goods and services exceeds the economy's capacity to produce those goods. Put another way, there is "too much money chasing for too few goods" Typically, demand-pull inflation occurs when unemployment is low or falling. The increases in employment raise aggregate demand, which leads to increased hiring to expand the level of production. Eventually, production cannot keep pace with aggregate demand because of capacity constraints, so prices rise.

Figure 6: Demand –pull Inflation

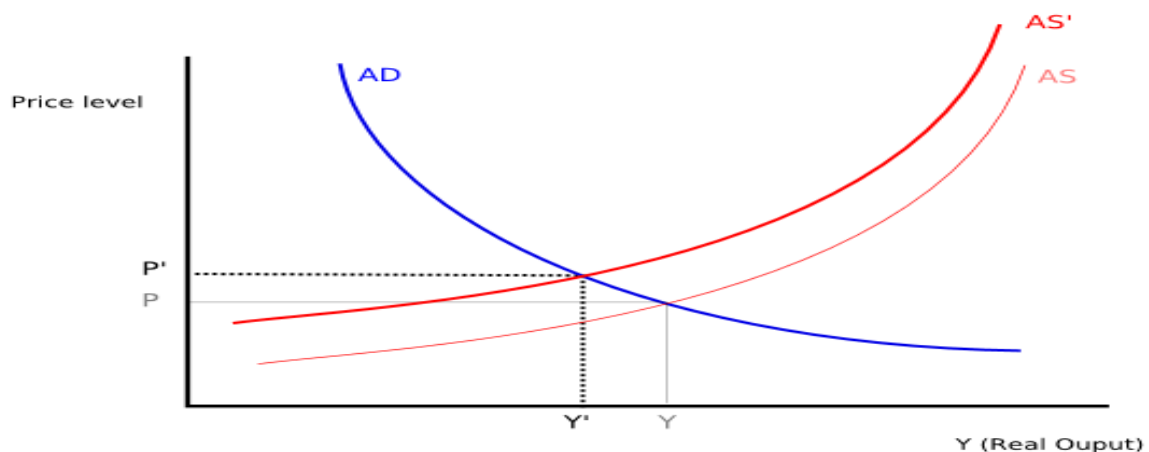


Demand-Pull Inflation: Demand-pull inflation is caused by an increase in aggregate demand. As demand increases, so does the price level.

Cost-Push Inflation

Cost-push inflation occurs when there is an increase in the costs of production. Unlike demand-pull inflation, cost-push inflation is not “too much money chasing too few goods,” but rather, a decrease in the supply of goods, which raises prices.

Figure 7: Cost-Push Inflation



Cost-Push Inflation: As the costs of production inputs rises, aggregate supply can decrease, which increases price levels.

The reasons for decreases in supply are usually related to increases in the prices of inputs. One major reason for cost-push inflation is supply shocks. A supply shock is an event that suddenly changes the price of a commodity or service. (Sudden supply decrease) will raise prices and shift the aggregate supply curve to the left. One historical example of this is the

oil crisis of the 1970's, when the price of oil in the U.S. surged. Because oil is integral to many industries, the price increase led to large increases in the costs of production, which translated to higher price levels.

Built-In Inflation

Built-in inflation is the result of adaptive expectations. If workers expect there to be inflation, they will negotiate for wages increasing at or above the rate of inflation (so as to avoid losing purchasing power). Their employers then pass the higher labor costs on to customers through higher prices, which actually reflect inflation. Thus, there is a cycle of expectations and inflation driving one another.

7.5 Consumer price index (CPI) and calculating process of CPI

The consumer price index (CPI) is a statistical estimate of the change in prices of goods and services bought for consumption.

Definition of consumer price index or CPI: The consumer price index or CPI measures the changes in the price of a certain collection of goods and services bought by consumers in an effort to measure inflation. In other words, it measures the change in a basket of consumer goods like medicine, groceries, and transportation as a benchmark to gauge the cost of living and inflation. On the other hand it may be implied that a measure of changes in the purchasing-power of a currency and the rate of inflation. The consumer price index expresses the current prices of a basket of goods and services in terms of the prices during the same period in a previous year, to show effect of inflation on purchasing power. It is one of the best known lagging indicators.³¹ The annual percentage change in a CPI is used to measure inflation. The CPI can be used to index the real value of wages, salaries, pensions, and price regulation. It is one of the most closely watched national economic statistics.

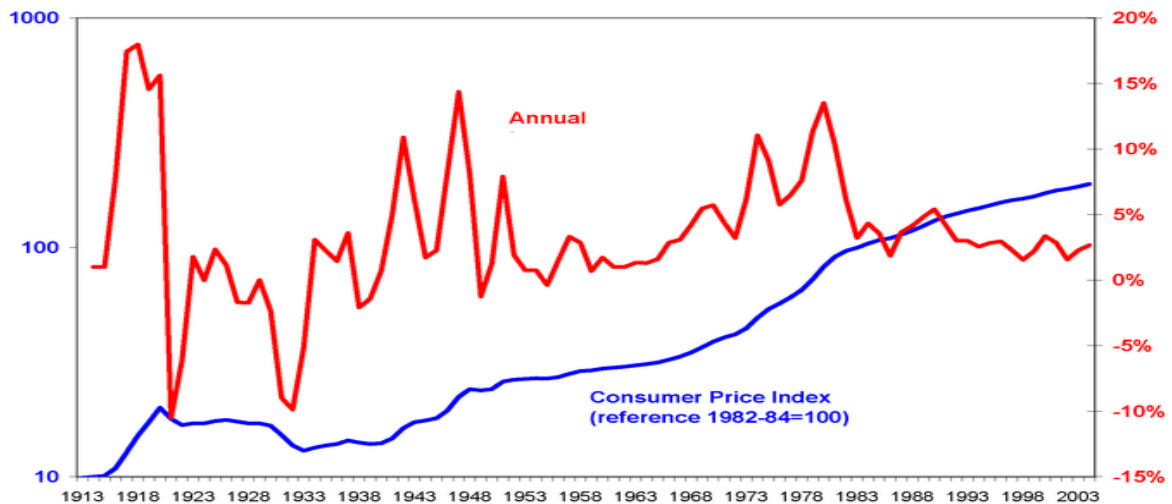
Relationship between GDP Deflator and CPI

Like the Consumer Price Index (CPI), the GDP deflator is a measure of price inflation/deflation with respect to a specific base year. Similar to the CPI, the GDP deflator of the base year itself is equal to 100. Unlike the CPI, the GDP deflator is not based on a fixed basket of goods and services; the "basket" for the GDP deflator is allowed to change from year to year with people's consumption and investment patterns. However, trends in the GDP deflator will be similar to trends in the CPI. Inflation is an increase in price levels, which decreases the real value, or purchasing power, of money. Demand -pull inflation is an increase in price levels due to an increase in aggregate demand when the employment level is full or closes to full. Cost -push inflation is an increase in price levels due to a decrease in aggregate supply. Generally, this occurs due to supply shocks, or an increase in the price of production inputs. In economics, inflation is a persistent increase in the general price level

³¹Consumer Price Index (CPI). Retrieved from <http://www.businessdictionary.com/definition/consumer-price-index-CPI.html>

of goods and services in an economy over a period of time. When the general price level rises, each unit of currency buys fewer goods and services. Consequently, inflation reflects a reduction in the purchasing power per unit of money; it is a loss of real value, as a single dollar is able to purchase fewer goods than it previously could.

Figure 8: Line-Chart of Consumer Price Index



Consumer Price Index: The graph shows the consumer price index in the United States from 1913 – 2004. The x-axis indicates year, the left y-axis indicates the Consumer Price Index, and the right y-axis indicates annual percentage change in Consumer Price Index, which can be used to measure inflation.

Calculating CPI using a Single Item

In order to calculate the CPI using a single item the following equation is used:

Current CPI=

$$\frac{\text{Cost of Goods of Current Year Price } t}{\text{Cost of Goods of Base Year Price } b} \times 100$$

When calculating the CPI for multiple items, it must be noted that many but not all price indices are weighted averages using weights that sum to 1 or 100. When calculating the average for a large number of products, the price is given a weighted average between 1 and 100 to simplify calculation. The weighting determines the importance of the quantity of the product on average. The equation for calculating the CPI for multiple items is:

CPI for multiple items=Cost of CPI market basket at current period prices / Cost of CPI market basket at base period prices×100.

For example, imagine you buy five sandwiches, two magazines, and two pairs of jeans. In the first period, sandwiches are \$6 each, magazines are \$4 each, and jeans are \$35 each. This will be our base period. In the second period, sandwiches are \$7, magazines are \$6, and jeans are \$45.

Market basket at base period prices = $5(6.00) + 2(4.00) + 2(35.00) = 108.00$.

Market basket at current period prices = $5(7.00) + 2(6.00) + 2(45.00) = 137.00$.

CPI for multiple items = $137/108 \times 100 = 127$

The CPI based on consumption is 127.

Calculating the Inflation Rate

Inflation Rate in the Year 2 =

$\frac{\text{CPI 2} - \text{CPI 1}}$

$\text{CPI 1} \quad \times 100$

So we may say that the positive change represents the rate of inflation and the negative change represents the deflation.

CPI Limitations

The CPI is a convenient way to calculate the cost of living and price level for a certain period of time. However, the CPI does not provide a completely accurate estimate for the cost of living. Issues that impede the accuracy of the CPI include substitution bias (consumers substituting goods for others), introducing new products, and changes in quality. The CPI can also overstate inflation because it does not always account for quality improvements or new goods and services.

GDP Deflator vs. CPI

The GDP deflator is a measure of the level of prices of all new, domestically produced, final goods and services in an economy. Unlike the CPI, the GDP deflator is a measure of price inflation or deflation for a specific base year. The GDP deflator differs from the CPI because it is not based on a fixed basket of goods and services. The GDP deflator "basket" changes from year to year depending on people's consumption and investment patterns. Unlike the CPI, the GDP deflator is not impacted by substitution biases. Despite the GDP being more flexible, the CPI is a more accurate reflection of the changes in the cost of living.

In a nutshell it can be summarized that Economic growth can be defined as the increase in real gross domestic product (GDP) in the long-run, or as increase productivity or via an increase in the natural resources (inputs) that create output. It is important to note that real GDP adjusts for inflation, rather than looking at output in nominal dollars. Economic

growth could also be described as an outward shift in the production-possibility frontier, allowing for the production of a higher quantity of goods.

7.6 Gross Value Added and its components

In economics, gross value added (GVA) is the measure of the value of goods and services produced in an area, industry or sector of an economy. In national accounts GVA is output minus intermediate consumption; it is a balancing item of the national accounts' production account.

Gross value added (GVA) is an economic productivity metric that measures the contribution of a corporate subsidiary, company or municipality to an economy, producer, sector or region. Gross value added provides a dollar value for the amount of goods and services that have been produced in a country, minus the cost of all inputs and raw materials that are directly attributable to that production.

7.7 A. Gross Output (GO)

In economics, gross output (GO) is the measure of total economic activity in the production of new goods and services in an accounting period. It is a much broader measure of the economy than gross domestic product (GDP), which is limited mainly to final output (finished goods and services)³².

How do we calculate output value?

The value of output can be calculated by multiplying quantity of output produced by a production unit during a given time period with price per unit. For instance, if output produced by a production unit in a year is 10000 units at price Rs. 10 per unit, then the total value of output would be 100000.

7.7 B. Intermediate Consumption (IC)

Intermediate consumption (also called "intermediate expenditure") is an economic concept used in national accounts, such as the United Nations System of National Accounts (UNSNA), the US National Income and Product Accounts (NIPA) and the European System of Accounts (ESA). Conceptually, the aggregate "Intermediate Consumption" is equal to the amount of the difference between gross output (roughly, the total sales value) and net output (gross value added or GDP). In the US economy, total intermediate consumption represents about 45% of gross output. The services component in intermediate consumption has grown strongly in the US, from about 30% in the 1980s to more than 40% today.

³²Wikipedia. Gross output. Retrieved from <https://www.google.com/search?client=firefox-b-d&q=gross+output>

Thus, intermediate consumption is an accounting flow which consists of the total monetary value of goods and services consumed or used up as inputs in production by enterprises, including raw materials, services and various other operating expenses. Because this value must be subtracted from gross output to arrive at GDP, how it is exactly defined and estimated will importantly affect the size of the GDP estimate. Intermediate goods or services used in production can be either changed in form (e.g. bulk sugar) or completely used up (e.g. electric power). Intermediate consumption (unlike fixed assets) is not normally classified in national accounts by type of goods or services, because the accounts will show net output by sector of activity. However, sometimes more detail is available in sectoral accounts of income & outlay (e.g. manufacturing), and from input-output tables showing the value of transactions between economic sectors.

Exclusions

Excluded from intermediate consumption in the UNSNA system are:

The value of the depreciation of fixed assets.

Valuables bought by enterprises such as works of art, precious metals and stones, ornaments and Jewellery.

Major renovations, reconstructions, or enlargements of existing fixed assets enhancing their efficiency or capacity, or prolonging their expected working lives. Military weapons such as rockets, missiles and their warheads which are actually used in fighting, and military machinery and equipment of the same type as that used by civil establishments for non-military purposes (the 2008 UNSNA revision changes the definitions somewhat). Collective services provided by the public sector (the provision of transport facilities, security, etc.).

Expenditures on mineral exploration

Social transfers provided by government to households.

Inclusions

Included in intermediate consumption in the UNSNA system are:

Operating expenses such as the rentals paid on the use of fixed assets leased, and also fees, commissions, royalties, etc., payable under licensing arrangements. The value of goods or services used as inputs into ancillary activities such as purchasing, sales, marketing, accounting, data processing, transportation, storage, maintenance, security, etc. The ordinary, regular maintenance and repair of fixed assets used in production. Expenditures on durable producer goods which are small, inexpensive and used to perform relatively simple ongoing operations.

Expenditures on research and development, staff training, market research and similar activities all goods except dwellings acquired by governmental establishments engaged in

the production of defense services, including expenditures by the military on weapons of destruction and the equipment needed to deliver them³³.

7.8 Value-Added Tax (VAT)

A value-added tax (VAT), known in some countries as a goods and services tax (GST), is a type of tax that is assessed incrementally, based on the increase in value of a product or service at each stage of production or distribution. VAT essentially compensates for the shared services and infrastructure provided in a certain locality by a state and funded by its taxpayers that were used in the elaboration of that product or service. Not all localities require VAT to be charged and goods and services for export may be exempted (duty free). VAT is usually implemented as a destination-based tax, where the tax rate is based on the location of the consumer and applied to the sales price. Confusingly, the terms VAT, GST, consumption tax and sales tax are sometimes used interchangeably. VAT raises about a fifth of total tax revenues both worldwide and among the members of the Organisation for Economic Co-operation and Development (OECD). As of 2018, 166 of the 193 countries with full UN membership employ a VAT, including all OECD members except the United States which uses a sales tax system instead.

There are two main methods of calculating VAT: the credit-invoice or invoice-based method, and the subtraction or accounts-based method. Using the credit-invoice method, sales transactions are taxed, with the customer informed of the VAT on the transaction, and businesses may receive a credit for VAT paid on input materials and services. The credit-invoice method is the most widely employed method, used by all national VATs except for Japan. Using the subtraction method, at the end of a reporting period, a business calculates the value of all taxable sales then subtracts the sum of all taxable purchases and the VAT rate is applied to the difference. The subtraction method VAT is currently only used by Japan, although subtraction method VATs, often using the name "flat tax", have been part of many recent tax reform proposals by US politicians. With both methods, there are exceptions in the calculation method for certain goods and transactions, created for either pragmatic collection reasons or to counter tax fraud and evasion³⁴.

VAT scenario in Bangladesh

Value-added tax in Bangladesh was introduced in 1991 replacing Sales Tax and most Excise Duties. The Value Added Tax Act, 1991 was enacted that year and VAT started its passage from 10 July 1991. The 10 July is observed as National VAT Day in Bangladesh. Within the passage of 25 years, VAT has become the largest source of Government Revenue. About 56% of total tax revenue is VAT revenue in Bangladesh; the VAT-GDP

33Wikipedia. Intermediate consumption. Retrieved from https://en.wikipedia.org/wiki/Intermediate_consumption

34Wikipedia. Value-added tax. Retrieved from https://en.wikipedia.org/wiki/Value-added_tax

ratio in Bangladesh is about 4%. Standard VAT rate is 15%. Export is Zero rated. Besides these rates, there are several reduced rates locally called Truncated Rate for service sectors that are available, ranging from 1.5% to 10%.³⁵

7.9 Calculating process of Gross Value Added (GVA)

Gross Value Added=GDP + Subsidies on products-Taxes on products

The first step is to calculate the GDP. Recall that GDP is computed as private consumption + gross investment + government investment + government spending + (exports - imports)³⁶:

7.10 Calculating process of GVA of Islamic Banking to the GDP of our Economy

We know that there are 8 full-fledged- Islamic Banks in our country Bangladesh named

- i). Islami Bank Bangladesh Limited (IBBL),
- ii). ICB Islami Bank Limited (ICBIBL),
- iii). Al-Arafa Islami Bank limited (AIBL),
- iv). Social Islami Bank Limited (SIBL),
- v). Export Import Bank of Bangladesh Limited (EXIM Bank),
- vi). First Security Islami Bank Limited (FSIBL),
- vii). Shahjalal Islami Bank Limited (SJIBL) and
- viii). Union Bank Limited (UBL).

Nevertheless, there are 19 Islamic Banking Branches of 8 Conventional Banks and 25 Islamic Banking windows of 7 conventional Banks in our country. Our findings have been limited only to the 8 full-fledged Islamic Banks. To find out the contributions of Islamic Banking to the growth and development of our economy, we have used the Profit and Loss statements of these Banks' from the Annual reports for the period 2011 to 2016. Now we shall discuss the data process of Islamic Banks in details. Generally economic growth of our country, Bangladesh is estimated on the Fiscal Year basis which denotes the period July to June. On the other hand, the Financial Institutions like Banks express their Annual report on the period January-December basis. As we will have to have found out the contribution of Islamic Banking³⁷ (full-fledged-8 Islamic Banks) to the Growth (GDP Growth) and Development of Bangladesh Economy, we have carefully calculated the process of growth. For finding the Gross Value Added (GDP), we have used the Annual Report for the year 2011, 2012, 2013, 2014, 2015 and 2016 and Half-Yearly report of 2011, 2012, 2013, 2014, 2015 and 2016 of the eight full fledged Islamic Banks.

³⁵Bangladesh value-added tax. Retrieved from https://en.wikipedia.org/wiki/Value-added_tax#Bangladesh

³⁶Sources :<https://www.investopedia.com/terms/g/gross-value-added.asp>

³⁷Here Islamic Banking/Islamic Bank only will indicate the eight full-fledged Islamic Banks. No window or Branch of conventional Bank will be considered at every stance of our discussion.

Here we have used the following formula to convert the data of calendar year to the data of Fiscal Year: Subtracting the data of Half-Year (January to June) from Annual data of Banks from January to December, then we have got Half-Yearly data from July to December of the present year. Then adding this data with the data of the next first Half-Year (January-June). For Example-for finding the Fiscal Year 2011-2012, we have used here Annual Report (January-December) 2011 and Half Yearly (January-June) report 2011 and Half-Yearly report (January-June) 2012.

To find out the Fiscal Year data 2011-2012 we have used the following formula:
Annual Report (January-December 2011) minus Half-Yearly Report (January-June 2011) = Half-Yearly Report (July-December 2011) adding Half-Yearly Report (January-June 2012). From this analysis, we have found the Fiscal Year 2011-2012(July-June). Accordingly, we have determined the Fiscal Year 2012-2013, 2013-2014, 2014-2015 and 2015-2016.

Table-27: Gross Value Added (GVA)/Gross Domestic Product (GDP)
(Amount in crore Taka)

BANK'S NAME	2011-2012			2012-2013			2013-2014			2014-2015			2015-2016		
	GO	IC	GVA	GO	IC	GVA	GO	IC	GVA	GO	IC	GVA	GO	IC	GVA
IBBL	2265	257	2008	2369	271	2098	2400	295	2105	2613	345	2268	2941	410	2531
AL-ARAFI	689	55	634	642	74	568	706	90	616	1045	95	950	945	108	837
EXIM	820	115	705	789	130	659	828	157	671	1054	151	903	1016	207	809
SIBL	398	45	353	527	82	445	563	99	464	705	88	617	841	115	726
FSIBL	266	47	219	387	89	298	470	116	354	500	149	351	758	170	588
SJIBL	480	62	418	529	74	455	462	84	378	485	89	396	567	96	471
ICB IBL	56	20	36	60	23	37	20	22	-2	32	24	8	22	21	1
UNION	0	0	0	35	5	30	80	16	64	145	34	111	243	51	192
TOTAL ISLAMIC BANKS	4974	601	4373	5338	748	4590	5529	879	4650	6579	975	5604	7333	1178	6155

GDP=Gross Value Added (GVA) = Intermediate Consumption (IC) - Gross Output (GO)
Gross Output (GO)/ Total Operating Income = Net Investment Income + Commission, Exchange and Brokerage Income + Other Operating Income

GVA= Gross Value Added

GO =Gross Output

IC=Intermediate Consumption

Net Investment Income=Investment Income-Profit paid on deposit and borrowing etc.

Gross output =Total Intermediate Consumption(IC)/ Total Operating Expenses=Rent, Taxes, Insurance, Electricity etc + Legal Expenses + Postage + Stamp, Telegram, Telephone etc. + Auditors Fees + Stationary, Printing and Advertisement + Directors Fees and Expenses + Shariah Supervisory Committees Fees and Expenses +Charges On Investment + Zakat Expenses + Other Expenses

For finding the Gross Value added, we have used the above mentioned formula for each Bank to take it to the said Fiscal year. Consequently, to find out the contribution of Islamic

Banking to the growth of economy of our country, we have calculated the true GVA/GDP of total Islamic Banks.

Table-28: A GVA at a glance (Amount in crore Taka)

BANK'S NAME	2011-2012			2012-2013			2013-2014			2014-2015			2015-2016		
	GO	IC	GVA	GO	IC	GVA	GO	IC	GVA	GO	IC	GVA	GO	IC	GVA
TOTAL ISLAMIC BANKS	4974	601	4373	5338	748	4590	5529	879	4650	6579	975	5604	7333	1178	6155

Table-29: Growth of GVA, GO and IC of Islamic Banks' (Amount in crore Taka)

Islamic Banks' Performance	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Gross Output	4974	5338	5529	6579	7333
Growth rate of GO%		8%	4%	19%	12%
Intermediate Consumption	601	748	879	975	1178
Growth rate of IC%		25%	18%	11%	21%
GVA	4373	4590	4650	5604	6155
Growth Rate of GVA in %		5%	2%	21%	10%

Table-29 shows the performance of Islamic Banks. The Gross Output for the Fiscal year 2011-2012, 2012-2013, 2013-2014, 2014-2015 and 2015-2016 was Tk. 4,974.00 crore, Tk. 5,338.00 crore, Tk. 5,529.00 crore, Tk. 6,579.00 crore and Tk. 7,333.00 crore respectively. From the Fiscal year 2012-2013 to 2011-2012 the change is positive i.e. growth rate of Gross Output is 8%. From fiscal year 2014-2013 to 2013-2012 the growth rate of Gross Output is 4%. From fiscal year 2015-2014 to 2013-2014 the growth rate is 19%. Accordingly from fiscal year 2015-2016 to 2014-2015 the Gross Output growth rate is 12%. It depicts that the changes is inconsistent. Finally the changes i.e. the growth rate of GVA to fiscal year to fiscal year is positive i.e. the growth rate for the fiscal year 2012-2013 is 5%, fiscal year 2013-2014 is 2%, fiscal year 2014-2015 is 21% and fiscal year 2015-2016 is 10%. From Table -28 we see that the growth rate for the period 2012-2016 of Gross Output is showing is positive change but not the consistent growth. At the same time the growth of GVA is showing positive changes but the growth is not consistent implies that the contribution of Islamic Banking to the growth of our economy is positive influence but for various factors political impasse, habitual defaulting of investment by the borrowers and uneven attitude of clients to the Islamic Banking, lacking of Islamic Banking knowledge and over all fearless of day of judgment the investment of Islamic Banking the growth rate has been inconsistent.

Figure-9: Islamic Banks' Performance

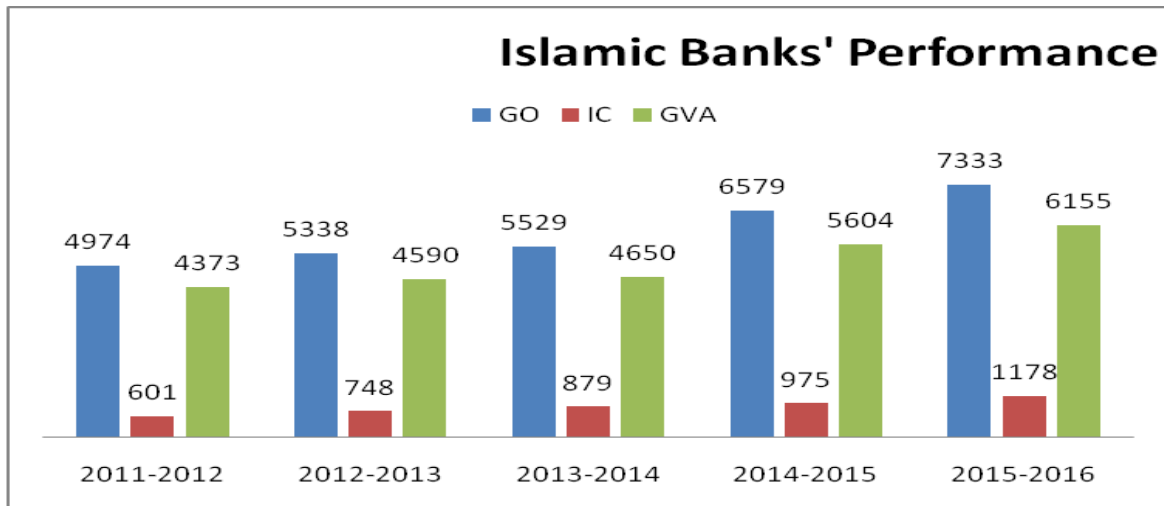


Figure-9, shows that for the period 2011-2012, 2012-2013, 2013-2014, 2014-2015 and 2015-2016 the Gross Output shows the positive change i.e. Tk.4974.00 crore, Tk. 5338.00 crore, Tk.5529.00 crore, Tk. 6579.00 crore and Tk.7333.00 crore respectively and in the same time for the same period the GVA also shows the positive changes in the economy where Tk. 4,373.00 crore, Tk. 4,590.00 Crore, Tk. 4,650.00 crore, Tk. 5,604.00 crore and Tk. 6,155.00 crore respectively.

7.11 Comparative analysis of calculation process of GVA* of Islamic Banking to the GDP** of our Economy

Table-30: Calculation process of GVA of Islamic Banks to GDP of our Economy (Amount in crore Taka)

Name of Banks	FY 2011-2012	FY 2012-2013	FY 2013-2014	FY 2014-2015	FY 2015-2016
IBBL	2008	2098	2105	2268	2531
EXIM	705	658	671	903	809
SIBL	353	445	464	617	726
FSIBL	219	299	354	351	588
SJIBL	418	455	378	396	471
ICB IBL	36	37	-2	8	1
UNION	0	30	64	111	192
TOTAL	4373	4590	4650	5604	6155
Monetary Intermediation (Banks)	29351	34727	40390	46644	53790
Other than Islamic Banks	24978	30137	35740	41040	47635
	18	15	13	14	13
In % to Other than Islami Banks	17.51	15.25	13.01	13.66	12.93

In % to all Islamic Banks' to total Banks	14.90	13.22	11.51	12.01	11.44
Total GDP at Current Market Price	1055204	1198923	1343674	1515802	1732864
In % to GDP at Current Market Price	0.41	0.38	0.35	0.37	0.36
Tax less subsidy	56569	57662	63174	70815	85552
GVA at current basic prices	998635	1141261	1280500	1444987	1647312
In % to GVA at current basic prices	0.44	0.40	0.37	0.39	0.38

GVA*= Gross Value Added, GDP**=Gross Domestic Products³⁸

Table -30 shows that for the fiscal year 2011-2012,2012-2013,2013-2014,2014-2015 and 2015-2016 the contribution of Islami Bank Bangladesh Limited contributed Tk.2,008.00 crore,Tk.2,098.00 crore,Tk.2,105.00 crore, Tk. 2,268.00 crore and Tk. 2,531.00 crore respectively which shows positive growth and consistent. At the same period the contribution of Al-Arafa Islami Bank Limited to the economy is Tk.634.00 crore, Tk. 568.00 crore, Tk. 616.00 crore, Tk. 950.00 crore and Tk. 837.00 crore respectively which shows the inconsistent growth, and Export Import Bank of Bangladesh Limited is Tk.705.00 crore, Tk. 658.00 crore, Tk. 671.00 crore, Tk. 903.00 crore and Tk. 809.00 crore respectively which shows the inconsistent growth. Social Islamic Bank Limited for the same period contributed Tk. 353.00 crore, Tk. 445.00 crore, Tk. 464.00 crore, Tk. 617.00 crore and Tk. 726.00 crore respectively which shows positive growth and consistent. First Security Islami Bank Limited contributed for the same period Tk. 219.00 crore, Tk. 299.00 crore, Tk. 354.00 crore, Tk. 351.00 crore and Tk. 588.00 crore respectively which shows positive growth and consistent. Shahjalal Islami Bank Limited contributed for the same period of Tk. 418.00 crore, TK. 455.00 crore, Tk. 378.00 crore, Tk. 396.00 crore and Tk. 471.00 crore respectively which shows inconsistent growth. ICB Islami Bank Limited contributed for the mentioned period of Tk. 36.00 crore, Tk. 37.00 crore, Tk. -2.00 crore, TK. 8.00 crore and Tk. 1.00 crore respectively which shows and inconsistent growth. Union Bank Limited the only one fourth generation Islamic Bank contributed to our economy since inception to the Banking Industry for the period 2012-2013, 2013-2014, 2014-2015 and 2015-2016 of Tk. 30.00 crore, Tk.64.00 crore, Tk.111.00 crore and Tk. 192.00 crore respectively which shows sharp positive and consistent growth to the economy of our country.

We see that the contribution of these 8 full-fledged Islamic Banks' to our economy is Tk. 4373.00 crore, Tk.4590. Crore, Tk. 4,650.00 crore, Tk. 5,604.00 crore and Tk. 6,155.00 crore respectively for the fiscal year 2011-2012, 2012-2013, 2013-2014, 2014-2015 and

38 Sources: National Accounts Statistics, Bangladesh Bureau of Statistics Page#13, Final Estimates of GDP, 2015-2016 and other sources

2015-2016. On the other hand, the contribution of other than Islamic Banks to our Economy is Tk. 24,978.00 crore, TK. 30137.00 crore, Tk. 35,740.00 crore, Tk. 41040.00 crore and Tk. 47,635.00 crore for the fiscal year 2011-2012, 2012-2013, 2013-2014, 2014-2015 and 2015-2016 respectively. But the contribution of total monetary intermediation (Banks) to our economy is Tk. 29,351.00 crore, Tk. 34727.00 crore, Tk. 40390.00 crore, Tk. 46644.00 crore and Tk. 53790.00 crore respectively for the said fiscal year i.e. 2011-2012, 2012-2013, 2013-2014, 2014-2015 and 2015-2016.

In percentage, the contribution of 8 full-fledge Islamic Banks comparing to total Banks is 14.90%, 13.22%, 11.51%, 12.01% and 11.44% respectively for the said fiscal year. But the contribution of 8 full-fledge Islamic Banks to the GDP at current market price is 0.44%, 0.40%, 0.37%, 0.39% and 0.38% for the fiscal year 2011-2012, 2012-2013, 2013-2014, 2014-2015 and 2015-2016 respectively. Thus it is measured that the contribution of full-fledge Islamic Banking to the growth of Bangladesh economy is positive though it is below 1% of the total economy.

Table-31: All Banks' Contribution to GDP (in crore TK.)

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Growth of all Banks' to GDP	-	18.31	16.31	15.48	15.32
Monetary Intermediation (All Banks')	29351	34727	40390	46644	53790

Table-31 shows the contribution of all Banks to the GDP of our economy. It implies that for the fiscal year 2011-2012, 2012-2013, 2013-2014, 2014-2015 and 2015-2016 this sector contribute of Tk.29351.00 crore, Tk. 34727.00 crore, Tk.40390.00 crore, Tk. 46644.00 crore and Tk.53790.00 crore respectively. The growth of this sector is positive and upward.

Figure 10: GVA all Banks

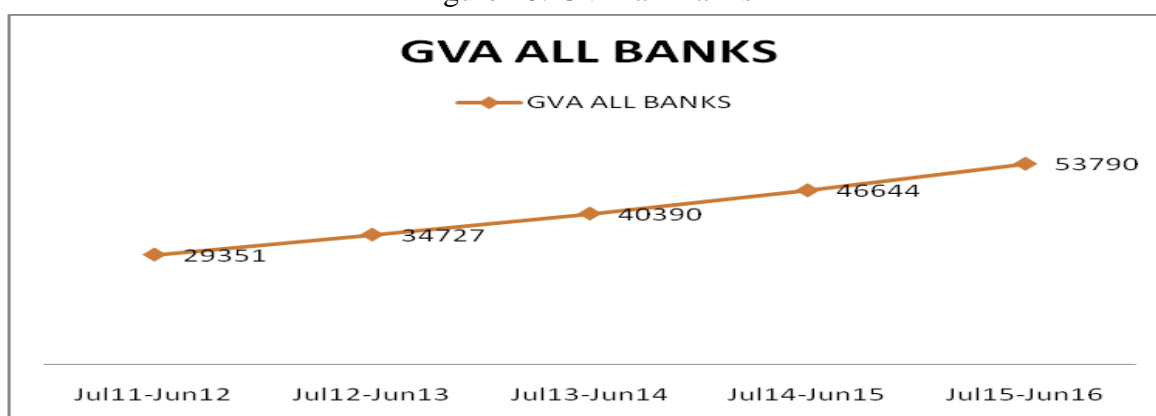
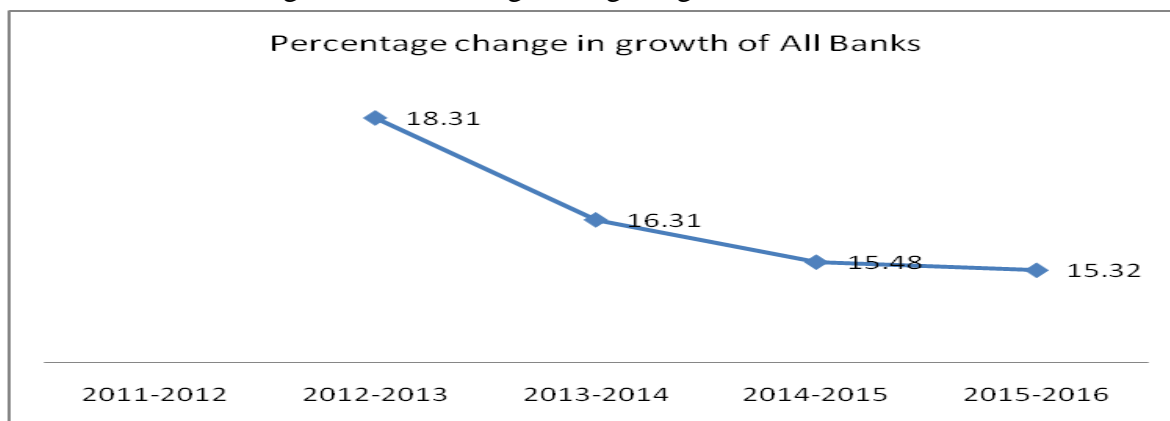


Figure 11: Percentage change in growth of all Banks



At figure 11 , where we see that for fiscal year 2011-2012, 2012-2013,2013-2014,2014-2015 and 2015-2016 the contributions of all banks ' to GDP/GVA is increasing upward and at figure 11 the percentage change in growth of all Banks shows downward but there is consistent growth. It implies that for the fiscal year 2011-2012 the contribution of all banks to GVA is Tk.29351.00 crore and for the fiscal year 2012-2013 the contribution of all banks' to GVA is Tk.34727.00 crore and its growth is 18.31% and subsequently the growth rate is 16.31%,15.48% and 15.32% respectively. Here we see that the growth is positive but growth trend is downward slopping which is shown at the figure-11.

Table-32: The Growth rate of all Islamic Banks to the contribution of GDP/GVA

Fiscal Year	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Percentage Change in GDP/GVA	-	4.96	1.31	20.51	9.83
Performance of all Islamic Banks'	4373	4590	4650	5604	6155

Table-32 shows the Growth rate of all Islamic Banks to the contribution of GDP/GVA. It implies that for the fiscal year 2011-2012, 2012-2013,2013-2014,2014-2015 and 2015-2016 this sector contribute of Tk.4373.00 crore, Tk.4590.00 crore,Tk.4650.00 crore,Tk.5604.00 crore and Tk.6155.00 crore respectively.

At figure 10 it shows the positive but upward changes to the economy of our country. But the growth of this sector is positive but it is neither upward nor downward but zigzag.

At figure 13 it is seen that for the fiscal year 2012-2013 the growth rate is 4.96%,for 2013-2014 it is 1.31%,for fiscal year 2014-2015 it is 20.51% and for the fiscal year 2015-2016 it is 9.83%.There is no consistent growth which is shown at the figure-13.

Figure 12: Contribution of all Islamic Banks to GDP/GVA

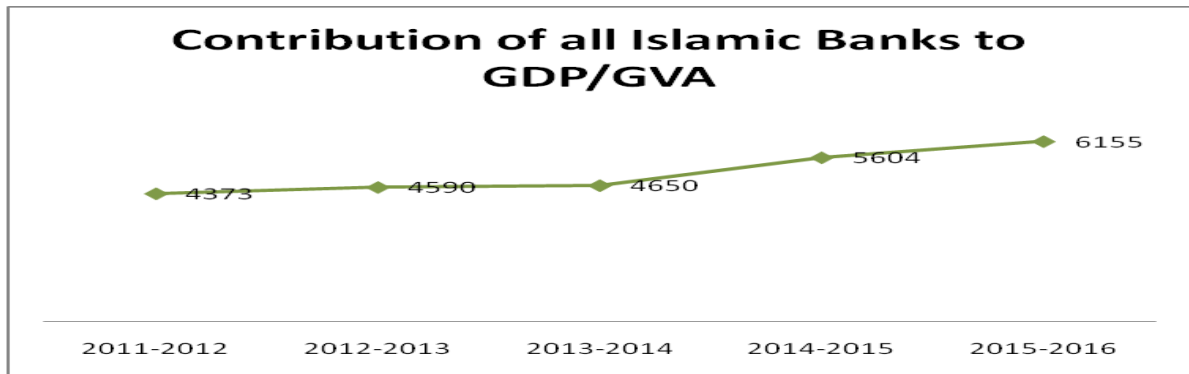


Figure 13: Rate of change of all Islamic Banks

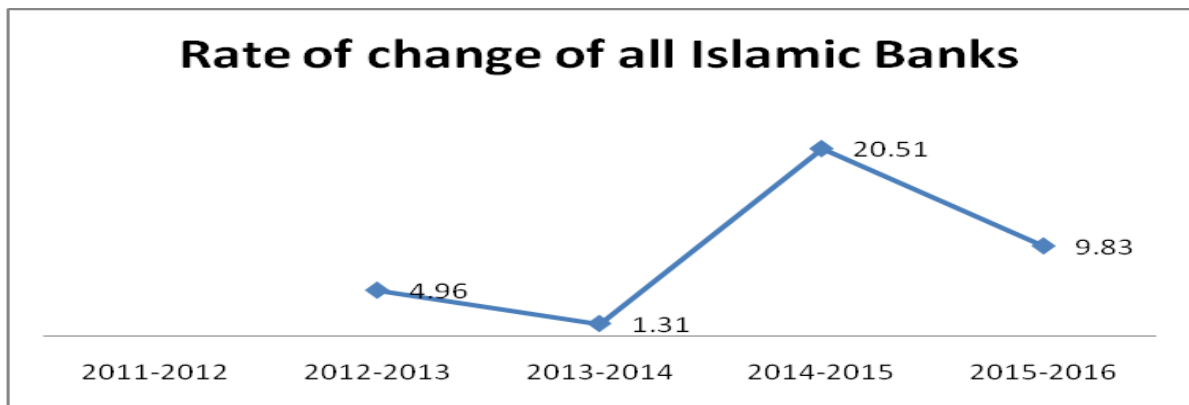


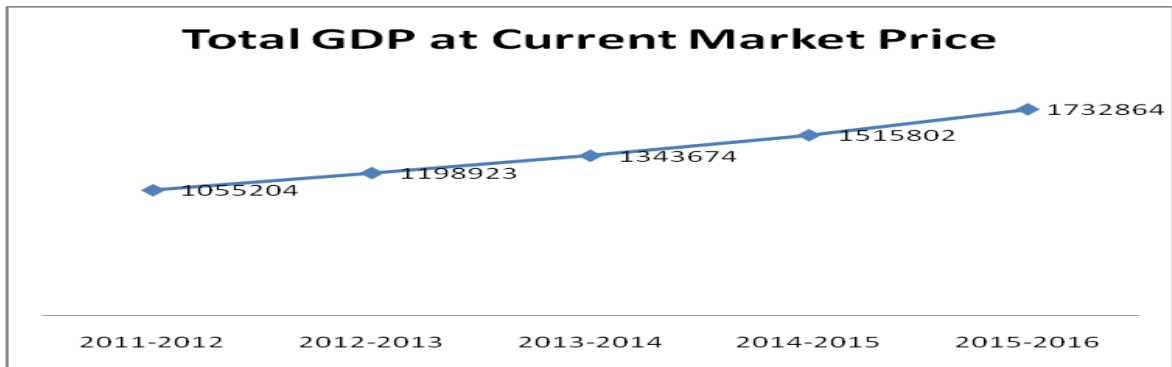
Table-33: Gross Value Added (GVA)/GDP (in crore TK.)

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Percentage change in GDP growth	-	13.62%	12.08%	12.81%	14.32%
Total GDP at Current Market Price	1055204	1198923	1343674	1515802	1732864

At Table-33, it is shown that the total GDP for the fiscal year-2011-2012 is Tk.10,55,204.00 crore. But for the fiscal year 2012-2013,2013-2014,2014-2015 and for fiscal year 2015 to 2016 the total GDP is 11,55,204.00 crore, Tk.13,43, 674.00 crore,Tk.15,15,802.00 crore and for the fiscal year 2015 to 2016 the contribution to GDP is Tk.17,32,864.00 crore. The amount of the table shows the positive growth.

At the figure-14, we see that for the fiscal year 2011-2012 the GDP is Tk.10,55,204.00 crore and subsequently for year 2012-2013,2013-2014,2014-2015 and for fiscal year 2015 to 2016 the total GDP is 11,55,204.00 crore, Tk.13,43,674.00 crore,Tk.15,15,802.00 crore and for the fiscal year 2015 to 2016 which is upward slopping.

Figure-14: Total GDP at current Market price



But at figure 15 we see that the percentage change of growth of GDP is significant but unstable. Because for fiscal year 2012-2013 the percentage change is 13.62%. On the other hand for the fiscal year 2013-2014 the percentage change is at 12.08% which is downward. But for the fiscal year 2014-2015 it has been 12.81% which is upward and finally for the fiscal year 2015-2016 it has been at 14.32% which is U-shaped and also upward.

Figure 15: Percentage change in GDP Growth

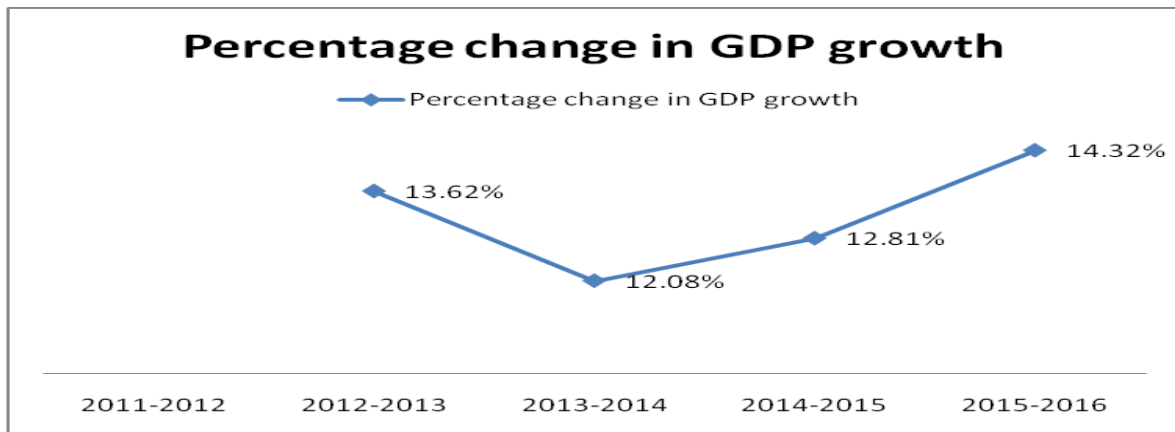


Table-34: GVA at Current Basic Price Fig in crore

Total GDP/GVA at Current Basic Price	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
	998635	1141261	1280500	1444987	1647312

At Table-34, it is shown that the total GDP at Current Basic Price for the fiscal year-2011-2012 is Tk. 9,98,635.00 crore. But for the fiscal year 2012-2013, 2013-2014, 2014-2015 and for fiscal year 2015 to 2016 the total GDP at current basic price is Tk. 11,41,261.00 crore, Tk. 12,80,500.00 crore, Tk. 14,44,987.00 crore and for the fiscal year 2015 to 2016 the total volume of GDP at current basic price is Tk. 16,47,312.00 crore. The amount of the table shows the positive growth.

At figure 16, we see that for the fiscal year 2011-2012 the GDP is Tk.9,98,635.00 crore and subsequently for year 2012-2013,2013-2014,2014-2015 and for fiscal year 2015 to 2016 the total GDP is Tk.11,41,261.00 crore, Tk.12,80,500.00 crore,Tk.14,44,987.00 crore and for the fiscal year 2015 to 2016 the GDP at basic current price is Tk.16,47,312.00 crore which is upward.

Figure 16: Total GDP/GVA at current Basic price

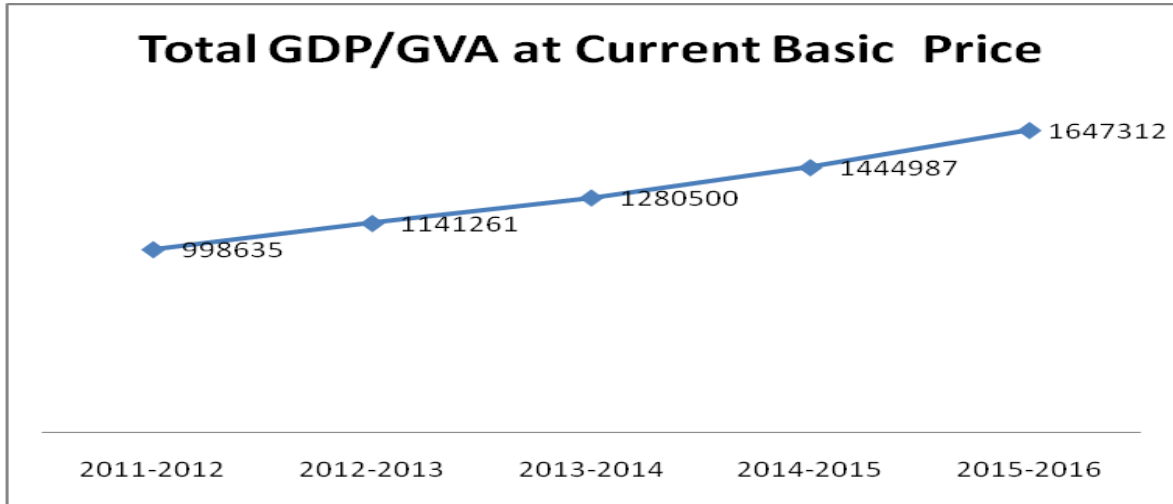
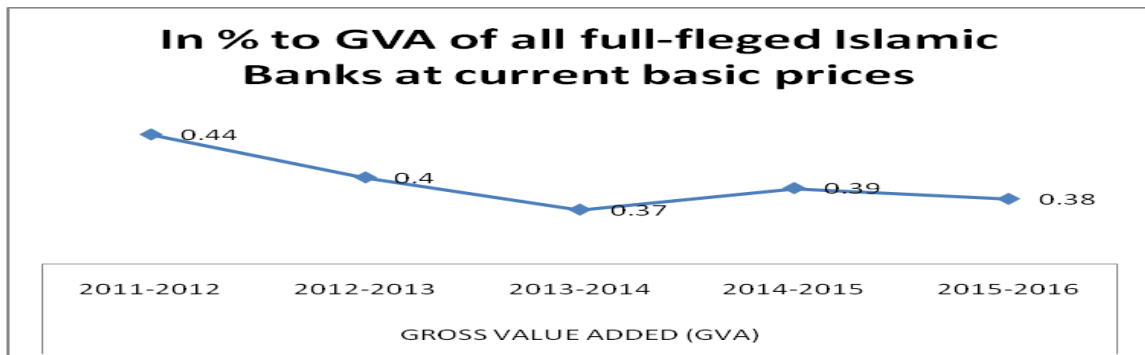


Table-35: Gross Value Added (GVA)

In % to GVA at current basic prices of all Islamic Banks	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
	0.44	0.40	0.37	0.39	0.38

At Table-35, it is seen that for the fiscal year 2011-2012 the contribution of Islamic Banking to the total GVA at current basic price of our economy is 0.44% and subsequently for the fiscal year 2012-2013, 2013-2014, 2014-2015 and 2015 to 2016 the contribution of Islamic Banking to the total GVA of our economy is 0.40%, 0.37%,0.39% and 0.38% respectively which is inconsistent to the contribution of Islamic banking to the GDP of our economy.

Figure17: GVA of all full-fledged Islamic Banks at current basic price



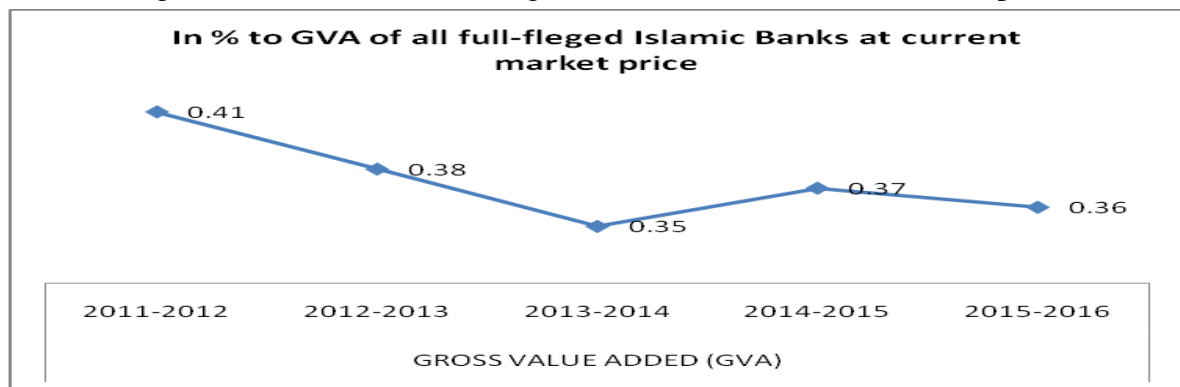
At figure-17, it is measured that for the fiscal year 2011-2012 the contribution of full-fledge Islamic Banking to the total GVA at current basic prices of our economy is 0.44% and subsequently for the fiscal year 2012-2013, 2013-2014, 2014-2015 and for fiscal year 2015 to 2016 the contribution of Islamic Banking to the total GVA of our economy 0.40%, 0.37%, 0.39% and 0.38% which is zigzag i.e. inconsistent contribution of Islamic banking to the GDP of our economy. For the fiscal year 2013-2014 it has been reached at 0.37%, then for the fiscal year 2014-2015 it has been slightly up i.e. at 0.39% and again in the fiscal year 2015-2016 it has been slopped downward i.e. reached at 0.38%.

Table-36: In % to GVA of all full-fledged Islamic Banks at current market price

Fiscal -Year	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
In % contribution of all full-fledged Islamic Banks at current market price	0.41	0.38	0.35	0.37	0.36

At table-36 it is measured that for the fiscal year 2011-2012 the contribution of full-fledge Islamic Banking to the total GVA at current market prices of our economy is 0.41% and subsequently for the fiscal year 2012-2013, 2013-2014, 2014-2015 and 2015 to 2016 the contribution of Islamic Banking to the total GVA of our economy is 0.38%, 0.35%, 0.37% and 0.36% which is inconsistent contribution of Islamic banking to the GDP of our economy.

Figure 18: GVA of all full-fledged Islamic Banks at current market price



At figure-18 it is measured that for the fiscal year 2011-2012 the contribution of Islamic Banking to the total GVA at current market prices of our economy is 0.41% and subsequently for the fiscal year 2012-2013, 2013-2014, 2014-2015 and 2015 to 2016 the contribution of Islamic Banking to the total GVA of our economy is 0.38%, 0.35%, 0.37% and 0.36% respectively which is zigzag i.e. inconsistent contribution of Islamic banking to the GDP of our economy. For the fiscal year 2011-2012, 2012-2013 and 2013-2014 the trend of GDP is downward i.e. 0.41% tends to 0.38% and then 0.35%. After that it has been

slightly up 0.37% for the fiscal year 2014-2015 and again for the fiscal year 2015-2016 it has been slopped downward i.e. reached at 0.36%.

7.12 Contribution of Islamic Banking to the major economic sectors of Bangladesh i.e. Agri-Sector, Industry Sector and Service Sector (It will be denoted here as Other Sector)

Table-37: Contribution of Islamic Banking to the major economic sectors of Bangladesh i.e. Agri-Sector, Industry Sector and Service Sector (It will be denoted here as Other Sector).

Amount in Million Taka

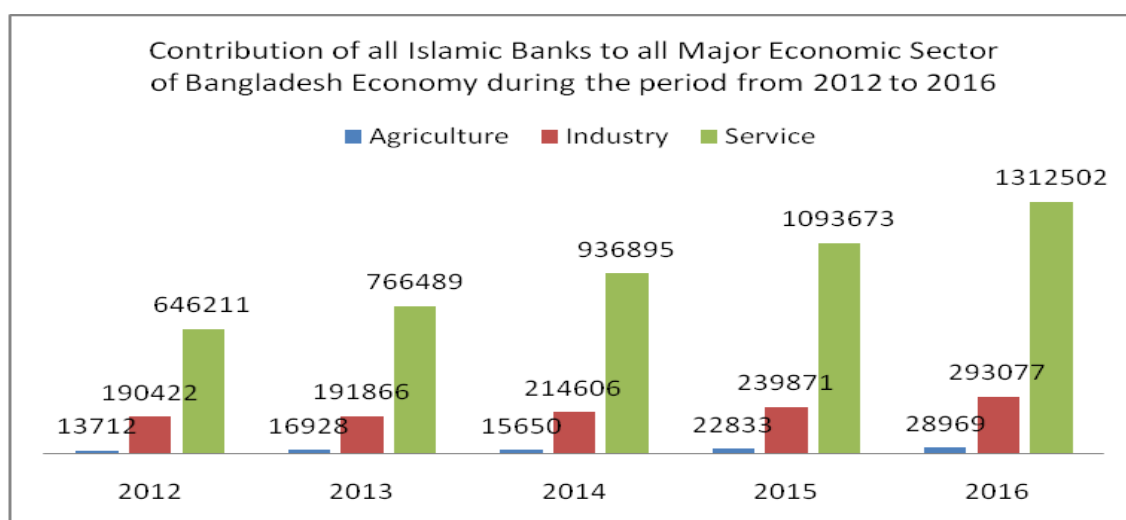
Year	Agriculture sector	Industry sector	Other (Service) sector
2012	13712	190422	646211
2013	16928	191866	766489
2014	15650	214606	936895
2015	22833	239871	1093673
2016	28969	296670	1312502

Sources: The activities of Banks, Bima and Financial Institutions, Ministry of Finance.

The data has been collected from the report of the Ministry of Finance where it has been shown the contribution of full-fledged Islamic Banks to the major economic sectors of Bangladesh i.e. i) Agri-Sector, ii) Industry Sectors and iii) Service Sectors. At table-37, we see that for the year 2012 to 2016 the contribution of all Islamic Banks to Agriculture sector is Tk.13,712.00 mil, Tk.16,928.00 mil, Tk.15650.00 mil, Tk. 22833.00 mil and Tk.28969.00 mil respectively to the Industry sector it is Tk.1,90,422.00 mil, Tk.1,91,866.00 mil, Tk.2,14,606.00 mil, Tk.2,39,871.00 mil and Tk.2,96,670.00 mil respectively and to the service sectors (other sectors) is Tk.6,46,211.00 mil, Tk.7,66,489.00 mil, Tk.9,36,895.00 crore, Tk.10,93,673.00 mil and Tk.13,12,502.00 mil respectively.

Figure 19: Contribution of Islamic Banks to the major economic sectors i. e. Agri-Sector, Industry Sector and Service Sector of Bangladesh

Amount-in-Million Taka



It may be depicted that at the figure-19, the contribution of all Islamic Banking to the agricultural sector, industrial sector and service sector shown for the year 2012,2013,2014,2015 and 2016.The figure shows that the contribution of Islamic Banking to the agricultural sector is not significant.

Table-38: The contribution of Islamic Banking to the agricultural sector of Bangladesh economy.

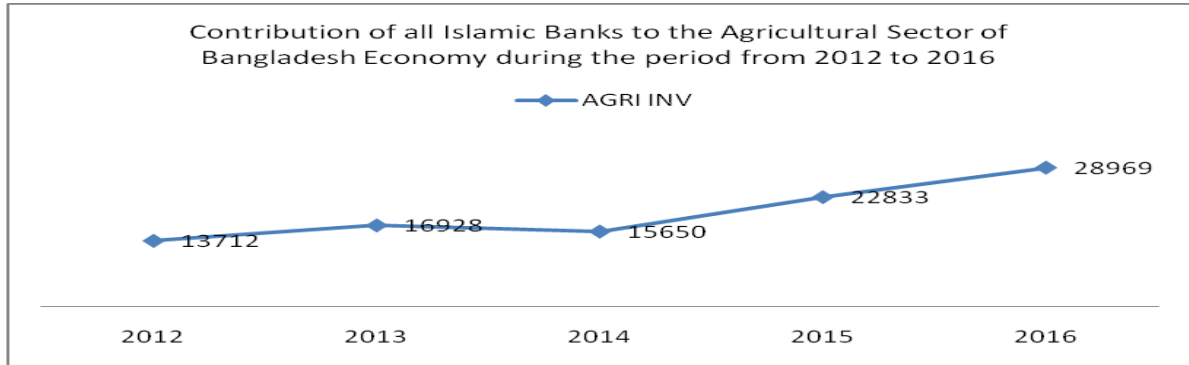
Fig in Million Taka

Year	Agricultural Sector
2012	13712
2013	16928
2014	15650
2015	22833
2016	28969

It may be depicted that at the Table-38, The contribution of Islamic Banking to economy of our country is shown for the year 2012-2016.In the year 2012 the contribution was Tk. 13,712.00 mil and for the year 2013 it was Tk. 16,928.00 mil which is up-ward. But in the year 2014 it was only Tk. 15,659.00 mil of which slope is downward. Because of less investment of the Islamic Bank Bangladesh Limited to the agricultural sectors (i.e. Foot note= In the year 2012 IBBL has invested Tk. 8,732.00 mil, in the year 2013 Tk.9,962.00 mil, in the year 2014 Tk.3,846.00 mil but in the year 2015 it has been jumped to Tk.8,606.00 mil which has been near about double than the year 2013 and in the year 2016 it has been increased to Tk.12,538.00 mil.^{39*} As a result due to less investment to Agri-Sector by the IBBL, the total investment of Agri-sectors of Islamic Banks has been declined in the year 2014. Thus the impact of less investment in agriculture sector of Islamic Bank it has been shown in the year 2014 of Tk.15,650.00 crore which is downward falling. For that very purpose in the year 2014 the contribution of all full-fledged Islamic Banks to the agriculture sector is falling. However, in the year 2015 and 2016 the contribution of Islamic Baking has been increased significantly and thus it has been upward slopping. The shape and scenario of agricultural sector is shown at figure-20.

39 *The Financial Activities of Bank, Bima and Financial Institution 2014-2015,Ministry of Finance P#129

Figure 20: The contribution of all Islamic Bank to the agricultural sector of Bangladesh economy.



At the figure 20 the line chart shows that in the year 2012 the contribution of Islamic Banking to agriculture sector was Tk.17,312.00 mil, in the year 2013 it has slightly been up and it has been Tk.16,928.00 mil. But due to less investment to the agri-sector by the IBBL it has been downward and reached to at Tk.15,650.00 mil in the year 2014. But in the year 2015 and 2016 it has been upward and reached to Tk.22,833.00 mil and Tk.28,969.00 mil respectively.

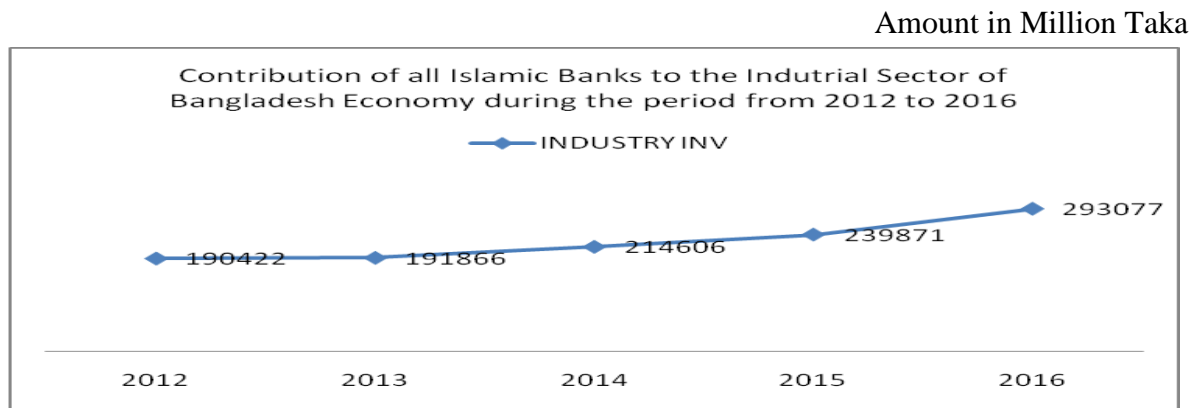
Table-39: The contribution of Islamic Banking to the Industrial sector of Bangladesh economy.

Amount in Million Taka

Year	Industrial Sector
2012	190422
2013	191866
2014	214606
2015	239871
2016	293077

It may be depicted that at the Table-39, The contribution of all Islamic Banking to the Industrial Sector to economy of our country is shown for the year 2012-2016. In the year 2012 the contribution was Tk.1,90,422.00 mil and for the year 2013 it was Tk.1,91,866.00 mil, for the year 2014 it was Tk.2,14,606.00 mil and in the year 2015 it was Tk.2,39,871.00 mil and in the year 2016 it was Tk.2,93,077.00 mil. The contribution to this sector of all Islamic Bank is gradually upward slopping. The shape and scenario of Industrial sector is shown at figure-21. It may be depicted that the tendency of all Islamic Banks is to invest to Industrial sector which is a good sign for industrialization as well as the less dependency on import. Ultimately it will increase the foreign reserve of the country. We know that the foreign currency reserve of our country is increasing day by day.

Fig-21: The contribution of Islamic Banking to the Industrial sector of Bangladesh economy.



At the figure 21 the line chart shows that in the year 2012 the contribution of Islamic Banking to industrial sector was Tk. 1,90,422.00 million, in the year 2013 to 2016 it has gradually been up and it has been Tk. 1,91,866.00 million, Tk.2,14,606.00 million, Tk. 2,39,871.00 million and Tk. 2,93,077.00 million respectively. It implies that every bank is very much interested to invest to the industrial sector of the economy. The line chart has gradually been upward. It depicts that it is a good sign for development of the social factors and thus industrialization of the country will be easier and import dependency of the country will be lessen.

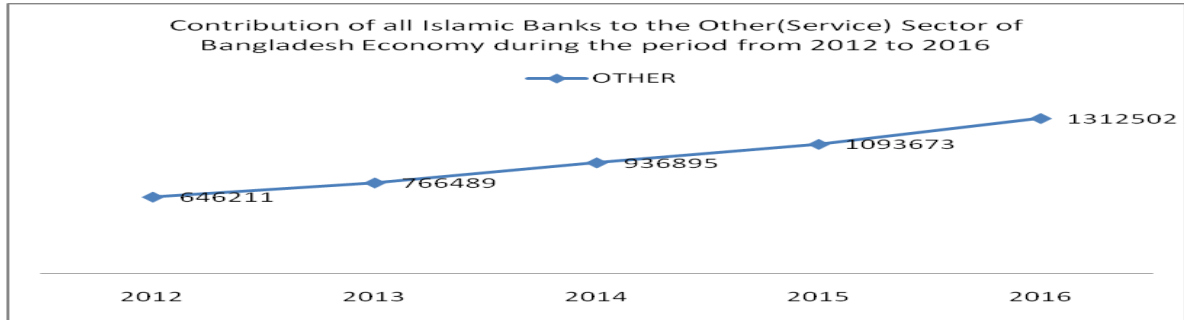
Table-40: The contribution of all Islamic Banking to the other sector (service sector) of Bangladesh economy

Amount in Million Taka

Year	Service Sector
2012	646211
2013	766489
2014	936895
2015	1093673
2016	1312502

It may be depicted that at the Table-40, the contribution of all Islamic Banking to the Service Sector to the economy of our country is shown for the year 2012-2016. In the year 2012 contribution was Tk.6,46,211.00 mil and for the year 2013 it was Tk.7,66,489.00 mil for the year 2014, Tk.9,36,895.00 mil in the year 2015 it was Tk.10,94,112.00 mil and in the year 2016 it was Tk.13,12,502.00 mil. The contribution to this sector of all Islamic Banks is gradually upward slopping. The shape and scenario of this sector is shown below at figure 22.

Figure 22: The contribution of all Islamic Banks to the other (Service) Sector of Bangladesh economy.



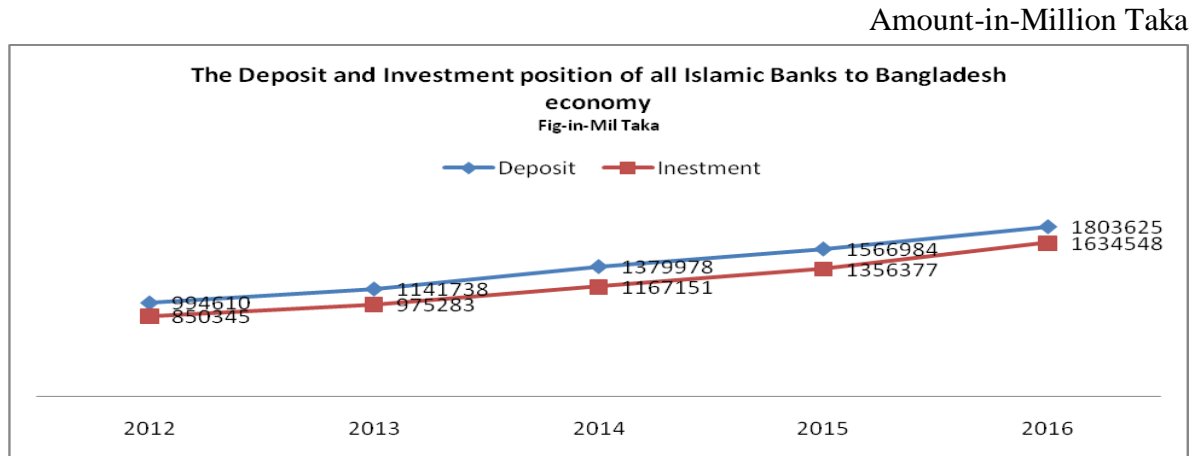
At the figure 22 the line chart shows that in the year 2012 the contribution of Islamic Banks to service sector was Tk.6,46,211.00 mil, in the year 2013 to 2016 it has gradually been up and it has been Tk.7,66,489.00 mil Tk.9,36,895.00 mil Tk.10,93,673.00 mil and Tk.13,12,502.00 mil respectively. It implies that every bank is not only interested to invest to the industrial sector but also to the service sector of the economy. The line chart has gradually been upward. It depicts that it is a good sign for the development of the social factors and thus service sectors will be improved and social welfare of Pareto or Pareto Optimality of the country will be enriched significantly.

Table-41: Consolidated figures of deposit, investment, and Investment Deposit Ratio of all Islamic Banks

Year	Amount-in-Million Taka		
	Deposit	Investment	ID Ratio
2012	994610	850345	85.50
2013	1141738	975283	85.42
2014	1379978	1167151	84.58
2015	1566984	1356377	86.56
2016	1803625	1634548	90.63

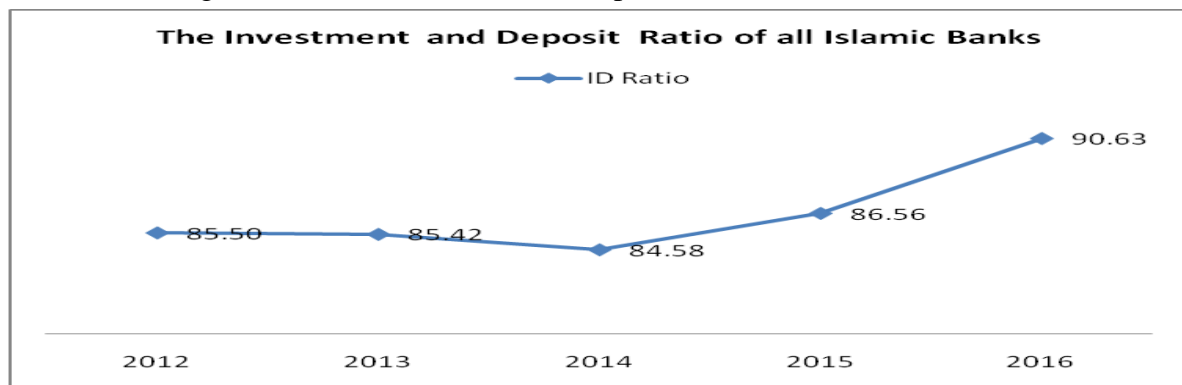
At table-41, the total deposit of the eight full-fledged Islamic banks has been shown for the period 2012 to 2016 was Tk.9,94,610.00 mil, Tk.11,41,738.00 mil, Tk.13,79,978.00 mil, Tk.13,56,377.00 mil and Tk.16,34,548.00 mil respectively. And also the total investment of the said Islamic Banks for the period was Tk.8,50,345.00 mil, Tk.9,75,283.00 mil, Tk.11,67,151.00 mil, Tk.13,56,377.00 mil and Tk.16,34,548.00 mil respectively. The Invest-Deposit (ID*In the conventional bank it is called Advance Deposit (AD) Ratio) ratio of the said Islamic Banks was 85.50%, 85.42%, 84.58%, 86.56% and 90.63% for the period 2012-2016 respectively. *It is an obligatory rate by the Bangladesh Bank. It implies a good sign that the deposits of the said banks are increasing day by day gradually. The people of this country are being trended to be circulated by the benefit of Islamic Banking for not only the benefit of the present earth but also the welfare of hereafter before the judgment of Almighty Allah.

Figure 23: The Deposit and Investment position of all Islamic Banks to the economy of Bangladesh



At the figure-23, the total deposit of the eight full-fledged Islamic banks has been shown for the period 2012 to 2016 as Tk.9,94,610.00 mil, Tk.11,41,738.00 mil, Tk.13,79,978.00 mil, Tk.15,66,894.00 mil and Tk.18,03,625.00 mil respectively. The graph also shows the trend of investment of the said Islamic Banks for the period Tk.8,50,345.00 mil, Tk.9,75,283.00 mil, Tk.11,67,151.00 mil, Tk.13,56,377.00 mil and Tk.16,34,548.00 mil respectively. The Investment line is below the deposit line which means that the Banks’ should maintain the prescribed ID ratio as a mandatory obligation for the Islamic Banks.

Figure 24: The Investment and Deposit Ratio of all Islamic Banks



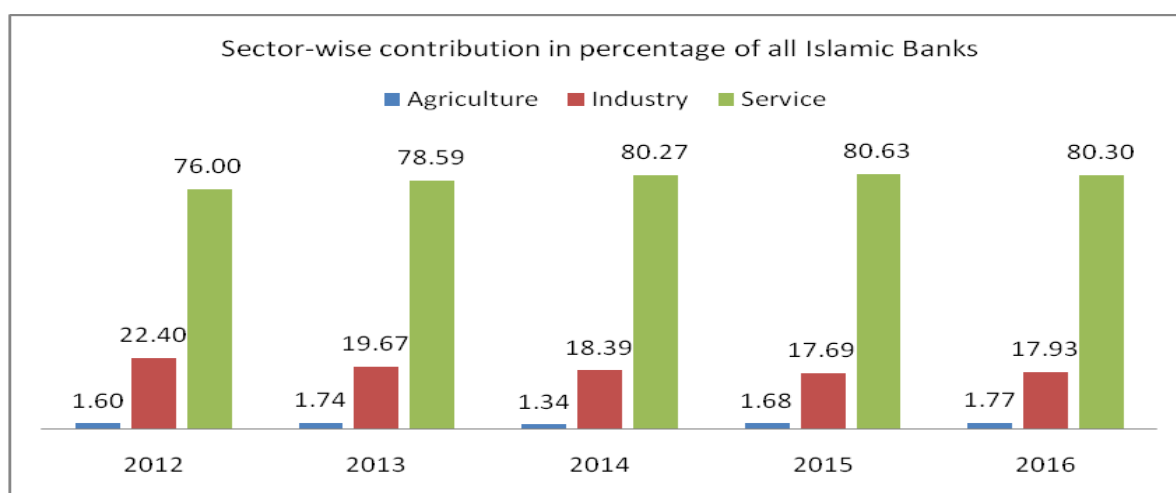
At figure 24 shows that the Invest-Deposit ratio of the said Islamic Banks was 85.50%, 85.42%, 84.58%, 86.56% and 90.63% for the period 2012-2016 respectively. It depicts that at the period 2012 the ID ratio is 85.50% and then it slightly is being downward for the period 2013 to 2014 i.e. 85.42% to 84.58%. But after 2014 it has been up ward i.e. 86.56% to 90.63% for the period 2015 to 2016 respectively. It implies that the investment has been beyond the mandatory in the year 2016 ID ratio which is not good for the Banks. As ID ratio is inter-correlated with the Statutory Liquidity Reserve (SLR) of the Bank.

Table-42 Sector-wise Consolidated figures of investment of all Islamic Banks and their percentage share

Sector-wise Consolidated figures of all Islamic Banks Fig-in-Million Taka					Contribution in percentage (%)		
Year	Agriculture	Industry	Service	Total Investment	Agriculture	Industry	Service
2012	13712	190422	646211	850345	1.60	22.40	76.00
2013	16928	191866	766489	975283	1.74	19.67	78.59
2014	15650	214606	936895	1167151	1.34	18.39	80.27
2015	22833	239871	1093673	1356377	1.68	17.69	80.63
2016	28969	293077	1312502	1634548	1.77	17.93	80.30

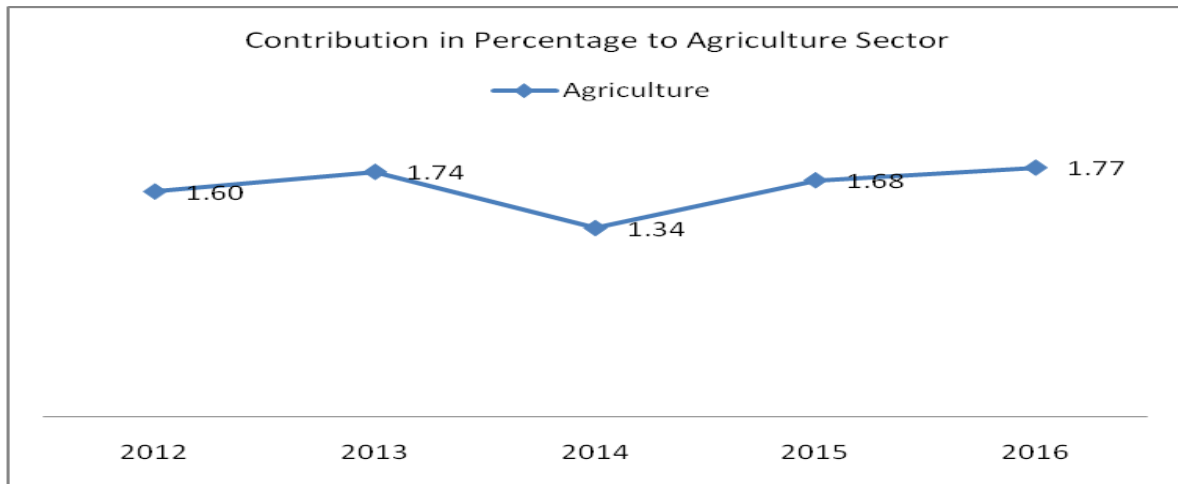
It may be depicted that at the Table-42, the contribution in percentage share of all Islamic Banks for the year 2012,2013,2014,2015 and 2016 to the agriculture sector is 1.60%,1.74%,1.34%,1.68% and to industrial sector is 22.40%,19.67%,18.39%,17.69 and 17.93% and to the Service Sector is 76.00%,78.59%,80.27,80.63 and 80.30 to the economy of our country. It is seen that percentage share of Islamic Banks to the agri-sector is gradually increasing but percentage share to the industrial sector is gradually decreasing day by day. But the percentage share of Islamic Banking to the service sector is increasing gradually.

Figure 25: Sector-wise consolidated amounts of investment in percentage share of all Islamic Banks



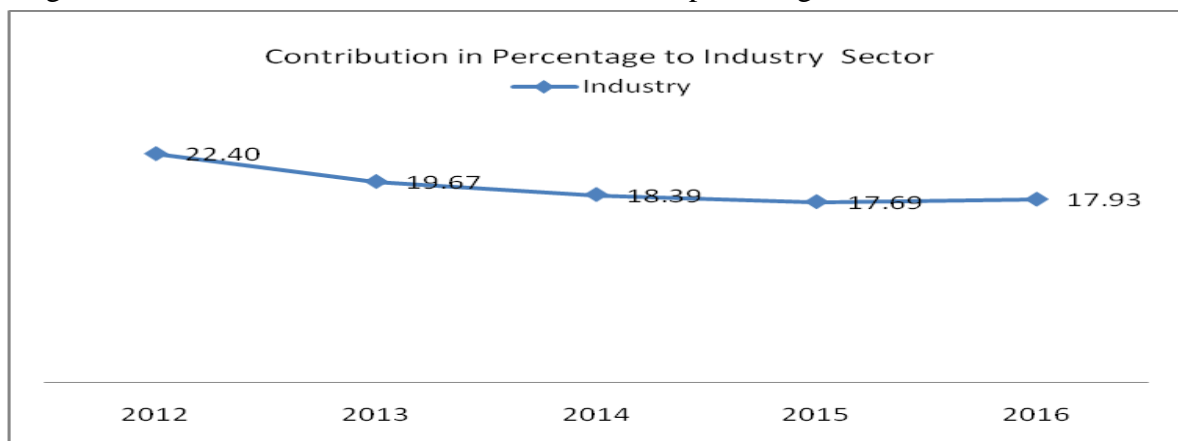
At the figure 25 shows the percentage share of all Islamic Banks to the agriculture, industry and service sectors which are the major economic sectors of Bangladesh Economy. The rectangle shows the comparative investment positions in percentile of these three sectors of economy of our country. It is found that the Islamic Banks in most of the cases invest to the service sectors of the economy and then to the Industry sectors and less investment to the agriculture sectors. Investment to the Agriculture sectors may be increased gradually.

Figure 26: Contribution of Agri- investment in percentage share of all Islamic Banks



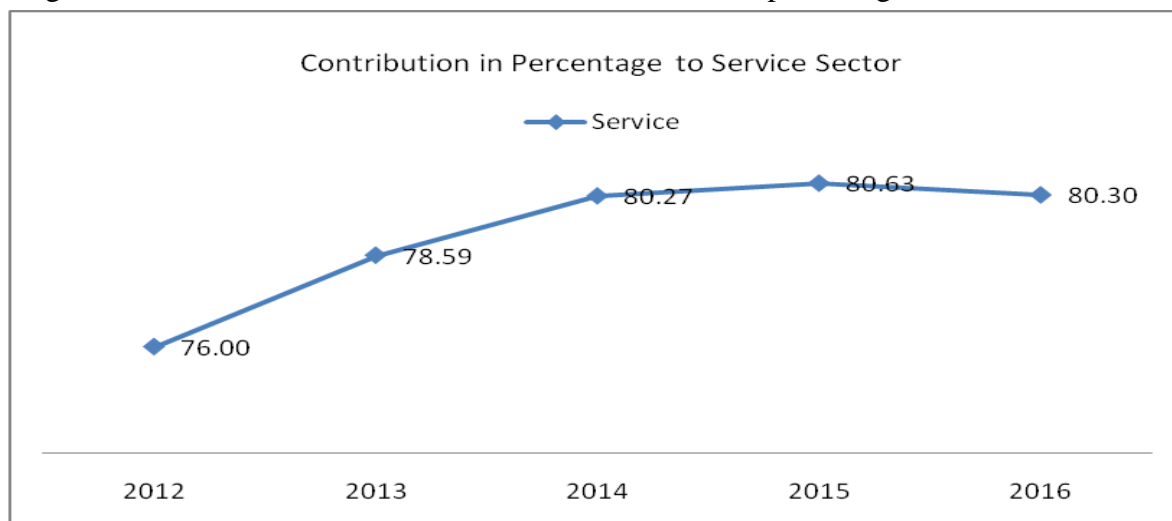
At the figure 26 shows the percentage share of Investment of Islamic Banks to the agriculture, of our economy. The graph shows the inconsistent growth to the economy of agri-sector where we see that in the year 2012 its percentage share is 1.60% ,in the year 2013,2014,2015 and 2016 is respectively 1.74%,1.34%,1.68% and 1.77%. We see that growth of agree-investment has slightly been up and then it has been downward to 1.34% and finally it has gradually been up from 1.34% to 1.68% and 1.77%.

Figure 27: Contribution of Industrial- investment in percentage share of all Islamic Banks



At the figure 27 shows the percentage share of Investment of Islamic Banks to the Industry of our economy. The graph shows the consistent reduction of this sector and gradually it has been service oriented. We see that in the year 2012 its percentage share is 22.40%, in the year 2013, 2014, 2015 and 2016 is respectively 19.67%, 18.39%, 17.69% and 17.93%. We see that growth of industrial investment of Islamic Banking has gradually been decreasing.

Figure 28: Contribution of investment to Service sector in percentage of all Islamic Banks



At figure 28 shows that contribution of all Islamic Banks of investment to Service sector shows that in the year 2012 the percentage share is 76.00%, in the year 2013, 2014, 2015 and 2016 is 78.59%, 80.27%, 80.63% and 80.30% respectively. The contribution to this sector of Islamic Banks is positive and upward growing. It implies that the Islamic Banks are concentrating their investment to this sector largely.

7.13 Year-wise comparative position of Branch, Employment, Deposit, Investment, Import, Export, Foreign Remittance, and Operating Profit

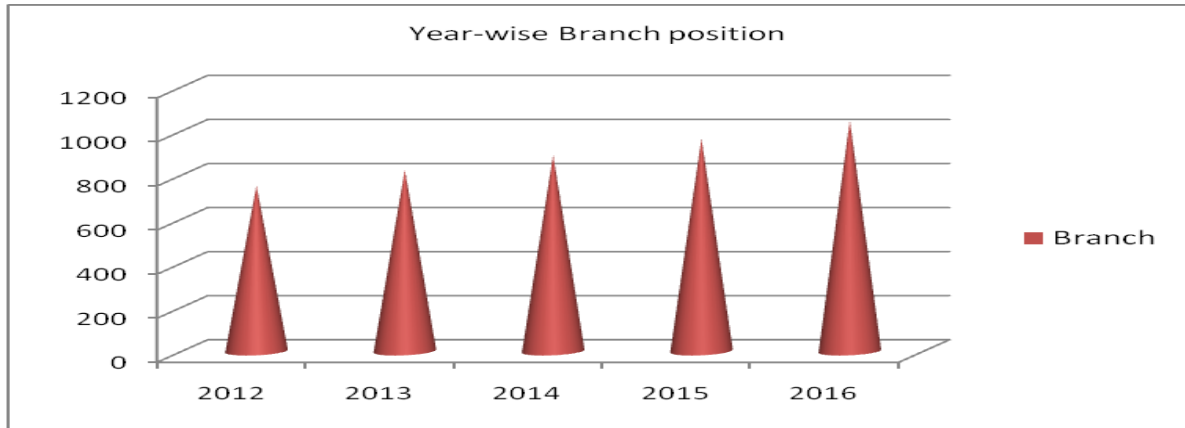
Table-43: Consolidated amounts of all Islamic Banks (Amount in Million Taka except year, Branch and Employee)

Year	Branch	Employee	Deposit	Investment	Import	Export
2012	751	22500	994610	850345	610306	537965
2013	823	24880	1141738	975283	675585	547713
2014	890	26618	1379978	1167151	769783	579448
2015	965	27636	1566984	1356377	827360	594528
2016	1047	28716	1803625	1634548	912078	637489

Table-44: Consolidated amounts of all Islamic Banks Fig in Million Taka

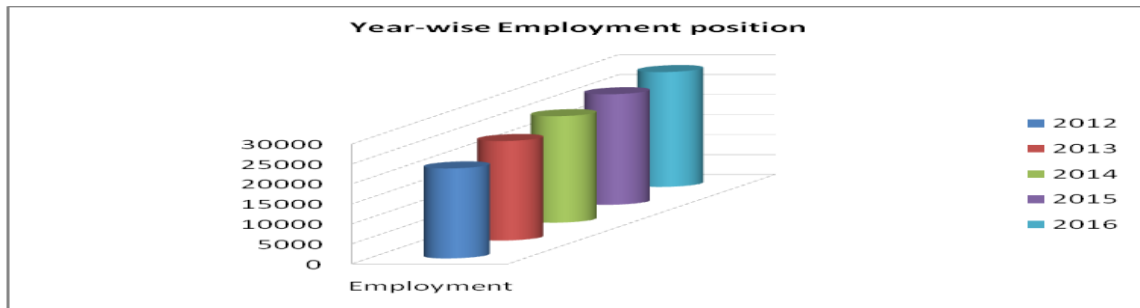
Year	Total Fex	Operating Profit	Agri Inv	Indus. Inv.	Service	Total Inv.
2012	1498475	35740	13712	190422	646211	850345
2013	1536809	31665	16928	191866	766489	975283
2014	1730625	36602	15650	214606	936895	1167151
2015	1776685	37662	22833	239871	1093673	1356377
2016	1873246	41849	28969	293077	1312502	1634548

Figure 29: Year-wise Branch position of all Islamic Banks



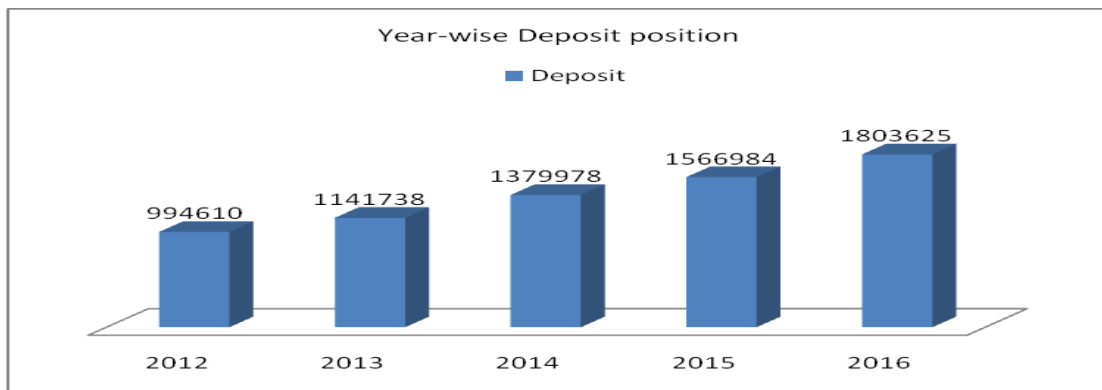
At figure-29 shows that the number of Branches of Islamic Banking for the year 2012 to 2016 has been increased from 751 to 1047 and their growth rate is 10% for the year 2013, 8% for the year 2014, 7.78% for the year 2015 and 8.50% for the year 2016.

Figure-30: Year-wise Employment position of all Islamic Banks



At figure 30 shows that the number of employees of Islamic Banks for the year 2012 to 2016 has been increased from 22, 500 to 28,716 and growth rate of employment generation is 10.57% for the year 2013,7% for the year 2014, 3.82% for the year 2015 and 3.86% for the year 2016.

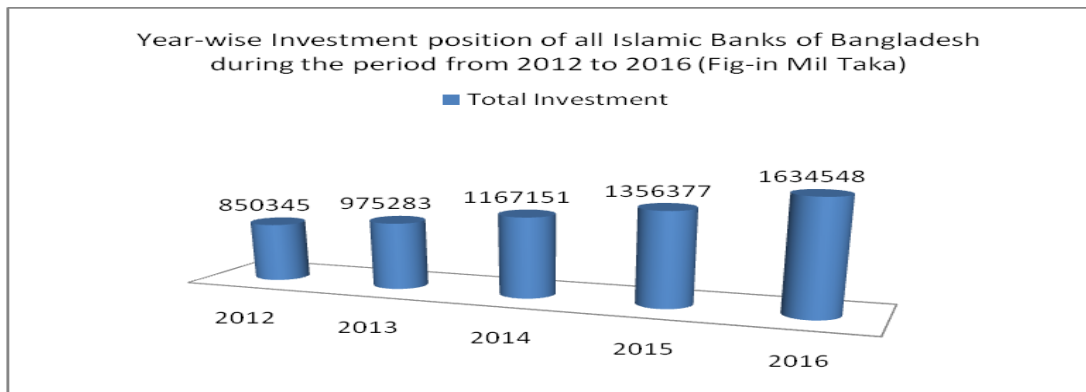
Figure 31: Year-wise Deposit position of all Islamic Banks (fig-in-million)



At figure 31 shows that the deposit of Islamic Banks for the year 2012 to 2016 has been increased from Tk.9,94,610.00 mil to Tk.18,03,625.00 mil and growth rate of deposit is

14.79% for the year 2013,20.87% for the year 2014,13.55% for the year 2015 and 15.10% for the year 2016.

Figure 32: Year-wise Investment position of all Islamic Banks (fig-in mil Taka)



At figure 32 shows that the Investment position of all Islamic Banks for the year 2012 to 2016 has been increased from Tk.8,50,345.00 mil to Tk.16,34,548.00 mil and growth rate of investment is 14.69% for the year 2013,19.67% for the year 2014,18.92% for the year 2015 and 20.50% for the year 2016.

Figure 33: Sector-wise Investment position by pie chart for the year-2016

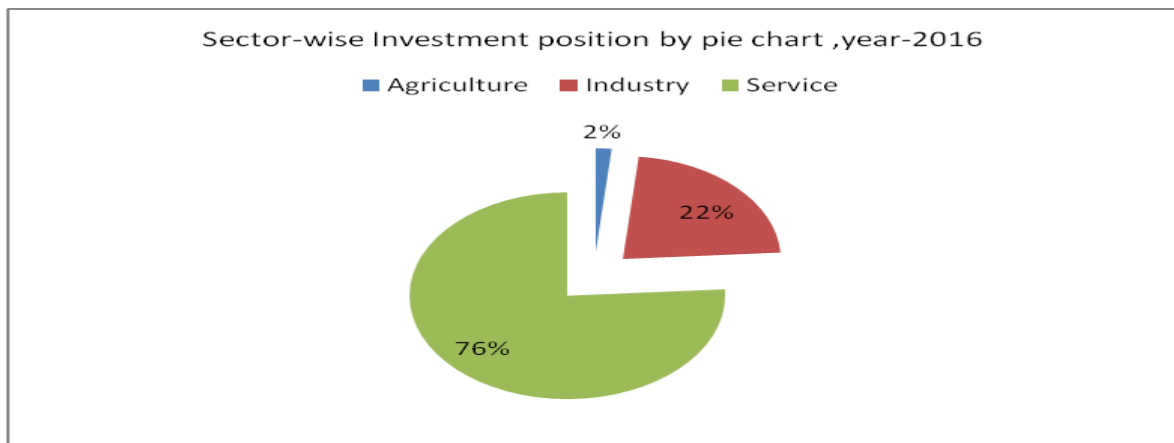
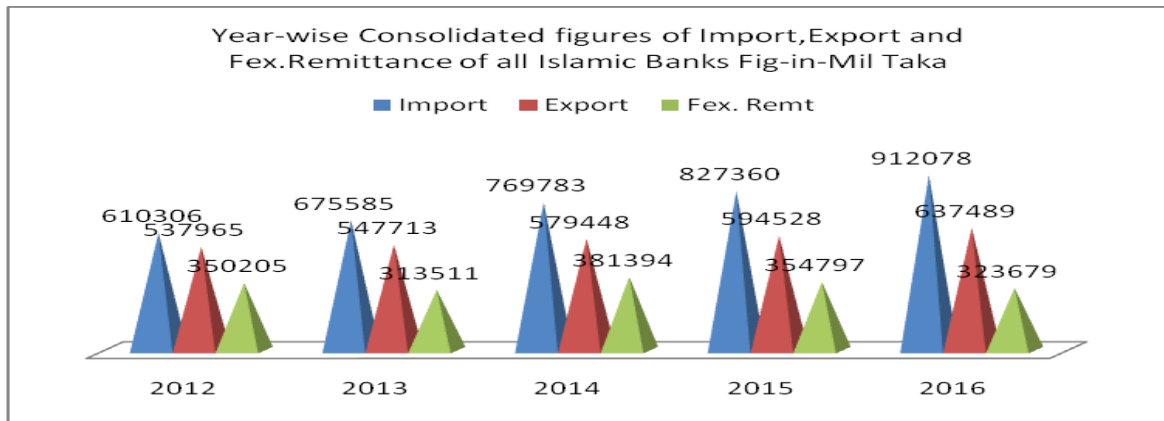


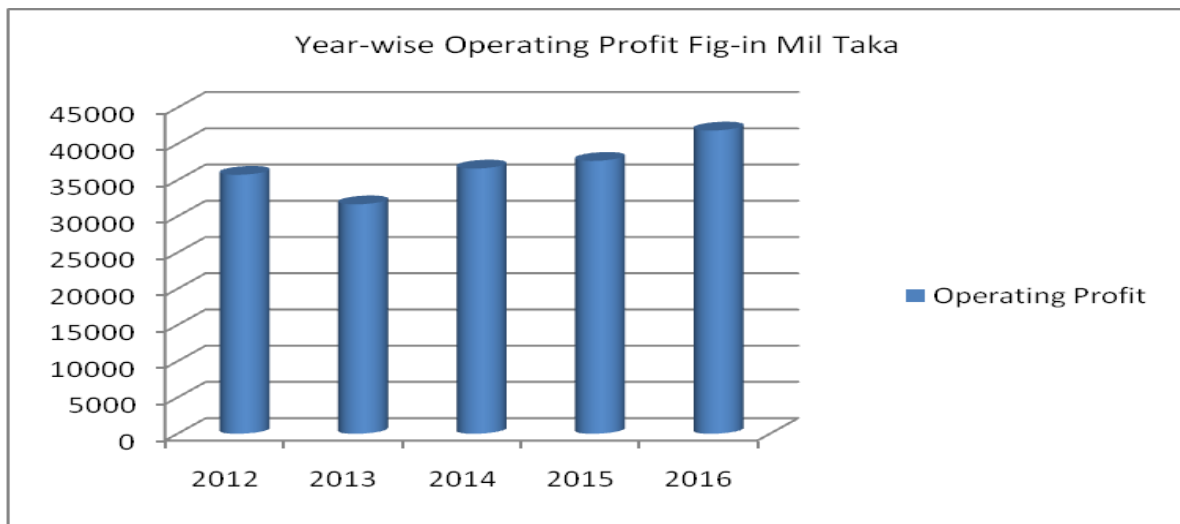
Figure 33 shows that the sector-wise in percentage the contribution of Islamic Banks to Agriculture sector is 2%,Industry sector is 22% and Service sector is 76% for the year 2016.

Figure 34: Year-wise Import, Export and Foreign Remittance position of all Islamic Banks



At the figure-34, year-wise (2012 to 2016) Import, Export and Foreign Remittance is shown where we see that gradually foreign trade position of all Islamic Banks are increasing and they are contributing to the economic growth of Bangladesh.

Figure 35: Year-wise Operating-Profit position of all Islamic Banks



At table -35 shows that the operating profit of all Islamic Banks for the year 2012 was Tk. 35,740.00 mil. But in the year 2013 it has been decreased to Tk. 31,655.00 mil. The negative changes to the operating profit is Tk. 4,085.00 mil. The amount decreased due to less contribution of IBBL, SIBL, EXIM Bank, SJIBL and ICB Islami Bank Tk. 1,504.00 mil, Tk. 693.00 mil, Tk. 341.00 mil, Tk. 1,753.00 mil and Tk.325.00 mil respectively. Operating profit of AIBL and FSIBL has increased Tk.193.00 mil and Tk.92.00 mil respectively. In the year 2013, the Union Bank has incorporated Banking business at the second half of the year and it has earned as operating profit of Tk.246.00 mil. For the year 2014,2015 and 2016 the operating profit of all Islamic Banks show for Tk.36,602.00 mil,Tk.37,662.00 mil and Tk.41,845.00 mil for the said period.

7.14 Conclusion

In this chapter, we have discussed the contribution of Islamic banking to economic growth and development of Bangladesh Economy. In this regard firstly, the process of calculation of growth rate to GDP has been discussed. Although the share of agriculture in gross domestic product (GDP) has declined from over half at the time of independence to around one fifth currently, it remains the predominant sector in terms of employment and livelihood, with about half of Bangladesh's workforce engaged in it as the principal occupation. Agriculture is the principal source of food and nutrition. Therefore, the level of farm production and prices are key determinants of poverty and human welfare. Agricultural growth has been accelerated from less than 2.0% per year during the first two decades after independence to around 3.0% during the last decade. Despite such a steady growth in agriculture as well as in food production, Bangladesh has been facing persistent challenges in achieving food security. The contribution of investment to Agri-sector of Islamic Banks is 1.60% 1.74%, 1.34%, 1.68% and 1.77% for the year 2012, 2013, 2014, 2015 and 2016 is respectively which shows inconsistent effect to the economy. The growth in Industry sector in FY2015-16 picked up 11.09 percent from 9.67 percent in FY2014-15, mainly attributed by the increase in mining and quarrying sector, manufacturing sector and electricity, gas and water supply sector. The growth of mining and quarrying sector was recorded 12.84 percent in FY2015-16, from 9.60 percent in FY2014-15. The contribution of investment to Industrial-sector of Islamic Banks is 22.40% , 19.67%, 18.39%, 17.69% and 17.93% for the year 2012, 2013, 2014, 2015 and 2016 is respectively which shows negative effect to the economy. Overall manufacturing sector (large and medium, and small scale) grew by 11.69 percent in FY2015-16, from 10.31 percent in FY2014-15. The growth rate of large and medium scale sub-sector and small scale sub-sector were 12.26 percent and 9.06 percent respectively in FY2015-16, up from 10.70 percent and 8.54 percent respectively a year earlier.

The service sector recorded 6.25 percent growth in FY2015-16, up from 5.80 percent in FY2014-15. Among the broad service sector, except financial intermediation sector, all the sectors performed well compared to previous fiscal year. During FY2015-16, financial intermediation decelerated slightly at 7.74 percent in FY2015-16, from 7.78 percent of previous fiscal year. The contribution of investment to Service-sector of Islamic Banks is 76.00%, 78.59%, 80.27%, 80.63% and 80.30% for the year 2012-2013, 2014, 2015 and 2016 is respectively which affect positively upward to the economy.

It is observed that the contribution of Islamic Banking in Bangladesh to the GDP growth is 0.41%, 0.38%, 0.35%, 0.37% and 0.36% for the year 2012, 2013, 2014, 2015 and 2016 respectively on the basis of current market price. But on the other hand the contribution of Islamic Banking in Bangladesh to the GDP growth is 0.44%, 0.40%, 0.37%, 0.39% and 0.38% for the year 2012, 2013, 2014, 2015 and 2016 respectively on the basis of current basic price. So to say the Islamic banking system in Bangladesh has created a positive effect on the major economic sectors though the percentage is very insignificant.

Chapter: Eight

Qualitative Analysis (Shariah Aspects)

8.1 Introduction

Overall, we have discussed measuring the contribution of full-fledge Islamic Banking to the growth and development of Bangladesh economy in two ways. One is quantitative method and another is qualitative method. In the chapter eight, we have tried our best to discuss the contribution of Islamic Banking to the growth and development of Bangladesh economy by using quantitative method. Going to discuss the contributions of Islamic Banking, in chapter eight, we have tried our best to discuss measuring the contribution of full-fledge Islamic Banking to the growth and development of Bangladesh economy the used qualitative method and questionnaires have been designed by using Likert Scale. We have used 5 points symmetric Likert Scale and the point has been denoted as 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree.

8.2 Descriptive analysis on Likert Scale

8.2.1 Scaling Respondents

It is observed that sometimes the researchers may be interested in scaling respondents. There are two methods of scaling respondents. One is summated scale (Like scale) and another is Q-sort scale. Likert scaling is a bipolar scaling method, measuring either positive or negative response to a statement.

8.2.2 Summated Scale (Likert Scale)

The summated scale was developed by Rensis Likert in 1932 to measure attitudes of theme. In this scale, a set of items is proposed with respect to a particular attitudinal object, like the role of educational institutions in employment market. The items can be classified into favorable items and unfavorable item. The typical Likert scale is a 5- or 7-point ordinal scale used by respondents to rate the degree to which they agree or disagree with a statement⁴⁰.

Likert distinguished between a scale proper, which emerges from collective responses to a set of items (usually five to seven), and the format in which responses are scored along a range. The difference between these two concepts has to do with the distinction Likert made between the underlying phenomenon being investigated and the means of capturing variation that point to the underlying phenomenon.

When responding to a Likert item, respondents specify their level of agreement or disagreement on a symmetric i.e. agree- disagree scale for a series of statements. Thus, the range captures the intensity of their feelings for a given item.

⁴⁰Research Methodology, Second Edition, R. Panneerselvam, page#160

A scale can be created as the simple sum of questionnaire responses over the full range of the scale. In so doing, Likert scaling assumes distances between each item are equal. All items are assumed to be replications of each other or in other words items are considered to be parallel instruments".

8.2.3 Scoring and analysis

After the questionnaire is completed, each item may be analyzed separately or in some cases item responses may be summed to create a score for a group of items. Hence, Likert scales are often called summative scales.

Whether individual Likert items can be considered as interval-level data, or whether they should be treated as ordered-categorical data is the subject of considerable disagreement in the literature, with strong convictions on what are the most applicable methods. The disagreement can be traced back, in many respects, to the extent to which Likert items are interpreted as being ordinal data based on a desired level of detail. The possibly more important point is whether the "distance" between each successive item category is equivalent, which is inferred traditionally.

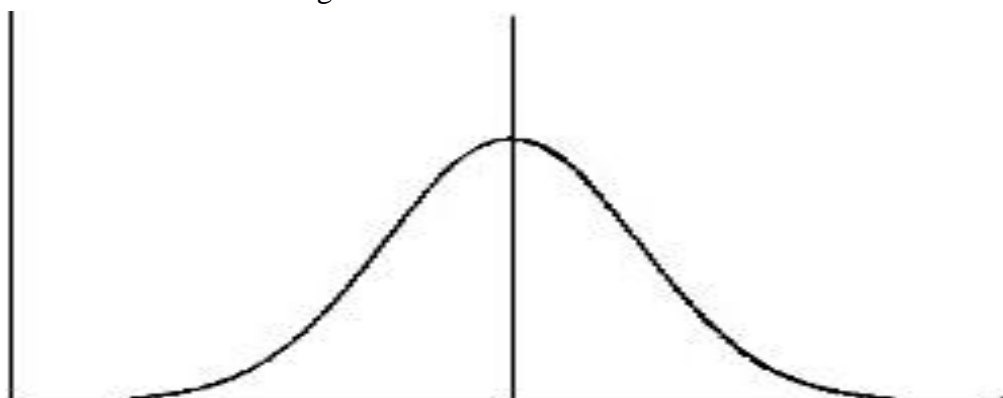
8.2.4 When should one use a Likert Scale?

The Likert scale can be a source of very useful questions that can be used to measure the overall feelings of people concerning a given topic, opinion or experience and it can as well as be used to collect specific data on factors that could be contributory to the expression of a given sentiment. It will be inappropriate and inaccurate to use some form of questions for some items in the Likert scale that are not related and in the case where the options are not presented in the appropriate form that is a scale.

8.2.5 The Controversy

In the medical education literature, there has been a long-standing controversy regarding whether ordinal data, converted to numbers, can be treated as interval data. The mean, standard deviation, and parametric statistics, which depend upon data that are normally distributed (figure 36) and is used to analyze ordinal data.

Figure-36: A Normal Distribution



When conducting research, we measure data from the population. Parametric tests make assumptions about the underlying population from which the research data have been obtained usually that these population data are normally distributed. Nonparametric tests do not make this assumption about the “shape” of the population from which the study data have been drawn. Nonparametric tests are less efficient than parametric tests. Descriptive statistics, such as mean and standard deviation, have unclear meanings when applied to Likert scale responses. Because of these observations, experts over the years have argued that the median should be used as the measure of central tendency for Likert scale data. Similarly, experts have contended that frequencies (percentages of responses in each category), contingency tables, χ^2 tests, the Spearman rho assessment, or the Mann-Whitney U test should be used for analysis instead of parametric tests, which, strictly speaking, require interval data (e.g. t tests, analysis of variance, Pearson correlations, regression). However, other experts assert that if there is an adequate sample size (at least 5–10 observations per group) and if the data are normally distributed (or nearly normal), parametric tests can be used with Likert scale ordinal data.

Likert scales are indiscriminate. We have designed a series of questionnaire which depends on five point Likert Scale. At the below the five-point Likert item, the inference is that the ‘distance’ between category 1 and 2 is the same as between category 4 and 5 from the category 3. In terms of good research practice, an equidistant presentation by the researcher is important; otherwise, biasness in the analysis may be resulted. A good Likert scale, as above, will present a symmetry of categories about a midpoint with clearly defined linguistic qualifiers. In such symmetric scaling, equidistant attributes will typically be more clearly observed or, at least, inferred. It is when a Likert scale is symmetric and equidistant that it will behave more like an interval-level measurement. Notions of central tendency are often applicable at the item.

8.3 Objectives Qualitative Based Analysis

Specific Objective

The specific objective of the study may be described as follow:

To identify the role of Shariah Supervisory Committee in ensuring the contribution of Islamic Banking Services to the Economic Growth and Development of Bangladesh

What are the duties and responsibilities of the Shariah Supervisory Committee to contribute efficaciously to the growth and development of our economy? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

Customers' viewpoint:

Table-45: Duties and responsibilities of the Shariah Supervisory Committee

Priority of question	Point of scale				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Giving advices and recommendations to the Committee of Directors and supervise the bank's activities	10	2	2	5	13
B. To ensure proper education of shariah for both bankers and customers	6	4	6	9	7
C. To identify the causes of non-compliance of shariah and suggest remedial measures	4	5	6	5	12
D. Reviewing the compliance of shariah principles in mobilizing and deploying bank fund on a continuous basis	9	3	4	12	4
E. To follow up and monitoring strongly and properly the activities of Islamic Banks.	5	8	2	6	11

Priority of question	Point of scale (%)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Giving advices and recommendations to the Committee of Directors and supervise the bank's activities	31	6	6	16	41
B. To ensure proper education of shariah for both bankers and customers	19	12	19	28	22
C. To identify the causes of non-compliance of shariah and suggest remedial measures	13	15	19	15	38
D. Reviewing the compliance of shariah principles in mobilizing and deploying bank fund on a continuous basis	27	9	13	38	13
E. To follow up and monitoring strongly and properly the activities of Islamic Banks.	16	25	6	19	34

Table-45 shows that at the alternative answer C the 38% respondents strongly agree that the Shariah Supervisory Committee should find out the causes of non-compliance and should suggest remedial measures for economic growth and developments. On the other hand, at the alternative answer D there are 38% respondents who agree the compliance of Shariah principles in mobilizing and deploying bank fund on a continuous basis. But there are 41% respondents at the alternate answer A who strongly agree that the prime duties of the Shariah Supervisory Committee should be to advise and recommend to the Committee of Directors and supervise the bank's activities in regular basis. At the alternative answer E the 34% respondents showed their

impression to follow up and monitoring strongly and properly the activities of Islamic Banks. But at the alternative answer B the 28% respondents agreed that Islamic banks should ensure proper education of Shariah principles for both bankers and customers.

Managements' Viewpoint:

What are the duties and responsibilities of the Shariah Supervisory Committee to contribute efficaciously to the growth and development of our economy? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

Table-46: Duties and responsibilities of the Shariah Supervisory Committee

Priority of question	Point of scale				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Giving advices and recommendations to the Committee of Directors and supervise the bank's activities	7	1	4	10	1
B. To ensure proper education of Shariah for both bankers and customers	5	2	4	8	4
C. To identify the causes of non-compliance of Shariah and suggest remedial measures	5	4	4	4	6
D. Reviewing the compliance of Shariah principles in mobilizing and deploying bank fund on a continuous basis	6	2	11	1	3
E. To follow up properly and strong monitoring the activities of Islamic Banks.	3	4	2	6	8

Priority of question	Point of scale (%)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Giving advices and recommendations to the Committee of Directors and supervise the bank's activities	31	4	17	44	4
B. To ensure proper education of Shariah for both bankers and customers	22	9	17	35	17
C. To identify the causes of non-compliance of Shariah and suggest remedial measures	22	17	17	18	26
D. Reviewing the compliance of Shariah principles in mobilizing and deploying bank fund on a continuous basis	26	9	48	4	13
E. To follow up properly and strong monitoring the activities of Islamic Banks.	13	17	9	26	35

Table-46 shows that at the alternative answer A the 44% respondents suggest that the Shariah Supervisory Committee should suggest to the Committee of Directors and supervise the bank's activities which will influence to the growth and development of the country. But on the other hand at the alternative answer D the 48% respondents are neutral regarding the compliance of Shariah Principles in mobilizing and deploying bank fund on a continuous basis. On the other hand at the alternative answer B the 35% respondents agree to ensure proper education of shariah for both bankers and customers. But at the alternative answer E 35% the respondents are strongly agree regarding the matter that the Islamic Bank should give priority to follow up properly and strong monitoring the activities of Islamic Banks for economic growth and development. It is noticed that at the alternative answer C the 26% respondent strongly agree to identify the causes of non-compliance of Shariah and suggest remedial measures.

In order to ensure the standard of Shariah Advisory Services, what qualities the members of Shariah Supervisory Committee should possess? Mark the following in order of priority e.g.1, 2, 3, 4, & 5.

Table-47: Qualities of the members of Shariah Supervisory Committee

Priority of question	Point of scale				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Good practicing Muslim	2	8	2	6	5
B. Considerable knowledge in Fiqha, Mu'amalat and current Islamic and conventional financial system	3	4	8	6	2
C. Analytical ability with understanding of Maqasid Al-Shari'ah	2	9	7	2	3
D. Righteous, courageous, trustworthy and dynamic	3	2	6	9	3
E. The capability to derive legal rulings	2	4	2	5	10
Priority of question	Point of scale (%)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Good practicing Muslim	9	35	9	25	22
B. Considerable knowledge in Fiqha, Mu'amalat and current Islamic and conventional financial system	13	17	35	26	9
C. Analytical ability with understanding of Maqasid Al-Shari'ah	9	39	30	9	13
D. Righteous, courageous, trustworthy and dynamic	13	9	26	39	13
E. The capability to derive legal rulings	9	17	9	22	43

Table-47 shows that at the alternative answer E the 43% respondents suggest strongly that the Shariah Supervisory Committee should possess the quality of capability to derive legal rulings which will influence to the growth and development of the country. But on the other hand at the alternative answer D the 39% respondents agree that the righteous, courageous, trustworthy and dynamic quality should be possessed in them. On the other hand at the alternative answer C the 39% respondents disagree the analytical ability of shariah supervisory Committee with understanding of Maqasid Al-Shari'ah. It is noticed that at the alternative answer B the 35% respondents are neutral regarding the matter of Considerable knowledge in Fiqha, Mu'amalat and current Islamic and conventional financial system. But at the alternative answer A there are 35% respondents who disagree of good practicing Muslim.

Do you think that shariah supervisory Committee for Islamic banking in Bangladesh can contribute up to the expectation of people to ensure compliance of Shariah and playing significant role towards development of the economy?

i. If the answer to the question is affirmative, then how? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

Table-48: Ensurance of compliance of Shariah by the Shariah Supervisory Committee

Priority of question	Point of scale				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Shariah Supervisory Committee incorporate most knowledgeable Fakih members and Islamic Scholars	0	5	3	4	11
B. The bank management complies with the verdict of Shariah Supervisory Committee	3	3	4	3	10
C. Shariah audit is a regular phenomenon of Islamic Banks	4	2	2	3	12
D. Bank executives are very much co-operative to follow the directives of Shariah Supervisory Committee	2	1	2	4	14
E. The members of the Shariah Supervisory Committee try their best to contribute to the development of our economy.	2	4	3	1	13

Priority of question	Point of scale (%)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Shariah Supervisory Committee incorporate most knowledgeable Fakh members and Islamic Scholars	0	22	13	17	48
B. The bank management complies with the verdict of Shariah Supervisory Committee	13	13	18	13	43
C. Shariah audit is a regular phenomenon of Islamic Banks	17	9	9	13	52
D. Bank executives are very much co-operative to follow the directives of Shariah Supervisory Committee	9	4	9	17	61
E. The members of the Shariah Supervisory Committee try their best to contribute to the development of our economy.	9	17	13	4	57

Table-48 shows that at the alternative answer D the 61% respondents suggest strongly that Bank executives are very much co-operative to follow the directives of Shariah Supervisory Committee. On the other hand at the alternative answer E the 57% respondents strongly agree that the members of the Shariah Supervisory Committee try their best to contribute to the development of our economy. But at the alternative answer C the 52% respondents strongly agree that Shariah audit is a regular phenomenon of Islamic Banks. It is noticed that at the alternative answer A the 48% respondents strongly believe that Shariah Supervisory Committee incorporate most knowledgeable Fakh members and Islamic Scholars. But at the alternative answer B the 43% respondents strongly believe that the bank management complies with the verdict of Shariah Supervisory Committee.

ii. If the answer to the question is negative, then possible reasons for your negative answer. Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

Table-49: Possible reasons for non-compliance of Shariah by the Shariah Supervisory Committee

Priority of question	Point of scale				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. In the most of the cases they are influenced by the Committee. So they can't freely work to give the right decision	4	5	4	6	4
B. Their opinion regarding Shariah compliance are sometimes neglected	5	1	3	6	8
C. Their opinion is not sought when the investment demands shariah experts' opinion.	2	6	2	4	9
D. The selection of the members of Shariah Committee are not always neutral or un-biased	5	2	3	12	1
E. Though they have enough knowledge regarding Shariah Principles, they can't work freely	4	5	2	9	3

Priority of question	Point of scale (%)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. In the most of the cases they are influenced by the Committee. So they can't freely work to give the right decision	17	23	17	26	17
B. Their opinion regarding Shariah compliance are sometimes neglected	22	4	13	26	35
C. Their opinion are not sought when the investment demands shariah experts' opinion.	9	26	9	17	39
D. The selection of the members of Shariah Committee are not always neutral or un-biased	22	9	13	52	4
E. Though they have enough knowledge regarding Shariah Principles, they can't work freely	17	22	9	39	13

Table-49 shows that at the alternative answer D the 52% respondents agree that the selection of the members of Shariah Committee are not always neutral or un-biased. On the other hand from the shariah supervisor Committee to contribute to the development of our economy the alternative answer E 39% respondents agree that though they have enough

knowledge regarding Shariah Principles, they can't work freely. At the alternative answer C the 39% respondents strongly believe that their opinions are not sought when the investment facilities are given to the clients. At the same time the alternative answer B the 35% respondents believe that their opinions regarding Shariah compliance are sometimes neglected. But at the alternative answer A the 26% respondents argue that in the most of the cases they are influenced by the Committee. So they can't freely work to give the right decision to implement the Shariah principles.

How can Islamic Banks ensure that the profit on deposit and financing facilities they offer are Shariah Compliant? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

Table-50: Profit paid on deposit and financing facilities are Shariah Compliant

Priority of question	Point of scale				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Building up personal awareness among the bankers and customers for abiding Islamic Shariah	3	3	4	8	5
B. Field supervision and surprise visit to the project under investment by the members of shariah supervisory committee should be introduced.	1	5	7	9	1
C. Shariah compliance audit should be mandatory and more inclusive	2	6	9	1	5
D. Shariah knowledge and compliance rate should be prime consideration for promotion of banks executives.	2	8	5	6	2
E. The deposit and investment product should be delivered by the recommendation of the Fikh Member	4	2	2	5	10

Priority of question	Point of scale (%)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Building up personal awareness among the bankers and customers for abiding Islamic Shariah	13	13	17	35	22
B. Field supervision and surprise visit to the project under investment by the members of shariah supervisory committee should be introduced.	04	22	31	39	04
C. Shariah compliance audit should be mandatory and more inclusive	09	26	39	04	22

D. Shariah knowledge and compliance rate should be prime consideration for promotion of banks executives.	09	34	22	26	9
E. The deposit and investment product should be delivered by the recommendation of the Fikh Member	17	09	09	22	43

Table-50 shows that at the alternative answer E the 43% respondents strongly agree that the deposit and investment products should be delivered by the recommendation of the Fikh Member. But at the alternative question B there are 39% who believe that field supervision and surprise visit to the project under investment by Shariah Supervisory Committee members should be introduced. On the other hand, at the alternative C there are 39% respondents who are neutral regarding the Shariah compliance audit that should be mandatory and more inclusive among the bankers and customers for abiding the Shariah Islamic principles. It is noted that at the alternative answer A the 35% respondents argue that the authority of the Bank management should try to build up personal awareness among the bankers and customers for abiding Islamic Shariah. Further it is noticed that at the alternative answer D the 34% respondents argue that Shariah knowledge and compliance rate should be prime consideration for promotion of banks executives.

8.4 Conclusion

As per research methodology, qualitative data have been collected and in this chapter we have discussed the shariah based questionnaires and tried to identify the role of Shariah Supervisory Committee in ensuring the contribution of Islamic Banking Services to the Economic Growth and Development of Bangladesh, the duties and responsibilities of the Shariah Supervisory Committee, the qualities of the members of Shariah Supervisory Committee, the role of shariah supervisory Committee for Islamic banking in Bangladesh to meet up to the expectation of people to ensure compliance of shariah and playing significant role towards development of the economy of Bangladesh. There has also been discussed the rate of Profit on deposit and financing facilities the Islamic Bank offer are Shariah Compliant.

Chapter: Nine

Qualitative Analysis

(Management, Controlling Authority and Academicians' Viewpoints of the Contribution of Full-Fledged Islamic Banking to the Growth and Development of Bangladesh Economy)

9.1 Introduction

In this chapter we will analysis the result of questionnaire in qualitative aspect where the Management, the controlling authority and the stakeholders' viewpoints to the Contribution of Islamic Banking to the Growth and Development of Bangladesh Economy. We will try my best to discuss that the contribution of Islamic Banking to the growth and development of agricultural sectors, the industrial sectors and the growth of service sectors of our economy. I will also give the best effort of my own that the augmentation of agricultural products for economic growth and development of our economy. The growth and development of these sectors simultaneously whether are being properly contributed or not. Steps may to be taken in future by the Islamic Banks to ensure better contribution towards growth and development.

9.2 Objectives Based Analysis

General objective: The overall objective of the study is to measure the Contribution of Islamic Banking to the growth and development of Bangladesh Economy.

Specific Objectives:

The specific objective of the study on agricultural sector is described as follow:

To measure the Contribution of Islamic Banking to the Agricultural Growth and Development of Bangladesh Economy.

Clients' view:

A. How can the Islamic Banks contribute to the growth and development of agricultural sectors of our economy? Mark the following in order of priority e. g. 1, 2, 3, 4, & 5.

Table-51: Contribution of Islamic Banks to the growth and development of agricultural sectors of Bangladesh economy.

Priority of question	Point of scale				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. By enhancing the Investment portfolio for agriculture sector	7	3	8	9	5
B. By simplifying the Investment process	11	2	10	5	4
C. By Patronizing Profitable marketing for the Sales of agricultural product	7	4	6	3	12
D. By making the Profit margin customer friendly	4	2	8	15	3
E. By supplying raw material at a cheap and comparative price to the producer	5	4	4	8	11

Priority of question	Point of scale (%)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. By enhancing the Investment portfolio for agriculture sector	22	9	25	28	16
B. By simplifying the Investment process	34	6	31	16	13
C. By Patronizing Profitable marketing for the Sales of agricultural product	22	13	19	9	38
D. By making the Profit margin customer friendly	13	6	25	47	9
E. By supplying raw material at a cheap and comparative price to the producer	15	13	13	25	34

Amount of table-51 shows that at the alternative answer D the 47% respondents shows their interest to make the profit margin friendly. They agree and argue that if whenever this will be possible then the Islamic Bank could contribute to the growth and development of the country smoothly. But at the alternative answer E the 34% respondents strongly agree that growth and development of a country is possible if raw materials are supplied to the producer at a cheap and comparative price. But in case of alternative answer B there are 34% of respondents strongly disagree regarding the simplification of investment process. They argue that if the investment process are simplified then the experienced and honest entrepreneur may be deprived from the true investment facilities. But at the alternative answer C the 38% respondents are strongly agree for patronizing the profitable marketing for the sales of agricultural product. At the alternative answer A the 28% respondents argue

that the growth and development of agricultural sector will be possible if enhancement of portfolio is possible.

Managements' view:

B. How can the Islamic Banks contribute to the growth and development of agricultural sectors of our economy? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

Table-52: Contribution of Islamic Banks to the growth and development of agricultural sectors of Bangladesh economy.

Priority of question	Point of scale				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. By enhancing the Investment portfolio for agriculture sector	8	5	1	5	4
B. By simplifying the Investment process	5	6	2	7	3
C. By Patronizing Profitable marketing for the Sales of agricultural product	2	3	2	7	9
D. By making the Profit margin customer friendly	7	3	2	4	8
E. By supplying raw material at a cheap and comparative price to the producer	3	7	4	6	3

Priority of question	Point of scale (%)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. By enhancing the Investment portfolio for agriculture sector	35	22	4	22	17
B. By simplifying the Investment process	22	26	9	30	13
C. By Patronizing Profitable marketing for the Sales of agricultural product	9	13	9	30	39
D. By making the Profit margin customer friendly	26	13	9	17	35
E. By supplying raw material at a cheap and comparative price to the producer	13	31	17	26	13

Table-52 shows that at the alternate answer D 35% respondents strongly shows their interest to make the profit margin customer friendly. They agree and argue that if whenever this will be possible then the Islamic Bank could contribute to the growth and development of the country smoothly. But at the alternative answer C the 39% respondents strongly agree for patronization of profitable marketing for sales of agricultural products to the concern authority for growth and development of a country. On the other hand, at the alternative

answer A the 35% respondents strongly disagree for enhancement of Investment portfolio for agriculture sector. At the alternative answer E the 31% respondents agree that the Islamic Bank could be able to contribute to the agricultural sector supplying raw material at a cheap and comparative price to the producer. On the other hand at the alternative answer B the 30% respondents opined that Islamic Bank could be able to contribute to economic growth and development if the investment process is simplified by the Banks.

Clients' view:

C. What care should the Islamic Banks take for augmenting agricultural product for economic development of our country? Mark the following in order of priority e.g.1, 2, 3, 4, & 5.

Table-53: Augmentation of agricultural products for economic development

Priority of question	Point of scale				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Multi-crop and hybrid products should be encouraged	7	2	5	6	12
B. Forward linkage of Agriculture product should be encouraged	6	3	6	13	4
C. Financing for irrigation and land development	11	5	5	6	5
D. Supplying agricultural input to marginal farmers/share croppers on a group basis	7	4	9	7	5
E. Taking care for diversification of agro-products	7	2	3	8	12

Priority of question	Point of scale (%)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Multi-crop and hybrid products should be encouraged	22	6	15	19	38
B. Forward linkage of Agriculture product should be encouraged	19	9	19	40	13
C. Financing for irrigation and land development	33	16	16	19	16
D. Supplying agricultural	22	13	27	22	16

input to marginal farmers/share croppers on a group basis					
E. Taking care for diversification of agro-products	22	6	9	25	38

Table-53 shows that at the alternative answer B the 40% respondents show their interest for forward linkage for production of Agri-product. They agree and argue that if whenever this will be possible then the Islamic Bank could contribute to the growth and development of the country smoothly. But at the alternative answer A the 38% respondents strongly agree that for growth and development of a country the Islamic Banks should pay attention to the investment of multi-crop and hybrid products. If a significant amount of multi-crop and hybrid goods can be produced then foreign import dependency will be decreased and as a result import payment will decrease and foreign reserve will be increased. Thus economic growth simultaneously economic development will be possible. In case of alternative answer E, 38% respondents express strong affirmation that if investment for diversification of agro-products is possible then market demand of agro-products will be increased. As a result sales proceeds from the agro-products will be increased remarkably. But in case of alternative answer C there are 33% of respondents who are strongly disagree to finance for irrigation and land development of investment process. It is noticed that at the alternative answer D the 27% respondents showed their interest for taking care for diversification of agro-products.

Managements' view:

D. What care should the Islamic Banks take for augmenting agricultural product for economic development of our country? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

Table-54: Augmentation of agricultural products for economic development

Priority of question	Point of scale				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Multi-crop and hybrid products should be encouraged	2	1	2	8	10
B. Forward linkage of Agriculture product should be encouraged	5	6	3	4	5
C. Financing for irrigation and land development	6	1	1	6	9
D. Supplying agricultural input to marginal farmers/share croppers on a group basis	1	7	1	4	10
E. Taking care for diversification of agro-products	7	4	2	6	4

Priority of question	Point of scale (%)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Multi-crop and hybrid products should be encouraged	9	4	9	35	43
B. Forward linkage of Agriculture product should be encouraged	22	26	13	17	22
C. Financing for irrigation and land development	26	5	4	26	39
D. Supplying agricultural input to marginal farmers/share croppers on a group basis	5	30	4	17	44
E. Taking care for diversification of agro-products	30	17	9	26	18

Table-54 shows that at the alternative answer A the 43% respondents opine that the Islamic Banks should finance to the multi-crop and hybrid products. If a significant amount of multi-crop and hybrid goods can be produced then foreign import may be lessen and so import payment will decrease and foreign reserve will be increased .At the alternative answer B the 26% respondents preach that banks should finance to those industries where the forward linkage of agriculture products are produced, should be encouraged. They agree and argue that if whenever this will be possible then the Islamic Bank could contribute to the growth and development of the country smoothly. But at the alternative answer C the 39% respondents strongly agree that for growth and development of a country the Islamic Banks should pay attention to the investment to the irrigation and land development. Thus economic growth simultaneously economic development will be possible. In case of alternative answer E the 38% respondents express strongly disagree that if investment for diversification of agro-products is possible then market demand of agro-products will be increased. As a result sales proceeds from the goods will be increased remarkably. But in case of alternative answer D the 44% of respondents strongly agree to supply agricultural input to the marginal farmers or share croppers on a group basis. If the Islamic Bank can confirm their Investment in this sector at easy way, and then production of agri-goods will be increased remarkably.

The specific objective of the study on Industrial sector is described as follow:

To measure the Contribution of Islamic Banking to the Industrial Growth and Development of Bangladesh Economy.

Clients' view:

A. How can Islamic Bank contribute to the growth and Development of Industrial sectors of our economy? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

Table-55: Contribution of Islamic Banks to the growth and Development of Industrial sectors of our economy

Priority of question	Point of scale				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Islamic Bank should financing the more generous in the modern technology- based industry	8	5	4	9	6
B. Investment to the agro-product industry should be increased at a large scale	8	7	2	10	5
C. The time for processing the investment should be minimized	8	10	5	2	7
D. Processing fees should be nominal	5	7	1	3	16
E. Investment to the forward linkage Industry to be prioritized	4	6	4	10	8
Priority of question	Point of scale (%)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Islamic Bank should financing the more generous in the modern technology- based industry	25	15	13	28	19
B. Investment to the agro-product industry should be increased at a large scale	25	22	6	31	16
C. The time for processing the investment should be minimized	25	31	16	6	22
D. Processing fees should be nominal	16	21	3	10	50
E. Investment to the forward linkage Industry to be prioritized	13	18	13	31	25

Table-55 shows that at the alternative answer D the 50% respondents strongly viewed to keep the processing fees at the nominal rate. If the Banks can pay attention to this view point, the investors would be able to finance more to their business. There are some Banks which are trying their best to apply more charges in different angels. Going to meet up the excess charges/fees the investors have to face trouble in mind which will hamper the business. They strongly agree and argue that if whenever this will be possible then the Islamic Bank could contribute to the growth and development of the country .On the other hand, at the alternative answer E, the 31% respondents also agree to the investment of forward linkage industries for growth and development of a country. But in case of alternative answer C there are 31% respondents who disagree regarding the timing of processing of investment. Because the Banks should observe all the points of the proposal

so that no lacking is found and if the bank can complete their jobs as per instruction, there will be no possibility of being default of the investment. We see that at the alternative answer B the 31% respondents agreed that for growth and economic development, the Islamic Banks should invest to the agro-product industry at a large scale. But at the alternative answer A the 28% respondents also agreed and opined to finance more to the modern technology- based industry.

Managements' view:

B. How can Islamic Bank contribute to the growth and Development of Industrial sectors of our economy? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

Table-56: Contribution of Islamic Banks to the growth and Development of Industrial sectors of our economy

Priority of question	Point of scale				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Islamic Bank should financing the more generous in the modern technology- based industry	4	4	2	6	7
B. Investment to the agro-product industry should be increased at a large scale	4	7	1	8	3
C. The time for processing the investment should be minimized	5	4	2	2	10
D. Processing fees should be nominal	6	3	1	7	6
E. Investment to the forward linkage Industry to be prioritized	2	5	3	6	7

Priority of question	Point of scale (%)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Islamic Bank should financing the more generous in the modern technology- based industry	17	17	9	26	31
B. Investment to the agro-product industry should be increased at a large scale	18	30	4	35	13
C. The time for processing the investment should be minimized	22	17	9	9	43
D. Processing fees should be nominal	26	13	4	31	26
E. Investment to the forward linkage Industry to be prioritized	9	22	13	26	30

Table-56 shows that at the alternative answer B the 35% respondents agree to Investment to the Agro-product industry to increase at a large scale. If the Banks can pay attention to this

view point, the investors would be able to finance more to their business. There are some Banks which are trying their best to apply this policy in different angles. On the other hand at the alternative answer C the 43% respondents strongly agree with the matter of minimization of timing of the processing of investment. At the alternative answer D the 31% respondents agree regarding the processing fees which should be nominal. On the other hand at the alternative answer A the 31% respondents strongly agree regarding the matter that the Islamic Bank should finance more in the modern technology- based industry. It is noticed that at the alternative answer E the 30% respondents strongly opined that Islamic Banks finance to the forward linkage Industry and it should be prioritized.

Clients' view:

C. How can Islamic Banks contribute to solve the problems of Industrial sectors for the economic development of Bangladesh? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

Table-57: Contribution of Islamic Banks to solve the problems of Industrial sectors for economic development of Bangladesh

Priority of question	Point of scale				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. The religious savors who had been otherwise out of reach of the banking services are coming to the banks for deposit mobilization.	7	3	7	6	9
B. Shariah based allocation of monetary resources.	6	2	8	5	11
C. Efficient Banking for Internal and External Trade.	8	3	8	10	3
D. Large number of employment generation and thus Poverty alleviation to a considerable extent from the society.	6	4	6	14	2
E. Investment to the procurement of Electricity and Gas supply may be done under Public and Private Participation	5	3	4	8	12

Priority of question	Point of scale (%)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. The religious savors who had been otherwise out of reach of the banking services are coming to the banks for deposit mobilization.	22	9	22	19	28
B. Shariah based allocation of monetary resources.	19	6	25	16	34

C. Efficient Banking for Internal and External Trade.	25	9	25	31	10
D. Large number of employment generation and thus Poverty alleviation to a considerable extent from the society.	18	13	19	44	6
E. Investment to the procurement of Electricity and Gas supply may be done under Public and Private Participation	16	9	12	25	38

Table-57 shows that at the alternative answer E the 38% respondents strongly agree to make investment to the gas and electricity sectors under private and public participation. If the Banks can pay attention to this view point, then the projects which are under process will be benefited and thus the more production of goods will be possible and then economic growth and development will be possible. On the other hand at the alternate answer D the 44% respondents agree that Banks' should provide more investment to this sector which will establish more employment oriented industries. Thus a large number of employment opportunities will be created and poverty will be alleviated from the society. It is observed that at the alternative answer B 34% respondents strongly believe that for economic growth and development Shariah based monetary allocation may be mandatory. Because it is a functional matter but not a religious factor. At the alternative answer C the 31% respondents opined that economic development Islamic Banks should confirm efficient Banking both in internal and external trade. But at the alternative answer A the 28% respondents showed their view that the religious savors who had been other-wise out of reach of the banking services are coming to the banks for deposit their idol fund. As a result the banks could be able to finance more at a lower rate of profit to the investors.

The specific objective of the study on Service sector is described as follow:

To measure the Contribution of Islamic Banking to the Growth and Development of Service Sectors of Bangladesh Economy.

Clients' view:

A. In which service sector Islamic Banks should finance more to contribute to the growth and Development of our economy? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

Table-58: The Service sector where the Islamic Banks should finance more to contribute to the growth and Development of our economy

Priority of question	Point of scale				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Real Estate and Constructions	2	12	2	6	10
B. Health and Social Works	3	7	1	8	13

C. Transport, Storage and Communications	9	6	3	8	6
D. Technical and Business Education	7	6	4	10	5
E. Hotel and Restaurant	6	4	3	8	11

Priority of question	Point of scale (%)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Real Estate and Constructions	6	38	6	19	31
B. Health and Social Works	9	22	3	25	41
C. Transport, Storage and Communications	28	19	9	25	19
D. Technical and Business Education	22	19	12	31	16
E. Hotel and Restaurant	19	13	9	25	34

Table-58 shows that at the alternative answer E the 34% respondents strongly agree to invest to the hotel and restaurant sector. If the Banks can invest more to this sector a huge amount of foreign currency may be earned from the foreigners and boarding. On the other hand at the alternative answer B the 41% respondents strongly agree to invest to health and social works sector. Because if the world standard level of health service is established the huge amount of foreign currencies will be saved from treatment sources and will be earned by delivering services to the people. But at the alternative answer A the 38% respondents disagree to finance to the real estate and constructions. At the alternative answer C the 28% respondents strongly disagree to invest to transport, storage and communications. But at the alternative answer D the 31% respondents opined to invest to technical and business education. As today everything is being controlled by the technical way and different mode of business education is being expanded. Thus by investing to this sectors Islamic Bank could contribute to the growth and development of Bangladesh economy.

Managements' view:

B. In which service sector Islamic Banks should finance more to contribute to the growth and Development of our economy? Mark the following in order of priority e. g. 1, 2, 3, 4, & 5.

Table-59: The Service sector where the Islamic Banks should finance more to contribute to the growth and Development of our economy

Priority of question	Point of scale				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Real Estate and Constructions	1	6	2	4	10
B. Health and Social Works	5	2	3	6	7
C. Transport, Storage and Communications	10	7	1	3	2
D. Technical and Business Education	7	4	1	8	3

E. Hotel and Restaurant	2	4	3	6	8
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Priority of question	Point of scale (%)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Real Estate and Constructions	4	26	9	17	44
B. Health and Social Works	22	9	13	26	30
C. Transport, Storage and Communications	44	30	4	13	9
D. Technical and Business Education	30	17	4	36	13
E. Hotel and Restaurant	9	17	13	26	35

Table-59 shows that at the alternative answer A the 44% respondents strongly agree that the Islamic banks should finance more to the real estate and constructions for economic growth and development. If the Banks could finance more to this sectors it will create opportunity of employment and thus poverty will be alleviated. On the other hand at the alternative answer C the 44% respondents strongly disagree that the Islamic Banks should not finance more to the transport, storage and communications sector. It is noticed that at the alternative answer B the 30% respondents opined that Islamic Banks should finance more to the health and social works sector. Accordingly economic growth will be continued and economic development will be extended. At the alternative answer D the 36% respondents opined that the Islamic Banks should finance to the technical and business education sector of the economy. On the other hand at the alternative answer E the 35% respondents opined that Islamic Banks should finance to the hotel and restaurant.

The specific objective of the study on problems and limitations may be described as follows:

To find out the problems and limitations of Islamic Banking Services and suggestion of the remedial measures to accelerate the Economic Growth and Development of Agriculture, Industry and Service Sector of Bangladesh.

Problems and limitations (Clients' view)

A. What are the possible challenges of Islamic Banking Services face in enhancing the economic growth and development of our country? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

Table-60: The possible challenges of Islamic Banking services for economic growth and development of our country

Priority of question	Point of scale				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. High Provisional rate of profit	7	5	6	9	5
B. Very strict monetary recovery method	6	4	6	6	10
C: Capital-intensive production method	8	2	3	7	12
D: Less investment in manufacturing industries	7	3	5	11	6
E: Lack of government patronization	5	7	4	10	6

Priority of question	Point of scale (%)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A: High Provisional rate of profit	22	15	19	28	16
B. Very strict monetary recovery method	19	12	19	19	31
C: Capital-intensive production method	25	6	9	22	38
D: Less investment in manufacturing industries	22	9	16	34	19
E: Lack of government patronization	16	22	12	31	19

Table-60 shows that at the alternative answer C the 38% respondents agree that the Islamic Banks should invest at the capital intensive production method. If capital intensive method is possible to the industry the economic growth will be launched. But at the alternative answer E the 31% respondents who are agree to opine that for lack of government patronization the Islamic Banking are facing the problems for economic growth and development. But at the alternative answer D there are 34% respondents who agree to make less investment in manufacturing industries. But this situation will hamper the future growth and developments of the country. At the alternative answer B the 31% respondents strongly agree to be strict regarding the strict monetary recovery method. As a result investment generation will be hampered and establishment and implementation of new industry will be paved. But at the alternative answer A the 28% respondents agree regarding the matter of high provisional rate of profit of deposit so ultimately growth rate of investment will be decreased.

Managements' view:

B What are the possible challenges of Islamic Banking Services face in enhancing the growth of a country like Bangladesh? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

Table-61: The possible challenges of Islamic Banking Services for Economic growth of Bangladesh

Priority of question	Point of scale				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. High Provisional rate of profit	4	4	2	4	9
B. Very strict monetary recovery method	7	6	2	3	5
C. Capital-intensive production method	6	6	2	8	1
D. Less investment in manufacturing industries	7	6	2	4	4
E. Lack of government patronization	4	2	3	6	8

Priority of question	Point of scale (%)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. High Provisional rate of profit	17	17	9	17	40
B. Very strict monetary recovery method	30	26	9	13	22
C. Capital-intensive production method	26	26	9	35	4
D. Less investment in manufacturing industries	31	26	9	17	17
E. Lack of government patronization	17	9	13	26	35

Amount of table-61 shows that at the alternative answer A the 40% respondents strongly agree and suggest that the Islamic Banks are facing the challenges of high provisional rate of profit for enhancing the growth and development. On the other hand at the alternative answer B the 30% respondents strongly disagree and suggest that the very strict monetary recovery method is followed by the Islamic Banks which hamper the recovery of the Islamic Banks. But at the alternative answer C the 35% respondents agree regarding the matter that the Islamic Bank should give particular attention to the capital-intensive production method of the industry. As a result within the short time the customer will be able to produce more rather labor intensive Industry. At the alternative answer D the 31% respondents opined that the Islamic Banks should not make less investment in manufacturing industries. Because for growth and development of a country the expansion of Industry is the first condition/ necessary condition of a country. On the other hand, at the alternative answer E the 35% respondents opined that the contribution of Islamic Banks to the economic growth and development there has been found lacking of government patronization.

Remedial measures (Managements' view):

What steps can be taken in future by the Islamic Banks to ensure better contribution towards growth and development of our economy? Mark the following in order of priority e.g.1, 2, 3, 4, & 5.

Table-62: Steps to be taken in future by the Islamic Banks to ensure better contribution towards growth and development of our economy

Priority of question	Point of scale				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Islamic bank can educate both their deposit and investment customers and motivate them to comply with the true Islamic banking	5	4	2	5	7
B. Islamic bank can motivate their employees to comply Shariah Principles in their personal life and banking transactions	5	3	3	9	3
C. Islamic banks can increase investment to Infrastructural sectors	4	3	1	5	10
D. Islamic bank can switch from class banking to mass banking	4	6	2	9	2
E. Investment to the mass level Entrepreneur may be encouraged	3	4	1	5	10
Priority of question	Point of scale (%)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Islamic bank can educate both their deposit and investment customers and motivate them to comply with the true Islamic banking	22	17	9	22	30
B. Islamic bank can motivate their employees to comply Shariah Principles in their personal life and banking transactions	22	13	13	39	13
C. Islamic banks can increase investment to Infrastructural sectors	17	13	4	22	44
D. Islamic bank can switch from class banking to mass banking	17	26	9	39	9
E. Investment to the mass level Entrepreneur may be encouraged	13	17	4	22	44

Table-62 shows that at the alternative answer D the 39% respondents strongly agree and suggest that Islamic bank should switch from class banking to mass banking. If they can imply this policy the mass people will be able to come near to the banking services. On the other hand at the alternative answer E the 44% respondents strongly agree to encourage to

invest to the mass level Entrepreneur. On the other hand at the alternative answer C the 44% respondents agree to increase investment to the Infrastructural sectors. Though it is one of the prime functions of Government sectors. Now the Islamic Banks should come onward under the Public Private Participation (PPP) system for the economic development of the country. On the other hand at the alternative answer B the 39% respondents agree to motivate their employees to comply Shariah Principles in their personal life and banking transactions. Because if the employees of the Islamic Banks can not comply the Shariah rules in their personal life then they can not imply the same to the Banking transactions. At the alternative answer A the 30% respondents strongly agree that Islamic Banks should educate both their deposit and investment customers and motivate them to comply with the true Islamic banking rules.

Managements' view:

What measures can be taken to increase the contribution of Islamic Banking to the growth and development of our economy? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

Table-63: Measures to be taken to increase the contribution of Islamic Banking to the growth and development of our economy

Priority of question	Point of scale				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Diversification of investment products	5	6	2	8	2
B. Reduction of both margin and processing fees	6	5	1	10	1
C. Particular attention on employment generating investment	5	3	2	2	11
D. Gradually selecting sub-urban and rural areas for investment	6	3	4	2	8
E. Dedicated and prompt services to the customers	3	2	1	8	9

Priority of question	Point of scale (%)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Diversification of investment products	22	26	9	35	8
B. Reduction of both margin and processing fees	26	22	5	43	4
C. Particular attention on employment generating investment	22	13	9	9	48
D. Gradually selecting sub-urban and rural areas for investment	26	13	17	9	35
E. Dedicated and prompt services to the customers	13	9	4	35	39

Table-63 shows that at the alternative answer E the 39% respondents strongly agree and suggest that the Islamic Bank should try their best to be dedicated in prompt services. As there is a lot of Banks around the country where they will survive by prompt services. On the other hand at the alternative answer B the 43% respondents agree that reduction of both margin and processing fees of services. But at the alternative answer C the 48% respondents strongly agree regarding the matter that the Islamic Bank should give particular attention on employment generating investment. At the alternative answer A the 35% respondents agree that Islamic Banks should finance those sectors where the investors diversify their investment products. On the other hand at the alternative answer D the 35% respondents opined that gradually Islamic Bank should select the sub-urban and rural areas for investment. As a result for urban sectors' development there will be available employment opportunities and at the same time the labor mobilization will be declined.

The specific objective of the study on potential of Islamic Banking may be described as follows:

To explore the potentials of Islamic Banking Services to the Economic Growth and Development of Bangladesh.

A. What possible care should take for expansion of Islamic Banking with connection to the economic growth and development of Bangladesh? Mark the following in order of priority e.g. 1,2,3,4,& 5.

Table-64: Possible care should be taken for expansion of Islamic Banking with connection to the economic growth and development of Bangladesh

Priority of question	Point of scale				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Building up personal awareness among the bankers and customers for abiding Islamic Shariah	3	3	4	8	5
B. Field supervision and surprise visit to the project under investment by Shariah supervisory committee members should be introduced.	1	5	5	11	1
C. Shariah compliance audit should be mandatory and more inclusive	2	6	6	1	8
D. Shariah knowledge and compliance rate should be prime consideration for promotion of banks executives.	2	8	5	5	3
E. The deposit and investment product should be delivered by the recommendation of the Fikh Member	4	2	2	6	9

Priority of question	Point of scale (%)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Building up personal awareness among the bankers and customers for abiding Islamic Shariah	13	13	17	35	22
B. Field supervision and surprise visit to the project under investment by Shariah supervisory committee members should be introduced.	4	22	22	48	5
C. Shariah compliance audit should be mandatory and more inclusive	9	26	26	4	35
D. Shariah knowledge and compliance rate should be prime consideration for promotion of banks executives.	9	13	22	22	34
E. The deposit and investment product should be delivered by the recommendation of the Fikh Member	17	9	9	26	39

Table-64 shows that at the alternative answer E the 39% respondents strongly agree and suggest that the Islamic Bank should introduce the deposit and investment products by the recommendation of the Fikh Member. On the other hand at the alternative answer B the 48% respondents agree and suggest that the Shariah compliance audit should be mandatory and more inclusive. But at the alternative answer C the 35% respondents are strongly agree regarding the matter that the Islamic Bank should give particular attention on Shariah compliance audit which should be mandatory and more inclusive. But at the alternative answer A the 35% respondents opined that Islamic Banks' should buildup personal awareness among the bankers and customers for abiding Islamic Shariah. At the alternative answer D the 34% respondents strongly opined that Islamic Banks should take a policy for increasing of the Shariah knowledge and rate of compliance among the Officers and Executives which will be considered as prime contemplation for promotion of banks.

B. Which are the most customers' friendly services of Islamic Bank in respect of economic growth and development of our country? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

Table-65: Friendly customer's services of Islamic Bank in respect of economic growth and development of our country

Priority of question	Point of scale				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Diversification of investment products	5	4	1	11	2
B. Reduction of both margin and processing fees	6	5	1	10	1
C. Particular attention on employment generating investment	5	3	2	4	9
D. Gradually selecting sub-urban and rural areas for investment	6	3	4	2	8
E. Dedicated and prompt services to the customers	3	2	1	8	9

Priority of question	Point of scale (%)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Diversification of investment products	22	17	4	48	9
B. Reduction of both margin and processing fees	26	22	5	43	4
C. Particular attention on employment generating investment	22	13	9	17	39
D. Gradually selecting sub-urban and rural areas for investment	26	13	17	9	35
E. Dedicated and prompt services to the customers	13	9	4	35	39

Table-65 shows that at the alternative answer E the 39% respondents strongly agree that if the Banks can ensure prompt services to the customers the customers will minimize the time and they will further can deploy their time and money to their business. On the other hand, at the alternative answer D, the 35% respondents strongly agree that the Islamic banks should gradually select the sub-urban and rural areas for investment. If the Banks can diversify their investment at these desire levels, the economic growth of the country will be increased and resultantly the development will be possible at a remarkable level. At the alternative answer C the 39% respondents agree that the Islamic Banks should give special attention particularly on the employment generating investment sectors so that the unemployment problems may be solved and poverty will be alleviated from the society. As a result economic development of the country will be strengthened. At the alternative answer B

the 43% respondents agree that Islamic Banks should reduce of both margin and processing fees at the time of deposit allocation or investment facilities to the society. At the alternative answer A the 48% respondents who agree to invest to the diversified investment products.

How can Islamic Banks ensure that the deposit and financing facilities they offer are Shariah Compliant? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

Table-66: Deposit and financing facilities of Islamic Banks' is Shariah Compliant

Priority of question	Point of scale				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Building up personal awareness among the bankers and customers for abiding Islamic Shariah	3	3	4	8	5
B. Field supervision and surprise visit to the project under investment by the members of shariah supervisory committee should be introduced.	1	5	7	9	1
C. Shariah compliance audit should be mandatory and more inclusive	2	6	9	1	5
D. Shariah knowledge and compliance rate should be prime consideration for promotion of banks executives.	2	8	5	6	2
E. The deposit and investment product should be delivered by the recommendation of the Fikh Member.	4	2	2	5	10

Priority of question	Point of scale(%)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A. Building up personal awareness among the bankers and customers for abiding Islamic Shariah	13	13	17	35	22
B. Field supervision and surprise visit to the project under investment by the members of shariah supervisory committee should be introduced.	04	22	31	39	04
C. Shariah compliance audit should be mandatory and more inclusive	09	26	39	04	22
D. Shariah knowledge and compliance rate should be prime consideration for promotion of banks executives.	09	34	22	26	9

E. The deposit and investment product should be delivered by the recommendation of the Fikh Member.	17	09	09	22	43
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Table-66 shows that at the alternative answer E the 43% respondents strongly agree that the deposit and investment products should be delivered by the recommendation of the Fikh Member. But at the alternative question B there are 39% who believe that field supervision and surprise visit to the project under investment by shariah supervisory committee members should be introduced. On the other hand, at the alternative C there are 39% respondents who are neutral regarding the Shariah compliance audit that should be mandatory and more inclusive among the bankers and customers for abiding the Shariah Islamic principles. It is noted that at the alternative answer A the 35% respondents argue that the authority of the Bank management should try to build up personal awareness among the bankers and customers for abiding Islamic Shariah. Further it is noticed that at the alternative answer D the 34% respondents argue that Shariah knowledge and compliance rate should be prime consideration for promotion of banks executives.

9.3 Conclusion

In this chapter, we have tried our best to discuss the findings of derivatives of qualitative analysis through questionnaires to the Management part(Manager) of the Banks, the Controlling authority(Bangladesh Bank) of the Banks and Academicians(Bangladesh Institute of Bank Management) of our country. As the 5 points likert scale has been used, so each of the answers of the questions has been marked in priority bases, I have found here that in the most of the cases the respondents have tried their best to assess the answers of the questions and marked accordingly. As because, their viewpoints show how the Islamic Banks contribute to the growth and development of Agriculture sectors ,Industrial sectors and the Service sectors of the economy of the country. To solve the problems of the Industrial sectors of the economy how Islamic banks contribute profoundly. There has also been discussed the possible care that may be taken for expansion of Islamic Banking services with connection to the economic growth and development and the deposit mobilization and also allocation of deposits whether these are being done as per shariah aspects of the Banking Industry.

Chapter: Ten

Summary, Findings and Recommendation

10.1 Introduction

In order to Measure the Contribution of Full-fledged Islamic Banking to the Growth and Development of Bangladesh Economy through mobilization and allocation of monetary resources, there are some factors in Islamic banking system that facilitate economic development as follows:

- a. collecting information at the possible minimum costs,
- b. minimizing of asymmetric information,
- c. analyzing feasibility of investment in large and long term projects,
- d. facilitating risk amelioration and monitoring managers
- e. exerting corporate culture through banking system in general,
- f. working according to profit and loss sharing (PLS).

So, it can be said that Islamic banking has more important than conventional banking system in economic growth and development of Bangladesh Economy. After the liberation war of Bangladesh, Islamic Banking System was established in the year 1983 and then conventional Banking and Islamic Banking doing their banking business simultaneously. There are 8 full-fledged Islamic Banks, 19 Branches of 8 conventional Banks and 25 windows of 7 conventional Banks are operating Banking business in Bangladesh obtaining the permission of Islamic Banking. Each of the Islamic Banks has their own Shariah Supervisory Committee and Shariah related all observations are followed and monitored by them. Each of the Branch and Department of Head Office are being audited and inspected by the said committee. It is observed from the discussion of previous chapters and found that each of the Banks collecting deposits by the Al-Wadeeah current deposit and Mudaraba Deposit Modes. The locker systems are followed by the Amanah Mode. On the otherhand, the modes of investment are followed: Mudaraba (not financed by this mode), Musharaka (very insignificant role), Bai-Murabaha, Bai-Muajjal, Bai-Salam, Ijarah, Hire-purchase Musharaka Mutanaqasa (HPMM), Hire-purchase under Shirkatulmelk (HPSM), Quard and Quard-Al Hassan. For commissioning business (LC, BG, PG etc.) Wazirat Bill Wakala and Kifalah mode is being used. It is observed that the recent recession (2008-2010) of the world economy, the Islamic Banks and Clients of Islamic Banking have not been affected significantly in the world.

10.2 Findings of Quantitative Analysis

The quantitative analysis was carried out in Chapter-7. Trend of GDP, share of economic sectors in GDP, trend of investment, mobilization of savings, allocation of financial resources and their ratio to the GDP and liquidity were examined. According to data relating to different Economic sectors of Bangladesh economy, we have found that the 8 (eight)

Full-Fledged Islamic Banks have been contributing to the growth of agricultural sector for the period from 2012 to 2016 is Tk.137.12 crore, Tk.169.28 crore, Tk.156.50 crore, Tk.228.33 crore and Tk.289.69 crore. In the Industrial sector the contribution is Tk.1904.22 crore, Tk. 1918.66 crore, Tk. 2146.06 crore, Tk. 2398.71 and Tk. 2966.70 crore. In the other sectors (Service sector) the contribution is Tk.6462.11 crore, Tk. 7664.89 crore, Tk. 9368.95 crore, Tk. 10936.73 crore and Tk. 13125.02 crore only. The findings are depicted in the below table:

Fig in Crore Taka

Year	Agriculture sector	Industry sector	Other (Service) sector
2012	137.12	1904.22	6462.11
2013	169.28	1918.66	7664.89
2014	156.50	2146.06	9368.95
2015	228.33	2398.71	10936.73
2016	289.69	2966.70	13125.02

Sources: The activities of Banks, Bima and financial institutions, Ministry of Finance

On the other hand, the Growth rate of all Islamic Banks to the contribution of GVA is 4.96%, 1.37%, 20.46% and 9.83% respectively for the fiscal year 2012-2013, 2013-2014, 2014-2015 and 2015-2016.

10.3 Findings of the Qualitative Analysis

In Chapter eight the opinions of the interviewees were analyzed using 5 points Likert Scale regarding ensuring that the banking activities in Bangladesh is shariah-compliant. In order to examine the results of the quantitative and the qualitative analysis, we set the objectives of the research as follows:

Specific Objectives: The specific objectives of the study may be described as follows:

- i) To measure the Contribution of Islamic Banking to the Agricultural Growth and Development of Bangladesh Economy.
- ii) To measure the Contribution of Islamic Banking to the Industrial Growth and Development of Bangladesh Economy.
- iii) To measure the Contribution of Islamic Banking to the Growth and Development of Service Sectors of Bangladesh Economy.
- iv) To find out the problems and limitations of Islamic Banking Services and Suggestion of the remedial measures to accelerate the Economic Growth and Development of Agriculture, Industry and Service Sector of Bangladesh.
- v) To explore the potentials of Islamic Banking Services to the Economic Growth and Development of Bangladesh.
- vi) To identify the role of Shariah Supervisory Committee in ensuring the contribution of Islamic Banking Services to the Economic Growth and Development of Bangladesh.

10.3.1 Measuring the Contribution of Islamic Banking to the Agricultural Growth and Development of Bangladesh Economy

Bangladesh experienced both conventional banking and Islamic banking operating simultaneously for last 36 years. Although, a separate Islamic Banking act has yet to be passed by the Parliament of Bangladesh to run the Islamic Banking system efficiently. Only a Guide line has been provided by Bangladesh Bank to run the Islamic Banking Business by issuing circulars to monitor and supervise the activities of Islamic Banks.

At chapter-9, table-51 shows at the customers' viewpoints that the 47% respondents show their interest to make the profit margin friendly. They agree and argue that if whenever this will be possible then the Islamic Banks can contribute to the growth and development of the country smoothly. But at the management viewpoints' the 39% respondents strongly agree for patronization of profitable marketing for sales of agricultural products to the concern authority for growth and development of our country.

10.3.2 For augmentation of agricultural products the care what should the Islamic Banks take for economic development of our country

At chapter-9, table-52 shows that at the viewpoints of customers, the 40% respondent shows their interest for forward linkage for production of Agri-product. They agree and argue that if whenever this will be possible then the Islamic Bank can contribute to the growth and development of our country smoothly.

On the other hand at the management viewpoint, the 44% of respondents strongly agree to supply agricultural input to the marginal farmers or share croppers on a group basis. If the Islamic Bank can confirm their investment in this sector at easy way, then production of Agri-goods will be increased remarkably and ultimately the economic growth and development will be increased gradually.

10.3.3 Measuring the Contribution of Islamic Banking to the Industrial Growth and Development of Bangladesh Economy

As mentioned in Chapter-9, at the customers' viewpoint, the 50% respondents strongly viewed to keep the processing fees at the nominal rate. If the Banks can pay attention to this view point, the investors would be able to finance more to their business. There are some Banks which are trying their best to apply more charges in different angels. Going to meet up the excess charges/fees the investors have to face trouble in mind which will hamper the business. They strongly agree and argue that if whenever it will be possible to reduce the charges are possible then the Islamic Bank could contribute to the growth and development of the country.

On the other hand, at the viewpoints of management the 43% respondents strongly agree with the matter of minimization of timing of processing the investment proposal.

10.3.4 Measuring the Contribution of Islamic Banking to the Growth and Development of Service Sectors of Bangladesh Economy

As mentioned in Chapter-9, table-58 shows that at the customers' viewpoint the 41% respondents strongly agree to invest to the health and social works sector. Because if the world standard level of health service is established the huge amount of foreign currencies will be saved from treatment sources and will be earned by delivering services to the people. On the other hand, at the viewpoints of management the 44% respondents strongly agree that the Islamic banks should finance more to the real estate and constructions for economic growth and development. If the Banks could finance more to this sectors it will create opportunity of employment and thus poverty will be alleviated and economic growth and development of our country will be possible.

10.3.5 The possible challenges, the Islamic Banking Services are being faced in enhancing the economic growth and development of our country

There are some problems which can affect the performance of Islamic banking such as asymmetric information and moral hazard. These problems also exist in conventional banks. However, the majority of respondents believe that it is due to Islamic banks being more able to solve or reduce the problem of asymmetric information than conventional banks. Although, there is a motivation in clients to use moral hazard, their Islamic belief and the strong supervision which exists in Islamic banks can also decrease moral hazard. The majority of respondents believe that moral hazard in Islamic banks is less than in conventional banks so they cannot be problems in Islamic banking in particular. Overdue or delayed payment of investment is one of the challenges or problems for all Banking systems. It is observed that in most of the cases of default, it is permitted more time to debtors to repay the dues.

As mentioned in Chapter-9, table-60, the customers' viewpoint is that the 38% respondents agree that the Islamic Banks should invest at the capital intensive production method. If capital intensive production method is possible to the industry the economic growth will be launched.

On the other hand, at the viewpoints of management the 40% respondents strongly agree and suggest that the Islamic Banks are facing the challenges of high provisional rate of profit for enhancing the growth and development. Some interviewees believed that although this problem exists it is not due to Islamic banking but to government policies or shortage of financial resources.

10.4 There has been discussed some questions for which interviews have been taken almost relating to the economic growth and development of our economy

10.4.1 The steps that should be taken in future by the Islamic Banks to ensure better contribution towards growth and development of our economy

As mentioned in Chapter-9, table-62 shows that at the customers' viewpoint the 44% respondents agree to increase investment to the Infrastructural development sectors. Though it is one of the prime functions of Government. Now the Islamic Banks should come onward under the Public Private Participation (PPP) system for the economic growth and development of the country. On the other hand at the viewpoints of the Management the 48% respondents strongly agree regarding the matter that the Islamic Bank should give particular attention on employment generating investment.

10.4.2 The possible care what the Islamic Bank should take for expansion of Islamic Banking with connection to the economic growth and development of Bangladesh

The majority i.e. 48% of interviewees believe that the field supervision and surprise visit to the project under investment by Shariah supervisory committee members should be introduced.

Another factor which plays an important role in the shariah-compliance of contracts is the education of Officers and Staffs and even the education of Clients. For this reason it is necessary for Islamic banks to have a regular training scheme. Therefore, despite some training course being delivered by banking system for their officers and staff, it would appear to be necessary to provide more training course. All interviewees believed that, ongoing training courses for the officers and staffs should be launched at each Islamic Banks.

10.4.3 The most customer's friendly services of Islamic Bank in respect of economic growth and development of our country

Table-63 shows that at the alternative answer at A the 48% respondents who agree to invest to the diversified investment products.

10.4.4 Measuring the Contribution of Full-fledged Islamic Banking to the Economic Growth of Bangladesh complying shariah principles

Table-65 shows that 43% respondents strongly agree that the deposit and investment products are delivered by the recommendation of the Fikh Member.

Overall, from the conclusion of chapter seven we have found that the full-fledged Islamic Banks have been contributing although very insignificant i.e. 0.37% to 0.44% during the period 2011-2012 to 2015-2016 to the total Gross Domestic Product of our economy. But there is a significant role in contributing to the agriculture, Industry and also service sectors of our economy. At the below table shows the picture of contribution of these three sectors.

Picture of contribution of major three Economic sectors of our country

Fig in Crore Taka

Year	Agriculture sector	Industry sector	Other (Service) sector
2012	137.12	1904.22	6462.11
2013	169.28	1918.66	7664.89
2014	156.50	2146.06	9368.95
2015	228.33	2398.71	10936.73
2016	289.69	2966.70	13125.02

Table 67: Full-fledged Islamic Banking activities compared with all banks in Bangladesh

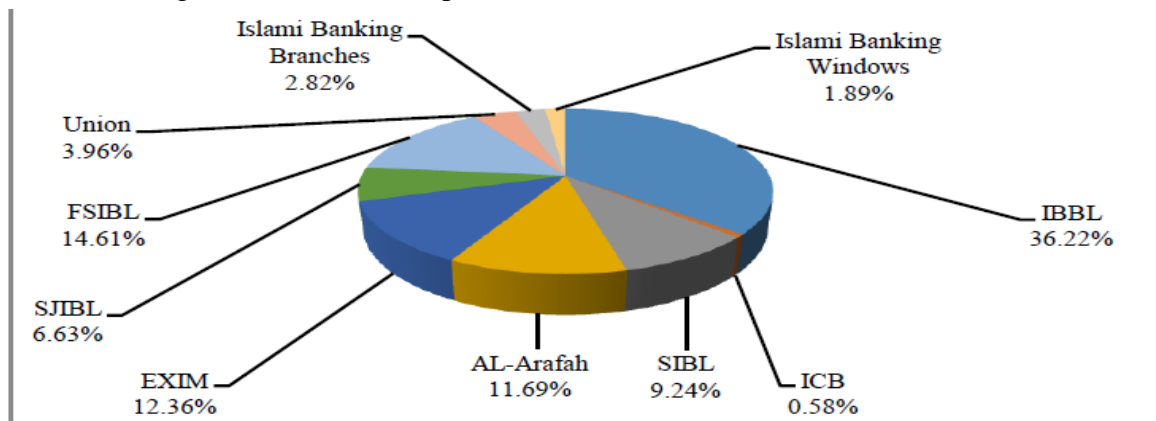
Position as on 31-12-2016

Items	All Banks	Islamic Banks	Share of Islamic Banks Among All Banks
Total Deposits (In Crore Taka)	8,40,268.20	1,80,362.5	21.46
Total Investment (In Crore Taka)	7,13,113.00	1,63,454.8	22.92
Total Number of Bank Branches	9,654	1,047	10.85
Total Agricultural Credit (In Crore Taka)	9,933.05	2,896.9	29.16

Source: **Developments of Islamic Banking in Bangladesh, B. B.** October- December, 2016, page#4

From the result of the table-67 shows that the deposit contribution of Islamic banking is 21.46% and investment 22.92%, participation of bank is 14.04% and branches 10.85% in respect to the total Banking Industry of our Country.

Figure 37: Share of Deposits of All Islamic Banks (December, 2016)



The deposit participation of all full-fledged Islamic Banks is shown at the below chart-37. At this table it is shown that the participation of IBBL 36.22%, FSIBL 14.61%, EXIM Bank 12.36%, Al-Arafa 11.69%, SIBL 9.24%, SJIBL 6.63%, Union 3.96%, ICBIBL 0.58%, Islami Banking Branches 2.82% and Islami Banking Windows.

10.5 Recommendations

In this analysis, the recommendations have been designed as per objectives of the Thesis Proposal.

i). To measure the Contribution of Islamic Banking to the Agricultural Growth and Development of Bangladesh Economy.

We know that agriculture is the heart of a country. To enhance the growth of the economy, the Islamic Banks should reshape the investment portfolio and finance more to the agriculture productions at easy terms and conditions they always should monitor whether the field of investment is doing properly and accurately nursing by the concern authority.

From the discussion of the chapter seven it is found that the contribution of Islamic Banking is only (1-2)% to the agriculture sector in proportion to their total investment which is very insignificant in Bangladesh Economy. The rate of agriculture Investment can be increased by following the customers' viewpoints that the profit margin may be friendly and someone strongly argued for patronization of profitable marketing for sales of agricultural products to the concern authority for growth and development of our country. We know that the rate of investment in agriculture sector is less than the other sectors of the economy.

So considering facts as stated above some opportunities may be given to the full-fledged Islamic Banks. In accordance to, the corporate tax on Islamic Banking Business may be deducted as announced by the National Board of Revenue that the other conventional Banks. As we see that there is levy or tax holidays for business industries to the few areas to encourage the business items. For Islamic Banking Business, the rate of corporate tax may be reduced at a cognizable level. Other than this, all types of policy should be taken by Bangladesh Bank for expansions of Islamic Banking in Bangladesh.

ii) To measure the Contribution of Islamic Banking to the Industrial Growth and Development of Bangladesh Economy.

Industrial sector is the second sector of our economy where (18-20) % is launched in proportions of total investment of Islamic Banks during the mentioned period. It is found that at the viewpoints of customers, the forward linkage production function is considered. They agree and argue that if this policy is possible to apply then the Islamic Banks could contribute to the growth and development of our country smoothly.

For smooth Islamic Banking business a specific law and order may be published for Banking in Bangladesh by the Ministry of Commerce as Company Act 1994 and Bank

Company Act-1991. We know that there are 8 full-fledged Islamic Banks in Bangladesh and there are 19 Branches of 8 Conventional Banks and 25 Windows of 7 Conventional Banks. So far we know that a large number of Conventional Banks are awaiting for to be converted to the full-fledged Islamic Banks and opening Islamic Banking Branches and windows in Bangladesh. We know that there are about 21.46% deposits and 22.92% investment of Islamic Banks among the Banks in Bangladesh. So few Islamic Banks are holding a great portion of the economy of the country.

iii) To measure the Contribution of Islamic Banking to the Growth and Development of Service Sectors of Bangladesh Economy.

Regarding the share of economic sectors in the economy, this chapter has shown that the strongest sector in Bangladesh is the service sector where near about (75-80)% investment of Islamic Banks is being parked. The Islamic Banks are investing to the most of the sub-sectors of service sector of our economy.

For keeping and continuing the present position of investment of service sectors one of the duty of the Central Bank in all banking systems, especially according to Islamic Banking of Bangladesh, is the implementation and fulfillment of monetary policies for the stability of the economy, protection of currency value and economic development. In the case of dependence on governments, they usually use it as an instrument for solving the monetary problems, especially in budget deficit times. At such, governments are eager to borrow from Central Banks leading to control inflation and consequently reduction in currency value.

iv. To find out the problems and limitations of Islamic Banking Services and Suggestion of the remedial measures to accelerate the Economic Growth and Development of Agriculture, Industry and Service Sector of Bangladesh.

To keep path with the concurrent challenges, overcoming the limitations of Islamic Banking Services, remedial measures can be taken to accelerate the Economic Growth and Development of Agriculture, Industry and Service Sector of Bangladesh Economy

- a) **Shariah law and order may be enacted by the Parliament:** It is a matter of great pleasure that in our country we are continuing the Islamic Banking since 1983 i.e. 36 years of banking arena has already been elapsed. Till date no law by the Parliament has been enacted or no Ordinance has been ordered. We have seen at chapter 7 that the Islamic Banks Contributing about 0.38 % (2015-2016) in contest to the total GDP of our Economy and solemnly pronounced Alhamdulillah, 11.44% in contest to the total Banking sector. Islamic Banking in Bangladesh is going on only under Guidelines for Conducting Islamic Banking: November 2009, Bangladesh Bank and few circulars circulated time to time from Bangladesh Bank.
- b) **Patronizing and enacting effective government policies:** The government should patronize and enact effective monetary policies which will help the growth of

Islamic Banks in Bangladesh and simultaneously their growth would help improving the economy through mobilizing and funding the deposits also.

- c) **Relationship between savings in Islamic banks and economic growth:** The findings of the study are to establish that there is a positive relationship between savings in Islamic banks and economic growth. Thus, this study recommends that Islamic banks should adapt realistic and effective policies on deposit mobilization as well as fund management so that they can invest more to the entrepreneur.
- d) **Officially effecting Budget at the Calendar year rather than at the Fiscal Year:** There are some countries like Albania, Algeria, Argentina, Austria, Bahrain, Belgium, Brazil, China, Denmark, France, Germany, Iraq, Italy, Korea (both), Malaysia, Russia, Saudi Arabia, Spain, Sudan, Sweden, Switzerland, Turkey etc⁴¹. The budget is implemented at the Calendar year (Fiscal year or financial year is the same). As a result, there will have no ambiguity between the data supplied from the related firm or company or organization. We know that the Banking system in Bangladesh is based on Calendar year but the Budget in Bangladesh is declared on Fiscal Year. To find out the contribution of Islamic Banking the annual and Half-yearly data of the Islamic Banks should have to convert to the fiscal year. For depicting the true pictures of the contributions of Banking Industry, Insurance and Other Ancillary Institutions (Sub-sector 10 of the service sector of the Economy) to the economy the Annual Report of these sectors have been finalized at the Fiscal Year rather than the Calendar year. If these system can be implemented the actual amount of contribution of this sector will be found. It is strongly recommended to provide the budget at calendar year (January-December) rather than at prevailing fiscal year (July-June) to the competent authority.

It is observed at chapter nine that 40% respondents strongly agree and suggest that the Islamic Banks are facing the challenges of high provisional rate of profit for enhancing the growth and development. Some interviewees believed that although this problem exists it is not due to Islamic banking but to government policies or shortage of financial resources.

v. To explore the potentials of Islamic Banking Services to the Economic Growth and Development of Bangladesh.

Profit and Loss sharing in profit distribution policy: As in profit and loss sharing, the bank acts as a partner and profitability of the project is important for them, it is necessary for the banking system to monitor the project carefully. The most important issue to be considered is restructuring regarding profit and loss sharing. We know that in case of Mudaraba mode of Deposit the profit is shared at the pre-agreed rate between the Saheb Al Mal (owner of the fund) and the Mudarib

⁴¹Retrieved from <https://www.cia.gov/library/publications/the-world-factbook/fields/228.html>

(Management part of the fund). On the other hand, in case of Musharaka mode, the equity is participated by the bank and the client and if there is profit it is shared at the pre-agreed rate and if there is loss, is also born as per equity participation by the both parties. The profit sharing and loss bearing policy should be cleared to the clients at a black and white at every stages of investment. There should be no vague or ambiguity at the time of distribution of profit between the Banks and the clients.

vi. To identify the role of Shariah Supervisory Committee in ensuring the contribution of Islamic Banking Services to the Economic Growth and Development of Bangladesh.

- a) **Shariah Based Products Diagnostic Centre:** We know that the main theme of Islamic Banks is buy and sale. As we know that money cannot be treated as a commodity. Money is a medium of exchange of goods. So the Islamic Banks announce these products which are not directly or indirectly involved with Gharar. Firstly the product will be designed and then to be sent it to the Shariah Diagnostic Centre. They will analysis it in respect of Sharish perspective and if it is tested by the Shariah Acid Testas per shariah law, then it will be placed to the Committee of Shariah Board. The Shariah Board will scrutiny it from its all side of Shariah Law and order then they will place it to the Board of Directors to approve as Bank's Product. As we know that most of the investments up to a ceiling is approved by the Board of Directors. Thus the Islamic Banking products should be approved by the Board of Directors as it is considered as the Islamic Banking Products. They will approve it from the view points of Standing to the Almighty Allah to the hereafter of the last Judgment day.
- b) **Deployment of Shariah Knowledge Based Managing Director to the Islamic Banks:** We know that father is the road show of the child. In our country there are few Managing Directors who have no background of Islamic Banking though they have enough experience in Banking Industry and with great reputation they have been leading the Banks for a long periods. But the Islamic Banking is different from the conventional Banks. If they have not enough Islamic Banking Knowledge they will not launch new products of Islamic Banks compatible to the world market.

10.6 Conclusion

The main aim of this chapter has been to consider the Islamic Banking in Bangladesh by focusing on the financial system. However, in recent years some structural reforms have been made in the banking system, such as the establishment of an allowance for private credit institutes and banks. There are 6 state-owned Banks namely Agrani, Sonali, Janata, Rupali, BASIC and BDBL Bank and 2 specialized governments Banks namely Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank and 49 local and foreign commercial Banks in Bangladesh. We know that the agricultural sector is the representative of the traditional sector and industry is representative of the modern sector of the economy. Regarding the

share of economic sectors in the economy, this chapter has shown that the strongest sector in Bangladesh is the service sector where near about (75-80)% is parked. Second is the Industry sector where (18-20)% of investment of Islamic Banks is parked and only (1-2)% of Agriculture investment of total investment of Islamic Banks is parked.

According to data relating to different Economic sectors of Bangladesh economy, we have found that the 8 (eight) Full-Fledged Islamic Banks have been contributing to the growth of agricultural sector for the period from 2012 to 2016 is Tk.137.12 crore, Tk.169.28 crore, Tk. 156.50 crore, Tk. 228.33 crore and Tk. 289.69 crore. In the Industrial sector the contribution is Tk. 1904.22 crore, Tk. 1918.66 crore, Tk.2146.06 crore, Tk. 2398.71 and Tk. 2966.70 crore. In the other sectors (Service sector) the contribution is Tk. 6462.11 crore, Tk. 7664.89 crore, Tk. 9368.95 crore, Tk. 10936.73 crore and Tk. 13125.02 crore only.

On the other hand, the Growth rate of all Islamic Banks to the contribution of GVA is 4.96%, 1.37%, 20.46% and 9.83% respectively for the fiscal year 2012-2013, 2013-2014, 2014-2015 and 2015-2016.

In a nutshell, we may conclude from the study that the full-fledged Islamic Banks have been contributing although very insignificant i.e. 0.37% to 0.44% during the period from 2011-2012 to 2015-2016 to the total Gross Domestic Product of our economy. But there is a significant role in contributing to the growth and development of agriculture, Industry and also service sectors of our economy.

10.7 Suggestions for Further Studies

The aim of this research has been to examine the contribution of Islamic banking to the growth and development of Bangladesh of economy. So it has been concentrated mainly on the experimental analysis. However, as Islamic banking is relatively new in the banking industry, both theoretical and practical researches are necessary. Some areas where more research is necessary are as follows:

- i. In this study I have used Fiscal Year data from 2011-2012 to 2015-2016 for the period of 5 years which is very few for research study. The data period for 20(Twenty) or more years may be considered for further study.
- ii. Comparative study between Islamic Banks and conventional Banks of contribution to the growth and development may be evaluated.
- iii. How efficiently the Islamic Banks is contributing to the sector wise of the economy of our country.
- iv. A comparative study among the Islamic Banks of MENA Countries with the Southeast-Asia respect to the welfare of the society.

- v. How can Islamic Banks alleviate the poverty by establishing employment opportunities in the society?
- vi. Uses of Sukuk broadly or in general to the capital market of Bangladesh and in Southeast-Asia.
- vii. Perfection of Sukuk to eliminate or to prevent speculation from the capital market.
- viii. The mechanism of determining rate of profit for investment and allocation of profit to the depositors considering the weight age of the products.
- ix. Further study on the challenges facing Islamic Banks in Bangladesh with a view of recommendation on how to deal with the challenges for contribution to the economy of the country.

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Survey Questionnaires

Title: Measuring the Contribution of Full-Fledged Islamic Banking to the Growth and Development of Bangladesh Economy

(Please answer the following questions. Your name and address will not be disclosed anywhere. Your information will be used only for research purposes.)

Objectives of the Study

General objective: The overall objective of the study is to measure the Contribution of Islamic Banking to the growth and development of Bangladesh Economy.

Specific Objectives:

The specific objectives of the study may be described as follows:

1. To Measure the Contribution of Full-Fledged Islamic Banking to the Agricultural Growth and Development of Bangladesh Economy.
2. To measure the Contribution of Full-Fledged Islamic Banking to the Industrial Growth and Development of Bangladesh Economy.
3. To measure the Contribution of Full-Fledged Islamic Banking to the Growth and Development of Service Sectors of Bangladesh Economy.
4. To find out the problems and limitations of Islamic Banking Services and suggestion of the remedial measures to accelerate the Economic Growth and Development of Agriculture, Industry and Service sector of Bangladesh.
5. To explore the potentials of Islamic Banking Services to the Economic Growth and Development of Bangladesh.
6. To identify the role of Shariah Supervisory Committee in ensuring the contribution of Islamic Banking Services to the Economic Growth and Development of Bangladesh.

A. Personal Information

1. Name :
2. Address :
3. Age :
4. Qualification :

5. Profession :.....
6. Experience :.....
7. Gender : Male/Female
8. Others :.....

B) Questionnaires (Customer)

1. How can the Islamic Banks contribute to the growth and development of agricultural sectors of our economy? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

- A. By enhancing the Investment portfolio for agriculture sector
- B. By simplifying the Investment process
- C. By Patronizing Profitable marketing for the Sales of agricultural product
- D. By making the Profit margin customer friendly
- E. By supplying raw material at a cheap and comparative price to the producer

2. What care should the Islamic Banks take for augmenting agricultural product for economic development of our country? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

- A. Multi-crop and hybrid products should be encouraged
- B. Forward linkage of Agriculture product should be encouraged
- C. Financing for irrigation and land development
- D. Supplying agricultural input to marginal farmers/share croppers on a group basis
- E. Taking care for diversification of agro-products

3. How can Islamic Bank contribute to the growth and Development of Industrial sectors of our economy? Mark the following in order of priority e.g.1,2,3,4,& 5.

- A. Islamic Bank should financing the more generous in the modern technology- based industry
- B. Investment to the agro-product industry should be increased at a large scale
- C. The time for processing the investment should be minimized
- D. Processing fees should be nominal
- E. Investment to the forward linkage Industry to be prioritized

4. How can Islamic Banks contribute to solve the problems of Industrial sectors for the economic development of Bangladesh? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

- A. The religious savors who had been other-wise out of reach of the banking services are coming to the banks for deposit mobilization.
- B. Shariah based allocation of monetary resources.
- C. Efficient Banking for Internal and External Trade.
- D. Large number of employment generation and thus Poverty alleviation to a considerable extent from the society.

E. Investment to the procurement of Electricity and Gas supply may be done under Public and Private

5. Which is the most customer's friendly services of Islamic Bank in respect of economic growth and development of our country? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

- A. Diversification of investment products
- B. Reduction of both margin and processing fees
- C. Particular attention on employment generating investment
- D. Gradually selecting sub-urban and rural areas for investment
- E. Dedicated and prompt services to the customers

6. What steps can be taken in future by the Islamic Banks to ensure better contribution towards growth and development of our economy? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

- A. Islamic bank can educate both their deposit and investment customers and motivate them to comply with the true Islamic banking
- B. Islamic bank can motivate their employees to comply Shariah Principles in their personal life and banking transactions
- C. Islamic banks can increase investment to Infrastructural sectors
- D. Islamic bank can switch from class banking to mass banking
- E. Investment to the mass level Entrepreneur may be encouraged

7. In which service sector Islamic Banks should finance more to contribute to the growth and Development of our economy? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

- A. Real Estate and Constructions
- B. Health and Social Works
- C. Transport, Storage and Communications
- D. Technical and Business Education
- E. Hotel and Restaurant

8. How can Islamic Banks ensure that the deposit and financing facilities they offer are Shariah Compliant? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

- A. Building up personal awareness among the bankers and customers for abiding Islamic Shariah
- B. Field supervision and surprise visit to the project under investment by the members of shariah supervisory committee should be introduced.
- C. Shariah compliance audit should be mandatory and more inclusive
- D. Shariah knowledge and compliance rate should be prime consideration for promotion of banks executives.

E. The deposit and investment product should be delivered by the recommendation of the Fikh Member

9. What are the possible challenges of Islamic Banking Services face in enhancing the growth of a country like Bangladesh? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

- A. High Provisional rate of profit
- B. Very strict monetary recovery method
- C. Capital-intensive production method
- D. Less investment in manufacturing industries
- E. Lack of government patronization

10. What are the duties and responsibilities of the Shariah Supervisory Committee to efficaciously contribute to the growth and development of our economy? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

- A. Giving advices and recommendations to the Committee of Directors and supervise the bank's activities
- B. To ensure proper education of shariah for both bankers and customers
- C. To identify the causes of non-compliance of shariah and suggest remedial measures
- D. Reviewing the compliance of shariah principles in mobilizing and deploying bank fund on a continuous basis
- E. To follow up and monitoring strongly and properly the activities of Islamic Banks.

Heartfelt thanks for your cordial co-operation

.....
Signature of the Responder

.....
Signature of Researcher

Mob: 01715047397

E-mail: anowar19@gmail.com

Survey Questionnaires

Title: Measuring the Contribution of Full-Fledged Islamic Banking to the Growth and Development of Bangladesh Economy

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B. Questionnaires (Management)

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- C. Transport, Storage and Communications
- D. Technical and Business Education
- E. Hotel and Restaurant

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- D. Islamic bank can switch from class banking to mass banking
- E. Investment to the mass level Entrepreneur may be encouraged

7. What measures can be taken to increase the contribution of Islamic Banking to the growth and development of our economy? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

- A. Diversification of investment products
- B. Reduction of both margin and processing fees
- C. Particular attention on employment generating investment
- D. Gradually selecting sub-urban and rural areas for investment
- E. Dedicated and prompt services to the customers

8. What possible care should take for expansion of Islamic Banking with connection to the economic growth and development of Bangladesh? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

- A. Building up personal awareness among the bankers and customers for abiding Islamic Shariah
- B. Field supervision and surprise visit to the project under investment by Shariah supervisory committee members should be introduced.
- C. Shariah compliance audit should be mandatory and more inclusive
- D. Shariah knowledge and compliance rate should be prime consideration for promotion of banks executives.

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- D. Reviewing the compliance of shariah principles in mobilizing and deploying bank fund on a continuous basis
- E. To follow up and monitoring strongly and properly the activities of Islamic Banks.

11. In order to ensure the standard of shariah advisory services, what qualities the members of Shariah Supervisory Committee should possess? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

- A. Good practicing Muslim
- B. Considerable knowledge in Fiqha, Mu'amalat and current Islamic and conventional financial system
- C. Analytical ability with understanding of Maqasid Al-Shari'ah
- D. Righteous, courageous, trustworthy and dynamic
- E. The capability to derive legal rulings

12. Do you think that shariah supervisory Committee for Islamic banking in Bangladesh can contribute up to the expectation of people to ensure compliance of Shariah and playing significant role towards development of the economy?

i. If the answer to the question is affirmative, then how? Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

- A. Shariah Supervisory Committee incorporate most knowledgeable Fakh members and Islamic Scholars
- B. The bank management complies with the verdict of Shariah Supervisory Committee
- C. Shariah audit is a regular phenomenon of Islamic Banks

- D. Bank executives are very much co-operative to follow the directives of Shariah Supervisory Committee
- E. The members of the Shariah Supervisory Committee try their best to contribute to the development of our economy.

If the answer to the question is negative, then possible reasons for your negative answer. Mark the following in order of priority e.g. 1, 2, 3, 4, & 5.

- A. In the most of the cases they are influenced by the Committee. So they can't freely work to give the right decision
- B. Their opinion regarding Shariah compliance are sometimes neglected
- C. Their opinion are not sought when the investment demands shariah experts' opinion.
- D. The selection of the members of Shariah Committee are not always neutral or un-biased
- E. Though they have enough knowledge regarding Shariah Principles, they can't work freely

Heartfelt thanks for your cordial co-operation

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Signature of the Responder

.....
Signature of Researcher

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