

# GOVERNANCE, STRUCTURAL ADJUSTMENT & THE STATE OF CORRUPTION IN BANGLADESH

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## Structural Adjustment

The structural adjustment programme the Washington consensus claim is designed to eliminate distortions and elementary economics tells us distortions create allocative and distributive inefficiency. The programme was aimed to stimulate growth in developing economies most of whom stagnated due to effects of external and internal shocks. The basic idea is simple i.e. establish a market determined regime; this requires containment of the role of the state in product and factor markets. The state, which was earlier identified as the organized force for propelling growth, was identified as the prime source of distortion manifested through regulation, control, protection under high tariff wall, ownership and operation of public enterprises, price control, exchange control, high presence in financial sector and poor quality of public expenditure. The basic thrust of structural adjustment was deregulation, privatization, and liberalization for allowing the market forces to play their rightful role. The framers of the policy possibly did not dream of achieving the ideal of a perfectly competitive economy in product, labor and capital markets but generally couch their arguments in the language of the second best. Bangladesh implemented the structural adjustment policies since 1982 and enjoyed support of SAF and ESAF in this regard. Bangladesh has been credited for carrying out one of the most rapid tariff liberalization and privatization program as well as carrying out policy reforms in financial and fiscal sectors. It has devalued currency and decontrolled current account operations, it has adopted measures to deregulate many sectors including private investment and foreign direct investment, withdraw many subsidies and price controls, reduced effective average tariff rates, followed on the whole a fiscal policy of budgetary deficit containment, rationalized tax structure, allowed monetary sector to function according to market signals and increased spending in social sector. It has not carried forth labor market reform or a meaningful reform in public administration. The basic premise was that such policy adjustments and withdrawal of state control will reduce costs due to transactions and inefficiency, increase entry into the market increasing competition, production and employment through a cumulative efficiency impact and these efficiency gain will increase productivity gain and income of factors thus propelling the economy towards higher gross domestic product. We all know by now that the expectations of the framers of structural adjustment policy have not been realized and the blame has been severally apportioned depending on value predilection of the analyzer. This write up has its focus on a very limited area i.e. corruption or rent seeking. Corruption as experience indicates exists with growth, privatization, liberalization, deregulation etc.

## **CORRUPTION: A CONCEPTUAL PERSPECTIVE**

Corruption or rent seeking is basically an institutional failure caused by market and/or policy inadequacy and it need not exist in government institutions alone and recent reports and studies have indicated its presence in private and NGO sector [House of commons hearing on corruption Nov, 2000] as they gain control and authority over resources in an imperfect system. The traditional view is that consumer sovereignty and presence of free entry or exit option will correct aberration from such conditions; the exit option by non-economic considerations is the modality for the government sector, but this is mostly constrained and voice as a solution is effective only in a democratic polity where transparency and accountability have become part of political and administrative culture. In an underdeveloped democratic polity even that option may not exist. In our deliberations the focus is primarily on the government and we shall adopt a narrow definition even though wider definition has been used in the literature on corruption.

Corruption has been perceived as a cultural problem. The necessary conditions for corrupt practices are (a) existence of power and/or position of power and/or protection of powerful persons and (b) existence of opportunity to use such power deliberately for personal or parochial gain (Harendra Kumar De, 1998). Sufficient condition adds (c) absence of an accountability and watchdog agency (Hafizuddin, 1998). Pasuk Phongpachit brought the cultural phenomena to the forefront in her discussion on Corruption and Democracy in Thailand. In developing countries where feudal culture is strong a patron client relation permeates the society and presenting gifts to high officials is carried over from pre-modern period. Similar institutions, existed in this country in the name of 'Punnah" during the Zamindari system and carried over into Khasmahal of the British Raj. This allowed a bureaucrat in government or private sector to treat his office as a legitimate tool for generating personal revenue in cash and kind. Thus exchanges of money/gift and privileges are present and deep rooted in traditional culture of Bangladesh as is the case with many traditional societies across the world. Susan Rose-Ackerman recognized that in private sector gift giving is pervasive and nepotism is normal (Susan Rose-Ackerman, 1999). In many societies the distinction between public and private role is often blurred. Even then appropriate and inappropriate as well as normal or coercive distinctions have been made in this regard. Thus it is important to distinguish between gifts, tips, prices and bribes. Susan Rose-Ackerman argues that existence of explicit quid proquo is a condition of sale and thus the payment is a price. But such quid proquo exists even when the exchange is not legitimate, e.g. commission received from development contracts. The difference between the two is explicit and existence of a market for the exchange in the case of the former and implicit and non-existence of a market in the case of the latter.

However, even such implicit exchange can be widespread and rates can be known (e.g. Mr/Ms ten percent in sub-continental politics/administration). Susan Rose-Ackerman recognized that both market sales and bribes involve reciprocity. A second

dimension is labeled as tip i.e., paying a bill for certain consumption when a tip is paid to the person who served. The tips (Baksis) are for satisfactory service but it is paid to the agent not the principal. If payment to an agent is considered not to be bribe, then how do we view speed money paid to the members of bureaucracy who are agents and not the principal? Susan Rose-Ackerman would argue that the payment to agent is considered tips when he works under well specified rules and have little discretion except as a facilitator and there exists no specified or negotiable quid pro-quo. Using quid pro-quo and agency principal in two dimensions Susan Rose - Ackerman would consider a payment to an agency where quid pro-quo is explicit as bribe, while payment to the principal is a price. She would consider payment to the principal with no explicit quid pro-quo as a gift and such payment to an agent as tips. But when the principal is a vague entity like the state, and agents (Minister, Secretary) substitute for the principal and this four way classification becomes blurred and payment to the agent for principal would include price as well as bribe which may take the shape of a gift (e.g. award of a scholarship to the son of a Secretary by a foundation which received donation from the bribing party for study abroad).

Thus gifts, which are large or significant to make a difference in recipient's behavior and implicit quid pro-quo exists even at a distant future, should be considered as bribe as gifts become prices. It is even more difficult to catch the personal dimension cultivated over the years when rules are bent to allow certain transactions which otherwise would not take place. Here comes the role of discretion in the transaction.

Susan Rose-Ackerman brought forth the relation between principal and agent and suggested that without an appropriate system of remuneration and monitoring the agent would find it rational to create alternative channels of remuneration. We know how low paid "Gomosta" bought the Zamindaris when supervision was lax and he practiced extortion of money in the name of the Zamindar. Thus the existence of pervasive corruption indicates presence of inefficient principal-agent relationship. The inefficiency creeps in because the monitoring cost is high or excessive price becomes a manifestation of systemic culture promoted by monopoly, discretion and sharing of benefits of corruption. Thus in the public domain the issue becomes a system of administration i.e. whether recruitment, promotion and posting are rule based for efficiency and not personalized or politicized for explicit or implicit gain in cash or kind for service to the decision-making principal or a parochial group chosen by the principal. The structural adjustment program does not address the issue directly except for reducing the size of the government and increasing the efficiency of governance including the public sector. Thus a discussion of civil service system, structure and reform become a logical part of a discussion on corruption even when the state lacks organizational flexibility enjoyed by the private sector in restructuring agency relationship when needed and that some public functions can not be performed by private sectors or markets.

Susan Rose-Ackerman indicates that non-compliance of implicit reciprocity can not be legally pursued in case of gifts and bribes and hence informal methods of

compliance and enforcement e.g. trust, reputation, reciprocal obligation, hostage taking and even use of mastans and such mechanisms are in vogue. For example as state has failed to facilitate legitimate land property transactions, the mastans have surfaced in many parts of this country. This is a governance failure leading to private corruption often aided by public agents (e.g. police, magistracy). Thus lack of trust in government's ability to resolve disputes or bones of legitimate contentions fairly, timely, efficiently and economically is a manifested cause of public perception that the agents are not able to ensure compliance and the agents may not be dispassionate and objective. The trust on governance agency is then shifted to private mastans or powerful intermediates because a person can trust and cultivate an accomplice. This was brought forward in the discussion on Mafia by Diego Gambetta (Diego Gambetta, 1993). Reputation of generously rewarding the agent by beneficiaries of decision making will induce the others to be fellow travelers and will allows the principal to make the move to cultivate personal relationship (David Fleischer 1997) Corruption is more easily institutionalized if the bribe giver can observe the past performance of corrupt agents (politicians, bureaucrats) who have stable employment prospect and the benefits are shared without fear across the hierarchy. The behavioral aspects cover both compliance and vengeful acts against non-givers. Here the gifts are the usual method of corruption. It is observed that strict laws, independent monitoring and large markets limit the scope for such operations, while repeat contacts of small groups and ineffective anti-corruption laws and its discretionary application due to lack of independence, resources or network make corrupt practices thrive as costs of reputation of corrupt behavior is low and thus corruption become widespread. Thus a dimension of discussion on corruption is spread and depth of corrupt practices.

Reputation and hostage taking works when the exposure of corruption is damaging and reciprocal obligation cultivated overtime make both agents and the bribe giver act responsibly. One such possibility is employment of the agent in future in a position where bribe giver is the decision-maker (e.g. employment of civil servants in NGOs, Private Sector). This aspect was discussed under mutuality in awarding contracts by different ministers who are 'silent' partners in the firms that benefit (della Porta and Vannucci, 1997). The absence of transparency and accountability augment such practices. The Philippines, Indonesia, Bangladesh, Pakistan, Republic of Korea etc. have been mentioned as examples of such patrimonial governance as in such countries the assumption of neoclassical economics of absence of ties between the 'service-seeker' and 'service-provider' is inoperative and embedded interpersonal network based on strong interpersonal relationship fail to draw lines between official functions and impersonal market exchanges. This is made possible because formal state institutions are weak, and ineffective (Verheijen and Dimitrova 1996). It has been observed in the context of Africa that the crisis of governance is due to non-convergence between formal institutions transplanted from colonial countries and the informal institutions that are rooted in tradition and culture (Dia 1996). The Structural Adjustment Program is said to have made such non-congruence more critical.

## **CORRUPTION: GOVERNANCE AND TYPOLOGY**

Corruption narrowly focused, is a description of the state of the relationship between the state and the private sector. It is generally believed that open, transparent and accountable governance, which is labeled as democratic, is more efficient in propelling economic growth and less prone to be subject to misallocation of resources due to deviational reasons including corruption. However, statistical studies have not found a good fit between democracy and growth (Huber, Rueschemeyer and Stephens 1993) largely because it is difficult to measure "democracy" and growth narrowly perceived by per capita GDP is subject to misrepresentation. There is however widespread belief that properly functioning democracy helps to move from entrenched corruption equilibrium to a low corruption equilibrium (Michael Johnston 1995 and Alan Doig, 1996). Van Roy has argued in the context of Thailand that if modern political institutions which can supersede traditional practices are slow to develop then 'Corruption maintains the systemic stability and continuity by making behavioral boundaries congruent with tradition-based morality which is based on hierarchical order which in turn promotes patron-client relationship in the political culture (Edward Van Roy 1970).

It has been argued that electoral democracy can be an anti-corruption strategy if civil liberties are not curtailed by special power act, free press is not subject to censorship while independence of Judiciary and separation of executive from legislature and judiciary contribute effectively in the process of checks and balance and vigilant electorates remain informed and active to contain greed of the politician. Even then corruption is common at local government level in France and Germany and at national level in Italy and Japan. Thus democratic forms do not necessarily succeed in checking corruption. But non-democratic states are more susceptible to corrupt practices as rulers can organize operative governance structure with few checks and balances. Thus it is not the electoral form as such but organization and power of interactive actors that is important and it is not necessarily the size of the government but the process of transparent and accountable governance and policies that are relevant. The critical issue is whether one or a few monopolizes power or it is dispersed among many who cannot collude or coalace so that decision-making vis-à-vis interest groups are based on propriety not authority, on rules not discretion and not on private negotiation but on transparent criterion. The basic premise is that an open competitive market system is necessary and need be complemented by a competitive and pluralistic political system as well as efficiency and merit oriented functional bureaucracy where members also compete for performance as reward and recognition are based purely on performance.

Recent studies have distinguished between grand corruption where bribe recipients are few at the top level of the government and petty corruption where multiple and numerous bribe recipients are at the low levels of government. Similarly there can be multiple bribers and few bribers. Susan Rose-Ackerman, using this dichotomy has

identified four polar cases i.e. Kleptocracy, bilateral monopoly, competitive bribery and Mafia domination. The case of Kleptocracy has been described well by Monsur Oslen (Olson 1993) where 'Monopolist' bribe taker maximizes gain by restricting output of the economy while he strives for productive efficiency. This is presumably what has happened in the Telephone Sector and Energy Sector of Bangladesh where supply did not respond to demand in order to maximize rents in licensing at the top level of the government. While people have looked at rent seeking at the bottom tier, the decision makers have worked with the levers at hand. When the resource base is poor, legal framework is unclear and civil servants loyalty is not guaranteed, then the decisions become selective and incremental till marginal increment in private gain is negligible. In the literature the classic cases of President Marcos of Philippines (Paul D Hutchcroft 1998), Field Marshal Sarit Thanarat of Thailand (Pasuk Phongpaicht et al, 1994), Mobutu Sese Seko of Zaire (Wedeman, 1997), President Alfredo Stroessner of Paraguay (Nickson, 1996) are cited. Under Kleptocracy the size of the government is determined by maximization of private gain on the part of the rulers and bounded efficiency of civil service extend this horizon. It is interesting to recall that civil service reform and promotion of meritocratic civil service have taken place generally under military regime in our country and donors were quite friendly to these regimes. The Kleptocratic rulers favor policies and relations with business that transfers most benefits to his pocket and tolerates policies that promote a semblance of populist distributive growth strategy. Kleptocracy is seen not only in the case of a dictator but also in the case of centralized protected (prime ministerial/presidential) one person dominated pseudo electoral system. Susan Rose-Ackerman recognizes that Kleptocrats may not always be all powerful as stationary bandit pictured by Olson. Such Kleptocrats do not control the whole economy but builds submissive and parochial civil service as well as coalition with business through patronage and 'administration of (public sector) assets which reveal a lack of differentiation between the 'economic' and 'political' sphere and absence of clearly defined boundary between public and private property in disposing off public sector resources' (Nickson 1996). Such Kleptocratic ruler allow their 'retinue' in public and private sector to engage in extra legal activities affecting law and order as well as human rights situation and gain their support through permitting them implicitly to engage in personal wealth-maximizing projects/programs/policy implementation etc. Kleptocratic system therefore extends the size of the government and follows a system of taxes, regulation or deregulation, subsidies, price control and privatization to suit their priorities. The Structural Adjustment Program did not have roots in the realities and specifics of the country but were generic and prescriptive as aid conditionality. Any tax break is not to be understood as a step towards rationalization as it may benefit the corrupt retinue who in return engages in bribe giving. This is most clearly manifest when average taxes on luxury goods are comparatively lowered at a faster pace compared to extension of tax net of indirect duties on necessities. Thus lowering of average tax or average tariff is not necessarily an anti-corruption strategy. Thus trade liberalization understood as lowering of tax and tariff is consistent with Kleptocratic corrupt politico-economic system.

Consistently with the liberalization mentioned above, regulation is a favored area of operation of Kleptocracy. In most developing countries there is no effective fair trade law for promoting competition. Therefore existence of restrictive trading practices suits the Kleptocracy and collusive retinue of businessmen. Thus the exercise of deregulation in law without simplification of bureaucratic process in reality allows the control to remain for cooption of loyal administrators. In this context the rights of common consumer is hardly respected. Thus the gains of imperfect deregulations becomes a cost borne by the common consumer if price for quality is considered. Mere abolition of license Raj or creation of a free list for commerce and industry does not necessarily shorten the long hand of bureaucracy and existing law. The Structural Adjustment Program in its exuberance to promote private sector did not take into account the Kleptocratic dimension of inherited colonial administration extended through non-democratic nature of political party culture and entrenched patron-client culture of historical vintage. The basic thrust was legal reform and institutional reform purported to promote competition, the idea of which was borrowed from western market economy without consideration of the segmented market structure in the various sectors of the economy. The variation in regulatory laws in those economies are enormous and specific, an issue that surfaced during the formulation and compliance with EC competition laws (M.E. Besley et al 1993). Thus simplified notion of enactment and reformation of laws may not create an environment of effective deregulation for the benefit of common man. Since the cost is not to be borne by Kleptocracy, such a system prefers an inefficient, confusing and contradictory regulatory regime. The best examples are executive orders and SROs which seem to supersede the enactment of the parliament which in effect encroach on the law making authority of the supreme national institutions in Bangladesh and similar other countries.

Kleptocracy favour privatization where it brings private gain and oppose it were it may loose monopoly control which if run efficiently bring better opportunity for private gain. Weak Kleptocracy also uses privatization to broaden its coalition with business and bureaucracy. This happened in Bangladesh. Further investors may not be interested in bidding for units to be privatized if they calculate the cost of excessive, arbitrary, unpredictable control in future. Thus Kleptocrat may become an enthusiastic privatizer if he gains from the sale in present value terms or in terms of surrogate ownership or in broadening his coalition e.g. Indonesia (Schwarz 1994). Reportedly privatisation and licensing for banks and insurance companies in Bangladesh has seen similar manifestation.

Therefore, just because a ruler favours some kind of reform that the donors like, it does not follow that the corruption, even higher level corruption, is less even when they manage to avoid inefficient policies. In addition Kleptocratic corruption create expectation amongst all levels of bureaucrats and Kleptocracy become unable to create conditions of honest and rule-bound non-barrier creating efficient bureaucracy (Lundahl 1997).

The bilateral monopoly is a case where a Kleptocrat faces one or few coalacing bribe giver. In this case rent-seeking possibilities and gain are shared by the bribe-taker and bribe-giver according to their strength and the overall size of the pie gets determined in the process (Kahn 1996). Bilateral monopoly conditions often arise for particular contracting deals e.g. oil and gas franchise. The Kleptocrat distorts contracting priorities, supports projects to hide kickbacks, establish long-term relationship with few multinational and negotiate a deal that permit sharing of nations wealth at the expanse of ordinary people. KAFCO is a case in point. In a bilateral monopoly condition gain from corruption is lower than one-sided Kleptocracy. The donor-foreign bidder nexus has reduced the negotiating power of the Kleptocrat, even foreign-private bidder under aid conditionality may reduce Kleptocrats gain from corruption but does not eliminate the incidence of corruption. The open economy with such bilateral situation is thus no assurance of gain on the part of the common man from getting riddance of corruption as such.

Similarly is the case with Mafia-domination. In Mafia-domination case few bribe givers face multiple bribe takers. The function of the Mafia, as an organized crime group providing protection to bribe givers and/or bribe taker, is to limit entry and competition and even engage in elimination of competition. The Mafia is interested in quick profits through extortion or collusive process. The size of pie depends on the nature of the product and such mafia domination is possible in weak state where capacity to control them is limited or abdicated (Diego Gambetta 1993). The emergence of mastan in Bangladesh is a manifestation of mafia-domination in certain sectors particularly public construction and procurement. The interference of so-called trade union in the function of public sector e.g. banks also manifest presence of the mafia phenomena. Banking Sector Reform has failed to address this issues because of political ties of union leaders.

The last of four pure typology of corrupt governance is called competitive bribery. In this case low level government functionaries deal with large number of members of the public. This exists when there is weak legal controls and poor public accountability in a weak state. Competitive bribery, unlike competitive market does not promote efficiency except that the payment has an 'equilibrium' value or 'maximum' limit unless upward spiral of corruption creates a systemic corruption which distorts the balance. The necessary conditions of upward spiral is increased pie from bribery. The large is the number of corrupt official the lower is the risk of paying a bribe and even lower may be the per-person share but the total payment increases with the number of corrupt officials. As the level of bribe increases with the increase in the number of corrupt officials number of bribe givers do not decrease as the incidence of cost may be shifted or gains could be manipulated or expected to rise. (Audig and Moene, 1990). The utility and public service sectors in Bangladesh are good manifestation of competitive bribery.

An interesting case is where officials of a weak and disorganized state engage in freelance bribery and face monopolist bribe giver in the private sector (e.g. a single supplier created through bidding conditionality or mafia domination). In this case

private power dominates the state and a clever state power would like to control the organization (e.g. many business & professional body election).

The remedy lies in systemic reform in private and public sector to move from a high to a low level equilibrium. However, there is no simple correspondence between the level and consequences of corruption and the organization of the government which has been assumed in the structural adjustment program and subsequent reform advocacy by donors. The impact and incidence of corruption not only depends on the level and number of corrupt functionaries in the government but also upon the strength and lack of scruple of the bribe givers in the private sector in the country and outside the country. The cost of corruption also varies with the typology under which the corrupt practices operate, sector in which it operates, and ultimate unit on which the cost lands. However in the complex market for bribes, one rule seem to be empirically validated and that is bribery breeds more bribery until a system is permeated with corruption and such breeding takes place both under democratic and autocratic regimes. Democracy can help limit corruption if there is incentive to be honest, if there is avenues of impartial complaint redressal (ombudsman), if there is legal framework for public accountability and transparency and social anti-corruption mobilization which effectively check re-election of public office holding officials. However democracy is not a panacea against corruption (Susan Rose-Ackerman 1999).

### **CORRUPTION IN A DEMOCRATIC SYSTEM: Law, Judiciary, Administration, Political office and the People.**

In a public representation system where the sovereign power of the people is exercised through elected representatives legal foundation for stable framework for economic activity depends on elected officials in public offices who must seek mandate at regular intervals through free and fair election. It is argued that this element of uncertainty and insecurity forces the elected officials to perform efficiently. The paradox is both security and insecurity of tenure can induce the elected officials to further expand corrupt practices. It is the strength of competitive political environment where misdemeanors of political parties and elected officials come under censure in press, in civil society movement that can act as a check on corruption. The character of civil society organization and ownership and management of press became important factors in this regard. In Bangladesh Press is increasingly being owned by businessman Politician.

The organization of electoral and legislative process is crucial as a disincentive for corruption in democracies. Development of strong political parties and necessity to develop personal following are related to political structure and the nexus of such structure with private wealth including mafia dons. Susan Rose Ackerman has argued that political systems provide various mixtures of both broad-based policies and narrowly focused private group benefits and incentives for corruption are higher if the state provides individualized benefits. If electoral seat is considered/made safe or term limits are imposed, if parties are not broad-based and popular participation in

agenda making, or candidature choice is restricted, if campaign contributions are not largely made transparent then payoffs for contributors and suppliers become more likely. It may be emphasized that the key variables in determining the level of political corruption are ability of wealthy/mafia/interest groups to obtain legal influence, level of outrage of people against such corruption promoting influence, level of open and fair competitiveness amongst political parties, opportunity for support base to formulate the agenda of action and direction of policy, and feasibility of small groups promoting common interest of people to participate in the process through open deliberations on questionable decisions by political parties particularly one in power. These require systemic reforms and fundamental shift in political structure. The central elements in identifying the level of political corruption are (i) bribe givers willingness to pay i.e. their 'loose money', cost and expected benefit and convoluted legal protection, (ii) bribe takers willingness to accept i.e. level of benefit, risk from disclosure and presence of legal deterrence and (iii) voters tolerance of and vigilance against such pay off.

Buying political influence and buying votes are common manifestation of political corruption in many countries including Bangladesh. As money is needed to be active in politics and participate in election, financial need and pressure make politicians easy prey to accept payoffs unless he has own wealth to undertake such activities. It has been argued that loss of ideological focus in France and Italy was caused by need to finance politics which gave rise to 'Businessman Politicians' (Me'ny 1996). This is also the case in Bangladesh. Thus sale of politicians to contributors has become common and such sale may not remain restricted within the national boundaries. Even legal contribution can cause favoritism (Bronars and Lott, 1997). The link between campaign funds and influence, though not proved conclusively in the context, can hardly be ignored as is seen from Clean Hand investigations in Italy (della Porta 1996).

One of the conditions for arresting corruption under democracy is that legislators must be independent and accountable so that they are not individually and collectively beholden to vested wealthy interest lobby. In this connection one may recall the opposition to pay salaries to MPs in UK in 1911 on the ground this will make them beholden to the crown and again in 1971 for substantial increase in salary of MPs on the ground that they will feel beholden to the Cabinet, which has power to dissolve the parliament (Stark 1992). But today's prime concern is use of public office to further one's private interest. This conflict of interest exists when a member of the parliament or a member of his family or a friend or partner in business or a contributor to his election expenses does business with the state. The mature democracies recognized the need to limit the impact of private economic interest through disclosure of such interest. No such law exists in Bangladesh. But promotion of private sector in Bangladesh has often been blessed by linkage to seats of power. The survey of the Members of Parliament indicates a growing involvement of MPs who have connection with business and engage in business with the state. In new democracies like Bangladesh code of conduct, the ethics, and issues of conflict of interest have not been accorded a high priority for legislative and administrative

reforms. The presence of MPs, bureaucrats and even ministers on public enterprise boards or public entities has often created conditions of conflicts of interest (World Bank, 1991). The minimal need is a disclosure of interest, making wealth statements of officials holding public office public. This has been publicly denied by the Prime Minister despite pledges to the contrary before election.

The problem of money in politics is the other side of providing inducement to voters. The politicians accept campaign contributions to pay off the voters on individual basis directly or indirectly. Direct payments to voters have a long history as does favor or patronage. In 1996 election in Thailand was carried on longstanding practice of payoffs to voters. Voters may approve such exchanges as after the election they have little chance to benefit directly. The remedy lies in reform starting with voter education so that any candidate who relied on special interest/black money and is inclined to buy votes with cash, kind or promises would be defeated. The basic design of campaign finance, putting limits on such expenditure, disclosure about payments on the eve of the vote are all problematic areas. Recent scandals about campaign finance and vote buying (rigging through a party engaged for this service) have raised concerns. The solutions suggested include reducing time and cost of campaign, stronger disclosure rules, limit contributions by interest groups and adequate budgetary contributions for campaign, which were found to have negative impact on small parties. Electoral reforms are in infancy in Bangladesh but without electoral reform the political corruption will grow and bureaucratic corruption thrives under political corruption.

This brings forth the issue of public accountability and public scrutiny as a remedy which are hard to accept on the part of elected or non-elected officials in an autocratic or even in a democratic system. Limits of political power presume separation of Judiciary from executive and legislative branch of the government. Decentralization of decision-making power, studies indicate, merely distributes corruption opportunity in the absence of an independent monitoring and prosecutorial system and promotes status quo. The access to information and openness of the system where non-embedded civil society and press are vigilant to challenge any questionable official action are considered to be complementary avenues to curtail corruption. Checks and balances have been advocated as to make no public institutions or office all-powerful. There should be no unchallenged supremo.

Structural Adjustment Program, which focused sharply on few issues, did not take account of the realities on ground in this respect. However an implicit recommendation was to limit the domain within which the government can exercise its power and further it was also implicit that multilateral institutions can provide a check on national governments irrespective of the fact that such high level power wielders can make no claim to respect the interest of affected citizens. When national and local governments under control of narrow interest groups with limits on jurisdiction are powerful enough to advance cotarie gain and unscrupulous officials of international organizations including private organizations (MNCs and NGOs) working with corrupt counterparts in the country under no restrictive system, usually

harm the prospects of honest regimes in business, charity or governance (Ma 1995). This is the justification for independent higher-level body such as audit commission, anti-corruption commission as multi-layered governance and interested parties can coalace easily.

It may further be added that countries that have committed themselves to pluralistic democracy (i.e. competitive political system) they have not put in place laws to govern these markets and judges have very little experience in resolving the problems arising out of the deals in these markets. As a result a corrupt or politically dependent judiciary can facilitate corrupt practices in these domain (Buscaglia and Dokalias 1996). Bangladesh suffers from the ills of archaic laws, jungle of laws and ill equipped judiciary including the bar creating uncertainty and bad fit between law and reality (Linarelli 1996) which promotes attitudes for circumventing the court including adoption of extra legal measures (Dasgupta and Mookherjee 1998). The goal of reform affecting operation of private markets, as the Structural Adjustment Program attempts to do, requires well drafted, relatively clear and generally available consistent set of laws to reduce the opportunities for corruption (Paris Rodriques 1995). But even with clearly drafted laws, crisis of confidence in judiciary due to delays and backlogs create conditions for pay off to speed up decision even when judges themselves are not corrupt (Buscaglia 1995). Thus judicial reform to improve professionalism, pay, working condition, creation of specialized courts and better case-management techniques are considered necessary but not sufficient unless pricing of court services are such as to keep the habitual litigants or litigants of petty parochial unjust interest out of the system but the disadvantaged and poor are not denied access to justice. Report card on disposal of cases, incentive for good judgment and positive costs for 'distortive' legal practice by lawyers and litigants are considered helpful (Lawyers Committee, 1996). But the courts cannot play a role of watchdog to monitor honesty of the other branches of the government. The major procurements deals, privatization orders or provision of concession may not be challenged under the present system if the motions of rules and regulations have been obeyed un paper. For such deals to be challenged one not only requires laws but also independent pro-active judiciary which command respect for its competence and ethics. In Brazil and the Philippines the Supreme Court did intervene in matters of privatization, in Australia court struck down a presidential concessions for building an airport (Susan Rose-Ackerman 1999). But when private business acts like a tribe and collude to make deals with elected and appointed public officials for procurement contracts, concessions and privatization then an honest judiciary become helpless in the face of corruption-friendly polity and administration. The disposal of cases related to financial sector in Bangladesh does indicate a systemic problem that is unable to check extra-legal acts.

This is where independent anti-corruption agency of Hong Kong vintage create an option to resist corruption in place of being participant in corruption or being a non-interfering bystander, which is the case with civil society in Bangladesh. It was not only its power to investigate and prosecute but also peoples fifth in it and expectation triggered action to clean up corrupt syndicates within police, administration and

elsewhere which was complimented by public education on ethics, rights, obligation for prompt and proper service that created an environment for corruption free governance in Singapore. Control of corruption was made possible through the commitment of the party in power which strengthened Corrupt Practices Investigation Bureau and improved compensation packages along with private sector alternatives. This was helped by political commitment, credible law enforcement and reform of civil service. Thus containment of corruption, needing stick and the carrot, also involve costs, including some unintended cost and such cost is justified only when benefits are visibly high and commitment of resource is sustained.

Containment of corruption is best done when citizens have a convenient mode of lodging complaints for which a precondition is easy availability of information about standards of official behaviors, about activities being undertaken, allocation and use of resources. Besides auditing, legislative review of expenditure through open Public Accounts Committee hearing is helpful if it is not set as a contest between legislature and executive or set in an adversarial condition between the governing and opposition parties. Availability of block/secret funds or even 'non discussion' areas of expenditure (e.g. Defense) create obstacles to public scrutiny and proper accountability. There is a presumption about freedom of information, which is constrained by Official Secrets Act of Bangladesh. In this context media can facilitate public discussion if the media is not associated with political parties or bureaucratic dispensation or business interests (Gigliolo 1996). Restrictive libel laws give protection to offenders when access to information is restricted (Pope 1996) and for appointed and elected public officials it should be harder to libel than private citizens and they should not be immune from civil/criminal prosecution for corruption at their expense (Vick and Macpherson 1997). A free media with good access to government information is not sufficient even when investigative reports create outrage. In order to be effective, the sufficient condition is the association of concerned citizens committee to monitor and reduce corruption and such organization need be careful about cooptation and for that such associations should not themselves become NGOs that make service delivery with donors fund (Bratton 1989, Paul 1995). Curbing corruption requires national attention and citizens organizations push leaders in different walks of life to take charge which is facilitated by an open process, speedy and fair appeals (Oldenburg 1987). The office of ombudsman to hear complaints of all kinds help to increase accountability (Noorani 1997). But for ombudsman to work it is necessary to enact a whistleblower statute that protect and reward public and private individuals/agencies that come with reports of malfeasance (Johnson and Kraft 1990). Thus curbing corruption is predicated by limits on power by giving power to the people to complain, by giving power to media to uncover, by providing access to information, by protecting proper whistleblower and by creating transparent methods of decision making and accountability in all organizations whose activities affect common people. While such provisions are put in legal statue, an independent judiciary need to play a proactive role. Thus curbing corruption is an expensive proposition in the short run and flow of benefits are available in the medium and long run.

## **Economic Foundation of Structural Adjustment**

It may be recalled that the focus of Structural Adjustment Program is on deregulation, privatization, tax and tariff rationalization for liberalization of trade and investment along with financial sector reform.

It is argued even though causes of growth are not fully understood, private enterprise and open competition helped to stimulate it. The growth is constrained when special interest groups use their influence to obtain political dispensation in their favor (e.g. direct or indirect subsidies for their enterprises, quotas or tariffs on competing imports) or when government regulations impede competition. Summers and Houston argued that free market economies of East and South East Asia grew faster than African nations with extensive public sector and public intervention for the reason cited above. But he conceded that centrally planned economies performed better than average. Gary Becker however questioned the quality of statistics and prices of substandard goods and services as explanation of that paradox. Summers and Preston study found that rich countries of Europe and America grew at a slower rate than newly industrializing economies. Gary Becker contests the conclusion that Rich countries are condemned to slower growth and he would blame policies and behavior i.e. over regulation and complacency (Gary Backer, 1987). Gary Becker resorts to corporate Average Fuel Economy regulation for cars, which forced production of fuel-efficient cars which also incidentally helped to lower environmental pollution. But markets shifted to small fuel-efficient cars when fuel prices were high but demand for larger less fuel-efficient cars remained unmet as a result the prices of such cars were raised. The regulation did not extend itself to used cars. The study by Grilchist and Ohta showed that people who buy used cars are fully cognizant of higher operating cost and rationalize it by making lower lumpy investment. The market is segmented and those who demand large less fuel-efficient new cars are willing to make lumpy investment and incur higher operating cost. The emergency efficient regulations, according to Gary Becker, restricted consumer choice and cannot be justified on efficiency grounds. The Structural Adjustment Economists did not take account of market conditions in developing economics either, as absence of regulation may hurt one section and benefit another.

However cartels do not promote competition even though business often argues in favor of price fixing to prevent ruinous competition. In the United States Courts have struck down various collusive arrangements among hospitals, doctors, lawyers, even universities. The top 50 universities that compete for top students succeeded in raising tuition, limiting scholarship and increase faculty salaries. This rigging is based on the premise that students should choose on the basis of quality of service alone and higher fees will attract wealthy clients to pay for scholarship for best students. Gary Becker argues that a rational student does not choose schools on academic quality alone without regard to scholarships and tuition. The limitation of choice and forcing some students to pay for other is bad economics if social productive efficiency is the desired goal, not maximization of monopoly revenue (Gary Becker, 1989). The

pricing behavior in many sectors (e.g. transparent service) do indicate presence of formal or informal collective and collusive arrangements.

Gary Becker argues that political pressures and government intervention divert away business practices that promote efficiency. Unions which flourished in big manufactures and mining and formed national federation of unions have become weak as companies accepted legitimate bargaining goals through company unions so long they can work as a bulwark against oppressive management but advances productivity as that helps to promote earnings and better working condition. If unions raise wages above competitive levels, this would reduce economic efficiency by reducing employment in unionized sector. In Bangladesh political linkage has increased employment in unionized sector where efficiency has also declined. The donors are advocating for labour unions in EPZ.

While unions at company level is considered conditionally promotive of efficiency, setting of minimum wage above competitive minimum is seen as having negative effects on employment despite evidence to the contrary given by David Card and Kruger which is contested by Chicago economists. It need be recalled that President Clinton justified the minimum wage legislation on grounds of insufficiency to meet basic needs. Gary Becker argues that raising minimum wage is not the effective way to alleviate poverty. In addition he argues that high unemployment in Europe is not due to greater competition but social welfare policies as that increases labor cost (Becker and Becker, 1999).

In the context of tax rationalization, the argument is whether the government delivers as much as it takes in taxes. The other argument is much of the government spending only misdirects resources; thus if government has less to spend by lowering average tax it will have less power to divert resources and market forces will determine the allocation of productive resources. Lowering of tax is supposed to reduce cost, increase incentive and also create consumer surplus through lower price. In addition tax rationalization through stable, predictable and non-discretionary rate would reduce uncertainties and improve competitive efficiency. Studies on tax reduction and increase in competitive efficiency do not show a high degree of correlation as other factors impact more on productive efficiency than tax rates unless it is very high, particularly in developing countries. It is tax base, rates and administration that came under the focus of structural adjustment program and also public expenditure. The thrust is slashing spending through privatization and contracting out services. Big spending means big government which is more vulnerable to corruption i.e. misuse of power and misuse of resources. Big government thrives on high taxes, subsidies and regulations that determine profits in business rather than entrepreneurial skill. Companies become big if they win government contracts for procurement, construction or consultancy. Companies are more prone to bribe officials and politicians if they are in a position to grant favors and the scope for rent seeking will become limited in the contrary situation. It is contended by economists of the right that budget deficits are results of successful intrusion by special interest groups to raise their handouts. There is no reason to believe that these special interest groups are all

local and donors do not peruse special interest. There is also a proposition that government spending which benefit special interest groups are then translated into hidden taxes or subsidies or regulations that benefit a few. Thus spending cuts unless judiciously monitored and transparently administrated may increase inefficiency in allocation of resources. It is true that tax revenue may be used for wrong jobs while cut in expenditures may be used for hidden hurts. Economically inefficient taxation unless reduced along with inefficient expenditure cuts and inefficient deregulations along with hidden hurts, no judgment can be pronounced about efficiency impact of lower taxation, reduced expenditure and deregulation. The survey of businessman indicate that they believe tax and tariff rationalization in Bangladesh were not predictable or non-discriminatory and that hidden hurts are significant.

Liberalization of trade is another component of the Structural Adjustment Program and it requires effective tariff rates to be reduced and quota along with non-tariff barriers to be withdrawn. Bangladesh has proceeded along these lines though speed, sequence and rationality have been subjects of controversy. The basic idea is simple. There has been rapid expansion in trade in goods and services globally and disadvantages of a small nation can be reduced if international markets become substitute for limited domestic markets and such an event would promote economic growth. The fundamental proposition is liberalization of trade would be based on competitive efficiency for using factor endowments. Reduction of tariff and non-tariff barriers along with other related costs would cause a shift downward of the aggregate supply curve resulting in reduction in prices and increase in production and employment. If the demand curve is elastic, the total revenue would increase and consumer welfare would also increase. This scenario assumes no shift in the demand curve due to the change in distribution of income or because of lowering of prices and increases in employment. However a shift to keep prices high at the previous level would require higher production at higher cost under competitive conditions. The vested interest group may find it easier to keep prices high through restrictive supply and resorting to regulation to limit competition even when tariff rate is reduced. The collusion between importer and politician/bureaucrats to create monopolistic condition is premised on sharing benefits of such intervention. Bangladesh has known such situation with respect to sugar, onion, pulse, automobiles and other products. But high effective wage rate, hollow manufacturing base and trade (including NTB) barriers of other countries do not help efficiency gain from trade liberalization. This complicates exchange rate management particularly when much of the inflows and outflows are not transparent and competition between developed countries is muted through such arrangements as Euro or Pegs. Further there are serious charges of dumping from neighboring country through formal and informal channels because of collusions with regulatory agency and inability of the government to document this. In Bangladesh political power of industries is not used to promote fair trade across the board but to promote individualized/sectional interest (e.g. RMG). The political power of foreign business is respected because of their leverage through their governments. But the typical consumer has been ignored historically. A survey of the consumer and an examination of prices after trade liberalisation indicate that scarcity premium remains high in the case of necessities and has been reduced for luxury

items not highly priced but status indicating high priced items are excluded. The prices of capital goods and intermediate goods do not indicate a lowering of scarcity premium at the users end.

Privatization is part of the structural adjustment program largely because it is allegedly inefficient and it enlarges the arbitrary power of the government. The argument based on monopoly in areas where it does not serve the interest of the taxpayer has been well argued in the literature. Privatization did gain momentum during the late 70s and 80s and countries that did in phases in conditions of economic boom under specified transparent management have done well in relieving the government of fiscal burden, the banking system from non-performing assets and releasing resources for private sector growth. But the gains and cost were not equitably shared nor are the privatized units more efficiently run or provide the same service at a price, as was the case under public management. But more importantly the process of transferring assets from public to private ownership is fraught with corruption prone practices. The bidders for public unit can bribe and influence inclusion in the bidders list and of conditions (e.g. loan from nationalized bank at concessional rate which they default). The valuation of public assets may also be influenced (e.g. Pubali Bank), bribe may buy inside information and in the extreme case no proper assessment is done. 'Sales at dubious prices have sometimes been done to dubious purchasers, such as ruling party politicians and others lacking in Business Experience (Nell's and Kikeri 1989). The corrupt officials present a weak state of the company while the favored parties are informed of its potential, strength and value of real assets and thereby restricting competition and proper bid (Manzetti and Blake, 1996). A privatized firm may be allowed to retain monopoly it enjoys when the firm was in public sector and such monopoly rent option allows bribe and influence upfront. Desco is a case in point Latin American privatization increased market concentrations (Manzetti, 1999). Thus moving into private sector does not ensure outcome of a competitive environment because of economies of scale, and in the area of public utility where certain concentration is tolerated (Yoto Poulos, 1989) Joint Venture approach or management contract is fraught with corruption as private partners and managers shift the losses on to the state. Bangladesh experience with privatisation is termed as murky by people that know about this.

Deregulation is another area of Structural Adjustment Program, Susan Rose-Ackerman has pointed out that firms pay to get a favorable interpretation of rules or to lighten the burden of the regulatory load. It has been observed that pay off are similar worldwide, be it Korean construction standard, Mexico's permits, Indonesia's Connection or Middle East's exploration of natural resources. But a state cannot be without laws, rules and regulation. It is the application or misapplication of them through a non-transparent decision-making, low risk of detection and punishment, absence of public scrutiny that allows regulatory regime to become part of pervert governance. Without appropriate laws and regulations basic rights of the citizens as entrepreneurs, producer or consumer would be at the mercy of masters and godfathers. Thus deregulation has to be understood in the context of over-regulation

or unnecessary regulation that adversely affect the proper functioning of the market. It is the clarity, specificity, non-discretion, appropriate appeal and review process and speedy disposal that are more important than regulation itself.

The discussion on Strategic Adjustment Program and Corruption raise many issues for interaction with informed and affected parties. The following sections attempt a summary of the survey findings along with reaction from focus group discussion.

## **Corruption in Bangladesh : Perception, Prevalence and Practices.**

### a. How Does Corruption Look from Newspaper Reports

Newspapers everyday publish reports about corruption somewhere in some sector in the country. Newspapers donot publish 'all that fits to print'. There is selection and reporting bias at the reporters level as well as at the editorial level. Further information may be incomplete and there is often little follow up on the story. Hence inclusion of all reported incidents is not possible. Even with those limitations, Transparency International, Bangladesh has produced two news scan analysis of reported cases pertaining to January-March 1997 and January-June 2000. The picture is as follows:

**Table: Distribution of Reported Cases of Corruption**

	<b>1997 (January -March)</b>	<b>2000 (January -June)</b>
Police, BDR, Ansar etc.	46.0%	30.0%
Local Government	13.0%	17.0%
Education	10.0%	16.0%
Health	5.0%	11.0%
Taxation (Income, Customs, VAT etc.)	6.0%	6.0%
Financial Institution (Banks, Non-Formal micro credit)	7.0%	6.0%
Forestry	4.0%	6.0%
Water (including Water Board)	4.0%	5.0%
Transport (including Water Transport)	4.0%	2.0%
Sub-Total	390 (100%)	927 (100%)
Others	(188)	(418)
Total (N)	578	1345

*Source : Transparency International, Bangladesh*

Thus the reported case of corruption has increased overtime. Further, it is important to note the reported corruption by type. The corruption reported are mostly petty ones or systemic in nature. These are more of a competitive bribery type than kleptocratic or bilateral monopoly. However the issue is structural adjustment program by passed these areas of civil society concern.

**Table: Manifestation of Corruption by Types and Sector (2000)**

	<b>Misuse of Power</b>	<b>Bribe Taking</b>	<b>Embezzlement &amp; Extortion</b>	<b>Misuse of Resources</b>	<b>Negligence of Duty</b>
Police, BDR, Ansar etc.	48.0%	20.0%	12.0%	1.0%	18.0%
Local Government	18.0%	5.0%	58.0%	8.0%	8.0%
Education	22.0%	9.0%	49.0%	7.0%	11.0%
Health	20.0%	6.0%	42.0%	5.0%	26.0%
Taxation	34.0%	30.0%	30.0%	-	6.0%
Financial Institution	26.0%	4.0%	67.0%	-	4.0%
Transport	37.0%	12.0%	27.0%	10.0%	14.0%
Water	17.0%	5.0%	52.0%	25.0%	-
Post, Telegraph, Telephone-Telecom	28.0%	23.0%	25.0%	10.0%	13.0%
Land Administration	22.0%	38.0%	31.0%	3.0%	6.0%
Forestry & Environment	24.0%	20.0%	39.0%	12.0%	5.0%

*Source: Transparency International, Bangladesh*

This table indicates that the misuse of power because of discretion, misuse of resource because of weak monitoring as well as embezzlement and extortion are as prevalent a form of corruption as is bribe taking which is high amongst Law Enforcement Agency, Taxation Officials, Land Administration, and Telecommunication Departments. Embezzlement and extortion are high in Local Government, Education, Health Sector and Financial Institutions: though it is present significantly in all the sectors reported. Thus the Financial Sector Reform, Taxation Administration reform or simplification of procedures are yet to have impact in reducing corruption, if at all it can. Neither decentralization as it exists has any positive impact. The picture relates to competitive bribing and mafia domination mostly, though case of bilateral monopoly is not absent.

## b. Peoples Experience with Corruption

A national baseline survey was conducted by Transparency International, Bangladesh in 1997. This was not an opinion survey but actual experience of household, validated by participatory observation and wherever possible by discussion with relevant or reported officials.

The respondents viewed misuse of position and power as the prime manifestation of corruption; it is only obvious that such misuse is possible when discretion and non-transparency are present in a persons work. Its relation with regulations it is obvious but such regulation need be subjected to interpretation of rules by the appropriate persons concerned in a consistent and predictable way. It is also interesting to note that second most frequent perception of corruption is negligence of duty. Such negligence is obviously a manifestation of the misuse of position and power. This is directly related to non-accountability and absence of monitoring system, as it is the case in a weak state. The third most frequent perception of corruption is engaging in activity outside the normal process and perimeter laid down by rules of business or service rules. This is possible because of 'Systematic Linkage', 'indulgence by superiors', 'existence of gray undefined areas', and 'reciprocity'. This again involves the concept of systemic discretion. Bribing and misuse of power and public resources for personal gain are seen as corruption but these are less frequently mentioned, partly because people have come to accept certain types of payment as 'normal' for getting even a legitimate work done.

The offices identified as most corrupt are police stations (Thana), lower Judicial Courts, public hospitals, Sub-registrars office, Land record office, Thehsil office and scheduled banks. These seen with the perception of corruption indicate that absence of accountability and misuse of position and power have surfaced as most important manifestation of corruption mainly because people are willing to pay to reduce harassment and waiting time. The respondents themselves thought that desire to become rich quickly, moral degradation, absence of accountability are the prime reasons for persistence of corruption in public offices and among officials. However a significant member (about a third) thought that protection/absence of action by political parties and inadequate salary and compensation package are also important factors. This leads to a proposition that low level but extensive corruption in a weak state persist because of absence of an appropriate system of accountability and proper incentive to remain honest and dutiful. This politico-bureaucratic culture is manifest also in areas related with structural adjustment program.

The sectors that were reviewed in some depth do indicate certain pattern to corroborate the observations made above. In the education sector, there is a mismatch between demand and supply with respect to desired service provider. This is critical in urban areas, of the extra-regular method used for desired result the important ones reported by the respondents include donation, engaging tutor

and political influence. This indicates importance of discretion as the basic factor of extra-regular method of accessing the desired service. In the health sector, 'monopolistic' condition in providing services at public outlets required payment of consultation fee at private chamber or payment of extra cash and these were reported by about a fourth of the respondents. Decentralization did not create competitive market condition. In effect it resulted in augmentation of demand and segmentation of markets. Of the households involved in cases before lower judiciary, more than two thirds made payment to court officials and a sixth to the opponent's lawyer. The discretion in fixing a date for hearing and non-accountability in this regard are stated to be the basic reason for this sorry state. Excess Demand condition has created opportunity for discriminatory behavior meted out to the households that went to police station to make a general diary or file a FIR; more than two thirds of them had to make payment; further, more than half made prior arrangement with police officials to delay the investigation or filing of the case if he is the accused or to hasten investigation and file the case if he is the accuser. The 'monopoly' of police power including his discretion is aptly clear from the reported action. Nearly four-fifths of households which were involved in land transfer and two-thirds of households involved in registration of deeds made extra payments. In both cases conditions of monopoly, discretion and lack of transparency and accountability are present. Nearly half of the households that obtained loan from banks made payments or used influence. As to payment of water-bills, nearly a third of the household reported underpayment though arrangement and about a fifth made extra payment to get water connection. Similar was the reported condition with respect to payment of electricity bills and getting electricity connection. Power sector was subject to reorganization and decentralization. Expected improvement in this regard was not achieved. With respect to payment of holding tax about half of the respondent households made arrangement with municipal officials to reduce assessed tax and of the households engaged in business about a half reported payments to obtain trade license. Thus it appears regulation and ability to control provision of services create opportunity for bureaucratic deviation and this is quite pervasive. Decentralization and even contracting out does not eliminate conditions of deviant behavior.

c. Focus Group Discussion

Focus group discussions were held in eighteen district towns with a cross section of representatives from all walks of life. Even though the discussions were on specifics of corruption, certain generalized conclusions came out very clearly. First, the idea of public wrong, of which corruption is one of the important manifestation, is not properly understood by public, civil society, professionals including lawyers, businessmen, public office holders and public officials. Second, the private and public wrong is directly and positively related with wealth, influence, connections and authority. Third, public administration has lost its eminence as it has become subject to influence and loyalty has come to be more valued than efficiency and neutrality. Fourth, cost of being elected has increased which created the linkage between public office and black money,

which in turn created linkage with groups that engage in extra-legal activity including crime. Fifth, the system of administration being a contamination of archaic colonial system which lacked transparency but valued hierarchical control, did not foster public accountability and easily got immersed in the degenerative disease that affect the body politic. As a result there has been a systemic decline in public ethic. Sixth, the institutional decay of bureaucracy has helped conversion of collective goods into private property through pay offs as seen in the reports on gifts, grafts, embezzlement, extortion, misappropriation etc. Seventh, role models in civil service, elected office holders and civil society organizations are today a lost phenomenon. Eighth, corrupt practices in public offices are prolonged largely because of collusions with private actors and institutional misperformance is promoted by motives for gaining advantage. Ninth, cost of misperformance and deviant action is low in the absence of deterrent action and presence of systemic linkage in many cases. Tenth, public confidence to receive redressal of legitimate grievance is almost absent as legal remedy is time consuming, expensive in real terms and not free from abuses. A parallel independent system or vigilant proactive civil society is not present as a remedy. Eleventh, political will to create corruption free society or curb corruption is conspicuously absent. Lastly, corruption has been viewed as a governance failure on the one hand, and as response failure on the part of civil society on the other hand. This situation persist because of high tolerance on the part of many and collusion on the part of a few i.e. between authority and wealth, between vested interest and decision makers, between extra-legal action seekers and extra-legal action protectors, between agents of power in office with low public ethic and purported supporters and beneficiaries of power in private sector.

#### d. Perception of Governance and Corruption

In conjunction with Mahbubul Haq Centre for Human Development at Islamabad, a survey was undertaken in 1999 on governance and corruption. The salient findings of that survey are reported below. First, more than half of the respondents did not have confidence in the political system and in the organization of the political parties in the country. The respondents are mostly male, aged between 25-30, live in rural areas, have a monetary average income of tk. 5000 per month and less than 10 years of education. However over 90% of respondents believed in a directly elected system of governance and nearly half of them support one or the other political party. Nearly two-thirds of the respondents said that political parties do not properly represent their ideas, opinions, interest or priorities. Second, the elected officials at the national level are not accessible, nor do they try to solve problems of their constituency or of their constituents. This opinion was expressed by about two thirds of the responds. Similar opinion was expressed about local level elected office holders; only in this case the percentage of respondents holding this opinion was about half. The respondents identified 'non-accountability' to electors, 'importance of personalized and coterie interest' and 'dependence on central authority in government and party' as reasons for such sorry state. Third, nearly two thirds of the respondents were of the opinion that legal system as it functions in the country did not protect adequately the interest of

the common man. The reasons cited were ignorance about legal remedy, not easy accessibility to the system, presence of influential intermediaries (e.g. police, court officials, lawyers) and unsympathetic, subject to influence and collusive courts/magistracy. In the opinion of the respondents the worst victim of such a judicial system were the poor, women and minority. Fourth, the policy and programs of the government or development organizations are not presented to the public in a transparent and easily understandable way; hence the issue of public accountability remains an obscure and unheard of concept. This view was expressed by three-fourths of the respondents. In this context they mentioned about allocation and use of budgetary funds, particularly for the service and development sectors e.g. education, health care, agriculture, small industry, etc. They found much of the service delivery to be quantitatively inadequate and qualitatively poor. In this respect they particularly mentioned administration, police, and judiciary in addition to banking and credit facility. Except for non-formal education the respondents did not find services delivered by private or NGO sector to be differentially better in quality or quantity. The legal aid provided by NGOs was considered to be inadequate and selective. The credit facilities provided by private sector including NGOs were considered to be selective, biased, externally determined and often extortive. Fifth, corruption was perceived as abuse of power and position, negligence of duty and misuse of position and power for personal or coterie gain. The most corrupt departments identified were police, and least corrupt department was agricultural extension. More than two-thirds of the respondents believed that corruption has increased overtime during the last two decades and of the types of corruption embezzlement and extortion were considered to have increased more rapidly than others. Specific mention was made of law enforcement departments and lower judiciary and these departments were described as dishonest, not committed to public service, but extent and expanse of corruption amongst law enforcement authorities increased overtime while in the judiciary there has been no secular increase. The other departments mentioned were health care; land administration, education, taxation and general administration. Sixth, extra illegal payment and poor quality of service was reported by three-fourth of respondents in the case of electricity, two-thirds in case of water supply and one-third in the case of gas connection about a half for registration of deeds and bank loan. The amount of excess payment was around 15% on average.

#### e. Survey of Public officials

We have earlier identified that unless public offices are run by people who receive competitive compensation package and whose recruitment, posting and promotion are based on predictable rules and merit, corruption creep in easily. A survey of public official was undertaken in late 1999. The objective amongst others included perception with respect to fairness or otherwise in the recruitment process, posting and promotion, perception with respect to salary and compensation package, incentives, reward and punishment and opinion about certain specific interaction with business in connection with procurement, payment of bills etc. The survey was carried amongst class I officials in most of the development and regulatory ministries, directorates and departments, however response rate varied despite repeated visits. A

typical respondent was male, about 45 years of age, with 15-20 years of service having graduation of better education and training but not feeling adequately prepared for his job. In matters of recruitment most of them felt that recruitment was done generally on merit but in matters of positing and promotion it was less so. The significant observation was that in the case of administration and overseeing projects, personal and political ties have become a factor to live with: Similar views was expressed in matters of posting in law enforcement authorities. Payments for positing and promotion was said to be prevalent but not widely except in taxation and law enforcement departments. From the respondent's response it appeared that many of them felt that they did not have adequate authority to perform their jobs properly and consultation with superior official is a norm in the matters of disposing of certain files, while routine files are disposed off as per rules of business. The respondents felt that there was absence of transparent policy with respect to reward and publishment which included positing to certain positions. They also were of the opinion that disciplinary process was time consuming. Punishment in the form of making one OSD or sending someone to an unfavorable/unimportant post in common. Despite public perception of wide prevalence of corruption and misuse of power and position, few case of punishment for such reasons is on record. The respondents were of the opinion that monetary compensation in public offices are low compared to private sector but most of them have multiple sources of income including income from property which they could acquire because of having the government job as information and opportunities are available only to the privileged. The extent of income from 'corrupt' practices varied on average from 10% to 500% of basic income depending on positing, level of authority and nature of decisions involved. Because of budgetary cuts and expensive undertaking of work, non-congruence with release of funds, bills upto 50% remain unpaid at the end of the fiscal year. For the payment of bills no constant rules are followed and variation in practice do give rise to favour, pressure and extra-legal payments. Influential party does have an edge. In matters of procurement there are stringent rules but at times because of oversight, mistakes in documents, subsequent variations, corrupt practices do creep in and influence of external parties cannot be ruled out. The respondents however felt that prevalence of such practices are exceptions and not widely prevalent.

#### f. Propensity of bribe

Bribery or corruption is not an one sides affair. An endeavor was made to understand the phenomenon of propensity to bribe. A structured questionnaire was administrated to CEO/his representative in multinational companies, CEO/his nominated person in large national companies, Directors/Senior Personnel in Accounting Firms, Manager/Senior Personnel in Commercial Banks and Financial Institutions, Retired Government Officials, officials in selected law firms and officials in the commercial section in the Embassies. The number of respondents was 196 of whom little more than 50% were CEO/representative of multinational companies and officials of commercial section of the foreign embassies.

The business sector in which these persons had track with covered agriculture, industry, energy, construction, telecommunication, trade, transport, consultancy and finance. A little more than a fourth are mainly engaged in industry, one-eighth in trade, a tenth each in finance, telecommunication, consultancy, transport, and agro-business. Of the foreign companies nearly two fifth were multinational and one-fourth had its origin in USA and another one fourth in EU countries. East and South East Asian Countries represented the rest. Indian companies did not respond. Of the respondents 63% were of the opinion that corruption in recent years has increased while only 2.6% were of the view that it has decreased.

Second, nearly two thirds of the respondents were of the view that companies have become more willing to pay bribes to win business. This opinion was expressed more frequently by those engaged in industry, trade and finance. However, a sixth of the respondents replied that companies have become less willing to bribe. This opinion was expressed mostly by multinational companies, and EU country and US company officials and officials of commercial section of the embassies. However only 15% of respondents, all of them from multinational and US companies, knew about OECD convention regarding business expenses involving bribery.

Third, about half of the respondents replied that paying bribe is not the only means of influencing decisions to gain unfair business advantages. Aid, arrangement for visits abroad, inclusion of scholarship in the proposal, offer of consultancy etc. beside diplomatic overtures influence unfair business decision. Fourth, most of the respondents, were of the view that financial liberalization, government anti-corruption investigation, freedom of press, privatization of state enterprises, institutionalization of democratic process, or improvement in corporate governance in public and private sector do not have any desired effect on corruption. They were of the view that corruption in public procurement process has remained the same or worsened, and privatization process was manipulated. Not having equal access to information about decision-making in government and private corporate sector the corruption climate has worsened. Self-imposed or owner interest induced censorship in media encouraged non-disclosure of corrupt practices in public and private sector. Further, immunity of high elected and appointed officials as well as low salary with authority work as obstacles and low moral and low administrative capacity have caused corruption to increase in Bangladesh. Fifth, the countries that were named as very likely to engage in corruption to win favorable decision for their business, besides Bangladesh, were India, Pakistan, China, Indonesia, Japan, Malaysia, Philippines, Russia, Singapore, South Korea, Thailand and Taiwan, followed by Italy, UK, USA and France. The sectors in which corrupt practices are most prevalent are Consultancy, Industry, Transport, Energy, Tele-communication, Financial Services and Public Works.

#### g. Experience of Commerce and Industry

During the last half of 2000, an administrated questionnaire was sent to members of business community. The response rate is about 13% and another 7% made

information available orally. Of the respondents 75% were members of Chamber of Commerce/Industry or Trade associations. Nearly a fifth of the respondents are engaged in industry another one fifth in trade, one tenth in import and export business and one twentieth work as contractor. The annual business turnover of 4% of respondents was above Tk.50 core per year but the modal respondents annual turnover is annual Tk.1 core. Nearly 1% had between 1 and 5 crore taka turnover in the month previous to the survey. Nearly 71% had a turnover of at least 1 lac in the week previous to the survey date. About 13% reported decrease in annual income in 1999 compared to 1998 and 14% reported increase in their business income; of them about 4% experienced an increase of more than 25% over previous year. As to profit, 7% of respondents experienced decrease in profit in 1999 and 35% experienced neither increase or decrease in profit; this means 58% experienced increase in profit and of them 3% experienced over 30% increase in profit. The reason for increase in profit was increase in sales due to increase in demand; only 1% reported that profit increased due to government policy intervention. The increase in loss was due to decrease in sales due to increase in supply of cheap imports, reduction in tariff and taxes, decrease in subsidy, bad business condition, increased competition and unfavourable tax on local production compared to imports.

Of the respondents 54% reported undesirable payments (e.g. extortion, bribe etc.) has reduced their returns on investment; 41% thought unfavorable government policy decisions reduced their return on investment (ROI), 17% identified reduction in tariff on imports and smuggling caused reduction in their ROI; 2% thought reduction in tariff has caused unfair competition form them; 4% thought engagement of NGO in business has created unfair competition as their cost of finance is low, 14% were of the opinion that labour problems reduced their profitability and 43% identified bureaucratic deviation/government agency intervention increased their cost of business and thus reduced their net income. About 50% of the respondents reported increase in their electricity bill, 32% in telephone bills, 11% in gas bill, and 12% in water bill. About 40% of respondents affirmed payment to electricity supply officials for keeping supply regular and/or reduction of electricity bill, further 7% said that they made payments to officials of electricity authority to get electricity connection. About 45% of the businessman made payments for getting telephone line, 7% make payments to keep telephone lines in workable condition or to reduce telephone bills. About 5% of respondents made extra payment to get gas and water line connection and 3% reported payments to keep the lines on or to reduce bills.

About 46% of businessmen make extra-legal payments to mastan, 15% to police, 11% to bank officials, 39% to political parties or their front organization, 7% to inspectors (e.g. factory, fire, sanitary etc.), 4% to municipal officials, 12% to labour unions, 15% to various organizations, 11% to taxation officials, 24% for renewal of licenses and 7% for getting government contractors for supply or constructions. The range of extra legal payments was between 2-20% of the gross turnover.

#### h. Democratic Process and Corrupt Practices

Survey of randomly selected households in fifty one wards in seventeen municipalities indicated that majority of them were of the opinion that a corruption free administration through elected officials become possible only if election commission would disclose available information about the candidates e.g. their income and source of election finance, past record of social service and malfeasance (e.g. criminal record, encroachment on other property, misuse of public resource, being a party to public wrong etc.). The candidates should be required to make a declaration about citizens concerns, these should be presented in a tabulated form to the voters who should have chance to question the veracity of the disclosure. This seems to be workable at local level elections as seen from the experience of India. Can this be repeated for national election? Indian Supreme Court has taken some steps recently in this direction.

### **Business Governance and Corruption**

Daniel Kaufman examined corruption in the context of governance. The elements considered were improvement in aggregate economic policies, quality and professionalism of bureaucracy, severe discretionary customs regulations, non-predictable judicial outcome, and obstacles to doing business honestly, frequency of bureaucratic and judicial corruption, corruption as burden to enterprise, corruption in banking sector, inside trading in stock market, percentage of management time spent with regulatory agency, extent of unofficial economy, ease of tax evasion, degree of market control by few, civil liberty and freedom of press, etc. Views of business were collected through open-ended discussion with top and middle management in 150 enterprises. The results are as follows. First, aggregate economic policies are a mixed bag, some are more business friendly than before but some remain as obstacle (3.13). Second, quality and professionalism of bureaucracy has deteriorated overtime at all levels (5.0). Third, customs regulations remain largely discretionary despite simplification (4.0). Fourth, judicial outcome is often delayed and outcome is often unpredictable in company cases (2.7). Fifth, obstacle to doing business honestly is high (4.0). Sixth, frequency of bureaucratic and judicial corruption is high (4.25). Seventh, Burden of corruption is high (5.0). Eighth, corruption in banking sector is high and has increased overtime (4.0). Ninth, percentage of management time spent with regulatory agency has increased for small and medium business (4.5) and has remained same for big business (3.0). Eleventh, the extent of unofficial economy has increased greatly overtime (4.5). Twelfth, ease of tax evasion due to collusive interest is substantial (3.5). Thirteenth, the freedom of press has increased during the last decade (3.0). [The figures in bracket are average values of response in a 5 point scale. Higher value indicates bad governance. ]

### **SAPRI and Corruption**

Corruption is basically a governance issue and structural adjustment is a program for implementation by the government as a measure to improve economic governance through reducing the role of the government as a producer of private and joint goods

and services, as a regulator beyond protection of consumers rights and creation of competitive condition, setting standards, increasing the role of the market through deregulation, liberalization of trade and financial regime and improving efficiency by implication through disbureaucratization of the system. It is recognized that corruption/malfeasance is most likely to occur regardless of political structure or social and economic development where public and private sectors, broadly defined, meet (Stapenhurst and Sedigh, 1999). There can be no complete separation of the two and structural adjustment program is designed to reduce such interface after implementation of the program but during implementation of the program the meeting/interface is natural and unavoidable. The strategy for limiting corruption requires strengthened institutions (e.g. free independent media, active electoral institutions including parliament, public interest protecting judiciary with proactive and imaginative role, effective watchdog agencies including a system of corrective institutions) and appropriate administrative system to promote financial and economic reforms that promote and reward efficiency, neutrality, and increases costs of corruption and limits discretion. However lack of political will, entrenched influential coalescing interest on both sides of the table and non-transparent action against which society watchdog agency is absent or inactive, create favorable condition for continuation, and expand areas of corrupt practices.

Privatization as a means of reducing corruption need be seen as a process and also in terms of outcome. The process of privatization to be free of corruption need be rule based so as to predict outcome, be negotiation free, conducted in a transparent manner and free of unlisted concessions elsewhere Bangladesh has been privatizing assets and enterprises for five decades starting with PIDC and GOEP days. Our focus will be limited to the three decades after liberation. We interviewed 30 retired government officials and 45 businessmen who were directly or indirectly involved in the privatization process. The results are presented in the table below:

**Table: Views of Selected Interviewees on Privatization during last three decades**

	<b>Retired Officials</b>		<b>Business Houses</b>	
	<b>Senior Level</b>	<b>Supportive Level</b>	<b>Direct Beneficiary</b>	<b>Knowledgeable But Not Beneficiary</b>
Policy clearly articulated	71	69	35	13
Process clearly refined	71	67	25	11
Bid document clear, unambiguous	63	59	27	09
Conditions for finalization of deal clearly defined and adhered to	57	49	25	05
Scope for discretionary decision making absent	42	41	30	21
Scope for negotiation of conditions absent	37	32	27	19
Political & bureaucratic influence & connections mattered/helped	41	59	49	78
Additional unstated conditions were negotiated and facilities offered	33	61	43	87
Valuation of assets properly done	49	52	71	32
Inside information made available to selected parties	39	67	53	91
Favorable Tax rate, loan from NCB/DFI , Favorable Tariff, Reduced oversight, and relaxed/revisable Payment conditions were influential conditions	45	30	76	79
Conditions given in bid documents were not adhered to ultimately	81	79	59	67
Corruption, Nepotism Favoritism and collusion were present	63	57	29	73

How can these responses be interpreted? First, privatization as an indigenous policy approach was not unknown. Government was willing to reduce the burden of 'small and 'not necessary' units through revisions of industrial policy which expanded scope of the private sector. But none of the governments articulated privatization policy and units for privatization were often selected arbitrarily. Second, in the absence of valuers, the real value of assets calculated on historical cost basis led to under valuation as potentials of developed sites and alternative investment opportunity were not considered appropriately. Third, the bid documents were generic in nature and did not provide all information to all bidders as a prospectus/annual reports/audited accounts for new investments do. Fourth, conditionality basically assumed production in the same area and protection of employment while other conditions remained unstated leading to scope for obtaining inside information and negotiation on other conditions. Fifth, as a necessity for reducing fiscal crunch and later as an element of structural adjustment, governments felt obliged to divest at any price and under any condition which created scope for taking advantage of influence and connections as well as corrupt/discretionary bureaucratic dealings. Sixth, the supervision and monitoring were lax for privatized units and divestiture failed to create competition for efficiency in those units. Hence the performance of privatized units have been mixed and assets turned into non-performing ones as economic rational made the new owners behave in that manner. Seventh, divestiture and other reforms (e.g. tax administration, financial sector reform etc.) were not related and the unethical practices increased and often remained hidden from public eyes in the absence of parliamentary scrutiny or departmental disclosure. Eight, politics of divestiture had an upper hand over economics of the same which created conditions for corrupt practices. It is interesting to note that only 13% of respondents of business community were of the opinion that divestiture were effective in promoting private sector and economic efficiency.

Another important component of structural adjustment program is deregulation. Governance is manifested partly through regulation and the votaries of market led economy would concede that even markets need regulations. The basic issue about regulation is when they are restrictive of competition and non-protective of public interest. This issue is not only country and culture specific but also specific to level of politico economic development and sectoral considerations. Further regulations as specified in law books may indeed be different from what is on the ground due to the level of effective administration and judiciary as well as civil society vigilance. Bangladesh has proceeded to deregulate in many areas e.g. domestic and foreign investment, operation of financial sector (with respect to interest rates, currency convertibility, etc.), lowering discretion in tax rate and duty, enlarging free list of imports etc. Survey conducted about cost of doing business found that, 36.6% of respondent believed that government regulations of their business has increased, 48.5% were of the opinion that it has decreased and 14.9% thought it has neither increased nor decreased.

The purpose of deregulation is to increase competition and the laws related to business regulation is awfully complex as the legislation has evolved over the two centuries in piecemeal manner. Bangladesh has no Monopolies Commission or Competition Act for control of meager, anti competitive practices, cartels, etc. But the Ministries of Industry (including Jute and Textile) and Commerce have wide authorities, besides those of Health, Environment, Finance, Agriculture, labor, etc. The laws are designed to protect public interest, which is a broad concept. There is no law to promote competition to enhance economic efficiency or consumer welfare. The civil society is not proactive either. Therefore, the judicial interpretation of law for restricting 'inter-linkages' 'insider' trading 'unfair practices' has remained limited, non-focused and not always coherent. It may be recalled that Bangladesh legal framework is the creation of the colonial power and even today its laws are interpreted in the light of the common law practices and its evolution. The impact of WTO in this regard is yet to be understood by the administration or the business. A Survey of consumers in 10 wards of Dhaka City indicated that the consumers are not aware of their rights with regard to quality and information. (Ahmad, 1998). Further the consumers were of the view that most dominant suppliers practice collusive exclusion and no agency of the government investigate to uncover secret and collusive arrangement except for 'unlicensed' production units or infringement of 'trademark' law. There are standards but no agency to enforce standards. The inadequacy of regulatory laws not only limits its territory but also investigatory powers and penalty that can be imposed under these regulations.

Thus the perception of business community about regulation is not about the regulatory laws but about the license/no objection/permission from the politico-bureaucratic regime. The deregulation under structural adjustment program was intended to promote entry with no or little transaction cost but it was not designed to enhance consumer rights and protect them from corrupt business practices as it was believed that a competitive market condition would take care of these concerns. The consumers are likely to benefit from sector specific competition law (e.g. telecom) backed by a general competition law. No civil society movement has so far addressed the issue including the legal aid NGOs. We know from the experience of changing and liberalized legal regime in UK that deregulation itself spew new areas of concern. Further changes in technology and growth of the service sector has created new areas of regulation and protection as well as expanded areas of competition.

A survey of businessman and consumers addressed the issue whether Bangladesh economy has become more competitive because of deregulation or is due to factors not related to deregulation. The prime source of competition identified is 'illegal' import which most businessmen have characterized as destructive. The other part of this illegal import is transactions involved in making entry or restricting entry into the market. Thus it may be presumed that reduced tariff and expansion of free list could be most beneficial in promoting competition. But alleged collusion of importers engaged in such import does lead to non-competitive business practices which the consumers face. There is not merely commodity and route concentration of such imports but also market concentration which recent studies on smuggling seem to

suggest. Thus deregulation of import with attendant reduction of tariff in the presence of unfair and collusive business enlarges supplier's surplus and extortion by regulators. It may be recalled that conservative government of Margaret Thatcher wedded to competitive market economy refused to underwrite the process by clearly drafted prohibitions and familiar enforcement procedures (Sharpe, 1993). Unless the courts are active in developing concepts such as relevant market, predation, concerted practice, dominance, discrimination, market power, less regulation does not create conditions for increased competition and reduced bureaucratic malfeasance. A survey of commercial law practitioners in Dhaka bar indicated that the interface between law and economics is an area of darkness in this country. Failure to articulate a consistent doctrine on each of the key elements of deregulations and competition has been the single most reason why deregulation is an area so narrowly understood. However regulation cannot necessarily be designed as a replacement for competitive market unless regulation itself responds quickly and effectively to changing market conditions which are difficult to predict. Thus in Bangladesh, deregulation has not necessarily promoted competition as synchronized changes in inter related laws and rules were not undertaken, as consumer movement is weak and as courts have not moved to define and refine the basic concepts. As a result of fragmented approach, the scope of bureaucratic deviation has indeed increased and with supplier concentration market imperfection has intensified. Here comes the role of watchdogs, which can only be effective in a transparent environment for promoting expanded vista of deregulation in the interest of competitive entry. Despite deregulation costs of getting licenses and permission involving payments to officials has increased overtime and account for 5% of avoidable expenditure.

We have touched on liberalization of trade in the course of our discourse on deregulation. The tariff reduction as a macro concept evade the discrepancy in the micro areas in terms of speed, sequence, effective implementation as well as the market structure. The survey of business community did not identify reduction in tariff as a cause of their ailments but 41% of the respondents indicated that such liberalization without consideration of market realities and domestic competitive advantage did harm their business prospect. It is not the trade liberalization but non-transparent intervention through SRO and discretionary interpretation by the implementing bureaucracy that create problems for the business. A survey of businessman indicated that payments made to customs and taxation officials has increased by 9% and 2% on average during the 90s. The payment in percentage terms increased with the size of business. The payment made to the taxation officials account for 1-5% of increase in business cost.

### **Conclusions**

According to public perception both petty and general corruption has increased in Bangladesh like many developed and developing countries. Experience of officials and members of business community corroborate the perception.

The areas most prone to corrupt practices are public procurement, contracting including contracting out and consulting, public works, energy sector including exploration and generation, public services delivery including healthcare and education; utility and municipal services, regulatory bodies including telecommunication and financial services. These are corroborated by BPI of TI.

The causality between structural adjustment program and increase or decrease in corruption cannot be established from the evidence/opinion/experience available. Structural Adjustment Program if implemented in an appropriate environment is likely to increase consumer's surplus through reduction in transaction cost and increase in efficiency through heightened competition. But no such situation seems to have manifested itself in Bangladesh. Many causes suggest themselves including bureaucratic deviation, collusive restriction, unfair trade practices and so on.

The logical conclusion seem to be more reforms and institutional capacity for good economic, political and social governance in a regime where civil society is vigilant and performs watchdog functions diligently.

In Bangladesh the causes of secular increase in corruption is related to cronyism, connections, activities of family members and relatives, political donations, and bureaucratic deviation along with oversight of fraud and extra legal activities. These are governance issues. The checks on such corruption are possible through strong political commitment, comprehensive and independent anti corruption commission, transparency of decision-making, enforcement of accountability and civil society vigilance. These are again concern of governance, which alone can make corruption a high-risk activity and institute reward and motivation for predictable rule-bound transparent and enforceable decision-making. The structural Adjustment Program does not eliminate 'Gate Keepers' nor has it promoted time-bound 'one stop' predictable decision making in the bureaucracy, nor has it enforced reforms to reduce transaction cost of getting government approval or clearance through promoting ease of decision making in these areas. The gray areas have indeed increased.

World Bank however believe that deregulation and expansion of markets, public arrangement, legal and judicial reform and transparent procurement management are important to reduce corruption even when government plays a role in policy formulation. Of these a degree of deregulation has been in place in the country but markets remain imperfect and thus its impact on controlling corruption is not visible. Other reforms are not yet in place nor did they constitute the core of Structural Adjustment Program. In fact the failure of SAP has brought the institutional issues to the forefront. The institutional reforms merit consideration on their own strength and its relation to SAP is now highlighted as a hindsight.

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