

## Economic Policy Paper On Cost of Doing Business in Bangladesh

### **Few Examples of irregular Cost of business:**

Chittagong Port's inefficiency Costs US\$ 1.1 billion extra to the economy every year, which is about 2% of GDP. It was estimated that Bangladesh could see about 30% increase in export by simply making the port more efficient. The port continues to be one of the slowest, most inefficient and costly in Asia. Purchase order to delivery cycle is one month longer in the port than that of major competing countries which is a problem for investors. Rail net work is poorly utilized by any international standards while Dhaka-Chittagong main road cannot handle container lorries due to capacity constraints. The ongoing automation and infrastructure development at Chittagong port would cut the vessel turnaround time to less than 24 hours from existing 4-5 days.

Chittagong Port provides example of low poor governance is undermining Bangladesh's growth . Bangladesh has adopted an outward-oriented growth strategy, and the garment industry's competitiveness particularly depends on the ability to move imported fabrics and garment exports through the port quick, in order to meet tight delivery deadlines . However, the lack of discipline at the port slow the movement of goods and allows extractions by port workers and customs official . A cross country review by the World Bank found that turnaround time for feeder vessels in Chittagong is 6–10 days, compared with two days in Bangkok and one day in Singapore . Bangladesh can move a container for \$ 600, but neighboring ports can do it for \$ 150-300. Maritime transport costs account for 14% of the cost of Bangladeshi textile exports to the U.S, compared to less than 8% for countries such as India , Thailand, China and Taiwan. This discrepancy taxes Bangladesh's Economy and passes the costs of inefficiency to consumers. According to another study, Bangladesh's exports could earn about 30 percent more if port inefficiencies were removed . A 30% increase in earnings could boost foreign exchange earnings from garment exports by 125% . In other words port inefficiencies each year cost the country close to what the garment sector earns – about \$ 1.1 billion .

In one estimate Unethical business eats up Tk.11000 Crores a year, while another estimate says 30% of the annual budget of the Country. Interestingly by rule!! of law !! illegal earnings will become legal by giving 7.5% share (tax) to the government and free of any further hassle and legal earning of an individual falls upto 25% tax bracket plus tremendous amount of hassle.

### **Social Weather Survey :**

In the Social Weather Survey report it has been identified that unethical business is the major obstacle to development. On a query extensive graft and unethical business were perceived to be in the government, 62% of the respondents said that they believed government officials were mainly responsible for all unethical business and bribery in the country. 69% of the respondents said that corrupt officials were the threat to the country.

Due to rampant unethical business and mismanagement in the government sectors government had to give subsidy for U.S \$ 10 billion in last 21 years to the SOEs. Bangladesh could build by its own resource one Bangabandhu Jamuna bridge in

every one and a half years time had this loss not been incurred by the government sectors. Only 3000 projects ( 11%) have seen day light out of 26581 projects planned in 23 years time. In many cases funds were returned back to the donors due to tremendous dilly dally and irresponsible movements of the civil bureaucrat-Mandarins. They are althrough Majestic!! simply without being logistic but of course unique and fantastic at their own right and self determined standard.

### **Underground Economy :**

Under ground economy is growing much faster than the over ground/surface/ legal economy. Due to tax evasion alone black money accounts for about 213% of the GDP and the yearly tax evasion is about 6000 million U.S dollars. Auditors inconnaiance with the tax men are the main facilitators for this tax evasion .

The Gross Corrupt/Criminal Products (GCP) are much higher than this figure. IMF said in 2000 the total GCP of the world was about U.S \$ 500000 million, where Bangladesh has contributed about U.S \$ 6000 million by tax evasion alone.

### **ADB Report :**

Asian Development Bank (ADB) has identified the following 9 impediments of implementing Projects in Bangladesh .

- Excessive time consumption by the Planning Commission in project clearance and amendments.
- Relevant ministries take unnecessarily longer time in inviting and approving tenders.
- Delay in appointing consultants.
- Most of the time finance ministry does not give prompt advice to the Bangladesh Bank ( Central Bank ) to release project fund .
- Weak project supervision delays project implementation.
- Strong project supervision exercise for implementation of the project has never been taken
- Land acquisition is terrible delayed .
- Frequent transfer of the Project Director.

### **World Bank Directive:**

World Bank has directed its staff to do its best to help stem fraud in the projects financed by the World Bank. The report produced by a group of the World Bank staff said, “ If the staff in their judgment feel that unethical business has a serious impact on the out come of a project or development more generally, and the country’s leadership does not show an active interest in confronting the problem, then the World Bank will reconsider its support.” Question is do they really mean it?

### **Estimated Government Project Processing Time :**

A self-analyses study was carried out by Planning Commission. The study meticulously brought out the procedural delays and processes. In total the time required is given below:

Maximum processing time taken	926 days
Minimum processing taken	84 days
Average processing time taken	1 year and 3 months.

Waiting before presentation took on average 10 months ( maximum number of days 780 and minimum number of days 19). Industrial projects went through relatively faster.

### **Cost of Delay ( COD):**

Cost of Delay is such an important consideration that it must be abbreviated as COD and remembered so. Unless a project manager is very alive to finding out the value of the work done, he is in for a surprise. Delay costs money but then it leads one to ponder about the optimization of project duration , thereby its costs. An activity can be carried out , in most cases, at a faster rate and at a slower rate depending upon the consumption of resources/ unit of time. Such reduction of activity time costs money, which may be worthwhile investment if it reduces the total project time. Since the total project time is decided by the activities of the project. A gain is less costly to reduce the time of certain critical activities compared to other critical activities.

Nature of Project delay costs:

- ♥ all costs for rescheduling
- ♥ capital cost
- ♥ organizational cost
- ♥ loss of value of money
- ♥ production loss /income loss
- ♥ loss of potential market
- ♥ loss of other vertically integrated project
- ♥ loss of other horizontally integrated project
- ♥ loss of good will for all involved
- ♥ balance of trade disadvantage
- ♥ raises anger and annoyance of the financiers/donors

### **Power System:**

Bangladesh's power system is well known for its high "System losses," which results primarily from theft due to collusion between employees and consumers. The performance has improved somewhat in recent years , but the ratio of power generated to revenues collected is still only about 70% for the system as a whole . BPDB only paid 1% of its outstanding debt service liability to the government .There are thus a huge burden on government finances , draining funds away from other uses that could accelerate growth and poverty reduction .About 80% of urban dwellers have electricity, but only 19% of the rural population indicating that middle and upper-income urban consumers are the primary beneficiaries of the subsidies that arise from the losses as well as pricing distortions that favor residential consumers . In addition to the power system's limited converge, power supply is so unreliable that many businesses are forced to imported generators . One study estimates that load shedding and erratic power supply, mainly due to poor governance, reduce industrial output by about \$ 1 billion and GDP Growth by about 0.5% a year.

### **Cost of Unethical business in the Financial Institutions:**

Industrialization in Bangladesh is seriously hampered by over-profiteering of the banks. Unethical business costs financial institutions US\$ 666 million annually. This

is as high as 1.42% of the country's GDP of US\$ 46934 million at current market price. Inefficiency, unethical business add up this amount annually to the product costs of financial institutions. Had there been no such unethical business and inefficiency depositors would get more attractive rates while the customers would get loans at a cheaper rates. Simply tax payers/ citizens are being penalized/punished for the inefficiency and unethical business of the bankers and all other government and non government officials. Operational costs in the banking system are staggering 3.13% of the net assets against an internationally accepted practice of 1% only. In India it is 2.5%. The substantial excess cost therefore stands at 2.13% of net banking assets, which translates to 0.56% of the current GDP. Statutory capital adequacy requirements needs are 3.20% of GDP. The annual cost of servicing the re-capitalization, therefore stands at 0.32% of GDP. Based on other studies the re-capitalization financing would reach 0.62% of GDP. Consequently the total annual cost of the banking sector inefficiency would stand at 1.18% of GDP. If the inefficiency of DFI and specialized banks are added to the list the cost of refinancing only in this particular segment stands roughly at around US\$ 1.17 billion or an additional 0.24% of GDP. In India the refinancing cost is roughly 0.75% of GDP. One would think that our financial system is riddled with people who have little or no knowledge of modern banking system. Although there is no Islamic Banking Law in the country, but they are operating in full swing by adopting a kind of gentlemen cheating process (interest is termed as profit, and before doing any business really) based on the bogus religious sentiment of the people of the country.

The banking System provides example of how governance deficiencies put a drag on economic growth. Corrupt, politically directed lending in public banks and insider lending in private banks has plagued the system. A large part of the NCB's bad debt can never be recovered . In contrast to the impression that the NCB's problems are primarily due to the stock of old bad debt, recent analyses have indicated low repayment rates on the new loans. Carrying so much bad debt imposes a heavy burden on the banking system, leading to interest rates that are very high in real terms. A recent World Bank study estimated that the governance problems and inefficiencies in Bangladesh's banking system slowed GDP growth by an average of between 0.7% and 1.6 % a year.

### **Public Procurement :**

Public procurement provides another example of how poor governance is a drain on public resources and reduces the benefits of public expenditures. About 30% of public expenditure, and up to 80% of foreign assisted public expenditure, go through the procurement process .We estimate that 90-95% of public procurement is subject to unethical business. This is a huge waste of scarce public resources, be it domestic savings or. external aid. It leads to poor quality of goods, works and services, erodes public confidence in the government and deteriorated the investment climate .

So far I've focused on how bad governance reduces economic growth by looking at specific activities. The World Bank also conducted a cross-country analysis that indicates the summary impact of poor governance on growth. We assembled time series data, including governance indices, for 102 countries and used regression analysis to estimate the impact of governance on GDP growth , taking other standard variables into account. The analysis indicated that Bangladesh is losing 2-3% of GDP growth a year because it is among the most rather the most corrupt country in the world.

The implication of these various analyses is clear- Bad Governance is probably the single most important factor that prevents Bangladesh from achieving its potential for higher economic growth and faster poverty reduction .

### **AID Turned to AIDS:**

In last 29 years up to 2000 Bangladesh received a total US\$36.3 billion as loans, grants and aids, of which about 17.5 billion dollars (48%) was aid and rest 18.9 billion dollars was loan. It is reported that 75% i, e US\$ 27.3 billions were looted, embezzled, misused mostly by high government officials. Even if this looted/embezzled amount would have been invested in Bangladesh there could be seen huge development in the country. It is taken that 25%(US\$ 9.1 billion) was invested in Bangladesh. The average remittance by NRBs is about US\$ 1.4 billion per annum officially and said to be US\$ 500-700 million unofficially, on the other hand in last 29 years foreign aids and loans inflow in investment was about 0.60-0.65 billion dollars per annum, i.e is annually average 1.25 billion.

In last 10 years major political parties went for 400 days of hartal costing about US\$ 15.50 billion, of which it is said that present government accounted for US\$ 13.8 billion and previous government accounted for US\$ 1.7 billion. On average US\$ 1.55 billion a year, which is 1.70 times of the real investment of foreign loans and aids in last 29 years. Biggest loan defaulters are the SOEs championed with Tk.13840 million. Their total loan amount is Tk. 47060 million and about 29% of which is defaulted. So, had their been no hartal and loss in the SOEs we wouldn't need any foreign loans and aids in last 34 years of our liberation. Let us now recommend for the Accountant turned Finance Minister to catch the culprits who embezzled the public exchequer and stop going to Paris club for US\$ 2000 million and say good-bye to LDC. Before doing so we must continue to go for begging to Paris club for the rest of our life and for eternity. Lets' not make aid any more AIDS.

### **Plummeted Value of Taka:**

Since1973 till to-day Bangladesh Taka(Bangladesh Currency) has been devalued for 48 times. As of to-date US Dollar BC selling rate is Tk. 67.25, while US dollar is sliding/loosing its value almost everyday against Euro all over the world. This upward trend is unique to Bangladesh only and is significantly increasing cost of doing business and cost of living in our heavily necessary and unnecessary!! import dependent country. Foreign Exchange reserve is now about US\$ 2.83 billion.

### **Bureaucratic Hassles of Doing Business:**

#### **Getting Through the Regulatory and Bureaucratic Maze**

In Bangladesh, an investor often has to find ingenious and resourceful ways of getting around the dense set of regulations and bureaucratic entanglements. The only effective solution is to employ a 'dalal', a professional payer of bribes. The dalal surfaces whenever official procedure is to be undertaken — for a fee he purchases and completes the multiplicity of legal forms, delivers them to the proper persons, and eventually extracts the needed permission or document. The simplest transactions, such as obtaining a marriage license or a passport, may take hours or days or an age, depending on whether one has used a dalal and how much he has been paid.

The facilitating business, however, operates on specialized lines: some dalals handle only customs matters; others specialize in police work, rickshaw and auto licenses, manpower export, marriages, or opening up a business. In most cases, securing the necessary documents can be so difficult that it is not unheard of for one governmental agency to employ a dalal to extract something from another.

The dalal is effective because he knows his way through the bureaucratic maze, and above all because he has cultivated friends in the bureaucracy. Influence peddlers, protocol specialists, or dalals could thus well be retired government officials. If one is fortunate enough to have a friend, or a friend of a friend, in the right government office, the services of the dalal can be forgone. But a dalal is often quicker and more cost effective than the friendship route.

The dalal normally operates hand-in-glove with another Bangladeshi institution, the 'mastan' (roughly, a forceful expeditor). If the dalal needs to apply coercion, he sub-contracts the services of a *mastan*. Mastans have a violent mafia-type reputation. They get things done, but at a unacceptable cost, because it threatens law and order and is fundamentally anti-ethical to good governance.

### **The Business Environment Survey highlighted the following:**

- *Responsiveness of officials* - 70 percent of the respondents did not think that government officials are more responsive to the problems and needs of the private sector now compared to five years ago. In fact, the majority believed that the services of tax authorities (Customs, Income Tax, Sales, Excise, VAT), PDB, DESA, Gas Companies, and WASA have definitely not improved during the last five years.
- *Business climate* - A majority of the respondents (57%), especially those engaged in exports, thought that the business climate was more favorable to the private sector now than five years back. However, only half of the respondents indicated that day-to-day constraints and bottlenecks facing business activities have decreased.
- *Industrial investment* - Among the reform measures, the deregulation of industrial investment does not appear to have been implemented fully. 53 percent of the respondents do not agree that it is easier to start a new business or expand an existing one now than previously.
- *Ease of Import and Exports* - Over 70 percent agreed that raw materials are now easier to import, and over two-thirds of the export-oriented firms think that it is now easier to export.

### **The Exporter's Survey highlighted the following:**

- *Customs delays* - On average it took
  - 12 days (with a maximum of 30 days) for the exporters' imported inputs to be released through customs at the ports or airports.
  - 9 days (with a maximum of 75 days) to obtain customs clearance for exporting a shipment.
  - 7 days (with a maximum of 30 days) to complete all the documents required for exports.

- *Cost of Interaction* - A great deal of time - more than half a person-year - is needed to deal with Government agencies such as customs, port authority, tax department, EPB, and various ministries. Firms had to spend, on average, 7 percent of their sales revenue to overcome the import and export delays by government agencies. Most exporters (82 percent), employ a person specifically to deal with government agencies.
- *Duty drawback* - On average it takes 58 days with a maximum of 120 days, and 6 percent additional expenditure, to get a refund cheque from the Duty Exemption and Drawback Office.
- *Lost orders* - 73 percent of the exporters have lost export orders at some point.
- *Causes of delay* - The most important reasons cited for delays in meeting deadlines for shipment were hartals or labor strikes, customs clearance, power failures, delays by fabric suppliers, and delays at ports.
- *Bonded Warehouses* - Nearly half of the Special Bonded Warehouse users indicated that their experience with the customs authority was not satisfactory.
- *Export Institutions* - Although 52 percent of the exporters received direct assistance from the Export Promotion Bureau (EPB) during the preceding twelve months, 76 percent of them think that EPB would function better if it were managed by the private sector.

(Please see Annexure-I)

## **Citizen's Views on Access and Quality**

### **Health Care:**

- Government-provided services play a minor role. Only 18% and 26% of the population in urban and rural areas, respectively, use these services. Almost half of the rural population visited quacks and village doctors.
- Satisfaction levels were highest for private care, followed by quacks and village doctors, and publicly-run facilities. On a scale of 1-5, the mean scores were 3.8, 3.4 and 3.1, respectively. The main reasons for dissatisfaction with government services were lack of responsiveness to the patient, absence of proper care, and extra-payment for service.

### **Education:**

- Government is the dominant provider of primary education. 50% and 72% of the school going children in urban and rural areas, respectively, attend government schools. User satisfaction level is highest for the NGO schools. On a scale of 1-5, the mean scores were 4.1 for NGO schools, 3.8 for private schools, and 3.5 for government schools.
- Private schools dominate secondary education, with 71% and 89% of urban and rural children, respectively, attending these schools. User satisfaction (on a scale of 1-5) was 3.8 and 3.6 for government and private schools, respectively.
- The main reasons for dissatisfaction with government schools were absence of responsibility to students, poor quality education, and teacher's absence. In case of private schools, the main reasons for dissatisfaction were poor quality teachers and little responsibility to pupils.

### **Off-Farm Extension Services:**

- Animal husbandry services are largely provided by the private sector (52%), and the government (43%). Over 35% of the users are dissatisfied with government services compared with 13% for the private sector.
- Poultry rearing. In the urban areas, 70% of the people received these services from the government and 34% from the private sector, as opposed to 33% and 45%, respectively, in the rural areas. Over one-third of the people getting government services were dissatisfied compared to 12% for the private sector.
- The main reason for dissatisfaction was extra-payment to receive service.

### **Banking:**

- Only 43% of the citizens were ever exposed to a bank. User satisfaction was lowest for the Krishi Bank (2.9%), and highest for the Grameen Bank (4.2%). Over 70% of Krishi Bank clients were dissatisfied on account of extra payments to receive loans.

### **Electricity:**

- 97% of urban and 9% of rural respondents have access to electricity. Mean satisfaction levels are low, although they are relatively higher in the rural areas. Dissatisfaction is widespread -- nearly 60% in the urban areas and nearly 40% in the rural areas. It is the result of intermittent and frequent power cuts, voltage fluctuations (urban areas), and excessive billing. (Please see Annexure-III)

### **People's Needs and Expectations:**

- The survey also attempted to assess people's needs and expectations. Not surprisingly, the answers are straight-forward. Urbanites attach the highest priorities to: health services, safe water supply, electricity supply and primary schooling. The rural population seems to attach the highest priorities to health services, safe water and primary schooling. The survey results only restate the case for government budget expenditure priorities further shifting towards social sector development.

Glaring examples of inefficient SOEs include, the Power Board -- which has losses of 40-45%; Chithagong Port -- whose inefficiency leads to container handling costs of about \$600 compared to \$150 in Singapore and \$250 in Colombo, and a container turnaround time of seven days compared to two in comparator ports. And Water Authorities with system losses of 50-60%. Most SOEs do not earn any profit and are a continuous drain on the Government budget and/or the banking system, creating a huge contingent liability and a quasi-fiscal deficit.

### **How Unethical business Affects Investment?**

A study by Cheryl and Daniel Kaufman has identified as follows:

- there was no basis for the argument that unethical business/bribery could increase efficiency by cutting down red-tapism
- enterprises paying bribes also spent a greater share of management times with bureaucrats for negotiations on the deals.
- The cost of capital for firms tends to be higher where bribery is more prevalent

The modern capital market theory states that the total risk of investment in the capital market can be divided into two parts: systematic and unsystematic risks. The former arises from economy wide factors and hence an investor cannot do anything about it by his own actions. The latter, the unsystematic risks, arise out of random factors and hence it is possible to reduce this element by diversification of an investment portfolio in unrelated sectors and companies. An intelligent investor therefore should expect to be compensated for the unavoidable portion of the total risk over and above the return available on risk-free investment, such as government security. Taken together the CAPM is given by the equation:  $R_j = R_f + b(R_m - R_f)$ , where  $R_j$  = expected return from an investment,  $R_f$  = Risk free return,  $R_m$  = Return from a market portfolio and  $b$  = beta coefficient representing systematic risk.

### **Effects of Unethical business:**

- Multiplier Effects
- Competitiveness Effects
- Fiscal Effects
- Debt Effects
- Growth and Investment Effects

### **Concept of Governance:**

Good Governance is epitomized by predictable open and enlightened policy making, a bureaucracy imbued with a professional ethos acting in furtherance of the public good, the rule of law, transparent processes, and a strong civil society participating in public affairs. Poor governance on the other hand is characterized by arbitrary policy making, unaccountable bureaucracies, unenforced or unjust legal systems, the abuse of executive power, a civil society unengaged in public life, and widespread unethical business.—World Bank.

### **Characteristics of Good Governance:**

1. participatory
2. sustainable
3. legitimate and acceptable to the people
4. transparent
5. able to develop the resources and methods of governance
6. promotes gender balance
7. tolerates and accepts diverse perspectives
8. able to mobilize resources for social purposes
9. strengthens indigenous mechanisms
10. operates by rule of law
11. efficient and effective in the use of resources
12. engenders and commands respect and trust
13. accountable
14. able to define and take ownership of national solutions
15. enabling and facilitative
16. regulatory rather than controlling
17. able to deal with temporal issues
18. service oriented

### **Governance Indicators:**

- Voice and Accountability
- Political Stability and Absence of Violence
- Government Effectiveness
- Regulatory Quality
- Rule of Law
- Control of Unethical business

### **Seven Deadly Sins as per Mahatma Gandhiji:**

- WEALTH WITHOUT WORK
- PLEASURE WITHOUT CONSCIENCE
- KNOWLEDGE WITHOUT CHARACTER
- BUSINESS WITHOUT ETHICS
- SCIENCE WITHOUT HUMANITY
- RELIGION WITHOUT SACRIFICE
- POLITICS WITHOUT PRINCIPLE

### **Cross Country References:**

#### **U.S. Federal Government Efforts:**

The Report focused on “how” to make government work better and cost less. The report identified four major goals for a “reinvented government:”

#### **Cutting red tape**

- Streamlining the budget process
- Decentralizing personnel policy
- Streamlining procurement
- Reorienting the inspectors general
- Eliminating regulatory overkill
- Empowering state and local government

#### **Putting customers first**

- Giving customers a voice -- and a choice
- Making service organizations compete
- Creating market dynamics
- Using market mechanisms to solve problems

#### **Empowering employees to get results**

- Decentralizing decision-making power
- Hold all federal employees accountable for results
- Giving federal workers the tools they need to do their jobs
- Enhancing the quality of work life
- Forming a labor-management partnership
- Exert leadership

#### **Cutting back to basics**

- Eliminate what we don't need
- Collecting more
- Investing in greater productivity
- Re-engineering programs to cut costs

The report made recommendations for each major agency and for government-wide systems, and task forces were established, on the following:

- Creating Quality Leadership and Management
- Streamlining Management Control
- Transforming Organizational Structures
- Improving Customer Service
- Mission-driven, Results-Oriented Budgeting
- Improving Financial Management
- Reinventing Human Resource Management
- Reinventing Federal Procurement
- Reinventing Support Services
- Re-engineering Through Information Technology
- Rethinking Program Design
- Strengthening the Partnership in Intergovernmental Service Delivery
- Reinventing Environmental Management
- Improving Regulatory Systems

### **Combating Unethical business**

Several countries, both developed and developing, have faced the problem of unethical business. The following are some of the innovative measures that countries like Chile, Singapore and Australia have taken to combat unethical business.

#### **1. The Chilean Case: Forty-one Recommendations for National Measures to Fight Unethical business**

The significant recommendations of the Chilean Commission on Public Ethics can be summarized as follows:

- \* Draft and implement a national policy of public ethics.
- Raise the status of public servants and their pay. Improve the merit system.
- Establish a public sector code of honesty.
- Review procedures to determine administrative accountability.
- Prohibit trafficking influences and the misuse of privileged information.
- Improve regulations governing conflicts of interest among public duties.
- Improve the regulations that govern conflicts of interest between public duties and private activities.
- Require the declaration of assets and personal interests for people entering or leaving public service.
- Remove local and national legislators from office when they influence public decisions for their own benefit.
- Extend the legislation on conflict of interest to cover higher officials, including the President.
- Have private accounting firms carry out selective audits supervised by high-level federal officials.
- Eliminate secret government accounts and discretionary executive spending unless fully justified.
- Create an office of anti-Unethical business Prosecutor.
- Enact a Freedom of Information Law.

- Require government agencies to release regularly to the public their balance sheets and reports of activities.

## **2. The Singapore Case**

Singapore has succeeded in minimizing the problem of unethical business because its anti-unethical business strategy is characterized by:

- Commitment by political leaders, especially Prime Minister Lee Kuan Yew, towards the elimination of unethical business both within and outside the public bureaucracy
- Adoption of comprehensive anti-unethical business measures designed to reduce both the opportunities and need for unethical business.
- Creation and maintenance of an uncorrupted anti-unethical business agency which has honest and competent personnel to investigate unethical business cases and to enforce the anti-unethical business laws.
- One of the Government's approaches to combating unethical business is to reduce the incentive for unethical business by raising the remuneration package of its officials in line with private sector salaries.

## **3. The Australian Case: Independent Commission Against Unethical business**

The Commission created as a statutory corporation by the Independent Commission Against unethical business Act 1988, is independent from the Government, but accountable to Parliament through reports about its investigations and through the Joint Parliamentary Committee. The Commission aims to minimize unethical business through: Investigation, Unethical business Prevention and Public Education.

### **Investigation:**

\* *Public Complaints.* The commission relies upon and in fact encourages members of the public to come forward and provide information about corrupt conduct.

- *Reports from Public Authorities.* The principal officers of the public authorities, including government departments, local and municipal government and other public sector instrumentalities, have an obligation to report suspected incidents of corrupt conduct.
- *Parliamentary References.* Both Houses of Parliament may refer a matter to the Commission for investigation.
- *Through Co-operative Investigation.* Commission investigators sometimes work closely with the investigative staff of other authorities.

### **Prevention:**

- Advise the public sector about change in laws, procedures and work systems.
- A Unethical business Prevention Strategy has been in place since 1990, which includes the following principles: Prevention is better than cure; Unethical business prevention is a management function; and Accountability makes for committed management.

### **Public Education:**

***The Education Unit aims at:***

- Informing people about the functions of the commission and showing how individuals can assist the Commission in its work.
- Raising Community awareness of the ethical standards they should expect from public sector employees and elected representatives.
- Challenging community attitudes which allow unethical business.

***The Media Unit's objectives are:***

- To show that unethical business does matter to all citizens in New South Wales because of its detrimental effects.
- To persuade people that something can and must be done about unethical business; and
- To motivate individuals to play a part in fighting unethical business.

**Investment Climate in Bangladesh:**

To get an initial sense of how firms view the investment climate, the survey asked firms to rate the extent to which a large number of factors in the investment climate constrain their operation and growth. By far the most frequent complaint was the constrain imposed by the poor electricity system. Ranked next highest were problems relating to unethical business, governance, and finance.

The ranking result raises two issues. First, firms ranked economic policy uncertainty, highlighting the importance of stable macroeconomic policies. Since importance of these issues are well understood, this report focused on microeconomic issues.

The executives were asked to rate the infrastructure quality in their country on a scale of 1 ("Poorly developed and inefficient") to 7 ("among the best in the world"). Of the 75 developing and industrial countries in the sample, Bangladesh ranked 74<sup>th</sup>, higher only than Bolivia. By contrast, Malaysia ranked 29<sup>th</sup>, Thailand 30<sup>th</sup>, China 61<sup>st</sup>, and India 66<sup>th</sup>.

Evidence from the firm-level investment climate surveys confirms that the quality of infrastructure service is a significant problem in Bangladesh, with electricity the biggest concern. Asked to rate the extent to which Tele-communications, electricity, and transport hampered enterprise operations and growth in their country, only 4 percent of enterprises in Bangladesh reported that electricity posed no obstacle.

Although these responses suggest that the poor quality of infrastructure is serious problem for enterprises in Bangladesh, the data are qualitative, and methodological issues make it difficult to draw strong conclusions. For example, technologically advanced enterprises might be more vulnerable to infrastructure problems than less advanced ones, making them more likely to rate infrastructure as a significant problem. Thus the average score in a country of infrastructure and the quality of infrastructure and the average level of technological advancement, making cross-country comparisons difficult.

**Power:**

With generating capacity short of needs, supply notoriously unreliable, and power outages common, access for most manufacturing firms in Bangladesh. Over the past two decades the country's generating capacity increased almost threefold, from 1.0 million kilowatts in 1980 to 3.3 million. Even so, generating capacity remains low

relative to that in other developing countries in East and South Asia .While Bangladesh had about 0.03 kilowatts of capacity per capita and reportedly has increased electricity production by 80 megawatt only in last four years, India had 0.1, Pakistan 0.12, and China 0.21

### **Transport, Ports, and Customs:**

As noted, result from the firm-level surveys suggest that transport is a bigger problem in Bangladesh than in some comparator countries, with enterprise managers in Bangladesh less likely than those in China and Pakistan to say that transport posed no obstacle to enterprise operations and growth. This is consistent with evidence from Global Competitiveness Report 2001-02). Based on executives' ratings of the quality of infrastructure sectors in their country , Bangladesh ranked 70<sup>th</sup> among the 75 countries for roads and 72<sup>nd</sup> for ports. Although Bangladesh outperformed Sri Lanka, India, and the Philippines in the rankings for roads, it ranked lower than any of the comparator countries for ports . India ranked 57<sup>th</sup> on ports and China 51<sup>st</sup>

Much of the inefficiency in Bangladesh ports is centered in Chittagong port, which handles nearly 85 percent of the country's import and exports. One of the most inefficient and costly ports in Asia, Chittagong is plagued by labor problems , poor management and lack of equipment . In Chittagong Port 100-105 lifts per berth a day, well below the productivity standard of 230 lifts a day suggested by the United Nations Conference on Trade and Development (UNCTAD). Ship turnaround time is five to six days , compared with about one day in more efficient ports, and the port faces serious congestion .These problems hamper export growth and investment .

How ports and customs work together is critical: Firms that import or export rely on well-functioning ports and efficient customs procedures to bring in needed input and send out finished products. Here Bangladesh again performs relatively poorly compared with other Asian countries. Responses to the investment climate surveys show that the median time required for imports to clear ports and customs in Bangladesh is seven days and for export, five days. Although this performance compares well with Pakistan's it falls short of that in India and China

Average waits are longer, of course, because of the small number of firms reporting especially onerous waits. The average wait for imports to clear ports and customs in Bangladesh was nearly 12 days, while the average longest wait was 23 days. For exports the average wait was nearly 9 days, and the average longest wait 14 days.

These waits can be costly to firms. Regression analysis controlling for industry and firm characteristics suggests that import days are associated with lower profits, while customs delays for export are correlated with slower growth in sales and employment and lower investment

### **Telecommunications:**

Enterprises in Bangladesh rated telecommunications a smaller constraint on enterprise operations and growth than other infrastructure sectors. But having a well-development telecommunications sector is becoming increasingly important. The number of fixed line telephones per 100 people in Bangladesh rose significantly in the past two decades despite relatively rapid population growth. Meanwhile , driven by private investment , growth in the mobile phone market took off dramatically.

Introduced nobly in the 1990s, mobile phone had surpassed fixed line phones by 2001. In that year there were 0.4 mobile phone per 100 people, compared with 0.39 fixed line phones.

Although difficult to assess accurately, the quality of service also appears to be a problem in Bangladesh. In the most recent year for which data are available, Bangladesh 208 faults for every 100 mainline, according to the International Telecommunication Union. In comparison, there were 203 faults per 100 mainlines in India, 99 in Pakistan, 38 in Malaysia, 29 in the Philippines, 15 in Sri Lanka, and 13 in Indonesia.

Getting a telephone connection also appears to be relatively difficult in Bangladesh. In the investment climate surveys, enterprises obtaining a telephone connection within the previous wait two years reported a median wait of 90 days in Bangladesh, far longer than the 18 days in Pakistan and 7 days in China and the cost imposed by unethical business. But analyses based on aggregate statistics suggest a mixed performance in Bangladesh.

### **Business Entry:**

How costly- and how difficult –is it for an entrepreneur to start a new firm in Bangladesh. Data from the World Bank's doing Business projects suggest that startup is relatively costly. An entrepreneur in Bangladesh must complete seven procedures to start a firm- the smallest number among a group of comparator countries in Asia (the number for Malaysia is also seven) But the cost of these procedures amounts to 77.6 percent of per capita income- by far the highest among these countries

### **Starting a Business- Entry Regulations:**

When an entrepreneur draws up a business plan and tries to get underway, the first hurdles that need to be overcome are the bureaucratic and legal procedure to incorporate and register the new firm. Economies differ significantly in the way in which they regulate the entry of new business. In some economies the process is straightforward and affordable. In others, the process or they would rather run their business informally.

Across countries, cumbersome entry procedures are associated with more unethical business, particularly in developing countries. Each procedure is a point of contact – an opportunity to extract a bribe. Empirical analysis shows that burdensome entry regulations do not increase the quality of products, make work safer, or reduce pollution. They hold back private investment, push more people into the informal economy, increase consumer prices and fuel unethical business.

### **Registering Property:**

Local property lawyers and property registries provide information on required procedures, as well as the time and the cost to fulfill each of them, In most countries, the data are based on responses by both lawyers and officials in the property registries.

Based on the responses, three indicators are constructed:

- Number of procedures to register property

- Time to register property ( in calendar days)
- Official costs to register property ( as a percentage of the property value )

### **Legal Rights & Credit Information:**

Access to credit is consistently rated by firms as one of the greatest barriers to operation and growth. Two sets of indicators, on credit information registries and legal rights, are covered by the table .

Effective regulations on secured lending through collateral and bankruptcy laws- are another institutional solution to credit constraints. With collateral, a lender can seize and sell the borrowers secured assets upon default of a loan, which limits the potential losses of a lender and acts as a screening device of borrowers.

(Please see Annexure II)

### **Protecting Investors: Corporate Governance:**

Enron, WorldCom, Bank of Credit and Commerce International are high profile cases of

failures in corporate governance in rich countries. But good corporate governance is just as relevant for entrepreneurs in poor countries that seek equity from business partners . Potential investors everywhere worry about expropriation by controlling owners or managers .Whether in rich or poor countries, the same principles of good corporate governance apply .

The database presents an index of disclosure that captures sever ways of enhancing disclosure: whether laws and regulations require reporting (i) family (ii) indirect and (iii) beneficial ownership; (iv) disclosing information on voting agreements between shareholders; (v) audit committees reporting to the board of directors; (vi) use of external auditors; and (vii) ownership and financial information is publicly available to all current and potential investors. The index varies between 0 and 7, with higher values indicating more disclosure .

### **Enforcing contracts : Court Efficiency:**

Contract enforcement is critical for businesses to engage with new borrowers or customers. The institution that enforces contracts between debtors and creditors, suppliers and customers is the courts. In may countries around the world, courts are slow, inefficient and even corrupt .The evidence here tracks the differences in the efficiency of contract enforcement, looking at simple transactions of relevance to the average firm in everyday business activity .

### **Closing Business : Bankruptcy**

Recent economic crises in emerging markets, from East Asia, to Latin America, to Russia and Turkey, have raised concerns about the design of bankruptcy systems and the ability of such systems to help reorganize viable companies and close down unviable ones. In countries where bankruptcy is inefficient, unviable business linger around for years, not allowing assets and human capital to be reallocated to more productive uses . Most often, the bottlenecks in bankruptcy are associated with an inefficient judicial process, and hence the unwillingness of banks and other lenders to push for a formal bankruptcy resolution .

Undesirable Business Expenses:

- a. Additional payments made to keep different utility connections in order such as telephone, electricity, water and sewerage
- b. Additional payments to be made for renewing licenses and for taking new licenses or new utility connections.
- c. Compulsory imposition of subscription and donation amount by persons who terrorize/ pressurize businessmen in the name of clubs, organizations etc.
- d. Payment made to some of the members of certain law enforcing agencies by some businessmen who cannot perform their business function peacefully if demands are not met.
- e. Payments to certain bank officials who sanctions credit and provide prompt service facilities to businessmen.
- f. Donation and subscription to political parties or their front organization.
- g. Expenses incurred to provide additional protection due to deteriorating security condition including payment made to the goons.
- h. Payments made to some of the employees/officials of statutory authorities, such as Factories Inspector, Various Tax Officials, city corporation Officials etc.
- i. Donation and subscription to help perform social and religious festivals.
- j. Donation and subscription to labor unions, employees unions, owners' organization etc. **(Please see Annexure IV)**

### **Summary of Major Constraints:**

The following are the major constraints and are responsible for cost of doing business in Bangladesh

- Unethical business –BRIBERY
- Time Schedule is not maintained
- Non implementation of law
- Non standardization of products and services
- Political unrest & Political Hypocrisy
- Frequent Road blockade
- Social unrest
- Drug addiction
- Uncontrolled price rise
- Non patriotic leadership
- Unethical business practice
- Uncertainty
- Irresponsibility
- Non delegation of power
- Degrading social values
- Lack of proper information and data
- Lack of transparency
- Poor image of the country
- Poor backward linkage industry
- Lack of proper knowledge & training
- Port Congestion and Strike (Recently country lost about Tk 100 crore for 19 days strike of Benapol land port)
- Business loss due to Natural Calamities (Please see Annexure V)

### **Syndrome of a Failed Government:**

Eight rich industrialized countries-USA, UK, France, Germany, Japan, Italy, Canada and Russia are worried about the appropriate use of aid or funds. They believe that aid can be useless, worse than useless, in countries with bad governments, either because the money is simply wasted or else because it helps to keep the corrupt rulers in place. This implies that aid should be aimed mainly at countries with relatively clean and competent governments—the ones, those might need it least. Question is which government could be termed a non-competent or a failed government?

They argue that these governments are incapable of enabling the benefits of globalization unlike China, Malaysia, India, Brazil, Czech Republic, Poland, Ireland, Mauritius or the Netherlands. In order to identify a government as a failed government, it has developed certain criteria. The basic elements of a failed government according to G-8 include the following:

- a government that fails to protect the life, liberty and property of its citizens
- a government whose rules and laws fail to guarantee the rights of its citizens
- a government that fails to provide the minimum medical facilities to its citizens
- a government that fails to provide the minimum education to its nationals
- a government that fails to ensure a sound banking system
- a government that fails to guarantee freedom of speech and fails to protect the rights of civil societies, journalists, and its intellectuals
- a government that fails to ensure transparent, judicious and non-corrupt business practices and fails to guarantee impartiality of the government officials
- a government that fails to enforce the laws of the land and the verdict of courts

If these conditions prevail in a country that country might be termed as a failed government and once it would be identified as a failed government in addition to reduction of aid flow its inward FDI will surely decline. Its credit rating will also go down and subsequently its cost of doing business and trade will be expensive. Such situation will bring disaster to any economy. Under the circumstances it is the responsibility of the citizens to take appropriate steps so that their government does not fail. However, the leadership of a failed government is more likely to blame others for their inefficiency and poor performance (naste na janle uthan baka) (udor pindi bhudor ghare) (you assess yourself by what you could do, but others assess you by what you have done). They are more likely to develop conspiracy theory as well.

## **Conclusion :**

### ***Establishing Ethical Standard***

It needs the following conditions;

1. It should be general but covering all sensitive areas specifically
2. It should be rigid but may be amended from time to time to suit specific needs.

Kautilya in his Arthashastra gave detailed instructions regarding accounting, auditing and ethical dealings of the state finances. According to him all undertakings depend on finance, hence foremost attention shall be paid to the treasury. He also listed 40 kinds of frauds and embezzlements and prescribed punishments for the same.

## ***Primary Responsibility for Ethics***

Parents at home, Board of Directors and Senior Management at the office and Politicians and Govern Servants at the state level are responsible for promoting high ethical and integrity standards, and for establishing a culture within the organization that emphasizes and demonstrates to all levels of personnel. It is the ethics that management must display in their business dealings, both inside and outside the organization. All personnel at a organization need to understand their role in the internal control process , ethical practice and be fully engaged in the process.

## ***Institutionalization of Ethics:***

1. Adoption of code of ethics for all offices
2. To have high powered ethics bound committee comprising of members having high morality and respect for ethics as a supervisory body
3. Must have training on ethical conduct in all training institutions of the organizations
4. Code of ethics must not be seen as a window dressing, it must be proved by action that it exists
5. There must be clear accountability at all levels
6. Ethical and moral conduct must be practiced by the top management first
7. There should be reward and punishment for ethical conduct and non-ethical conduct for individuals/team and institutions
8. Not appointing any one having antiunethical business case against him  
Either pending/sub-judice or convicted for any amount or any period whatsoever.
9. There must not be any political appointments in the High Court/Bank etc.

## ***Corporate Ethical Behavior***

- Recognize, appreciate ethical behavior accomplished by organization personnel
- Identify employees with unethical conduct and reprimand and punish justifiably for such undesirable and unethical conduct and reward for ethical conducts.
- Responsibility and Accountability should be taught by examples
- Communicate and provide clear guidelines for ethical behavior and must be clearly visible from top down
- Set up control checks for ethical conduct for financial and non- financial transactions
- Conduct frequent and un announced audits
- Review, up-date and upgrade the code of ethics
- Encourage periodical discussion on ethical value

## ***The Code of Ethics***

A code is a statement of policies, principles, or rules that guide behavior. Certainly, codes of ethics do not apply only to business enterprises; they should guide the behavior of persons in all organizations and in everyday life. Code of ethics enable individuals to make choices among alternative behaviors.

### ***Factors that raise ethical standards***

Gellerman made the following suggestions for raising ethical standards:

- \*Provide clear guidelines for ethical behavior
- \*Teach ethical guidelines and their importance
- \*In gray areas where there are questions about the ethics of an action, refrain from it
- \*Set up controls that check on illegal or unethical deeds
- \*conduct frequent and unpredictable audits
- \*punish trespassers in a meaningful way and make it public so that it may deter others.
- \*Emphasize regularly that loyalty to the organization does not excuse improper behavior or actions.

### ***Sources of Unethical Practices***

Unethical practices may occur from various sources such as :

Home, Peer Group, Influence, Greed, Uncertainty in works, Need, Unethical Environment etc. Prof. Feroz Iqbal said people do more unethical business in Groups than individually. While having a strong internal control culture does not guarantee that an organization will reach its goals, the lack of such a culture provides greater opportunities for errors to go undetected or for improprieties to occur, but ethical dealings can minimize or near stop it. Persons without ethics & honesty preaching ethics becomes hoax and it is rather more dangerous. There must be ethical practice at home first.

Investment climate condition may be classified into three broad categories, (a) macroeconomic conditions , (b) governance and (c) infrastructure. Macroeconomic factors include fiscal, monetary, exchange rate policies and political stability. Governance covers issues like regulatory matters that affect the costs of starting and running a business, such as the efficiency and transparency of taxation or regulations concerning the environment, safest health and other legitimate public interests. Some degree of regulation is no doubt necessary. But the issue is whether such regulations serve the public interests, are implemented expeditiously without harassment and unethical business , and facilitate efficient outcomes. Finally infrastructure refers broadly to the quality and quantity of available physical and financial infrastructure such as power, transport, telecommunications and banking.

In a developing country, economic growth is borne mainly by SMEs which can react much faster than large industries to new market opportunities. Hence SMEs should be provided with infrastructure and supporting services, technology and market information. Both the government and private sector SMSE support organizations should redouble their effort in helping the entrepreneurs so that they can play their due role and move further to contribute to the economy . DCC earned Tk. 30 crores from trade license in 2003-04 while it was 9 crore three years before and last year it was 23.5 crore mainly due to simplification of the procedures

The crux of the issue pertaining to stemming fraud or unethical business, embezzlement or misappropriation of allocated funds can not be checked unless the monitoring and evaluation become more mobile and responsible. More importantly public administration and its different branches must be thoroughly overhauled and streamlined to achieve the desired goals.

## **1. Preventive Measures:**

An effective internal control system should be in place at ministries/divisions, which will suggest change in work practice and oversee that control procedures are strictly followed. This may include the following measures:

- improving work methods and procedures to reduce delay ;
- increasing effectiveness of supervision so that the superior officers are able to check and control the work of their staff
- rotating staffs so that no officer remains in one single post for a long time
- surprise checks and regular inspection
- The Internal control unit will be also responsible for internal audit of the organization, and will ensure that financial rules and regulations are followed. The Internal Control Department should be the first whistle-blower and promptly bring cases of financial irregularities to the notice of the higher authority. This unit should also point out the areas where the external auditors should focus their audit work, which would save audit resources too.

## **2. Investigative Measures:**

An effective unit should be established to carry out investigation on apparent cases of unethical business, qualified and experienced persons, having appropriate training to handle cases, should man it.

Cases requiring department's actions will be resolved by the Ministry and when other legal actions are deemed appropriate, the cases may be referred to Anti-Unethical business Commission.

The head of the Internal Control Department will report directly to the Secretary of the Ministry /division or the Board of Directors as the case may be

On the one hand, the secretaries of the ministries should be given wider power to handle their delinquent and corrupt officers and staff within the ministry or in departments under their control . On other hand, message has to be sent across to the secretaries and other senior officers about the serious efforts of the government to eradicate unethical business from the administration and a reassurance from the government that they can count on non-interference of the government. The secretaries, in turn, will have to be more vigilant in respect of irregularities taking place within his ministry. The Anti-unethical business Commission, which will also oversee this activity of the ministries, may issue instructions to the ministries in such cases and ministries performance in curbing unethical business reflected in the (annual or occasional) Report to be submitted to a Parliamentary committee on unethical business to be formed.

## Recommendations:

1. Reduce lending rate of Interest to single digit compared to other competing countries(e.g: project loan interest-7%, Working Capital loan interest-8%, Export credit interest- 5%)
2. Good Governance and Clear accountability of government officials with reward and financial punishment provisions for financial crimes
3. Strengthening BSTI
4. Drastically Improving Port Efficiency
5. Smart sizing of various government offices to achieve cost efficiency
6. Replacement of BCS officers by professionals in the trade related government agencies as trade and commerce is a matter of serious understanding and knowing. Implications of Trade Policies is a great job for the prosperity of the country now and in future too.
7. Simplification of Customs Procedures
8. Strengthening anti dumping efforts & Introduction of counter veiling duties
9. Simplification of tax and all other trade related laws
10. Socially avoiding the Corrupts as people earn in a corrupt way mostly for social status and comfort. If the corrupts are socially avoided they will realize that society hates the corrupts and will feel humiliated and frustrated.
11. Improving law & order situation.
12. Ensuring Quick decision making and implementation thereof
13. Development of infrastructure and other logistics.
14. Public display of various government rates and tariffs for public awareness and transparency in the related offices
15. Ensuring availability of Gas with firm commitments of the government
16. Strengthening and having a meaningful Anti Unethical business Commission
17. Establishing Tax Ombudsman and National Ombudsman

## Preamble

Infrastructure poses some of the most severe obstacles facing the business. Bangladesh fares worse than its neighbors on general measures of infrastructure, and the vast majority of the business report that problems in infrastructure seriously hamper their growth.

Electricity and gas problems plague firms in Bangladesh, which has less generation capacity per capita than its neighbors. Business report experiencing power outages or surges nearly every day they operate. As a result more than 70% rely on electric generators- but at a great expense. On average these generators cost more than US\$ 20000 to purchase and 50% more per kwh to operate than the price of power from the national grid.

Unethical business is pervasive and Bangladesh ranks worse on measures of unethical business and most of the business reporting it as a major or very severe obstacle. Business view complicated regulations as a serious problem too. Starting business in Bangladesh is difficult and once business is running they receive frequent visits from government agencies and about 17 visits a year on average.

Finance appears to be a looming problem. While most business appear to have access to finance, it is mostly short-term and nearly 60% of business with a line of credit report having exhausted that credit. Small and Medium size businesses are disproportionately affected by all these problems. The smaller the firm, the more of its resources it devotes to bribes and to dealing with government visits and inspections- and the less likely it is to have access to finance. The problems pose great barriers to market entry and growth for small business. In the SME sector Light Engineering alone produces about 10000 types of items worth Tk.7 billion a year, while SMEs are the worst sufferer of having access to finance.

Dealing with these problems is no simple matter. But their size and prevalence underscore the urgency of reform. Carrying out the needed reforms may be expensive, but the costs of avoiding and delaying them are high. And the urgency of reform is tremendously increased as the Multifibre Agreement is already phased out.

Bangladesh has topped the list of Unethical business Perception Index (CPI)of the Transparency International's most corrupt country in a row for the fourth time in 2004, already making the hatrick in 2003 and is most likely to maintain its statusco for many more years to come. In the country commercial guide-2003 of the United States trade center categorically mentioned that despite the blessings of the top political level no job can be done without bribing the civil administration. It was also mentioned that demanding bribe from the foreign investors is a common practice of the politicians and government officials. FBCCI mentioned in its cost of doing business in Bangladesh 2003 that because of undesired expenses(bribe)business profit is shrinking sharply. In the World Bank report- Improving the Investment Climate in Bangladesh –2003 the second serious obstacle against investment is unethical business. Sokokai of Japan(Japan commerce and Industry) conducted a survey and has reported that the Japanese investors do not get multiple visa, work permit without bribing. The World Investment report-2003 has reported that in 2001 the foreign direct investment in Bangladesh was US\$79 million which has plummeted to US\$45 million in 2002. Danish Government repeatedly complained

about the unethical business of a minister but no minimum attempt for any measures was taken by the government of Bangladesh. German government has threatened to withdraw Euro 45 million from a power project because of seriously suspected unethical business and repeatedly disallowing audit from the donors. There is no doubt that UNETHICAL BUSINESS is the single main obstacle against GOOD GOVERNANCE in Bangladesh as stated by the BDF-2004. Because of Unethical business Bangladesh did not get a place in the list of Millennium Challenge Account-a US new foreign policy for assistance. The unethical business scenario published in the newspapers and Transparency International's reports and in any other media are the tip of the iceberg, while the real unethical business scenario is much wider and deeper-wider than the Pacific and deeper than the Atlantic. TIB report based on only 21(Jan-June,2004) and 23(Jul-Dec,2004) news papers, while there are 289 dailies, 253 weeklies, 24, fortnightlies, 64 monthlies and 8 quarterlies in the country and except a very few all others carry information about unethical business in one or other form.

This is just a tip of the iceberg of the total volume of unethical business in Bangladesh and it is more than the progressive geometric rate. In my opinion TIB reporting is quite inadequate compared to the degree of importance given to it. It just does the job for the sake of doing something may be due to the following major constraints:

- Lack of adequate information due to inherent secretive nature of any unethical business.
- Financial Constraints of TIB
- Inadequate and less efficient manpower
- Political affinity of some local employees
- Threat and hostile attitude of the government and its various agencies

### **Unethical business Formula**

Hence the Unethical business formula may be derived as under:

$C = M + D - A$ , Where C stands for Unethical business, M for Monopoly Power, D for Discretionary power and A for Accountability.

Now we can derive Anti Unethical business formula as:  $AC = A - (M+D)$ , while remaining other signs same, AC is for anti-unethical business. In most of the cases government officials enjoy monopoly power, discretionary power and they lack any accountability are the reasons for easy unethical business. Bangladesh Civil Service (BCS) may now be termed as Bangladesh Unethical business Service (BCS) in many cases and measures.

### **Classification of Unethical business**

Unethical business can be classified from different views and it may be as under:

- Financial
- Non financial
- Materialistic
- Non-materialistic
- Power and Position misuse
- Direct
- Indirect
- Individual
- Group
- Open
- Secret
- Voluntary
- No-Voluntary
- Immediate gain
- Ultimate Gain
- Need
- Greed
- Pride
- Domestic
- International
- Non-Technical
- Technical
- Sizeable
- Negligible
- Quantifiable
- Non quantifiable

- Self damaging
- Group damaging
- Self motivated
- Externally motivated
- Selfish/Self Centered
- Non-Selfish/Non Self centered
- Directed
- No-Directed
- Habitual
- Non habitual
- Calculative
- Non-calculative
- Windfall

## **Annex-IV**

### **Nature of Unethical business**

- \*Misuse of Power
- \*Bribe
- \*Coercion
- \*Negligence of Duty
- \* Misuse of Properties
- \*Favoritism
- \*Abatement
- \*Harassment
- \*Instigation
- \*Extortion
- \*Practice
- \*Collaboration
- \*Misuse of Human Resources
- \*Resources Pilferage
- \*Diversion
- \*Frauds
- \*Forgeries

### Investment Climate in Comparator Countries

Investment Climate in China, India, Thailand and Bangladesh

Parameters	China	India	Thailand	Bangladesh
Governance:				
Control of Unethical business .1	-0.29	-0.31	-0.17	No control. Most corrupt and getting worse everyday
Rule of Law .1	0.20	0.23	0.44	No rule of law
Political stability .1	0.40	-0.05	0.21	Remote
Infrastructure:	good	moderate	better	Extremely weak
Share of firm with own generator %	30 but by 2005 it will reach 90% mark	69	-	20%
Excess cost of private electricity, of public	-	24	-	-
Days to clear imports longest in 2003	7	12	10	Upto45 days (Recond. cars)
Cost of shipping %	4.4	6.5	5.7	Highest in Asia
Paved roads % of total	88	56	97	22
Finance:				
Cost of Capital Lending interest rate)%	5.85	10	7.83	15-16
Share of credit from financial institutions, %	25	36	47	60

Entry/Exit operations

Cost of labor	0.23	0.21	0.30	0.10
Import duty on capital equipment	-	8	16	
Median number of days to start a business	30	90	30	180
Number of permits to start a business	6	10	3	38
Bankruptcy rate% of total firms	-	0.04	0.1	0.001
Uncertainty of expectations in sales	-	10	-	15

Source: WDI, ICU Firms Surveys:

### Third party Ranking of Serious Business Constraints in Bangladesh

Constraints	Ranking
Electricity	01
Unethical business	02
Tax Administration	03
Cost of Financing	04
Economic Policy Uncertainty	05
Customs	06
Access to Finance	07

Source: World Economic Forum 2002 (Structural modification done by the author/consultant of this paper)

#### Average Tariffs in Comparator Countries:

Here Bangladesh ranks as the second highest tariff rate country among the 8 comparator countries.

Country	Ranking & Average Tariff %
India	29 (1)
Bangladesh	21(2)
Pakistan	17(3)
Thailand	15(4)
China	14(5)
Sri Lanka & Malaysia	10(6)
Philippines	08(7)
Indonesia	07(8)

Source: World Economic Forum 2002 (Structural modification done by the author/consultant of this paper)

Rankings of Bangladesh and Comparator Countries by the extent of Irregular payments for Imports and Exports: Here Bangladesh ranks highest in-terms of irregular payment.

Country	Ranking
Bangladesh	01
Indonesia	02
Philippines	03
Sri Lanka	04
Thailand	05
India	06
Malaysia	07
China	08

Source: World Economic Forum 2002(Structural modification done by the author/consultant of this paper)

Rankings of Bangladesh and Comparator Countries by Overall Quality of Infrastructure:

(Lower#>higher# indicates better position, hence Bangladesh is in the worst position among the comparator countries)

Country	Ranking
Bangladesh	01
Vietnam	02
Philippines	03
India	04
Sri Lanka	05
China	06
Indonesia	07
Thailand	08
Malaysia	09

Source: World Economic Forum 2002(Structural modification done by the author/consultant of this paper)

Rankings & Rate of Electricity Generation by Bangladesh and Comparator Countries:

Here Bangladesh having the lowest per capita electricity generation.

Country	Kwh/per capita	Ranking
Malaysia	0.58	01
Thailand	0.29	02
China	0.21	03
Philippines	0.16	04
Pakistan	0.12	05
India/Indonesia	0.10	06
Sri Lanka	0.08	07
Bangladesh	0.03	08

Source: World Economic Forum 2002(Structural modification done by the author/consultant of this paper)

Rankings of Bangladesh and Comparator Countries by Quality of Roads:

(higher# indicates bad position). Here Bangladesh ranks 5<sup>th</sup> position.

Country	Ranking
Thailand	01
Malaysia	02
China	03
Indonesia	04
Bangladesh	05
Sri Lanka	06
India	07
Philippines	08

Source: World Economic Forum 2002(Structural modification done by the author/consultant of this paper)

Rankings of Bangladesh and Comparator Countries by Quality of Ports:  
In Quality of Ports Bangladesh ranks the lowest position among the Comparator Countries.

Country	Ranking
Malaysia	01
Thailand	02
Sri Lanka	03
China	04
Indonesia	05
India	06
Philippines	07
Bangladesh	08

Source: World Economic Forum 2002(Structural modification done by the author/consultant of this paper)

Rankings of Bangladesh and Comparator Countries by per 100 Fixed Line Telephone Faults: Here Bangladesh having the highest percentage of telephone defaults

Country	# of faults/100 lines	Ranking
Bangladesh	208	01
India	203	02
Pakistan	99	03
Malaysia	38	04
Philippines	29	05
Sri Lanka	15	06
Indonesia	13	07

Ref: ITU-1980-2001 (Structural modification done by the author/consultant of this paper)

Rankings of Bangladesh and Comparator Countries by Cost to start a business:

Country	Ranking	Remarks-Costliest>less costliest
Bangladesh	01	Costliest
India	02	Second Costliest
Malaysia	03	3 <sup>rd</sup> costliest
Sri Lanka	04	4 <sup>th</sup> costliest
Philippines	05	5 <sup>th</sup> costliest
China	06	6 <sup>th</sup> costliest
Thailand	07	7 <sup>th</sup> costliest

Source: World Economic Forum 2002(Structural modification done by the author/consultant of this paper)

Rankings of Bangladesh and Comparator Countries by Procedures to start a business:

Arranged in descending order (from higher number to lower number of procedures)

Country	Ranking
China	01

India/Philippines	02
Thailand/Sri Lanka	03
Bangladesh/Malaysia	04

Source: World Economic Forum 2002 (Structural modification done by the author/consultant of this paper)

Rankings of Bangladesh and Comparator Countries by percentage of GDP spent for Research and Development:

Here Bangladesh spends lowest amount for research and development.

Country	% of GDP	Ranking
Malaysia	0.70	01
China	0.65	02
Malaysia	0.25	03
Philippines	0.20	04
Thailand	0.15	05
Indonesia	0.09	06
Bangladesh	0.03	07

Source: World Economic Forum 2002 (Structural modification done by the author/consultant of this paper)

### Cost of Utility in Pakistan/Bangladesh

Water Tariff:

Pakistan:

Flat rate of water supply for industries are as under:

- drinking and toilet: Rs.600/month
- partly for manufacturing: Rs.1200/month
- used as raw materials: Rs.3000/month

Bangladesh:

a) Commercial/Industrial: Tk.19.48/1000 liter

b) Residential/Domestic: Tk. 4.30/1000 liter Sewerage bill is equal to water bill

Electricity Tariff:

	Pakistan	Bangladesh
Electricity Rates	Rs./ Kwh	Tk./Kwh
Commercial:		
First 100 units	6.88	flat Tk.5.08
Above 100 units	7.24	off pick Tk. 3.62
For Peak load	4.24	Pick Tk.7.82
Industrial:		3.30-5.75
B-1	5.19	Flat Tk.3.62
B-2	3.65	Off pick Tk.2.99
B-3	3.56	Pick Tk.6.41
B-4	3.35	

Estimated Cost of Doing Business:

Expenses Head	Legal Expenses in Taka	Illegal Expenses in Tk./Bribe	Remarks
Trade License	Rural-1000 Town-250-10000	500-2000 10000-12000	
Reg. of Joint Stock Companies- Name Clearance	500, which was Tk.5 only	1000-2000	
Reg. of Joint Stock Companies - Company Registration	Depends on Authorized Capital Stamp charge: Upto Tk.3 crore Tk. 4500 Above 3 crore Tk.10500	5000-10000	Dhaka City Corporation earned Tk.30 crore in last Fiscal Year

	Filing Charge: Authorized Capital upto 1 crore Tk. 5795 Above Tk.1 crore Tk.1500/crore		
Import Registration	Depends on value	5000-7000	
Export Registration	3000 ++	5000-10000	
Indenting Registration	20000	10000-15000	
TIN registration	Nil/Same day delivery	1000-3000	Impossible in the same day
VAT registration	Nil	1000-5000	1000-5000 times
Bond Licence	Depends on value	300000- 500000	Renewal 50000- 60000
Boiler licence	Depends on boiler capacity	25000-300000	
Explosive license	Depends on types	25000-50000	
Chamber/association membership	1500-5000	No bribe	Only bribe free zone in the country
Fire license	Depends	100000- 150000	Equipment must be Purchased through Fire officials
Telephone/fax	NWD-10000	5000-10000	Line man or Chairman route to be followed
E-mail(without telephone charge)	500-2500/month	No extra for private service provider/500- 1000 if is T&T	
Contractors license	1000-10000- depends on class of license	10000-25000	NBR said they are the highest number of tax payers at source
Electricity	Tk. 5.75 kwh, Depends on load	a) 10000- 30000 b) Tk 1000/kwh++	Distance also important for extra
Gas	Tk. 4.12/cm, Depends on pressure	100000- 500000	Instances are there upto Tk 60 lac extra
Environmental Clearance	25000-100000	50000-300000	Through some spl. agents of spl. people
Board of Investment	5000+	5000-7000	Web info. very poor
Taxman/Inspector	Per tax law 45% 37.5% 30% and lower	50% Of the defaulted tax. Irresponsible disallowance/a dd- back etc.	Sometime taxmen advises for evasion Many of the are the most notorious and rich govt. servants

Customs Duty	Per customs law	There is no way out without bribe, even for 100% clean documents and goods	Sometime Customs Officials advice for evasion. They are the most notorious and rich govt. servants.
Factory/Shop Inspector	Per rule	2000-10000	Yearly visit bribe
Factory License	Per rule	5000-20000	Renewal fee extra
Sanitary Inspector	Per rule	2000-10000	
City Corp. Inspector	Per city Corp. rule	No way out without bribing even for clean assessment of tax	Advises for evasion & go for sharing the cake
Infrastructure:	Air Ports  Bus  Railway		In India Kol-Del-Kol air fare \$140 for 2 hrs journey while Dhk-Ctg.-Dhk \$93 for ½ hrs. journey  Kol-Petrapol fare IRs.15 for 80 km, While Dhk –Comilla Tk 80 for 80 km.  Ctg.max.40-42 containers/trip Shealdah-Bonga min.80-100 cont/trip

Source: Empirical Survey research of the author/consultant of this paper

## Opinion Pool Summary: Problems of Trade &amp; Investment

Sl No	Particulars	Respondents' Opinion/Remarks
1.	Degree of satisfaction while taking registration:	Only 28.43% were satisfied
2.	Whether Manufacturing base of the sub-Sector strengthened or eroded in the recent years	on over age 11.28% claimed satisfied
3.	10 Top Reasons for low competitiveness of the sub - Sector	
	1) Unethical business	61.76%
	2) Law & order situation	50.98%
	3) High Interest Rate	46.08%
	4) Banking Systems	40.20%
	5) Political instability	37.25%
	6) Inefficiency in Management	33.33%
	7) Inefficient and erratic power supply	27.45%
	8) Inconsistency in Government Policies	25.49%
	9) Non application of new technology	23.53%
	10) Labor productivity low due to lack of skills	21.57%
4.	Whether investment laws are conducive to Investment?	57.84% said yes, but difficult to implement
5.	Whether BOI/BEPZA is doing a good job to facilitate investment ( local & foreign)?	3.92% said Yes
6.	Is Investment protection laws for foreign investments adequate ?	21.57 %said adequate
7.	Whether Cost of capital rate in Bangladesh:	
	Too high for competitive business development	37.25%
	Doesn't often hinder competitive business development	3.92%
	Does not hinder competitive business development	0.98%
8.	What Impact of parallel economy /smuggling/ informal trade	64.70% said it Impairs & Impedes business development
9.	Whether government must support and assist exporters more	66.67% said yes
10.	Rating of reasons considered as impediment to business growth	
	1) Government Policy	62.75%
	2) Law & Order	50.005
	3) VAT problem	47.00%
	4) Bank credit	41.18%
	5) Tax problem	32.35%
	6) Customs problem	26.47%
	7) Too much regulations	17.65%
11.	Rating of the problems in Importing Capital Goods/ Raw Materials etc.	

	1) Illegal Payments	41.18%
	2) Custom Clearance	39.22%
	3) Port Clearance	24.51%
	4) Rules/regulations	19.61%
	5) Local transport	8.82%
	6) Banking	19.61%
12.	Whether any of the impediments increase the cost of the Imported goods	Yes, 44.12% by 10-20%
13.	Whether VAT in Bangladesh is high ?	93.14% said the existing rate is high
14.	Whether Procedure for collection of taxes and collectors behavior satisfactory	Only 2.94% said satisfied
15.	Labor productivity situation in Bangladesh	11.76% said good
16.	Reasons for low productivity of Labor	
	1) Lack of education	59.80%
	2) Lack of training	69.61%
17.	Rating of Bangladesh Bureaucracy?	
	1) Corrupt	81.37%
	2) Inefficient	29.41%
18.	Dissatisfaction level of Hidden cost for unethical business and extortion :	97.06% On average dissatisfied
19.	Affect of bureaucracy in business development	99.02% said it affects
20.	Degree of business requirements met by transport infrastructure	42.06% said does not meet business requirements
21.	Degree of business requirements met by port service	45.10% said does not meet business requirements
22.	Degree of Power Supply infrastructure meet business requirements	70.59% said does not meet business requirements
23.	Degree of business requirements met by Gas supply requirements	41.18% said does not meet requirements
24.	Cost of Transport/ Telephone/ Power/Gas / Port service/ Water & Other Utilities ?	57.84% said Inefficient and costly
25.	Degree of facilitation job being done by BOI/EPB/BSTI for trade and investment	Average 48.04% dissatisfied

Source: Empirical Survey Research work of the Research Cell of Dhaka Chamber of Commerce and Industry and analysis done by the author/Consultant of this paper