ECONOMIC DEVELOPMENT & INSTITUTIONS

BANGLADESH INSTITUTIONAL DIAGNOSTIC WP20/BDID[01]

CHAPTER 1: AN INSTITUTIONAL DIAGNOSTIC OF BANGLADESH: INTRODUCTION



Selim Raihan, Editor
Professor of Economics, University of Dhaka
Executive Director, SANEM

Francois Bourguignon, Editor
Former Chief Economist, the World Bank
Chair Emeritus, Paris School of Economics

SANEM
RESEARCH | KNOWLEDGE | DEVELOPMENT

April 2020

Oxford Policy Management
UKaid from the British people
UNIVERSITÉ DE NAMUR
PARIS SCHOOL OF ECONOMICS ECOLE D'ECONOMIE DE PARIS
ADE ANALYSIS FOR ECONOMIC DECISIONS

Table of contents

1 Why an institutional diagnostic? 1

2 Methodological approach to the Bangladesh institutional diagnostic and the organisation of this volume 4

3 A brief overview of Bangladesh's political history 5

3.1 The difficult installation of democracy 5

3.2 The era of competitive democracy (1990–2011) 7

3.3 The era of the dominant party (2012–present) 8

4 Business and politics in Bangladesh: the key role of 'deals' 11

5 Table of contents of the Bangladesh institutional diagnostic 13

6 Acknowledgements 14

References 15

Annex A Chronology of Bangladeshi governments since independence 16

1 Why an institutional diagnostic?

Economic development literature has long emphasised the importance of institutions – that is, the explicit or implicit set of rules that govern the functioning of a society – for the development of a country. Numerous authors have reflected on the various channels through which political, judiciary, economic, and social institutions may affect the pace and the structure of economic growth, as well as, in turn, the way economic development itself modifies the nature and working of institutions. However, evidence relating to these complex circular relationships is limited. This is in large part due to the difficulty in precisely describing the way institutions, in their many dimensions, do or do not work in a specific context. Unlike in many areas of economics, quantification is problematic. Indicators of the quality of institutions, especially of the many aspects of governance, are increasingly available on a comparative basis across countries – but what they cover is not totally clear, as they often describe more the consequences of the way a set of institutions taken together work, rather than the quality of individual institutions themselves. Even when they point to obvious institutional failures, they are too general to give any indication about where the root cause of the problem is, and where to seek a possible remedy. These indicators have been repeatedly put to work in cross-country statistical exercises to explore the relationship between institutions and various features of development. The results of such exercises often are of little significance and, when they are, they are of little help in understanding the institutional weaknesses and strengths of a given country.

The idea of establishing an 'institutional diagnostic' of a country is a way to address these difficulties. The diagnostic exercise consists of a deep-dive into the way institutions that are *a priori* most likely to affect economic development do actually function and shape the evolution of the economy of a specific country. Through such exploration one may hope to identify, more precisely than through general indicators, what the most likely institutional obstacles to development are, the deep factors behind them, directions for reforms, and, possibly, the probable political economy sources of resistance to, or support for, such reforms.

The analogy with the 'growth diagnostics' methodology proposed several years ago by Hausmann *et al.* (2005) comes immediately to mind. The methodology proposed by these authors consists of identifying in an economy those constraints that seem the most binding for economic growth. This is done following the lines of a model that provides a rather general representation of the determinants of economic growth and various types of economic behaviour that drives growth. The key difficulty in applying this methodology to institutions is to identify the institutional origin of the 'binding' constraint. One may indeed find that the lack of infrastructure, or their quality, is a major hindrance to development – but it is much less easy to identify the causes of such a situation. Is it insufficient resources or resource misallocation, lack of interest on the part of the political and economic elites, inefficient public administration, corrupted contractors, or some combination of all of these factors? And what institutional weakness is behind those factors?

What makes the growth diagnostic approach problematic in the case of institutions is that, unlike with economic growth, there is no widely agreed views on the way institutions do affect development, not to mention the reciprocal relationship between institutions and development. Existing economic models in the line of Acemoglu *et al*. (2005) or Acemoglu

and Robinson (2008) are illuminating in showing that the relationship between institutions and development goes beyond economics *stricto sensu*, as it necessarily includes political and sociological factors. But these models are too general to be of practical relevance in a particular country, and to identify the role played by specific institutions in raising obstacles to – or, on the contrary, helping – development. What institution does matter? Is it state capacity, the judiciary system, the vested interest of an economic elite, ethnic confrontation, social norms?

The objective of an institutional diagnostic is not only to understand the role that the nature of institutions and the way they work plays in hindering or helping development in a country: it is also to understand how institutions may be reformed to make them better adapted to the pursuit of development, keeping in mind that the feasibility of reforms depends in turn on the political economy context, and, in some way, on the distribution of political power within the society.

The present volume is part of a research project within the Economic Development and Institution programme, funded by the British Department for International Development (DFID). The project aims to design a methodology that makes it possible to both identify the main institutional features that may detain faster development and poverty reduction in low-income or lower middle-income countries or threaten their sustainability over time, and explore directions of reform. Assessing whether these reforms will be undertaken clearly goes beyond the diagnostic exercise. However, it is presumed that the diagnostic itself, and the reforms envisaged therein, will feed into the public debate in the country being analysed, and will ultimately influence the evolution of institutions.

Without a clear and solid theoretical basis on which to design *a priori* a methodological framework suited for such a diagnostic, it was decided to launch in-depth case studies on the relationship between institutions and development in a few developing countries, and to identify areas for improvement. The idea is then to see whether some common lessons can be learned from these experiences to help to build such a framework.

Although it has recently graduated from low-income to lower middle-income country status according to the World Bank classification, Bangladesh demanded to be included in the list of case studies because of the enigma it poses as regards considering the relationship between development performance and the quality of institutions. From independence in 1972 until now, Bangladesh has been able to increase its per capita gross domestic product (GDP) almost fourfold, cut its poverty rate from as much as 70% to the 20% figure today, and become the second largest exporter of readymade garments (RMG) in the world. However, while the country ranks among the top 15 countries in the world in terms of growth of GDP per capita over the last 15 years, it ranks in the bottom 20% in most international rankings of governance and institutional quality indicators, be it Transparency International for the control of corruption, the Worldwide Governance Indicators for government effectiveness, political stability or regulatory quality, or the institution index of the Global Competitiveness Index. There is thus a 'Bangladesh paradox' when it comes to the commonly held view that good institutions and vigorous development go together. Analysing that paradox should help us to better understand the relationship between institutions and development, and to design an institutional diagnostic framework that goes beyond mere governance indicators.

One may wonder whether, beyond analysing the aforementioned paradox, there is much to be learned from a country that apparently does not face strong obstacles to its economic development. Despite its seemingly robust economic performance, however, it turns out that Bangladesh faces serious challenges in relation to inclusiveness and sustainability. The recent past has shown some increase in economic inequality, which suggests that growth benefits more an elite than the mass of workers and farmers, and that poverty reduction could occur much faster than it actually is. On the other hand, there are concerns about how long RMG exports can continue to drive economic growth if they are not complemented by the development of other manufacturing exports, which, in turn, requires adequate policies and public investments. The question then arises why institutions in Bangladesh have not yet satisfactorily addressed these two major concerns, at the risk of missing the stated goal of Bangladesh becoming an upper middle-income country – according to the World Bank classification – by 2031.

The rest of this introductory chapter is organised as follows. A first section will describe the general approach pursued in this volume to identify institutional weaknesses that may be preventing growth in Bangladesh from being faster and more inclusive today, and that may cause it to slow down in the future. The next section will give a brief overview of the political history of the country, without which it is difficult to understand its development achievement, as well as the present political economy context. Finally, in the light of that historical sketch, some reflections will be offered on the specificity of the institutional link between business and politics in Bangladesh, a link that very much frames its development and that will often be referred to throughout this volume.

2 Methodological approach to the Bangladesh institutional diagnostic and the organisation of this volume

In the absence of a precise methodological framework for diagnosing institutional obstacles to development in Bangladesh, a simple heuristic approach will be followed. It comprises two parts. The first part might be characterised as 'mechanical'. It consists of three exercises. First, in Chapter 2, a 'growth diagnostic' of Bangladesh is performed, based on the existing literature and the research work carried out by the editors of this volume. The goal of this first exercise is to identify economic and social areas where development limitations are present today or likely to appear in the future. The institutional aspects of these potential obstacles are then explored in more depth later in this volume. Second, in Chapter 3, a systematic comparison of Bangladesh with benchmark countries within the South-Asian region and outside the region is pursued, based on available cross-country governance and institutional quality indicators. The goal of this analysis is to identify institutional areas where Bangladesh may significantly differ from comparable countries, thus indicating possible institutional causes of economic constraints. Third, in Chapter 4 the opinions of local experts and people with direct experience of Bangladeshi institutions are summarised and synthesised, regarding what they see as possible obstacles to economic development. Most of them were consulted through means of a questionnaire survey, but a few of them – top policymakers and decision makers – were consulted through open-ended interviews.

Putting together the conclusions of these approaches to economic constraints and perceived institutional obstacles to development, the second step in our approach to diagnosing institutional obstacles to development in Bangladesh consists of selecting thematic areas where critical institutional factors seem to play a predominant role with major negative economic consequences for development or for its sustainability. This thematic choice, motivated by the conclusion to the first part of the study, led to a focus in the second part of the study on six areas: the RMG sector and the lack of export diversification; the governance of the banking sector; the low overall tax rate and the inefficient tax system; the low-quality primary education; the complex land management and the Special Economic Zones initiative; and finally the judiciary, with an accent put on land-dispossession cases. The second part of the volume thus consists of a thorough analysis of these six critical areas, each given its own chapter, in order to understand what is not functioning on the institutional side, why and how things could be fixed, and what would be at stake in such reforms. Each of these six chapters thus addresses the following questions. Are the observed institutional weaknesses due to a lack of skills among civil servants, the fact that they shirk or are corrupt, that the law or administrative rules are too complicated and possibly inconsistent, that the administration is badly organised, or that the political elite imposes its view and personal interest? What reforms would be adequate to remedy these weaknesses, and why aren't they undertaken? What is the political economy behind this status quo?

Based on these detailed analyses of key thematic areas the tentative diagnostic provided at the end of the volume synthesises what has been learned from them into a list of basic institutional weaknesses common to various areas, their negative consequences for development, and, most importantly, their causes, proximate or more distant, and the potential for remedies and reforms. Finally, the volume also provides a list of the potential reforms suggested in the six thematic studies.

3 A brief overview of Bangladesh's political history

Bangladesh emerged as an independent country on 16 December 1971, after a nine-month-long War of Independence that cost more than 3 million lives. Long before the war there had been a fundamental polarisation of politics and political parties on the question of the country's independence. In 1947, with the departure of the British colonial power, two independent states – India and Pakistan – emerged. Pakistan had two wings: East Pakistan (now Bangladesh) and West Pakistan (now Pakistan). From 1947 to 1971, the Awami League led the political movement for the rights of the Bengalese, which eventually, and especially after the six-points demand in 1966[1], turned into a political movement for the autonomy of East Pakistan. After the 1970 Pakistan election, in which the Awami League won the majority of the seats (in all of Pakistan, not just in East Pakistan), the ruling political elites and the military refused to transfer power. The Awami League then campaigned for secession from (West) Pakistan and became the main actor in the War of Independence in 1971 (Lewis, 2011). Most of the left-leaning parties supported the movement for independence and joined the war. In contrast, most of the right-leaning religion-based parties were against independence and collaborated with the Pakistani forces, and actively participated in a variety of criminal activities which fall under the purview of war crimes (Bertocci, 1981). Against this backdrop, just after independence, the political parties that collaborated with the Pakistanis were banned and their leaders were brought to trial for committing crimes against humanity during the war (Jahan, 1997).

From then on, the political history of East Pakistan, the newly named Bangladesh, can be divided into three distinct phases that can be distinguished from each other by the degree of democratic features within the regimes.[2]

3.1 The difficult installation of democracy

The 1972 Constitution, adopted on 4 November 1972, was based on four important fundamental State Principles: nationalism, socialism, democracy, and secularism. The Constitution established a multi-party parliamentary democracy. The first election was held in 1973 and the Awami League won 293 out of 300 seats in the national parliament. However, the political history of Bangladesh for the next 17 years was one of extreme instability, with a succession of coups, short-lived dictatorships, and rigged elections.

Against the incumbent Awami League, the political opposition comprised ultra-left political parties and a newly formed party named Jatiya Samajtantrik Dal, initially a faction within the Awami League but with a more radical left-leaning political agenda (Maniruzzaman, 1975). Throughout 1972–75 there was considerable conflict between the main political parties. Amid the political turbulence, through a Constitutional amendment in January 1975 the Awami League imposed a one-party system and a presidential regime. Under the presidency of Sheikh Mujibur Rahman, the Bangladesh Krishak Sramik Awami League (BAKSAL), which advocated 'state socialism' and comprised the Awami League and its left allies, was

[1] On 7 June 1966 the Awami League announced it six-point demands. The six-point demands envisaged a federal form of government based on the 1940 Lahore Resolution, a parliamentary system of government directly elected by the people on the basis of adult franchise, two separate currencies or two reserve banks for the two wings of Pakistan, and a para-military force for East Pakistan (see www.thedailystar.net/news-detail-40021).
[2] The successive governments and their type are listed in Annex A.

the sole party in power. All other political parties were banned from participating in politics (Rashiduzzaman, 1977).

The BAKSAL was dissolved after the assassination of Sheikh Mujibur Rahman a few months later by a group of military personnel. Between August and November 1975 there were several military coups and countercoups, until General Ziaur Rahman, known as General Zia, became the Chief Administrator of Martial Law . Martial law imposed major changes on the Constitution. The one-party system of BAKSAL was replaced by a multi-party system. In 1977, General Zia Rahman declared himself President, and he arranged a referendum that same year to legitimise his position. There was a presidential election in 1978, which he won, and he then established the Bangladesh Nationalist Party (BNP). Zia then arranged a parliamentary election, still under martial law, in 1979, which was won by the BNP, with a two-thirds majority. In April 1979, all ordinances decreed since 1975 were legalised through an amendment to the Constitution.[3]

Under General Zia, the ideology of the state drastically changed, from 'state socialism' to private sector-led capitalist development. Also, 'secularism' was replaced by Islamic principles (Uddin, 2015). The banned Islamic fundamentalist parties, especially Jamat-e-Islamai, which had collaborated with the Pakistani forces during the 1971 War of Independence and which was seriously suspected of being involved in war crimes (Jahan, 1997)[4], were re-instated in politics. Furthermore, all of the leaders and members of these political parties who had been charged with war crimes and subject to trial were given immunity and freed (Jahan, 1997).

General Zia was killed in a failed military coup on 30 May 1981, but his party stayed in power until 24 April 1982, when General Ershad took power in a bloodless military coup and again imposed martial law. Ershad declared himself President in 1983. However, from the moment he took power Ershad faced regular and violent protests from most leading political parties, including BNP, the Awami League, and the left-leaning parties. Strong protests were also carried out by university students, workers of state-owned enterprises, and civil society.

In January 1986 General Ershad established his own political party, the Jatiya Party. In May 1986, a parliamentary election was held, with the participation of the Awami League, some small left-parties, and some Islamic parties, especially the Jamat-e-Islamai; the BNP boycotted the election. The election was won by the Jatiya Party amidst allegations of election-rigging and manipulation. General Ershad was then elected as President in the presidential election that took place in October 1986. That election was boycotted by all the major political parties, but was nevertheless reported as being marred with widespread irregularities. Facing continuous protests, General Ershad dissolved the parliament in December 1987. Another election was held in March 1988, which was again boycotted by all major political parties and was consequently won by the Jatiya Party. In 1989, General

[3] General Ziaur Rahman, as the Chief Administrator of Martial Law, issued a series of Proclamation Orders between 1975 and 1979. The most significant were those defining Bangladeshi citizenship, those that inserted religious references into the Constitution, and the controversial Indemnity Ordinance which gave indemnity to the killers of Sheikh Mujibur Rahman. The Fifth Amendment in 1979 validated all Proclamation Orders of the martial law authorities (Ghosh, 1986).

[4] Jamat-e-Islamai opened several fronts during the 1971 war to collaborate with the Pakistani military operation, Their prominent fronts were rajakars (armed volunteers) who were raised and given and arms to counter the freedom fighters, and Al Badr and Al- Shams, who were trained and took the lead in the arrest and killing of the intellectuals during December 12–14, 1971 (Jahan, 1997).

Ershad passed through the parliament an amendment to the Constitution which declared Islam as the 'state religion'.

Protests increased throughout the later months of 1990 and eventually the military also withdrew their support for General Ershad. He resigned and handed over power to a neutral interim non-partisan government, named the caretaker government (CTG) (see Box 1), which was mandated to hold free and fair national parliamentary elections within the next three months. Holding elections under a CTG had been a popular political demand among the opposition parties during the late 1980s, when all the elections were alleged to be fixed by the state machinery. After several episodes of dictatorship, accompanied by rigged elections, it seemed that democracy was finally installed in Bangladesh. Also, a fundamental component of the Bangladeshi political system had appeared: the CTG, which was in charge of organising neutral and honest elections. This facility was used repeatedly until the late 2000s, when it was demolished.

3.2 The era of competitive democracy (1990–2011)

The CTG held the election for the fifth national parliament on 27 February 1991. The BNP won 140 out of 300 seats, 11 seats short of a parliamentary majority. It then formed a coalition government with the support of the Islamist party Jamaat-e-Islami, which won 18 seats. Khaleda Zia (wife of the late General Zia) became Prime Minister.

It should be noted here that on 6 August 1991 the Twelfth Amendment of the Constitution restored a parliamentary system of government. Under this system, the Prime Minister is the executive head of the government and the President, elected by the members of parliament, is the ceremonial head and acts under the advice of the Prime Minister. A nationwide referendum held on 15 September 1991 overwhelmingly endorsed this shift back to parliamentary democracy, which had been transformed into a presidential regime at the time of General Zia

Box 1: The institution of the CTG: 1991–2011

The CTG was essentially an interim government, headed by selected non-partisan personalities, in charge of managing the transition from one elected government to another. Appointed for three months, the CTG was responsible for organising a general election, as the public did not trust the party in power to run election in a neutral and transparent way. Thus, the outgoing government handed over power to the non-elected and non-partisan CTG, and the latter handed over power to the newly elected government after the election three months later. The main function of the CTG was to create a level playing field in which an election could be held in a free and fair manner without any political interference by the outgoing government. The CTG was not empowered to take any policy decisions unless it was necessary but dealt with current affairs. The head of the CTG, called the Chief Adviser, was appointed by the President of Bangladesh. The Chief Adviser selected the other members. The CTG reported solely to the President of Bangladesh.

The CTG functioned satisfactorily for the 1991, 1996, and 2001 elections but the situation became more difficult in relation to the 2006 elections. The political climate was extremely tense. Conflicts arose over the appointment of the Chief Adviser, and rivalry intensified between the two main parties, the Awami League and the BNP. With the Awami League threatening to boycott the election, and in the midst of violent protests led by the League (40 people were killed during one protest), the date was postponed. This did not reduce the tension, however. After one year of trouble, the military came out in support of the CTG. The Chief Adviser had to resign to reduce the tension. The new CTG then prohibited all political activities for a while and took action against

those party leaders who were accused of feeding political violence. Things calmed down after another year and the elections finally took place at the end of 2008, i.e. after a two-year delay.

Possibly because of this episode and the prominent role played on this occasion by the CTG, this procedure for dealing with elections was declared unconstitutional by the Supreme Court in 2011.

In March 1994, controversy over a parliamentary by-election, which the Awami League-led opposition claimed the BNP government had rigged, led to an indefinite boycott of parliament by the entire opposition. Amid a series of violent political events, the sixth national parliamentary elections were held on 15 February 1996. They were boycotted by most opposition parties. The BNP won all 300 parliamentary seats. This administration was short-lived, however. Strikes and civil disobedience movements struck quickly, forcing the government to pass a law that allowed a new national election to be held under a non-partisan CTG. That election was held on 12 June 1996. The Awami League won 146 out of 300 seats and came to power with the support of the Jatiya Party – the party created by General Ershad. Sheikh Hasina (daughter of the late Sheikh Mujibur Rahman) became Prime Minister.

The economy of Bangladesh grew steadily during Sheikh Hasina's tenure as Prime Minister, yet politics remained very tense, with several protests and strikes led by the BNP, political violence in the streets, and boycotts of parliamentary proceedings. Within this adverse context, Hasina stood firm and, by 2001, became the first prime minister since independence to serve a full mandate.

'Alternating in power' continued in the 2001 election. Held again under a CTG, this was won by the BNP, who obtained 193 out of the 300 seats. Khaleda Zia returned as Prime Minister and the BNP ruled until 2006. Her main concern was governance issues, particularly the deteriorating law and order situation. Corruption was seen by her administration to be more prominent than any other economic issue, although this policy focus may have been partly political, as it was used to jail Sheikh Hasina for a few months on corruption charges. Towards the end of 2006, as the election date was approaching, the country again witnessed serious political unrest, with a demand for a 'free and neutral' general election under a neutral CTG. This led to the formation of a 'civil' CTG backed by the military in January 2007, which ruled for the next two years (see Box 1 on the CTG).

In the December 2008 national election, the Awami League returned to power with 230 out of 300 parliamentary seats and Sheikh Hasina returned as Prime Minister. In May 2011, the Supreme Court ruled that the system of the interim CTG was unconstitutional. This decision was most likely taken with the view that the experience of a two-year period during which a CTG practically abolished political parties and launched policy reforms, which formally was not in its mandate, should not be repeated. This decision *de facto* reinforced the party in power. The Awami League, headed by Sheikh Hasina, has been at the helm of the country ever since.

3.3 The era of the dominant party (2012–present)

The 2008–2013 term of the Awami League administration was almost as eventful as previous periods in Bangladesh's history, yet the party in power was able to reinforce its control over the political game by considerably weakening the opposition. A new general

election was held in line with the Constitution in January 2014. It was as controversial as preceding editions, with almost all major opposition parties boycotting and 153 of the total 300 seats being uncontested. Unsurprisingly, the Awami League won with 234 seats in the national parliament and Sheikh Hasina became Prime Minister once more. Five years later, the supremacy of the Awami League seemed well established. Although the main opposition party, the BNP, participated in the December 2018 election, the Awami League and its allies won 292 out of 300 seats in the national parliament. Sheikh Hasina remained Prime Minister, her fourth mandate in 22 years.

Two political parties (the Awami League and the BNP) have been the main political actors since the democratic transition, as is the case in many democracies. However, what is somewhat remarkable in the case of Bangladesh is their dynastic aspect and the fully centralised structure of power that this implies. Both Khaleda Zia and Sheikh Hasina have had full control of their parties over the last 30 years. They maintained this control even while they were at the same time fiercely fighting their opponents using all existing legal and illegal instruments of the political game. Cronyism, the politicising of the civil service, the control of local government, violence, jailing the opposition etc. have been common features under all political regimes in Bangladesh, in varying degrees, with the clear goal of reinforcing the power of the party in government rather than allowing democracy to function.

The political regime in place over the last 10 years or so can clearly be termed a ‘dominant party regime'. Over time, it has evolved to become a nexus of five main actors: the ruling political elites, powerful economic elites, the military bureaucracy, the civil bureaucracy, and law-enforcement agencies. The ‘shaping’ and ‘sustaining’ of this regime is the result of Sheikh Hasina's firm and shrewd governing strategy. There is an apparently stable political settlement among these five actors as regards the generation, distribution, and management of rents from critical economic domains, such as the RMG sector, the power sector, and big infrastructure projects. Within the Awami League, Sheikh Hasina's leadership is unchallenged. She has announced that she will retire in the coming years, but observers believe she will probably only be willing and able to pass the baton to someone in her own family, i.e. her son, her daughter, or someone else close to her. At the same time, the politics of the main opposition party, the BNP, suffers from a serious lack of direction as its top leaders are either in jail (Khaleda Zia was jailed for corruption in 2018[5]) or in exile (Tareq Zia, son of Khaleda Zia and the second top leader of the BNP, has been in exile since 2008[6]), or facing criminal charges (most of the other top leaders of the BNP are charged with numerous criminal offences). During this regime, a special tribunal has been set up to try the war criminals of the 1971 War of Independence. The top leaders of Jamat-e-Islami were

[5] In 2018, Khaleda Zia was jailed for a total of 17 years for the ‘Zia Orphanage Trust’ corruption case and ‘Zia Charitable Trust’ corruption case. She was found guilty of embezzling funds destined for orphanage trusts set up while she was prime minister.
(see www.dhakatribune.com/bangladesh/court/2018/10/30/zia-orphanage-trust-graft-case-hc-raises-khaleda-s-jail-term-to-10yrs).

[6] Tareq Zia has been in exile in London since he left Bangladesh in September 2008. In absentia, in October 2018 he was sentenced to life imprisonment for his role in the 2004 Dhaka grenade attack, as well as another 10 years for the Zia Charitable Trust corruption case in February 2018, and seven more years for a money laundering case in July 2016 (see www.dw.com/en/bangladesh-court-sentences-opposition-bnp-leader-rahman-to-jail/a-19415933).

tried for their war crimes and many were executed in 2016. Opponents of these trials raised concerns that there were political intentions behind them.[7]

Compared to the tumultuous past, the present dominant party regime has over the last 15 years or so provided a stability in the political system in Bangladesh never seen since independence. This undoubtedly represents huge progress, and has probably had a favourable impact on economic development. However, there are big question marks about whether this political stability represents a major step towards a truly democratic functioning of society. The 2014 and 2018 national elections, and many of the local-level elections in recent years, aroused allegations of irregularities, and at the same time there has been a decline in participation in elections. There are concerns that the national parliament is dysfunctional when it comes to having meaningful debates on development issues, democratic rights, and freedom of expression. There are also concerns among the civil society on the squeezing of the democratic space.

This is not the place to make predictions about the future of politics in Bangladesh. However, it is probable that having been at the helm of the country for 15 successive years the dominant party has acquired considerable political strength. Unless some adverse event discredits it, challenging it will be difficult in the years to come. Thus, the political context in which the 'institutional diagnostic' undertaken in this volume must be conducted is this dominant party regime and the way politics have been observed to function in the last decade or so, rather than the troubled years of 'competitive democracy'.

[7] See Jalil (2010) and Mollah (2019).

4 Business and politics in Bangladesh: the key role of 'deals'

Hassan and Raihan (2018) use the ‘deals environment’ framework, as developed by Pritchett *et al.* (2018), to understand the politics of development in Bangladesh. As this approach deviates somewhat from the standard institutional framework, and because it will be referred to on several instances in this volume, it seems necessary to present it in some detail, and to briefly show its relevance in the Bangladeshi context.

A deals environment may be defined in opposition to a ‘rules’ environment, whether the latter refers to formal institutions (i.e. formal law-based governance whereby state–business interactions are governed by impersonal transactions and universal enforcement), or to informal institutions (i.e. 'unwritten rules applying to a restricted social group or community and enforceable through non-legal mechanisms at work inside that group or community'[8]). By contrast, a ‘deals’ environment is characterised by individual contracts between two parties with selective enforcement (although it is difficult to think of a stable environment where contracts are systematically unenforced).

An effective 'deals' environment where major economic initiatives are based upon the agreement between two individual actors to behave in some coordinated way, irrespectively of what the formal or informal rules may be, and possibly sometimes in violation of them, is essentially the sign of institutions not working. Deals may be detrimental to development, as in a typical 'corruption' deal, where an agent endowed with some formal power uses it to create undue and development-unfriendly advantages accruing to another agent and sharing the proceeds with that agent; but they may also be favourable to development, when they make it possible to exploit development-friendly opportunities that formal or informal rules might impede being taken advantage of. A manager obtaining a loan at a zero rate of interest from a bank and sharing part of the profits of his/her investment with the banker is a deal that violates formal rules (preferential treatment, profit shared with an agent rather than the bank itself). However, it may contribute to development if the investment had not been undertaken otherwise. It may also be pure corruption or embezzlement if the loan is for personal consumption or is never repaid.

The point is that the relationship between business and politics, which to a large extent shapes the development process in Bangladesh, is very much based on deals made outside formal rules, sometimes with a positive impact on development but more often with negative consequences. Because of their ubiquity in Bangladesh's economic functioning, it will be helpful to make use in this volume of the taxonomy of deals that has been proposed by Pritchett *et al.* (2018) and used by Hassan and Raihan (2018) to analyse the country’s historical development.

Referring to the relationship between business and the political elite, a deals environment can be divided into several dimensions. Deals may be restricted to an elite or widely available. In the former case they are said to be 'closed'; in the latter they are said to be 'open'. Likewise, they are said to be 'ordered' if they are honoured by the two parties, particularly the government side; and in the opposite case they are said to be 'disordered'.

[8] This is the definition given by Baland *et al*. (2020).

Of course, the two dimensions can be combined so that it is possible to refer to contexts of 'closed and ordered' or 'open and disordered' deals. For instance, Hassan and Raihan (2018) describe the time the government was trying to bolster the private sector in the late 1970s as an 'increasingly open and ordered deals environment'. By contrast, they describe the rise of monopolistic situations during the competitive democratic phase as closed and ordered.

These concepts will prove useful when analysing some critical areas of Bangladesh's economy, particularly the RMG manufacturing sector or the banking sector, and when characterising the contemporaneous institutional context of Bangladesh's development.

5 Table of contents of the Bangladesh institutional diagnostic

PART 1. General approach to the diagnostic

Chapter 1: ‘An institutional diagnostic of Bangladesh: Introduction’, by Selim Raihan and Francois Bourguignon

Chapter 2: ‘Bangladesh’s development: Achievements and challenges’, by Selim Raihan and Francois Bourguignon

Chapter 3: ‘A cross-country comparative analysis of institutional indicators: Where does Bangladesh Stand?’, by Selim Raihan and Rafiqua Ferdousi

Chapter 4: ‘The country institutional survey: Experts’ opinions on institutions in Bangladesh’, by Selim Raihan and Towhid Iqram Mahmood

PART 2. Thematic studies

Chapter 5: ‘Informal Institutions, the RMG sector, and the present challenge of export diversification in Bangladesh’, by Selim Raihan (discussion by Jaime de Melo)

Chapter 6: ‘Political economy of private bank governance in Bangladesh’, by Mirza Hassan, Sayema Haque Bidisha, Towhid Iqram Mahmood, and Selim Raihan (discussion by Thorsten Beck)

Chapter 7: ‘Institutional dimensions of tax reforms in Bangladesh’, by Sadiq Ahmed (discussion by Christopher Heady)

Chapter 8: ‘Institutional challenges in public spending: The case of primary education’, by Zubayer Hossen, Bazlul Haque Khondker, and Selim Raihan (discussion by Elizabeth M. King)

Chapter 9: ‘Institutional challenges in land administration and management in Bangladesh’, by Selim Raihan, Jahid Ebn Jalal, Eshrat Sharmin, and M. Abu Eusuf (discussion by Dilip Mookherjee)

Chapter 10: ‘Political economy analysis of the role of the judiciary in land-dispossession litigation in Bangladesh’, by Rafiqua Ferdousi, Kazi Maruful Islam, and Selim Raihan (discussion by Jean-Philippe Platteau)

PART 3. Synthesis

Chapter 11: ‘An institutional diagnostic of development in Bangladesh: Synthesis’, by Selim Raihan, Francois Bourguignon, and Umar Salam

6 Acknowledgements

We wish to acknowledge the precious help the editors and authors of this study received from many friends and colleagues. In the first place, we would like to thank Umar Salam, who has chiefly managed this project from Oxford Policy Management. The thematic study discussants and members of the Scientific Committee of EDI's institutional diagnostic research activity, Thorsten Beck, François Bourguignon, Jaime de Melo, Chris Heady, Ravi Kanbur, Beth King, Dilip Mookherjee, Jean-Philippe Platteau and Umar Salam must also be acknowledged for the crucial role they played in critically challenging the process and conclusions of the study, pushing authors to produce high-quality research. We also wish to thank the advisor of the project Wahiduddin Mahmud whose guardianship and advisory role on this work ensured it was of high quality, informed by a diverse set of viewpoints, and situated in the reality of the Bangladeshi context.

We are also grateful to the enumerators and supervisors who helped during the institutional survey. We must acknowledge the decision makers (in the private and public sectors, representatives from international organisations and donors in Bangladesh, as well as from the civil society) who participated in the institutional survey in 2018-19 and also the policy engagement workshop in September 2018.

We must also acknowledge the EDI team members at Oxford Policy Management who contributed with valuable insights and provided a management function to the process, including Stevan Lee, Mark Henstridge, Benjamin Klooss, Rachel Smith-Phiri, and Umar Salam. We also acknowledge Ashibur Rahman and Shoaib Ahmed from SANEM for their coordination support for the organisation of key events in Dhaka. We also wish to thank academics and government officials who participated in the workshops and provided insights that helped to understand a number of issues related to the development challenges in Bangladesh.

The EDI programme management team at Oxford Policy Management and SANEM also wish to add their thanks to the editors of the Bangladesh institutional diagnostic (Selim Raihan and François Bourguignon) for their dedication, professionalism and enthusiasm. We thank François Bourguignon moreover for his overall leadership of EDI’s institutional diagnostic component without which this study would not have been possible.

This project was funded with UK aid from the UK Government.

References

Acemoglu, D. and Robinson, J. (2008) 'Persistence of Power, Elites, and Institutions', *American Economic Review*, 98 (1), pp. 267–93.

Acemoglu, D. , Johnson, S. and Robinson, J. (2005) 'Institutions as a fundamental cause of long-run growth'. In: Aghion, P. and Durlauf, S. (Eds.) *Handbook of Economic Growth*, Elsevier, Amsterdam.

Baland, J-M, Bourguignon, F., Platteau, J-P. and Verdier, T. (2020) 'Economic Development and Institutions: An Introduction', in *Handbook of Development and Institutions*, Princeton University Press. Princeton

Bertocci, P. J. (1981) 'The Bangladesh Liberation Movement: Role of Different Parties and Groups ', *Dacca University Studies* A(35), pp. 45–60.

Ghosh, S. (1986) 'Constitutional Changes in Bangladesh: Process of Political Development', *India Quarterly* 42(4), pp. 391–404.

Hassan, M. and Raihan, S. (2018) 'Navigating the deals world: The politics of economic growth in Bangladesh', *Deals and Development*, Oxford University Press.

Hausmann, R., Rodrik, D. and Velascom A. (2005) *Growth Diagnostics*, The John F. Kennedy School of Government, Harvard University, Massachusetts.

Jahan, R. (1997) 'Genocide in Bangladesh', in *Century of Genocide: Eyewitness Accounts and Critical Views*, Garland, New York, pp. 291–316.

Jalil, A. (2010) 'War Crimes Trial in Bangladesh: A Real Political Vendetta', *Journal of Politics and Law* 3(2) pp. 110–120.

Lewis, D. (2011) *Bangladesh: Politics, Economy and Civil Society*, Cambridge University Press, Cambridge.

Maniruzzaman, T. (1975) 'Bangladesh: An Unfinished Revolution?' *The Journal of Asian Studies* 34(4), p. 891. doi: 10.2307/2054506

Mollah, A. H. (2019) 'War Crimes Trials in Bangladesh: Justice or Politics?', *Journal of Asian and African Studies* 1(14), doi: 10.1177/0021909619890117

Pritchett, L., Sen, K. and Werker, E. (2018) *Deals and Development*, Oxford University Press, Oxford.

Rashiduzzaman, M. (1977) 'Changing Political Patterns in Bangladesh: Internal Constraints and External Fears', *Asian Survey* 17(9), pp. 793–808.

Uddin, A. (2015) 'Politics of Secularism and the State of Religious Pluralism in Bangladesh', *Journal of South Asian and Middle Eastern Studies* 38(3), pp. 42–54.

Annex A Chronology of Bangladeshi governments since independence

Period	Type of access to power	Type of regime	Party in power	State leader, title
1) The installation of democracy				
Mar. 1971 – Mar. 1973	War of Independence in 1971, formation of a provisional government-in-exile in April 1971, which continued until the general election in 1973	Pres.	Awami League	Sheikh Mujibur Rahman, President
Mar. 1973 – Jan. 1975	General election in 1973	Parl.	Awami League	Sheikh Mujibur Rahman, Prime Minister
Jan. 1975 – Aug. 1975	Constitutional amendment	Pres.	Bangladesh Krishak Sramik Awami League (BAKSAL)	Sheikh Mujibur Rahman, President
Nov. 1975 – May 1981	Coup and then presidential and general election	Dict.	BNP, Bangladesh National Party (1978)	General Ziaur Rahman ('Zia'), Chief Administrator of Martial Law and then President
May 1981 – Apr. 1982	Failed coup and then presidential election	Pres.	BNP	Justice Abdul Sattar, President
Apr. 1982 – Dec. 1990	Coup and then presidential and general election	Dict.	Jatiya Party (1986)	General Ershad, Chief Administrator of Martial Law and then President
2) The competitive democracy				
Feb. 1991 – Feb. 1996	General election (CTG)	Parl.	BNP	Khaleda Zia (widow of General Zia), Prime Minister
June 1996 – Oct. 2001	General election (CTG)	Parl.	Awami League	Sheikh Hasina (daughter of Sheikh Mujibur Rahman), Prime Minister
Oct. 2001 – Oct. 2006	General election (CTG)	Parl.	BNP	Khaleda Zia, Prime Minister
Oct. 2006 – Jan. 2007	CTG			President Iajuddin Ahmed, as the head of CTG
Jan. 2007 – Dec. 2008	Military-backed CTG			Fakhruddin Ahmed, as the head of CTG, backed by the Military Chief

				General Moeen Uddin Ahmed
3) The dominant party era				
Dec. 2008 – Jan. 2014	General election	Parl.	Awami League	Sheikh Hasina, Prime Minister
Jan. 2014 – Dec. 2018	General election	Parl.	Awami League	Sheikh Hasina, Prime Minister
Dec. 2018 –	General election	Parl.	Awami League	Sheikh Hasina, Prime Minister