

Final Report on
The Call to Action
Against Corruption
(CAAC)



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The Centre for Governance Studies (CGS) was established in 2004 as a non-profit autonomous think tank to work on improving the quality of governance in Bangladesh through facilitation of collaborative efforts among the academic community, government, private sector, civil society, and development partners. CGS contributes to research, media advocacy, and dialogue in democratic governance and sustainable economic development. Based in Dhaka, CGS' clients include multinational firms, multilateral agencies, diplomatic missions, government departments, private sector organizations, and civil society actors. CGS has current partnerships with the National Endowment for Democracy, National Democratic Institute, United Nation's Development Program, Centre for International Private Enterprise, Friedrich-Ebert-Stiftung, and Foreign and Commonwealth Development Office and has built relationships with the private sector and the media as a trusted source of independent research and analysis.



The Center for International Private Enterprise (CIPE) is an NGO working at the intersection of democracy, governance, and economic development. CIPE has nearly 40 years of experience designing, implementing, and evaluating projects worldwide that strengthen democratic governance, combat corruption, empower marginalized populations, and open space in closed political systems. CIPE is a core institute of the U. S. National Endowment for Democracy and a non-profit affiliate of the U.S. Chamber of Commerce and currently has more than 200 projects and grants with local partners in over 80 countries. Learn more about CIPE's work in Bangladesh and elsewhere at cipe.org.

EXECUTIVE SUMMARY

The Center for Governance Studies (CGS) conducted a project since February 2021, titled *‘Engaging the Private Sector in Promoting an Inclusive, Accountable and Corruption-free System of Governance in Post-Covid-19 Era’*, with the support of the Center for International Private Enterprise (CIPE) based in Washington, D.C.

The project focused on the presence of corruption in households as well as in Small and Medium Enterprises (SMEs) to evaluate the role of the SME sector in Bangladesh in combatting corruption, the nature of corruption faced by these enterprises, the measures taken by the government and various trade bodies to combat corruption, and the sector’s grassroot entrepreneur’s suggestions on how to address corruption.

The project comprised of several components: an assessment report of the SME sector with key informant interviews; two independent surveys of households and SMEs to gather their perceptions and practices of corruption at the subnational level; eight regional consultations with local entrepreneurs to discuss their experience and suggestions; a national conference representing experts, members of civil society, bankers, corruption watchdogs, politicians, and media to validate the findings of the grassroot entrepreneurs’ perceptions; two networking events bringing together entrepreneurs; a national summit to adopt a call for action; and the development and dissemination of a network directory of SMEs.

This followed standardized research methods and techniques for selecting the sample, collecting data, and analyzing & interpreting output measures. The participants of this long, inclusive, bottom-up process have underscored the need for establishing a national-level platform for SMEs to combat corruption that affects the SME sector and is detrimental to the interests of the entrepreneurs.

The assessment of the state of the corruption and SMEs, participants’ perceptions and experiences, stakeholders’ opinions, and experts’ views have reaffirmed that corruption in Bangladesh is pervasive and systemic, and that corrupt practices impact the SME sector significantly.

Stakeholders of the SME sector acknowledged that corruption has both supply and demand sides, and that a comprehensive effort to combat corrupt practices must include both aspects. Therefore, the SME sector must improve internal good governance while society and the government must curb demand through various measures.

Current policies and the legal and excessive bureaucratic structure have created a corrupt environment where bribery and other malpractices thrive, according to the SME entrepreneurs. They emphasized that the absence of effective anti-corruption regulation and selective implementation puts businesses that do not partake in illicit activities into a competitive disadvantage vis-à-vis those who collude with a corrupt set of government officials.

Through surveys, regional meetings, a national conference, and networking events, project participants suggested a variety of recommendations to the government, to the private sector enterprises in the SME sector, to the non-government agencies, to the national trade bodies, and to the service providers. A summary of the recommendations are listed below:

To The Government

- Establish an admin unit and conduct media campaigns to raise awareness of citizens' rights, the Anti-Corruption Act, and ethical standards. Use formal/informal channels to raise awareness against all types of corruption. Introduce educational elements to instill ethical standards and conduct large-scale campaigns to inform people about hidden corruption and ways to combat it.
- Ensure accountability within government agencies and require them to inform the public about their accountability mechanisms and activities every six months. Investigate all reported corruption cases, enforce punitive measures, and empower a separate unit within each agency to conduct inquiries and forward complaints to the Anti-Corruption Commission (ACC). Appoint independent Ombudsmen at each government office to monitor and enforce laws and address the culture of impunity among perpetrators of corruption with lawful measures, regardless of their social or political stature.
- Create an atmosphere for citizens to report corruption without fear, empower the ACC to act independently, and establish a unit within the ACC to receive public information and communicate actions taken within 90 days. Facilitate SME reporting and protect SMEs under the Public-interest Information Disclosure Act (Provide Protection), 2011 (popularly referred as the Whistle-blower Protection Act). Reform laws and reporting mechanisms, implement the Act, provide autonomy to the ACC, and establish accountability and transparency in the public sector.
- Streamline license and certificate processes with reduced points of contact and increased use of technology. Develop a one-stop solution for trade licenses and increase automation to prevent unlawful collusion or extortion.
- Provide incentives and reduce regulations for small firms. Develop and implement a comprehensive SME policy with support mechanisms. Reform VAT and income tax policies to address issues faced by the SME sector.

To the Private Sector Enterprises

- Establish internal reporting systems to identify and address corruption during interactions with the public. Create a transparent system for informing the public about actions taken to address concerns, and publish annual reports. Adopt codes of conduct and ethics, and monitor compliance. Create accountability mechanisms and awareness campaigns for reporting corruption in the public and private sectors.
- Establish a private-sector coalition to promote business integrity and address corruption issues. Develop independent platforms and networks to highlight sector-specific concerns. Create networks of companies adhering to best practices and assist all SMEs victimized by corruption.
- Ensure chambers and associations commit to anti-corruption, hold the government accountable, and take measures to combat corruption. Develop internal governance mechanisms and share best practices with entrepreneurs in the sector.

To the Non-Governmental Agencies

- Design and implement campaigns on the existing laws and regulations and on mechanisms for reporting complaints about corruption in public and private sectors.
- Complement the government's efforts to raise awareness about the rights against corruption under the existing laws. To this end, insist that each ministry and agency make their efforts public.
- Cooperate with the government to identify the inadequacies in the existing laws regarding corruption. Review the existing laws and recommend necessary amendments, new laws, and mechanisms for addressing the weaknesses of the existing laws.
- Gather, document, and inform the public of the nature and scope of corruption in both the public and private sector, and offer remedies for the situation through public campaigns and regular reports via media.

To the Trade Bodies

- Develop specific plans and programs to address the concerns of the SME sector and mechanisms to create a supportive environment.
- Develop plans to address the issues related to governance, corruption, and inclusive policymaking.
- Create a transparent mechanism for reporting corruption and actions against corruption.
- Develop and implement a strict code of ethics in various sectors, including the SME sector, and incentivize adherence to this code.

To Service Providers

- Develop mechanisms to understand the needs of SMEs by engaging in robust dialogue, establishing feedback system to hone in on the needs of SMEs
- Establish a commitment to work with the SME sector to change the lack of confidence in the SME sector by ensuring that due services are provided to them without any hinderences.

INTRODUCTION

The pervasiveness of corruption in Bangladesh is well-documented and widely discussed, but its ramifications for small and medium-sized business sectors are rarely examined. The sector of small and medium enterprises (SMEs), which comprises 50.91 percent of the microeconomic sector, 35.41 percent of workers, 48.41 percent of the GDP, and 47.63 percent of total value added, has been largely neglected. Academics and business owners in Bangladesh concur that the incidence of corruption is intrinsically linked to the country's system of governance and socioeconomic ethos. Inclusive and transparent governance is essential for preventing corruption. Such a system of governance requires the engagement of economic reformers and the private sector.

In January 2021, the Centre for Governance Studies (CGS) launched a project with the support of the Center for International Private Enterprise (CIPE), titled 'Engaging the Private Sector in Promoting an Inclusive, Accountable, and Corruption-free System of Governance in the Post-Covid-19 Era', with the aim of empowering the private sector and economic reformers to investigate the steps required to expand the space for participation. The objective of the project is to evaluate the condition of corruption at the local level and its effects on the private sector, especially on the SMEs.

The project had several components:

- a) An assessment report of: the state of SMEs in Bangladesh, government policies towards the sector, approaches of the national and regional trade bodies towards governance and corruption issues, and support networks of the SME sector. A desk review of various publications about the SME sector was also conducted, and a total of 152 publications from 10 national and regional trade organizations were gathered and analyzed. Based on these findings, individuals connected to national and regional trade bodies, leaders of business support organizations, academics, and experts were identified, and 15 Key Informant Interviews (KIIs) were conducted between December 1, 2021, and March 15, 2022. The assessment report was published on July 2022.
- b) Two surveys were conducted independently: one on the awareness and perceptions of corruption among households, and another on the perceptions and types of corruption in the SME sector. These two surveys were carried out in 2021 and 2022. Between August 27 and September 8, 2021, 1,231 nationally-representative individuals participated in the Household survey. Using the Resilient Distributed Datasets (RDD) method, respondents were chosen at random. The SME Survey was performed between mid-October and mid-December 2021 with 800 nationally representative SMEs, including 400 manufacturing and 400 service sector businesses. Computer-Assisted Telephone Interview (CATI) was used to conduct telephone interviews with household respondents and SME representatives. Household Perception Survey findings were released on May 1, 2022, while SME Survey results were released on September 9, 2022.
- c) To gather the grassroots entrepreneurs' perceptions, experiences, challenges, and suggestions regarding the way forward in addressing corrupt practices, eight regional consultations were held between June 27 and September 10, 2022, at eight divisional headquarters: Barisal, Chittagong, Dhaka, Khulna, Mymensingh, Rajshahi, Rangpur, and Sylhet. A total of 194 entrepreneurs of SMEs and individuals engaged with the SME sector participated in these regional consultation meetings.

- d) All the data gathered since the inception of the project were presented to several prominent members of Bangladesh's civil society, politicians, representatives of financial institutions, academics, journalists, and SME entrepreneurs at a conference in Dhaka on January 29, 2023, titled "Call to Action Against Corruption".

Highlights of the SME Assessment Report

Drawing on the Bangladesh government's industrial policy document and Bangladesh Bank's policies, we defined SMEs by two criteria – the size of employment and the scale of investment. In the manufacturing sector, 'small industries' were defined as enterprises with up to 15 crore taka investment and up to 120 employees, and 'medium industries' were defined as enterprises of up to 50 crore taka investment and up to 300 employees. As for the services sector, 'small industries' were defined as having up to 2 crore taka investment and up to 50 employees; 'medium industries' were defined as enterprises with up to 30 crore taka investment and up to 120 employees. Available secondary sources on the size and contribution of the SME sector showed that this sector makes a significant contribution to the Bangladeshi economy. It was found that more than 50% of business enterprises are classified as SMEs. Following the industry standard of dividing the 33 industrial sectors into 3 overarching categories - Manufacturing, Agro-Business, and Service, SMEs are classified into these sectors based on the products and services they provide.

Analysis of the publication of the national and regional trade bodies revealed that there is a conspicuous absence of reference to and discussion about democracy, governance, transparency, accountability, and corruption at the national and sub-national levels. A total of 152 publications from 10 different national and regional trade organizations showed that there are almost no significant anti-corruption initiatives on the part of the regional trade bodies. Instead, most of the available documents and publications are centered on arguing for tax reform and raising subsidies. The fact that these documents make no mention of any of the five most important problems—democracy, governance, transparency, accountability, and corruption—implicitly reinforced the requirement for this project to be carried out. Fifteen prominent business leaders, academics, and industry specialists who served as key informants for the project acknowledged the pervasive presence of corruption in Bangladesh's economic sector. They mentioned bribery as the primary method of engaging in corrupt practices in order to obtain licenses and permits from governmental organizations. One further significant illustration of corruption is when the government gives preferential treatment to certain businesses in the course of the public procurement process.

These pervasive corrupt activities involve collusion between SMEs and a variety of other actors. According to industry professionals and prominent businesspeople, citizens view corruption as inextricably linked to the economic system and social and business practices. This propensity makes it more difficult for people to speak out against corrupt activities therefore promoting their utilization. Lack of moral instruction is a contributing factor in this culture of acceptance, some opined. It has been said that the primary contributors to the persistence of corrupt practices are the absence of accountability in the public sector as well as impunity for those responsible for the corruption. The absence of effective mechanisms to punish corrupt behavior does nothing more than create an environment in which individuals consider corrupt behavior essential to their own success. Although few people in Bangladesh believe that the prevalence of cash

transactions provides cover for corrupt acts, a cultural change towards cashless transactions handled through the appropriate financial channels would pose a significant barrier to the spread of such activities.

The vast majority of the informants were unable to name any anti-corruption activities taking place in the business sector. On the other hand, there have been significant anti-corruption and transparency activities carried out in Bangladesh by several different groups. A significant number of respondents conveyed a sense of resignation, especially when referring to the government's comprehensive actions, particularly by the ACC. This may imply that members of civil society can accomplish very little to combat corruption. No results were found from the available literature on whether or not trade groups and organizations have built internal processes to identify and prevent corruption. Although many claimed to have information centers, those centers reportedly get very few complaints involving corruption from the service recipient. A sizeable portion of respondents expressed skepticism on the importance of leadership from the private sector in the fight against corruption. Even many who lauded its significance also noted that such leadership would be pointless in the absence of support from the government.

Existing anti-corruption laws and reporting procedures have been met with considerable criticism from business leaders and professionals. According to the statements of more than one leader of a trade body, these overarching organizations are neither designed nor able to deal with the issue of corruption. Academics and other prominent businesspeople shared strikingly similar ideas. One business leader, who works to combat corruption, suggested that national trade organizations should play a more proactive role in the fight against the problem.

It has been suggested that the absence of understanding regarding the Whistleblower Act of 2011 and its implementation is a factor that facilitates corrupt behavior. The respondents shared their feelings of exasperation with regard to the drawn-out nature of the judicial process. Empowering an independent ACC, along with improved transparency in corruption reporting, was seen as a means to encourage more individuals to report corruption they encounter.

Highlights of the Household Survey

The household survey was aimed to highlight and diagnose the problems of corruption, the most common types of corruption, existing behavior related to corruption, how it poses hinderences and ways of combating it. This survey also showed the depth of corruption in Bangladesh as experienced by citizens, including the nature and scope of corruption during the pandemic response period and how it affected households.

The survey found that Bangladeshi citizens' awareness of the anti-corruption laws was very low, with only 5.7% being aware. However, among those who were aware, more than two-thirds believe that the rights stipulated in the Act can be exercised.

“Awareness of the anti-corruption laws was very low, with only 5.7% being aware”

The incidences of corruption faced by citizens were deemed to be substantially higher in public/government offices than in private organizations. However, despite this phenomenon, the participants of survey and interviews said that investigations are more likely to be carried out by the relevant government agencies on reported cases of corruption in private organizations than in public/government offices.

The perceptions, attitudes, and beliefs about corruption indicate a mixed disposition. While 44.0% of the respondents found the current level of corruption unacceptable, about one-third (34.0%) found it acceptable, and a little more than one-fifth (22%) were unsure.

The level of unacceptability rises significantly when asked whether “some form of corruption is acceptable.” Around two-thirds of respondents (62%) found it unacceptable, while the number of those who found it acceptable remained at around one-third (31%), and a few (8%) remained unsure.

Slightly more than two-thirds expressed that unofficial services, gratification money, or bribes are ‘never justified.’ The remaining one-third maintained that it is ‘always or sometimes justified.’ Around one-third have remained relatively consistent in their support for corruption.

Respondents suggested several measures to prevent corruption in the country. These included strengthening laws, regulations, state control over public administration, and the enforcement of measures and punishment, as well as raising public awareness and ensuring both transparency in administrative decision-making and the consistent implementation of the rule of law.

The survey examined the impacts of the COVID-19 pandemic, especially on the respondents’ economic well-being. It was found that at least one person in an estimated 2.1 million households (6.0% of Bangladesh’s total households) was infected by COVID-19 as of September 2021. Between March 2020 and September 2021, at least one person from about half (51.0%) of the country’s total households received some form of health service, mainly from the government health facilities but also to a lesser extent from private hospitals/clinics, village doctors, and pharmacies.

The COVID-19 pandemic has caused severe adverse effects on national employment and household incomes, especially among the country’s lower-income segments. COVID-19 has severely impacted the poorer segments of society and job loss has been experienced by one in four families. As a result, many families, particularly lower-income households, lost their primary sources of income. In contrast, families in the upper-income segments economically remained at a similar level as they were before the pandemic. In addition, around 3 million families reported receiving assistance from the government between March 2020 and September 2021.

In response to the question on trust in public institutions, respondents chose the Army as the most trusted of the seven selected institutions, followed by the legal and judicial system, local government, land administration/registration, local leaders, and the police in order from most to least trusted. Respondents trusted political parties the least.

Highlights of the SME Survey

The goal of the SME survey was to identify particular aspects of corruption and provide useful data on SME entrepreneurs’ views of corruption, current corruption practices, SME sector business owners’ corruption, and anti-corruption conduct, as well as to gather advice from SMEs on how to combat corruption moving forward.

“More than half (52.06%) of respondents reported having to pay a bribe to obtain essential services”

According to the study's findings, more than half (52.06%) of respondents reported having to pay a bribe to obtain essential services such as acquiring and renewing licenses, using public utilities, obtaining a Tax Identification Number (TIN), and obtaining a Value Added Tax (VAT) certificate in the year preceding COVID-19. In terms of perception, almost nine out of ten SMEs believe corruption is pervasive in the SME sector. A vast majority (62.4%) believe that corruption is well-rooted/integrated into the system, and an even higher number (71.3%) believe that resorting to corruption can increase market competitiveness. More than half of respondents believe that restrictive government regulations encourage corruption, and this opinion is especially more prevalent among smaller businesses. Because of these perceptions, the majority (61%) of surveyed SMEs have chosen to bypass regulations and operate informally.

Bribery was particularly prevalent in the services of acquiring and renewing trade licenses (36.4% and 31.8%, respectively). Two-thirds of individuals who paid bribes felt it was necessary to do so to acquire the services, and the second most popular reason was to save time. The license and registration authority (28.8%), the tax office (21.6%), the local government/city corporation/municipality (19.5%), the property registration office (13.5%), the Environmental Directorate (12.9%), and law enforcement agencies (10.6%) were the most frequently cited recipients of bribes. The data indicate that the offices where enterprises must interact for essential public services are the main locations of corruption.

According to the majority of respondents, the desire for money or possessions and the lack of transparency at the higher government level inspire this systemic corruption, along with a slew of other contributing causes. The reasons most frequently stated by SMEs included enforcement of anti-corruption legislation (86.2%) and non-enforcement of anti-corruption regulations (79.5%). The lack of professionalism of public officials (77.4%), as well as their requests for kickbacks in contract awarding (73.9%), contribute to concerns on the demand side, while corporations seeking benefits by giving bribes or demanding special privileges (73.9%) encourage corruption on the supply side. Inadequate media coverage of corruption (72.8%) was another contributing factor, according to the respondents.

Bribery (77.9%) and the use of political influence (60.1%) are the two most commonly reported forms of corruption among SMEs. Extortion (46.3%), nepotism (43.9%), and excessive patronage (43.1%) follow the list. These types of corruption mirror the larger social and political situation, which generally affect the economic sector. Corruption in local government affects SMEs more than corruption in the national government (27.6%), and bribery, relationships with influential people (68.4%), and networking with public officials were considered the simplest ways to obtain public services and survive illegally (68.4%).

“Bribery (77.9%) and the use of political influence (60.1%) are the two most commonly reported forms of corruption among SMEs.”

Despite the prevalence of corruption, enthusiasm for submitting complaints to authorities remains low. Only 2.3% of the respondents have ever reported a complaint, yet more than 70% of those respondents reported a negative outcome to the complaint process.

Despite the government's repeated claims of a “zero-tolerance” policy, less than half of respondents (46%) felt that local and national governments had taken steps to reduce corruption, and most of the respondents did not believe these actions had a positive impact. The corruption reporting mechanism was one of the primary concerns investigated in the government's anti-corruption process. Two elements were examined: effectiveness and ease of use. Both have yielded nearly equal numbers of divided responses. This suggests that the procedures were not appealing to SMEs. The diminishing protection of whistleblowers is another critical issue where the vast majority of respondents (72.8%) voiced dissatisfaction.

While the majority of SMEs (55.1%) were satisfied with the work of chambers of commerce and business associations in combating corruption in the public sector, more than 78% were willing to join a private sector coalition for collective action to promote business integrity and lead an anti-corruption effort.

Highlights of findings from the Regional Consultations

Throughout the eight regional consultations, participants discussed the various forms of corruption they encountered in the course of conducting business. As more and more individuals spoke up, it became evident that all regions of Bangladesh face the vast majority of the same challenges. There was little variation between the eight regions regarding their day-to-day corruption experiences. The most prevalent sentiment expressed during these consultations was that corruption has become deeply rooted in Bangladesh's socioeconomic reality. In each of the eight regions, several participants began their accounts by describing how pervasive corruption had become. Corruption had become so normalized in a society that it is a rarity for something to be accomplished without bribery. Although the vast majority of participants stated in various ways that corruption was endemic to the nation's economy, the vast majority of participants were also careful not to imply that they were directly facilitating corruption. The vast majority of statements acknowledged the pervasive nature of corruption and the indirect implication that they, too, were susceptible to corruption. However, while completing the exit survey, 74% of participants reported directly encountering some form of corruption. The following are 10 key observations regarding prevalent corruption trends in multiple regions. All 10 observations were mentioned repeatedly by multiple participants at each consultation. Consequently, they can be categorized as problems affecting SMEs on both the regional and national levels.

Difficulties in acquiring trade licenses due to excessive bureaucracy

All eight regional consultations discussed the challenges SMEs face in applying for and renewing trade licenses. Several participants said entrepreneurs must visit 13–14 regulatory offices to get approvals and permits before starting a business. The income tax office, Fire Service and Civil Defense, Department of Environment, Ministry of Labor and Employment, Bangladesh Road Transport Authority, Power Division, and other regulatory bodies depending on the industry must inspect and approve trade licenses. The participants who faced corruption while obtaining trade licenses said that they were held up at regulatory body offices and could only get approval after paying a bribe or using a personal or political connection. Corroborating statements were made by entrepreneurs in all eight regions, with bribes to avoid licensing bureaucracy especially noted. Not all entrepreneurs admitted to paying bribes for licenses. Small or micro-enterprises that managed their paperwork seemed to have no trouble obtaining trade licenses, likely because they did not have to visit many regulatory bodies. However, enterprises that needed more regulatory body approvals and could not keep proper internal paperwork due to an alleged lack of knowledge and training were more likely to pay bribes. Participants often admitted to paying small bribes to speed up license acquisition. The general consensus was that the complicated and cumbersome process of acquiring and maintaining trade licenses drove many SMEs to operate without a license, making them more vulnerable to harassment by local authorities and extortion later on.

The culture of tax evasion

The second most discussed topic was Bangladesh's VAT and Income Tax policy. Tax avoidance and evasion in Bangladesh are well documented. In 2021, Tax Justice Network and Public Services International ranked Bangladesh third in South Asia for tax evasion revenue loss. Many consultation participants said that tax evasion was common in SMEs. All eight regional consultations included lengthy statements on the topic of tax and VAT avoidance. SMEs who participate in tax evasion syndicates argued that if they don't avoid taxes and VAT, they can't compete. The current tax and VAT returns level is too regressive for SMEs to survive legally, so they avoid taxes. According to them, SME owners must pay a monthly amount to the authority, which is usually disproportionately high, regardless of whether the business is profitable. Many entrepreneurs also stressed the need to keep "good relations" with tax collectors, implying that some enterprises are complicit in the tax evasion ring and that authorities will harass those who are not. Some entrepreneurs also noted that this demand and supply of illicit activities are enabled by the government's inaction, particularly regarding large enterprises' corruption. Thus, it is expected that a small business must participate in this corrupt system to grow.

“The current tax and VAT returns level is too regressive for SMEs to survive legally, so they avoid taxes”

Lack of knowledge and training in the SME sector

During the consultations, one theme that emerged was the difficult early years that young entrepreneurs had to endure before they fully understood the complexities of running a firm. As a new entrepreneur in Bangladesh, one must understand the complicated trade license process, the government's VAT return and income tax policies, the bank loan application process, accounting and internal bookkeeping, and short-term and long-term financial strategies. According to the UNDP, Bangladesh's pre-university education is far below the global average and fails to prepare prospective entrepreneurs for their challenges. Bangladeshi SMEs receive training and guidance from the SME Foundation. However, almost no entrepreneurs mentioned government agency training during the conversations. According to participants, most new entrepreneurs didn't know what licenses they needed to start a business and were harassed by local authorities when applying for licenses. They received no government support, and many participants said that they had to pay bribes to get licenses. All participants stressed that new and aspiring entrepreneurs need to be guided so as to avoid the problems that they encounter.

Regulatory bodies extorting SMEs on matters of compliance

Many entrepreneurs complained about the stigma of doing business in Bangladesh during the consultation. According to them, it is a common belief that only those who are corrupt can run a successful business. Participants said that regulatory bodies are biased against businesspeople as they are viewed in negative light. They also claimed that police and government inspectors fine SMEs unjustly unless they receive gifts and services, and businesses reported harassment during compliance inspections. Whether or not proper paperwork and procedures are followed, participants reported this type of harassment is not exclusive to the small enterprises but also in medium-sized enterprises.

Difficulties getting bank loans due to insufficient internal governance and nepotism

Bank loans are difficult for SMEs to obtain. Participants said new entrepreneurs are more likely to face challenges in obtainment because they lack bank relationships and are unaware of proper internal governance. They often have to go to third parties for loans and pay high premiums. The participants explained how knowing bank officials allowed them to use loopholes to get loans. It's expected that the person who helped them get the loan gets something in return. Participants from several regions stated that banks do not lend to them because they do not consider them profitable and view SMEs as high-risk. Furthermore, the budgeted stimulus loans promised by the government were not distributed evenly across the SMEs. The majority of SME owners at the consultations who claimed to have the qualifications to receive the stimulus loan did not receive it.

“Participants from several regions stated that banks do not lend to them because they do not consider them profitable and view SMEs as high-risk”

Women entrepreneurs facing particular prejudice trying to acquire loans from banks

During the conversation, the unanimous experience among the vast majority of female entrepreneurs was the various difficulties and prejudiced behavior they had to endure to get loans and aid packages from banks. Several women entrepreneurs from multiple regions complained that they did not get the stimulus packages that the government allocated for SMEs. Women who run small businesses by themselves also face the knowledge issues illustrated before. Clearing loans from banks is difficult as they might lack knowledge and information about proper procedures and paperwork. However, the banks are also alleged to be predisposed against small female-owned businesses. Several women entrepreneurs at the discussions also stressed the harassment they endured when no male companions were supporting them, especially while asking for business loans.

Import businesses are reliant on the customs evasion syndicate to survive

There were several participants in Dhaka and Sylhet who owned small to medium firms focused on imports. All these participants complained about elaborate collusion between the local customs officers, banks, and large firms, who are all complicit in tax evasion and money laundering through under-invoicing and over-invoicing. Other than that, importers also alleged that getting an import permit is impossible without paying bribes. The current level of such collusion, referred to as syndication, means that a mineral import business can never profit unless customs duties are bypassed by paying bribes. Participants said that the current customs duty levied on SMEs and the nepotism in the government about giving import permissions has caused the industry to maladapt.

“Importers also alleged that getting an import permit is impossible without paying bribes”

Syndication with public utility providers

All participants at the regional consultation who talked about public utility rates complained about the exorbitant costs. Complaints came particularly from those in the agriculture sector. They alleged that the current government policy of charging them the same rate as a factory for electricity is unfair.

Entrepreneurs also stated that if new businesses do not join the existing syndicate (i.e. informal networks of businesses) and try to operate legally, they are ostracised by public utility providers.

Excessive market manipulation by syndicates is hampering SME growth potential

Another trend highlighted during the conversation was the common usage of the word “syndicate” among the participants. It would appear from their statements that there were syndicates in almost every sector that were colluding to set the market price. Participants mentioned syndicates in the private education industry, the mango growing industry in Rajshahi, the jute production industry, the poultry raising industries in Barisal and Rangpur, the mineral import industry in Sylhet, the rice farming industry, and the fish and shrimp farming industries in Khulna. According to participants, the prevalence of these kinds of market manipulation by syndicates creates a heavy barrier to entry for new and aspiring entrepreneurs. Participants also repeatedly complained about large enterprises’ advantages over SMEs, which could be observed in the blatant market manipulation that larger corporations engage in regarding price gouging.

Lack of action from trade associations due to politicization and improper internal democracy

When prompted to talk about the effectiveness of regional trade bodies and business associations in helping SMEs deal with corruption, almost every participant expressed dissatisfaction. Several participants alleged that regional trade bodies are entirely ineffective in helping SMEs. Even those with more positive opinions on trade bodies stated that, as of now, most of the work done to combat corruption has been ineffective. Other participants expressed that they believe that trade bodies or local chambers are not focused on the SME sector at all. There were also numerous accusations from participants that the ones in leadership roles in several influential trade bodies were propped up through political affiliation and were complicit in the ongoing corruption plaguing the SME sector.

Highlights of the National Conference on “Call for Action Against Corruption”

On January 29, 2023, CGS organized the Call to Action Against Corruption (CAAC) conference. The event highlighted the outcomes of the regional consultations and project surveys. All participants, including notable members of Bangladesh's civil society, legislators, financial institution officials, academics, journalists, and SME entrepreneurs validated the findings and shared their opinions along with further proposals for combating corruption in Bangladesh. The following are some important statements made by the distinguished attendees:

Dr. Debapriya Bhattacharya, Distinguished Fellow at the Centre for Policy Dialogue (CPD), and chief guest at the event praised CGS for undertaking extensive research on the subject topic. He noted that the study's findings demonstrate a long-running trend in the SME sector. According to him, there must be a distinction between corruption in public resource allocation and corruption in private resource allocation. He also added that a rise in average income does not necessarily lessen economic corruption.

Dr. Debapriya went on to highlight how regulatory organizations enable corruption because they are afraid of losing the power that had been granted to them. Those charged with empowering SMEs are not elected by the SMEs themselves. As a result, these regulatory bodies are not accountable to them which is essential to address corruption. Hafiz Ahmed Mazumder MP, Bangladesh Awami League politician, addressed the fact that corruption has plagued the people of Bangladesh for a long time and that any solution to the problem will be welcomed.

Dr. Md. Mofizur Rahman, Managing Director (MD) of SME Foundation, indicated that the SME Foundation is having difficulty in providing services to SMEs due to a shortage of people and resources. According to Anwar-ul Alam Chowdhury (Parvez), President of the Bangladesh Chamber of Industries (BCI) and previous President of the Bangladesh Garments Manufacturers and Exporters Association (BGMEA), no one was currently offering policy support to SMEs in Bangladesh. As a result, Bangladesh's SME sector was underperforming in comparison to many other successful nations. He also emphasized the absence of usable data on the SME sector, as well as the SMEs' lack of skills and marketing expertise, which causes them to fall behind. In addition, he added that the National Board of Revenue (NBR) system is the most difficult hurdle for all economic sectors in Bangladesh.

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Former Chairman of the NBR, Dr. Muhammad Abdul Majid, spoke on the pervasiveness of corruption in Bangladesh at all levels. He discussed the need for a new SME ministry as well as a new SME bank to provide specialized and accountable services to SMEs. Former Cabinet Secretary of Bangladesh and Secretary General of the Transparency International Bangladesh (TIB), Ali Imam Majumder, emphasized the importance of growing the SME sector in order to build the nation.

Former Minister and Vice Chairman of the Bangladesh Nationalist Party, Advocate Nitai Roy Chowdhury, discussed the court system's failure to safeguard SMEs from corruption. Ruhin Hossain Prince, General Secretary of the Communist Party of Bangladesh (CPB), said that simply criticizing corruption is insufficient and that the connection between illegal business and illegal politics is harming the potential of SMEs. Mahmudul Islam Chowdhury, Founding President of International Business Forum of Bangladesh (IBFB) and Former Mayor of Chittagong City Corporation, emphasized the various chambers of commerce's lack of anti-corruption initiatives in the SME sector. He also proposed that the Anti-Corruption Commission be given greater constitutional authority to prosecute corruption.

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Other participants of the event include:

Politicians: Alhaj Misbahur Rahman Chowdhury, Chairman, Bangladesh Islami Oikkyo Jote, Professor Abdul Mannan, Bangladesh Awami League;

Business Leaders and Owners: Abdul Haque, Former President of Bangladesh Reconditioned Vehicles Importers and Dealers Association (BARVIDA), Mantasha Ahmed, Founder President, Association of Fashion Designers of Bangladesh (AFDB) and President of Bangladesh-India Business Council of WICCI, Mamunur Rashid, Senior VP, Manager Dhaka Bank, Taslima Miji, Managing Director, leathering, Professor Dr. Sarder A Nayeem, Chairman & Chief Surgeon, Japan Bangladesh Friendship Hospital (JBFH), Md. Zahirul Haque Bhuiyan, Secretary General, Bangladesh Dokan Malik Samity and Managing Director, Darkin Trade & Distribution Co. Ltd, Nasiruddin A. Ferdous, Director of Dhaka Chamber of Commerce & Industry (DCCI), and Abida Sultana, Owner of Bridal Creation;

Journalists and Editors: Musa Mia, Associate Editor, Business Daily Banik Barta, Nayeemul Islam Khan, Editor, Daily Amader Notun Shomoy,

Academicians and Government Representatives: Makshudul Alom, Consultant at Ministry of Commerce, Government of the People's Republic of Bangladesh, Parvez Karim Abbasi, Assistant Professor Department of Economics

Conclusion

Data, information, experiences, and opinions gathered throughout the project over a period of two years from all walks of the SME sector pointed to the need for an unequivocal commitment and public pronouncement of the stakeholders and their unwavering stand against pernicious and debilitating corruption. It was underscored at every level of the SME entrepreneurs that developing a national network of SMEs, particularly to address various aspects of corruption, is necessary to highlight the situation and act collaboratively. There was a clear consensus that the widespread presence of corruption can only be confirmed with comprehensive efforts of both the private sector and the government. Drawing on these messages, the CGS arranged the national meeting of stakeholders in Dhaka on March 21, where the participants will adopt the following declaration.

Draft Joint Resolution of

Call to Action Against Corruption (CAAC) National Summit

Small and Medium Enterprises (SMEs) and the private sector in Bangladesh encounter numerous obstacles when conducting business. Many of these impediments can be attributed to corruption in the approval process, lack of transparency, and bureaucratic lethargy such as corrupt practices of the public officials in providing licenses to the entrepreneurs, customs evasion syndicates, usage of political power or bribes to obtain facilities from the public offices etc. A communication gap between policymakers and SME owners exists, which causes a mismatch between government initiatives and the needs of the private sector. The Covid-19 pandemic has exposed this gap, for example information about procedures related to the stimulus packages for the SMEs were not well communicated.

To address these challenges and unlock the potential of the sector, the Center for Governance Studies (CGS) in partnership with the US-based organization, the Center for International Private Enterprise (CIPE), launched a project on February 2021 titled "Bangladesh: Supporting Bottom-Up Demand for Democratic Governance Through Private Sector Mobilization Against Corruption." The project's objective is to identify and connect private sector stakeholders, especially SMEs, and economic reformers to create a corruption-free business environment. The project intended to evaluate the nature and extent of corruption at the grassroots level, identify the challenges and roadblocks facing the private sector SMEs, and empower the private sector and economic reformers in creating inclusive governance, maintaining democratic space, and assessing the nature and scope of government support for the private sector and SMEs.

Part 1:

Acknowledging that corruption is pervasive in Bangladeshi society and the economy, that the country was ranked 147 among 180 nations around the world by their perceived levels of public sector corruption and rated as the second most corrupt nation in South Asia as per the Corruption Perception Index (CPI) 2022 by global watchdog Transparency International, and that there is a concerning trend of deterioration of anti-corruption institutions;

Considering that corruption adversely impacts Small and Medium Enterprises (SMEs), which contribute 31% of the country's GDP, employ around 25 million people, engage a lion's share of total industrial employment, and play an important role in alleviating poverty and creating new jobs;

Considering also that the government has adopted the policy of "Zero Tolerance" against corruption, committed to strengthening the Anti-Corruption Commission (ACC), taken various measures including institutional reform, and enacted the Public Interest Information Disclosure (Provide Protection) Act (popularly referred as the Whistleblower Protection Act) to guarantee legal protection to the whistleblowers, to combat corruption;

Recognizing that the two-year-long project of the Center for Governance Studies, which included interacting with SME entrepreneurs throughout the country and surveying their perceptions and practices, interviewing trade body leaders, and consulting acclaimed experts of the SME sector, found that the overwhelming majority of SME entrepreneurs are directly affected by corruption;

Recognizing also that the grassroots consultations revealed that bribery and political influence are the most common forms of corruption in Bangladesh, and that complex bureaucratic processes of obtaining and renewing trade licenses, securing necessary services, and collusion between public officials and syndicate members create serious hindrances to fair business practices;

Underlining that the project found that many in the SME sector lack internal good governance, evade taxes, engage in corrupt practices as a survival strategy, and face difficulties in securing bank loans, and that women entrepreneurs face discrimination at various steps;

Underlining also the project's findings that national & regional trade bodies and SME support organizations lack organized anti-corruption advocacy measures;

Highlighting the opinions of SME sector entrepreneurs and other private sector actors concerned that the lack of anti-corruption laws, impunity for corrupt actors, and cash transactions contribute to the widespread corruption;

Reaffirming that widespread corruption deters investment, weakens economic growth, undermines the rule of law, limits inclusivity in the economic sector, contravenes the basic underpinning of a democratic society, and hinders the progress of the entire nation;

Recalling that there is no there is no single or quick fix that can address the deep-seated problem and that a concerted effort of all stakeholders in the private sector, the civil society organizations, and the government is needed to combat corruption in the SME sector, the vital productive sector of the economy;

Reaffirming that entrepreneurs and SME stakeholders underscored a need to develop a professional platform that consists of representatives of the SME sector as well as of the government to combat corruption that affects the SME sector;

Calling upon all concerned to reaffirm their unwavering commitment against all forms of corruption at all stages and to reinvigorate their efforts to combat corruption impacting the SME sector in earnest;

Adopts this declaration on March 21, 2023 as a Call to Action Against Corruption.

Part 2:

The National Summit of the Stakeholders of the SME sector declares that,

It is high time that the corruption in the private sector and the SMEs is combatted and an unequivocal commitment is made from today to prevent all types of corruption by

- Raising awareness against all forms of corruption; Addressing all the issues and factors that hinder the anti-corruption effort; Holding the stakeholders promoting corrupt activities accountable; Engaging the like-minded to stand together against corruption
- Efforts and measures are to be taken to ensure accountability and transparency in all the sectors that may be affected by corruption
- Existing laws which slow down the process to ensure justice and which hinder the opportunity to promote ethical behavior in the sector should be reformed
- The private sector must act together as a single entity to stand against corruption and create pressure on the relevant stakeholders for making the reporting system efficient, to take measures to punish corrupt behavior and to ensure the prevention of possible corrupted behavior in the future.

Part 3:

The conference call makes the following recommendations to various stakeholders of the SME sector to be implemented for generating a corruption-free business environment in Bangladesh:

To the Government

- Establish an administrative unit and conduct media campaigns to raise awareness of citizens' rights, the Anti-Corruption Act, and ethical standards. Use formal/informal channels to raise awareness against all types of corruption. Introduce educational elements to instill ethical standards and conduct large-scale campaigns to inform people about hidden corruption and ways to combat it.
- Ensure accountability within government agencies and require them to inform the public about their accountability mechanisms and activities every six months. Investigate all reported corruption cases, enforce punitive measures, and empower a separate unit within each agency to conduct inquiries and forward complaints to the ACC. Appoint independent Ombudsmen at each government office to monitor and enforce laws and address the culture of impunity among perpetrators of corruption with lawful measures, regardless of their social or political stature.
- Create an atmosphere for citizens to report corruption without fear, empower the ACC to act independently, and establish a unit within the ACC to receive public information and communicate actions taken within 90 days. Facilitate SME reporting and protect SMEs under the Public-interest Information Disclosure Act (Provide Protection), 2011 (popularly referred as the Whistle-blower Protection Act). Reform laws and reporting mechanisms, implement the Act, provide autonomy to the ACC, and establish accountability and transparency in the public sector.
- Streamline license and certificate processes with reduced points of contact and increased use of technology. Develop a one-stop solution for trade licenses and increase automation to prevent unlawful collusion or extortion.
- Provide incentives and reduce regulations for small firms. Develop and implement a comprehensive SME policy with support mechanisms. Reform VAT and income tax policies to address issues faced by the SME sector.

To the Private Sector Enterprises

- Establish internal reporting systems to identify and address corruption during interactions with the public. Create a transparent system for informing the public about actions taken to address concerns and publish annual reports. Adopt codes of conduct and ethics, and monitor compliance. Create accountability mechanisms and awareness campaigns for reporting corruption in the public and private sectors.
- Establish a private-sector coalition to promote business integrity and address corruption issues. Develop independent platforms and networks to highlight sector-specific concerns. Create networks of companies adhering to best practices and assist all SMEs victimized by corruption.
- Ensure chambers and associations commit to anti-corruption, hold the government accountable, and take measures to combat corruption. Develop internal governance mechanisms and share best practices with entrepreneurs in the sector.

To the Non-Governmental Agencies

- Design and implement campaigns on the existing laws and regulations and on mechanisms for reporting complaints about corruption in public and private sectors.
- Complement the government's efforts to raise awareness about the rights against corruption under the existing laws. To this end, insist that each ministry and agency make their efforts public.
- Cooperate with the government to identify the inadequacies in the existing laws regarding corruption. Review the existing laws and recommend necessary amendments, new laws, and mechanisms for addressing the weaknesses of the existing laws.
- Gather, document, and inform the public of the nature and scope of corruption in both the public and private sector, and offer remedies of the situation through public campaigns and regular reports via media.

To the Trade Bodies

- Develop specific plans and programs to address the concerns of the SME sector and mechanisms to create a supportive environment.
- Develop plans to address the issues related to governance, corruption, and inclusive policymaking.
- Create a transparent mechanism for reporting corruption and actions against corruption.
- Develop and implement a strict code of ethics in various sectors, including the SME sector, and incentivize adherence to this code.

To Service Providers

- Develop mechanisms to understand the needs of SMEs by engaging in robust dialogue, establishing feedback system to hone in on the needs of SMEs
- Establish a commitment to work with the SME sector to change the lack of confidence in the SME sector by ensuring that due services are provided to them without any hinderences.

Part 4:

The evidence gathered by the CGS in its two-year-long project involving various elements of the SME sector clearly suggests that the only way to bring about actual positive change is for all stakeholders to work together with unwavering commitment. As there is an absence of a trade body, CSO, or public forum entirely dedicated to the priorities of the SME sector dealing with systemic corruption, there must be a need for the development of a national SME sector network and an independent platform of the SMEs to act collectively.



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