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**DEMOCRACY, DEVELOPMENT AND CIVIL SOCIETY IN
BANGLADESH:
THE QUEST FOR A NEW PRAXIS FOR SUSTAINABILITY**

by

Fahimul Quadir

Submitted in partial fulfillment of the requirements for the degree of
Doctor of Philosophy

at

**Dalhousie University
Halifax, Nova Scotia
March 1999**

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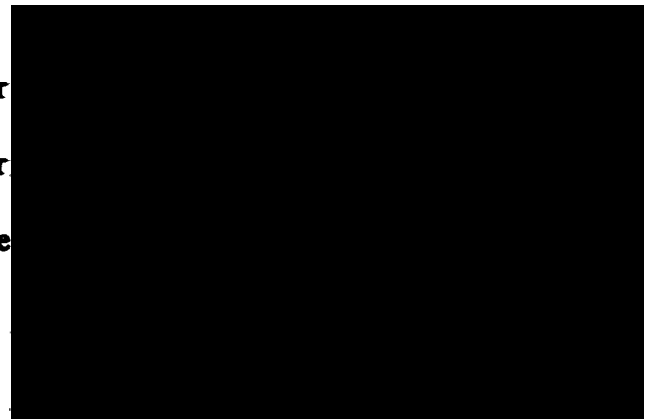
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by Fahimul Quadir

in partial fulfillment of the requirements for the degree of Doctor of Philosophy.

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To my parents with lots of love

Table of Contents

Abstract.....	viii
List of Tables.....	ix
List of Acronyms and Abbreviations.....	x
Acknowledgements.....	xii
Map of Bangladesh.....	xiv

Chapter One: Economic Reforms, Political Liberalization and Civil Society

Objectives of the Study.....	1
Justification of the Problem: why Bangladesh matters.....	5
Conceptual Framework.....	8
Research Methodology.....	11
Literature Review.....	13
The Relationship between Market-Oriented Reforms and Democratization.....	13
Do All Good Things Go Together?.....	23
Sequencing Political and Economic Liberalization.....	27
Structure of the Thesis.....	31
Limitations of this Study.....	33

Chapter Two: Structural Adjustment in Bangladesh: history and economic outcomes

Introduction.....	35
The “Washington Consensus” and the Logic of Economic Liberalization.....	37
Economic Reforms in Bangladesh.....	42
Nationalization of Industrial and Commercial Enterprises: statist approach to development.....	43
The Military Coup of 1975: moving toward the market.....	48
Military Takeover of General Ershad: rapid economic reforms.....	51
Transitions to Democracy: accelerated pace of market-oriented reforms.....	56
Economic Outcomes of Liberalization.....	61
Conclusions.....	75

**Chapter Three: The Political Economy of Adjustment in Bangladesh:
regime consolidation through Economic Reforms?**

Introduction.....	78
Understanding the Political Economy of Market Liberalization.....	80
General Zia: economic liberalization as a means to consolidate power?.....	85
General Ershad: legitimization, market reform and patrimonialism.....	94
Rapid Market Reforms under the Democratically Elected Regime: does external pressure explain the adoption of drastic liberalization programs by Khaleda Zia?	100
Conclusions.....	109

**Chapter Four: The Compatibility of Economic and Political Liberalization
in Bangladesh: do all good things go together?**

Introduction.....	111
Democratic Consolidation: a brief theoretical overview.....	113
Bangladesh's Transition to Democracy from Military Authoritarianism.....	120
Popular Struggles for Democracy: the fall of General Ershad.....	120
A Negotiated Transition to Democracy.....	122
Problems of Democratic Consolidation in the Era of Market Reform.....	132
Conclusions.....	139

**Chapter Five: Authoritarian State and An Overly Politicized Civil Society
in Bangladesh: an endless struggle for hegemony?**

Introduction.....	141
Defining Civil Society.....	143
State-Society Relations in Bangladesh: growing distrust between the state and civil society.....	153
Civil Society: autonomy versus partisanship.....	161
Conclusions.....	172

**Chapter Six: Prospects for Democratic Development in Bangladesh:
the role of development NGOs**

Introduction.....	174
NGOs: definitions and typologies.....	177
NGDOs and Democratic Development.....	185
NGOs in Bangladesh: from relief and poverty alleviation to empowerment.....	188
Poverty Alleviation and Empowerment through Micro-Credit Programs.....	194
Mobilizing the Poor for Social Justice: role of advocacy NGOs.....	209
Conclusions.....	215

**Chapter Seven: Conclusions: problems and prospects for democratic
development in the South in the next millennium - emerging lessons
from Bangladesh**

Is the Market Enough?.....	218
What Constitutional Democracy Means?	221
Is Civil Society the Answer?.....	226
The Epistemology of Comparative Politics and International Relations: what does the Bangladeshi case mean?.....	229
In search of Alternatives: future of democratic development.....	233
The Meaning of Democratic Development.....	233
Policy Suggestions.....	235

Bibliography.....	239
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Abstract

Given the global transitions to liberal democracy and the free market, this dissertation examines the prevalent assumption that political democratization and economic liberalization are mutually reinforcing processes. More specifically, it explores the complementary dynamic between democracy and the market within the changing political economy of Bangladesh. It also analyzes the role of civil society, including NGOs, in sustainable democratic development in the next millennium.

Outlining some of the contradictions generated by structural economic reforms, this study suggests that, instead of creating the conditions for democratic consolidation, economic liberalization is likely to undermine the future of constitutional democracy. It finds that, while market reform programs usually create pressures for democratization, they can equally upset the hope of institutionalizing democracy in places where and times when the costs and benefits of economic reforms are distributed disproportionately.

As well, this research raises question about the popular assumption that civil society acts as a key force for democracy and development. It holds that both the role and meaning of civil society depend on particular socio-political contexts. This dissertation also argues that, although civil society is expected to protect and promote popular interests, an overly politicized civil society could actually weaken the process of democratization and development.

Similarly, this dissertation casts profound doubts on the widely held belief that NGOs enable disadvantaged groups, particularly women, to be empowered in a sustainable manner. It argues that, due to their excessive reliance on foreign funds, development NGOs may focus more on fulfilling the requirements of their major donors than on grassroots democratization, development and empowerment of the poor. The inability of most development NGOs to adopt internal democratic practices also significantly reduces their capability to promote democracy and development at the grassroots. Therefore, this study cautiously concludes that the process of giving people a right to shape their own destinies is a complex, protracted and even problematic one.

List of Tables

1.1	List of Areas Visited for the Collection of Primary Data	12
2.1	Nationalization and the Changing Nature of Private and Public Ownership	44
2.2	Overall Fiscal Deficits	63
2.3	Inflation, Investment, Domestic savings and Exchange Rates	64
2.4	Balance of Payments	65
2.5	The Changing Revenue Structure	66
2.6	GDP growth and Constant Prices	67
2.7	Bangladesh: Human Development Indicators Over Time	69
3.1	Occupational Background of the BNP Legislators Elected in 1979	88
3.2	Occupational Background of the BNP Executive Committee in 1981	90
3.3	Occupational Background of the Legislators Elected in 1991	103
3.4	Occupational Background of the Members of the Zia's Ministry in 1991	105
6.1	Growth of Foreign Funded Development NGOs in Bangladesh	189
6.2	NGO (Local) Objectives, Strategies and Role of Participants	192

List of Acronyms and Abbreviations

ADAB	Association of the Development Agencies of Bangladesh
AGN	Advocacy Groups and Networks
AL	Awami League
ANGOs	Autonomous Non-Governmental Organizations
APSAC	All Party Students Action Committee
APSU	All Party Student Union
ASA	Association for Social Advancement
BFUJ	Bangladesh Federal Union of Journalists
BIGUF	Bangladesh Independent Garment-Workers Union Federation
BJP	Bharatiya Janata Party
BNP	Bangladesh National Party
BRAC	Bangladesh Rural Advancement Committee
CAC	Combined Action Committee
CGAP	Consultative Group to Assist the Poorest
CHT	Chittagong Hill Tracts
CIDA	Canadian International Development Agency
CPM	Capability Poverty Measure
DANIDA	Danish International Development Agency
DFIs	Development Finance Institutions
EDA	Environment Development Alliance
EFF	Extended Fund Facility
EPZ	Export Processing Zone
FBCCI	Federation of Bangladesh Chambers of Commerce and Industry
FDI	Foreign Direct Investment
FEJB	Forum of Environmental Journalists of Bangladesh
FGD	Focussed Group Discussion
FNGOs	Foreign Non-Governmental Organizations
FSRP	Financial Sector Reform Program
FY	Fiscal Year
GB	Grameen Bank
GDOs	Grassroots Development Organizations
GDP	Gross Domestic Product
GK	Gano Shasthya Kendra
GONGOs	Governments Organize Non-Governmental Organizations
GROs	Grassroots Organizations
GSS	Gono Shahajjo Sanghstha
HPD	Health and Population Development
IMF	International Monetary Fund
IRDP	Integrated Rural Development Program

JEC	Jute Export Corporation
JP	Jatiya Party
NCB	Nationalized Commercial Bank
NCG	Neutral Caretaker Government
NCM	Non-Cooperation Movement
NFPE	Non-formal primary Education
NGDOs	Non-Governmental Development Organizations
NGOAB	Non-Governmental Organization Affairs Bureau
NGOs	Non-Governmental Organization
NIEO	New International Economic Order
NIP	New Industrial Policy
NK	Nizera Kari
NORAD	Norwegian Agency for Development Cooperation
NSMs	New Social Movements
ONGOs	Operational Non-Governmental Organizations
PDA	Popular Development Agencies
PNDC	Provisional National Defense Council
POs	People's Organizations
POs	Program Organizers
PSC	Public Service Contractors
RAW	Relief and Welfare Agencies
RDP	Rural Development Program
RIP	Revised Industrial Policy
RLF	Revolving Loan Fund
RMG	Ready Made Garment
RNI	Resident Non-Indians
SALs	Structural Adjustment Loans
SAP	Structural Adjustment Program
SIDA	Swedish International Development Agency
SKOP	Sramic Karmachari Oikka Parishad
SOEs	State-Owned Enterprises
TCB	Trading Corporation of Bangladesh
TIO	Technical Innovation Organization
TK	Taka
UP	Union Parishad
USAID	US Agency for International Development
VAT	Value Added Taxes
VOs	Village Organizations

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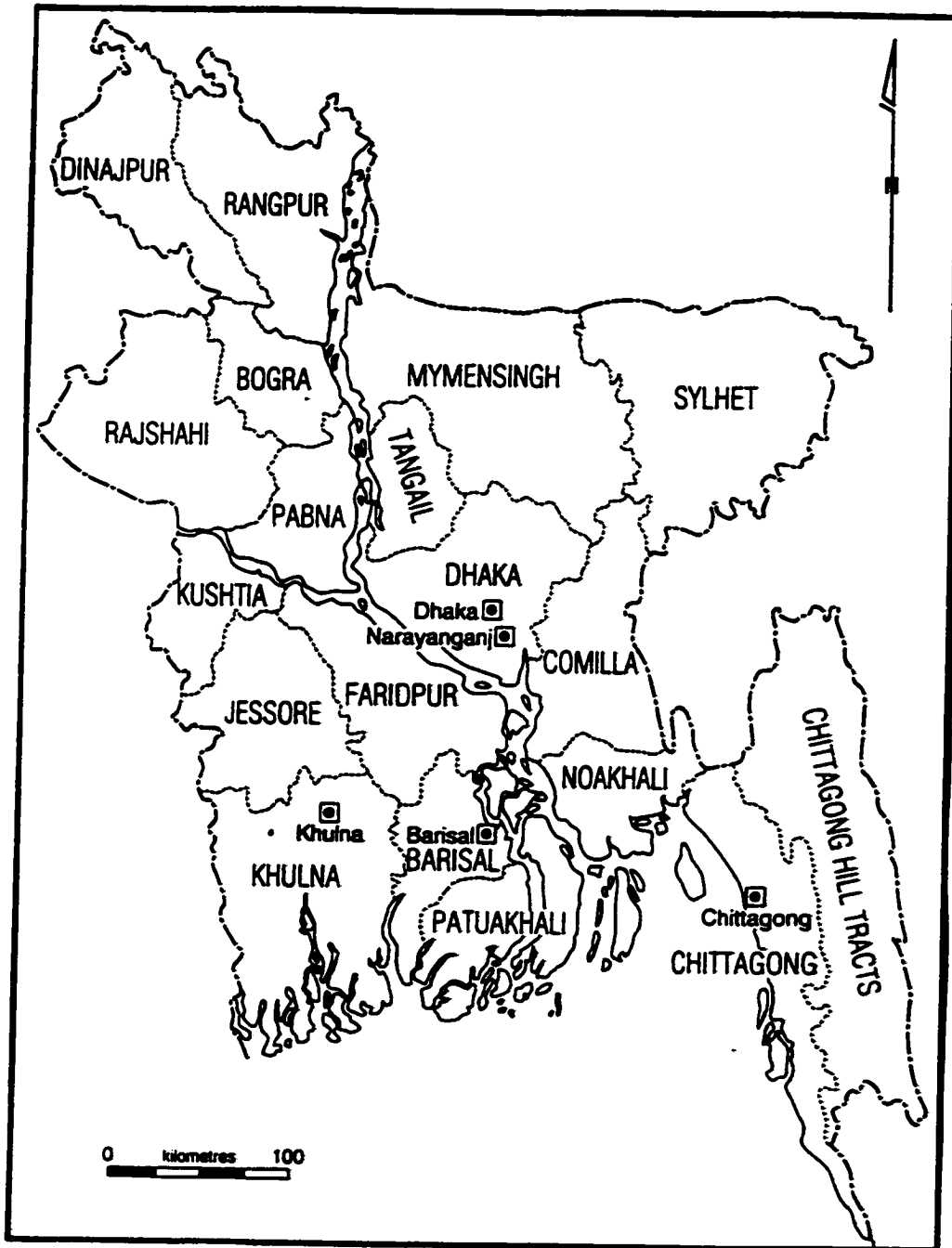
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I remain responsible for any errors and for what is written here.

Map of Bangladesh



CHAPTER ONE

Economic Reforms, Political Liberalization and Civil Society

Objectives of the Study

The world has witnessed a movement toward the construction of both liberal democracy and market capitalism over the past few years. Countries in Asia, Africa, Eastern Europe and Latin America have experienced the emergence of democratic regimes in which relevant political actors have managed to create a political framework for “institutionalizing uncertainty”. In effect, popular struggles for democracy and greater political change have forced authoritarian regimes to initiate the process of democratization. In the wake of growing pressures for democratic reform, both civilian and military dictators have undertaken political reform programs to ensure greater competition among various socio-political groups, which have led to the transfer of power to democratically elected regimes. Such a process of making transitions to formal multi-party democracy has dramatically increased the number of constitutional democracies across the globe. By one estimate, some 58 percent of the countries in the world today have already accepted the idea of building multi-party democracy.¹ This estimate was confirmed by the New York Times, which suggested that about 3.1 billion people in the world now live under different forms of liberal democracies.²

¹ Doh Chull Shin, “On the Third Wave of Democratization: a synthesis and evaluation of recent theory and research”, World Politics 47(1), October 1994, p. 136.

² Cited in Arthur Schlesinger, Jr., “Has Democracy a Future?” Foreign Affairs 76(5), September/October 1997, p. 2.

In a somewhat similar fashion, since the beginning of the 1980s, almost all countries in the world have pursued economic reform programs designed to develop market mechanisms. Aiming at achieving the twin objectives of greater fiscal discipline and reducing deficits, they have introduced macro-economic stabilization and structural reform policies largely through the adoption of structural adjustment programs (SAPs) sponsored by the world's two most powerful macro-economic strategists, namely the World Bank and the International Monetary Fund (IMF). These reform programs have enabled them to drastically lessen state intervention in the national economy and have either encouraged or forced them to accept the key role of market actors in both economic growth and development.³

Of particular significance is the vital role of civil society in making such "dual transitions" to democracy and the market. Given the persistent crisis of legitimacy, the struggles for individual freedoms began in different parts of the world. Organized labor, women's groups, intellectuals, non-governmental organizations (NGOs) and professional associations have demanded a voice in politics, challenging the state's efforts to regulate politics and society.⁴ Pressures from various civil society groups for building a free market have also increased as state-led development models have continued to produce unsatisfactory financial and economic outcomes for the majority. These demands from within to embark on broader politico-economic liberalization programs have directly contributed to the opening up of politics and economies everywhere.

³ Cristobal Kay, "For a Renewal of Development Studies: Latin American theories and neoliberalism in the era of structural adjustment", Third World Quarterly 14(4), October 1993, p. 691.

⁴ Augustus Richard Norton, "The Future of Civil Society in the Middle East", Middle East Journal 47(2), Spring 1993, pp. 205-16.

Given the global transitions to liberal democracy and the free market, this dissertation examines the prevalent assumption that political democratization and economic liberalization are mutually reinforcing processes. More specifically, it explores the complementary dynamic between democracy and the market within the changing political economy of Bangladesh. As well, it analyzes the role of civil society in the transitions to constitutional democracy and market capitalism. This study centers on three interrelated major questions: i) Are political democratization and economic liberalization mutually interdependent processes? In other words, to what extent do structural economic reforms enhance the possibility of democratic consolidation or vice versa? ii) Can civil society create a political environment supportive of democracy? Or, to what extent does civil society work toward the promotion and protection of individual rights and liberties against the potential abuse of power by the ruling elites? And iii) what are the prospects for grassroots movements for sustainable democratic development? In particular, do development NGOs, as part of civil society, facilitate sustainable development and popular participation at the grassroots?

Focusing on the contradictions generated by structural economic reforms, this study suggests that instead of creating the conditions for democratic consolidation, economic liberalization may perpetuate the crisis of legitimacy. The process of institutionalizing democracy becomes more difficult in those places where economic reform programs fail to justify the financial and economic rationales for introducing market-oriented reform measures. In other words, the future of democratic consolidation largely depends upon the success of economic liberalization programs in restoring macro-economic balance and distributing the costs and benefits equitably. Unsatisfactory

outcomes of market-reform programs could easily lead to the creation of an extremely dangerous political environment in which the durability of democracy might even become uncertain.

As well, contrary to the optimistic liberal view and against the conventional wisdom, this study argues that civil society may not be the site of democratization and development. Indeed, this dissertation research raises questions about the “democratic” character of civil society and holds that both the role and meaning of civil society depend on particular socio-political contexts. It argues that, although civil society is expected to act as an expression of popular interests, an overly politicized civil society could actually undermine the process of democratization and development. Instead of promoting individual rights and freedoms, “politicized” civil society groups may strive to advance the cause of a particular party and/or ideology, thus failing to pursue and undermining common goals and interests.

Finally, this research study casts profound doubts on the prevalent claim that NGOs are the key force for democracy and alternative development practices. Due to their excessive reliance on foreign funds, development NGOs may focus more on fulfilling the requirements of their major donors than on grassroots democratization, development and empowerment of vulnerable groups. The inability of most development NGOs to adopt internal democratic practices also significantly reduces their capability to promote development at the grassroots. Therefore, this study cautiously concludes that the process of giving people a right to shape their own destinies is a complex, protracted and problematic one. As well, it suggests that the current simplistic assumptions of both the mainstream and critical perspectives often fail to provide satisfactory explanations for

meeting the challenges of greater socio-political change facing countries like Bangladesh at the turn of the twentieth century.

Justification of the Problem: why Bangladesh matters

The case of Bangladesh with regard to democratization and market reforms is in many ways distinctive when compared with most other developing countries starting with its relatively late independence. First, contrary to the experience of much of the South, Bangladesh adopted programs of market-oriented economic reforms more or less *voluntarily* in a context of economic crisis in the mid-1970s – long before adjustment was presented as a panacea for the growing fiscal and economic crises of the developing world. After assuming power in 1975, General Ziaur Rahman's (1975-1981) military regime embarked on the process of building a market economy in the country largely through the adoption of a privatization program.

Second, by implementing a drastic market reform program, Bangladesh soon became what the US government characterized as a "champion performer in the world of economic liberalization".⁵ Successive military regimes' disinvestment programs, for instance, dramatically reduced the state's share in fixed industrial assets from 92 percent in 1975⁶ to 40 percent in 1985.⁷

⁵ Clare E. Humphrey, Privatization in Bangladesh: economic transition in a poor country (Boulder, CO: Westview Press, 1990), p. 3.

⁶ Azizur R. Khan and Mahabub Hossain, The Strategy of Development in Bangladesh (New York: St. Martin's Press, 1989), p. 79.

⁷ Reahman Sobhan, The Development of the Private Sector in Bangladesh: a review of the outcome of state policy (Dhaka: Bangladesh Institute of Development Studies, 1990), p. 25.

Third, unlike the contemporary trends of “democratization from above” (i.e. democratization occurring largely under aid conditionality or under initiatives of an authoritarian regime), Bangladesh’s recent transition to democracy has been accompanied by “democratization from below”, where various socio-political organizations led the movement for democracy. In particular, a deep popular aspiration for democracy had created the political environment within which democratic forces successfully carried out a massive democracy movement that eventually compelled the military regime of General Hussain M. Ershad (1982-1990) to peacefully transfer power to a civilian caretaker government in December 1990.⁸

Fourth, Bangladesh has more NGOs than any other country of similar size in the world. More important perhaps is that Bangladeshi NGOs (see chapter six) are widely acclaimed for their innovative approaches to poverty alleviation, grassroots democratization and empowerment of disadvantaged groups. Some of these NGOs are performing so well in such areas as micro-credit, mobilization of the poor and rural livelihood creation that their programs are not only praised but also are seized upon as models for export and replication.⁹ More specifically, the group-based lending programs invented by the Grameen Bank and the non-formal education programs developed by the Bangladesh Rural Advancement Committee (BRAC) are known world-wide for their

⁸ Talukder Maniruzzaman, Politics and Security of Bangladesh (Dhaka: University Press, 1994), pp. 137-59.

⁹ David Hulme, “Can the Grameen Bank be Replicated? Recent experiments in Malaysia, Malawi and Sri Lanka”, Development Policy Review 8(3), September 1990, p. 287.

effectiveness in creating income, employment and social awareness for the rural poor.¹⁰

These “successful” models are being replicated in different parts of the developing world.

Finally, fifth, the collapse of an authoritarian regime, the subsequent assumption of power by a democratically elected government and the promulgation of a democratic constitution proved to be inadequate to consolidate democracy. To the surprise of most Bangladeshi political analysts, the country witnessed a total breakdown of consensus under the democratically elected regime of Khaleda Zia (1991-1996), which resulted in the creation of the worst political crisis in its twenty five-year history. Indeed, the mainstream opposition’s “non-cooperation movement” not only paralyzed the economy, but also widened mutual distrust between the state and society, eliminating any likelihood of resolving the political deadlock through the use of existing democratic institutions, particularly the parliament. What was truly terrifying, however, was the use of violence by both the government and opposition to achieve their own political goals, contributing to the development of an anarchic situation.

Such unfortunate political developments have created the need for examining the “mutually dynamic relationship between economic liberalization and political democratization”. In particular, the emerging case of Bangladesh raises a series of inevitable questions for both scholars and policy-makers: What are the prospects for building democracy and free markets in the South? To what extent do economic reform programs provide the necessary incentives to political leaders to build and/or maintain political coalitions? What actions can be taken to reduce the socio-economic costs of

¹⁰ Syed Hashemi and Mirza Hassan, “Building NGO Legitimacy in Bangladesh: the contested domain”, in David Lewis (ed.), International Perspectives on Voluntary Action: reshaping the Third World (London: Earthscan, 1999), pp. 124-31.

economic liberalization? This comparative study is expected to find some answers to these critical questions that may shed new light on the debates over pro-market reforms, constitutional democracy, and empowerment of disadvantaged groups. Also, the outcomes of this dissertation are expected to enable policy-makers to formulate more appropriate, pro-people and pro-environment policies.

Conceptual Framework

This study relies upon a political economy approach to examine the Bangladeshi case in the world of democracy and development. Political economy refers to the relationship between power and wealth, suggesting that the political and economic domains cannot be separated. Unlike the traditional focus of both Political Science and Economics, a political economy perspective seeks to examine the interactions between politics and economics. In other words, such an approach explains “how political power shapes economic outcomes and how economic forces constrain political action”.¹¹ The adoption of a political economy approach is particularly important in view of the emerging realization, as suggested by Geoffrey Underhill, that “there is an intimate and reciprocal connection between the control of significant resources in the market economy and the exercise of political power, even in democratic societies”.¹²

As well, given the on-going process of globalization, a political economy approach emphasizes the diminishing analytical distinction between national and

¹¹ George T. Crane and Abla Amawi (eds.), The Theoretical Evolution of International Political Economy: a reader (New York: Oxford University Press, 1991), p. 3.

¹² Geoffrey R. D. Underhill, “Conceptualizing the Changing Global Order”, in Richard Stubbs and Underhill (eds.), Political Economy and the Changing Global Order (Toronto: McClelland and Stewart, 1994), p. 18.

international levels of analysis. As the process of internationalizing domestic politics, economy, culture and society gains unprecedented momentum, it is becoming increasingly problematic to analyze domestic politico-economic dynamics without giving adequate attention to the socio-political changes that are taking place outside of the boundary of nation-states.¹³ A political economy approach, therefore, outlines the importance of including transnational and national actors, both inter-state and non-state, when analyzing “domestics” political and economic events.

Based on a Gramscian perspective, this study adopts a political economy approach which focuses on the mutually dynamic relationship between politics and economy. Accordingly, it rejects the theoretical understanding put forward by Marxist authors that economic structures (infrastructure) determine political, social and ideological structures (superstructure) and their performances. Similarly, it excludes the argument that politics is the instrument through which economic structures and relations are established and accepted. On the contrary, this dissertation suggests that both economy and politics affect each other; in other words, neither of them is seen as the determining factor.¹⁴

For the purpose of clarity, the key concepts that are frequently used in this study are defined in the following way:

¹³ Karen L. Remmer, “New Theoretical Perspectives on Democratization”, Comparative Politics 28(1), October 1995, p. 106.

¹⁴ For an analytical understanding of the reciprocal relationship between production and power, see Robert W. Cox, Production, Power and World Order: social forces in the making of history (New York: Columbia University Press, 1987), pp. 17-34. Also see, Stephen Gill, “Historical Materialism, Gramsci and International Political Economy”, in Craig N. Murphy and Roger Tooze (eds.), The New International Political Economy (Boulder, CO: Lynne Rienner, 1991), pp. 51-75.

- Economic liberalization and market reforms refer to the process of constructing the free market, which transform the role of the state from being the key agent of development to both the creator and protector of “an enabling environment for economic growth”. Reform measures include privatization of state-owned enterprises (SOEs), deregulation of the import, exchange and interests regimes, liberalization of exports and imports, removal of price distortions, and elimination of all sorts of interventionist and/or restrictive practices.
- Political democratization is defined as a movement toward the introduction of a multi-party system of governance that allows different groups of actors to resolve socio-political conflicts through the existing political institutions. As well, a democratic system ensures the legal rights to vote in local, regional and national elections for all adult situations.
- Development means enabling people to achieve their broader socio-political goals. In other words, development is more than a process of ensuring higher levels of economic growth. It is perceived as a comprehensive process of improving the human condition, giving people the right to determine their own future. For the purpose of this dissertation, democratic development, sustainable development, human development and people-centered development are used interchangeably since all of these concepts often offer a very similar meaning of development.

- **Civil society** is often conceived as a political space between the state, the market and the individual or family. Its activities usually revolve around two major objectives: promoting various socio-political interests of different groups in society and protecting individuals from the potential abuse of power by both the state and market. Civil society includes a variety of non-state and non-partisan associations, such as trade unions, professional groups, non-governmental organizations, co-operatives, women's associations and religious forums.
- **NGOs** are defined as voluntary, non-profit organizations which are involved in various development activities with the twin objectives of poverty alleviation and empowerment of both the poor and vulnerable groups. More specifically, in addition to creating income and employment for disadvantaged groups, NGOs often try to enhance self-help capabilities of their members so that they can manage their own development. It is also important to mention that NGOs are part of civil society.

Research Methodology

The data and relevant materials were collected for this dissertation research through combining the methods of document observation and/or content analysis, field visits and individual in-depth interviews,. A great deal of information and empirical evidence were obtained from published/unpublished records, books, periodicals and documents of both government and non-government agencies, largely through the use of various libraries in Bangladesh, Canada, the USA and Great Britain. Moreover, informal interviews were conducted with a variety of individuals to collect reliable factual

information pertinent to this dissertation research. The respondents included key socio-political actors in Bangladeshi society, among them politicians, bureaucrats, NGO executives, scholars, leaders of civil society groups, business executives and the representatives of key donor agencies. Relying upon unstructured open interviews, I introduced topics of relevance so that the respondents could freely voice their own comments and concerns.

Table 1.1
List of Areas Visited for the Collection of Primary Data

Date	Division	District	Thana	Villages
20.12. 1997 to 23.12.97	Khulna	Kustia	Kumarkhali	<ul style="list-style-type: none"> • Dharmapara • Jadubayra • Jotmara
25.12.97 to 28.12.97	Rajshahi	Bogra	Dupchachia	<ul style="list-style-type: none"> • West Borai • Lakhimondop • West Berunza
30.12.97 to 01.01.98	Chittagong	Naokhali	Chatkhil	<ul style="list-style-type: none"> • Khilpara • Choto Zibnagar • Dulalpur
04.01.98 to 06.01.98	Dhaka	Manikganj	Shibaloya	<ul style="list-style-type: none"> • Jamsa • Narayan Tewta • Rpara

As well, in order to gather primary data and insights regarding the role of NGOs in grassroots democratization, field visits were organized in consultation with various government and non-government organizations. Both the respondents and field areas were purposively selected. Emphasizing the need to make the data as representative as possible, one district and one *thana* (sub-district) were selected from each of the four old

administrative divisions of the country (see the map). A list of districts, *thanas* and villages visited is presented in table I.1.

While on field visits, three different types of activities were carried out. First, a number of Focussed Group Discussions (FGDs) were organized by involving NGO beneficiaries at the village level. Second, informal conversations were arranged with selected government and NGO officials, local leaders, and ordinary citizens who were not involved with NGO activities. And third, a few individual in-depth interviews were conducted, involving NGO beneficiaries, particularly women at the grassroots.

Literature Review

The Relationship between Market-Oriented Reforms and Democratization

The recent resurgence of the modernization paradigm reinforces the old saying, “all good things go together”. Drawing upon the arguments once presented by Joseph Schumpeter and S. M. Lipset, neo-modernizationists are clearly presuming a complementary relationship between the market and democracy. About half a century ago, Schumpeter claimed that “modern democracy is a product of the capitalist process”.¹⁵ Likewise, in the late 1950s, Lipset supported the thesis by assuming a positive correlation between economic development and democracy.¹⁶ In his more recent work, Lipset reasserted his position by arguing that,

¹⁵ Joseph A. Schumpeter, Capitalism, Socialism and Democracy (New York: Harper and Brothers, 1950), p. 297.

¹⁶ S. M. Lipset, “Some Social Requisites of Democracy: economic development and political legitimacy”, American Political Science Review 53(1), March 1959, pp. 69-105.

. . . the rise of capitalism, a large middle class, an organized working class, increased wealth and education are associated with secularism and the institutions of civil society which help create autonomy for the state and facilitate other preconditions for democracy.¹⁷

Following a similar type of logic, Samuel Huntington recently re-articulated his position by claiming that economic development facilitates transitions to democracy. Once a country achieves what he calls “middle-income” status, the likelihood of making a transition to democracy increases. Also, such a level of economic development, he suggests, enhances the possibility of democratic consolidation.¹⁸

Quite a few other mainstream analysts presume a similar mutually reinforcing dynamic between market-oriented reforms and democratization. The recent work of Dietrich Rueschemeyer et al., for instance, outlines the link between capitalism and democracy. Unlike Huntington, however, this work’s focus is not on growth but rather on capitalism itself. The authors suggest that market capitalism promotes democracy by shifting the balance of class power in favor of both the middle and working classes. They believe that capitalism weakens the position of the landed upper class and correspondingly strengthens the power of the working class. These authors argue:

Capitalist development . . . transforms the class structure, strengthening the working and middle classes and weakening the landed upper class. It was . . . the contradictions of capitalism that advanced the cause of democracy.¹⁹

¹⁷ S. M. Lipset, “The Social Requisites of Democracy Revisited”, American Sociological Review 59 (2), February 1994, p. 7.

¹⁸ Samuel P. Huntington, The Third Wave: democratization in the late twentieth century (Norman, Oklahoma: University of Oklahoma Press, 1991), pp. 59-60 & 270-73.

¹⁹ Dietrich Rueschemeyer, Evelyne Huber Stephens and John D. Stephens, Capitalist Development and Democracy (Chicago, IL: University of Chicago Press, 1992), p. 7.

Adam Przeworski, on the other hand, addresses the link between democracy and the market by examining the ability of economic reforms to produce expected socio-political outcomes. He is primarily concerned with the future of democratic consolidation in countries that have made transitions to democracy. He believes that a transition to the market economy may undermine the prospects for democratic consolidation by producing frustrating economic results. Unlike the optimistic view, Przeworski argues that economic reforms often entail heavy social costs that in effect force many groups to withdraw their support for democracy. He writes,

The durability of the new democracies will depend, however, not only on their institutional structure and the ideology of the major political forces, but to a large extent on their economic performance. Profound economic reforms must be undertaken if there is to be any hope that the deterioration in living conditions experienced by many nascent democratic countries will ever cease.²⁰

In a more recent work, Przeworski and his two co-authors have, therefore, made policy recommendations for successful economic and political reforms. They have suggested that governments must develop a broader consensus on reforms, make provisions for providing compensation to those groups that are most likely to be hit hard by market-oriented reforms and use adjustment programs to restore macro-economic stability.²¹

²⁰ Adam Przeworski, Democracy and the Market: political and economic reforms in Eastern Europe and Latin America (New York: Cambridge University Press, 1991), p. 189.

²¹ Luiz Carlos Bresser Pereira, Jose Maria Maravall and Adam Przeworski, Economic Reforms in New Democracies (New York: Cambridge University Press, 1993), p. 10.

Contrary to Przeworski and his co-authors' arguments, Karen Remmer supports the thesis that democracy is positively related to the market. She has examined such a thesis within the context of both Latin America and has found no clear evidence that market reforms have impeded the process of institutionalizing democracy. Instead, she has observed that new democracies have successfully implemented structural adjustment programs in the region. After a careful examination of a total of 11 countries in the region, including Mexico, she has shown that democratization has indeed enabled them to restore fiscal discipline and to pursue effective development policies.²² Such findings have been further confirmed by her more recent work involving eight Latin American countries. She has concluded that democracy in effect strengthens the ability of governments to successfully carry out structural economic reform programs.²³

Indeed, liberalism, which is claimed to be the "political theory of modernity", provides the theoretical basis for linking democracy with the market. In liberal philosophy, the free market is regarded as the institution for protecting both the basic freedoms and rights of the individual as it coordinates economic activity without relying on coercive means.²⁴ Likewise, democracy is viewed as the only compatible political system with capitalist economies largely because it contains "constitutional constraints on the arbitrary exercise of governmental authority".²⁵ This probably explains the

²² Karen L. Remmer, "Democracy and Economic Crisis: the Latin American Experience", World Politics 42(3), April 1990, pp. 315-35.

²³ Karen L. Remmer, "The Political Economy of Elections in Latin America: 1980-1991", American Political Science Review 87 (2) June 1993, pp. 393-407.

²⁴ John Gray, Liberalism (Minneapolis, MN: University of Minnesota Press, 1986), p. 8.

²⁵ Ibid., p. 74.

mainstream literature's current emphasis on making transitions to both the market and democracy.

Referring to the "success" of the West in ensuring both political stability and rapid economic growth, neo-liberal authors are claiming that neither democracy nor the market has any alternative. Frances Fukuyama, for instance, recommends that nations which have not yet adopted Western liberal democracy as their form of governance should immediately advance the goals of liberal democracy. By promoting the controversial thesis called "the end of history", he announces the victory of Western liberalism, claiming that,

What we may be witnessing is not just the end of the Cold War, or the passing of a particular period of postwar history, but the end of history as such: that is, the end point of mankind's ideological evolution and the universalization of Western liberal democracy as the final form of human government.²⁶

Such a triumphant mood was also reflected in President Clinton's second inaugural address, when he proudly announced that "more people on this planet live under democracy than dictatorship".²⁷

Mainstream scholars and policy-makers believe that liberal democracy not only provides a structure of representative government, but also guarantees of individual rights and freedoms. Viewing the state as the major threat to individual liberties, they believe

²⁶ Frances Fukuyama, "The End of History", The National Interest, 16, Summer 1989, p. 4.

²⁷ Cited in Schlesinger, Jr., "Has Democracy a Future?" p. 2.

that, like democracy, the market also “provides a fundamental check on state power”.²⁸ More important perhaps is the argument that market capitalism creates a “private sphere” of socio-economic activity that plays a crucial role in defending individual rights and freedoms.²⁹ In other words, neo-liberal authors perceive democracy as a form of governance that can only flourish under market capitalism and vice versa.³⁰ Larry Diamond, for instance, makes the argument crystal clear by saying that “liberal democracy is probably the form of government most conducive to the spirited flows of ideas, people and resources, which enhances the dynamism of market economies”.³¹

Essential to the understanding of liberalism in general, and the nexus between the free market and democracy in particular, is the concept of “civil society”³². By defining civil society as a “non-state” and “private realm”, the mainstream literature focuses on the strengthening of associational activities that are not controlled by the state. It believes that civil society organizations work together, although not necessarily deliberately, for the promotion and protection of fundamental civil liberties and rights, such as political freedom and participation. More specifically, civil society groups give

²⁸ Leslie E. Armijo et al., “Its Fine in Practice, But How does it Work in Theory? Understanding the relationship between democratization and market-oriented economic reform”, mimeographed, 1994, p. 3.

²⁹ Atul Kohli, “Democracy and Development”, in John P. Lewis and Valeriana Kallab (eds.), Development Strategies Reconsidered (New Brunswick, NJ: Transaction Books, 1986), p. 165.

³⁰ Nicolas Ardito-Barletta, “Democracy and Development”, The Washington Quarterly 13(3), Summer 1990, p. 167.

³¹ Larry Diamond, “Economic Liberalization and Democracy”, Unpublished manuscript (Stanford, CA: Hoover Institution, June 1993), p. 6.

³² A detailed theoretical discussion of civil society is presented in chapter five.

ordinary citizens the opportunity to pursue their own socio-political interests so that they can enjoy as well as protect basic liberties. These organizations are, therefore, seen as a challenge to the hegemony of state power and domination³³ on the one hand, and as defenders of personal freedoms and rights, on the other. In particular, civil society associations have the ability to act as a major catalyst for democratic and market-oriented reforms. Apart from creating pressures for political and economic liberalization, as recent evidence indicates, civil associations often help to put an end to authoritarianism largely through mobilizing the masses.³⁴

Thus, most mainstream authors contend that, without a strong associational life, the prospect for constructing a democratic polity becomes truly bleak. In the absence of autonomous civil society groups, they argue, the state continues to dominate and control the lives of its citizens. The state does not allow independent groups and individuals to assert their voice in decision-making.³⁵ Nor does it encourage them to play an effective role in protecting diverse socio-political interests.³⁶ Therefore, the transition to democracy cannot actually begin without the presence of a viable civil society that is capable of defending individual liberties. More important perhaps is the fact that the existence and/or the expansion of such an autonomous civil society ensures the

³³ John P. Entelis, "Civil Society and the Authoritarian Temptation in Algerian Politics: Islamic democracy vs. the centralized state", in Augustus Richard Norton (ed.), Civil Society in the Middle East (Leiden, The Netherlands: E. J. Brill, 1996), p. 47.

³⁴ Shin, "On the Third wave of Democratization", p. 152.

³⁵ Naomi Chazan, "Ghana: problems of governance and the emergence of civil society", in Larry Diamond et. al., (eds.), Democracy in Developing Countries, vol 2 (Boulder, CO: Lynne Rienner, 1988), pp. 130-32.

³⁶ See Ernest Gellner, Conditions of Liberty: civil society and its rivals (New York: Penguin Books, 1994).

consolidation of democracy by enabling and/or forcing political leaders to enact laws protecting free expression and individual freedoms.³⁷ In other words, civil society provides the basis through which democracy and free markets flourish and take root everywhere. This indeed explains why most authors, including Diamond,³⁸ Terry Karl³⁹ and Robert Putnam,⁴⁰ have outlined a direct causal link between civil society and the transitions to democracy and the market.

The same logic has inspired the donor community to reconstruct aid policies that were traditionally directed toward the improvement in macro-economic structures. Accepting the inseparable linkage between economic and political development, all major bilateral and multi-lateral development agencies are indeed engaged in the promotion of liberal democracy and market capitalism across the globe. The new “aid paradigm” adopted by the key donor organizations, including the World Bank and US Agency for International Development (USAID), clearly marked the beginning of a new era of aid politics. The donor community now underscores the need for providing support for basic human rights, civil society, democratization and free markets. Part of the reason for giving emphasis to “non-economic” issues is due to the assumption that the success of market reforms largely relies upon the promotion of liberal democratic

³⁷ Marcia A. Weigle and Jim Butterfield, “Civil Society in Reforming Communist regimes: the logic of emergence”, Comparative Politics 25(1), October 1992, p. 1.

³⁸ Larry Diamond, The Democratic Revolution: struggles for freedom and pluralism in the developing world (New York: Freedom House, 1991), pp. 7-11.

³⁹ See Terry Lynn Karl, “Dilemmas of Democratization in Latin America”, Comparative Politics 23(1), October 1990.

⁴⁰ See Robert D. Putnam, Making Democracy Work: civic traditions in Italy (Princeton, NJ: Princeton University Press, 1993) and “Bowling Alone: America’s declining social capital”, Journal of Democracy 6(1), January 1995.

governments everywhere. Such an understanding has been manifested in the newly developed concept of “good governance” through which donors are offering “help” to the developing world to construct democracy.

The World Bank, for instance, officially acknowledged the linkage between market capitalism and democracy by publishing its first major revisionist analysis in 1989, Sub-Saharan Africa: from crisis to sustainable growth. In this document, the Bank claims that the “crisis of governance” is the major cause for continued underdevelopment and growing poverty in the developing world in general, and in Africa in particular. It therefore calls for an immediate improvement in the structures of development management of adjusting economies. Also, the Bank offers both technical and financial help to developing nations in order to develop “an enabling environment for sustainable and equitable growth”.⁴¹ Such a framework of governance, it believes, will ensure more productive use of development resources through the strengthening of public accountability.⁴²

While the Bank’s governance concept is rarely used as a means to achieve broader political objectives, such as democratization and human rights, due to its non-political mandate, many other donors have begun to use the governance discourse as an effective tool to promote liberal political and social philosophy. Indeed, most of them have already widened the definition of governance by incorporating a variety of political issues, including civil society, freedoms of speech, religion and expression, the rule of

⁴¹ World Bank, Governance and Development (Washington, DC: World Bank, 1992), pp. 3 & 10.

⁴² See World Bank, Governance: the World Bank’s Experience Washington, DC: World Bank, 1994).

law and free and fair elections.⁴³ The Canadian government, for instance, regards good governance as a framework for implementing broader socio-political programs that are designed to create a “healthy” environment for democracy and development throughout the world.⁴⁴ Similarly, when providing aid, the US, British, German and Swedish governments are now attaching more importance to undertaking programs that are aimed at the promotion of democracy and the strengthening of associational life.⁴⁵

The donor community is particularly interested in promoting and strengthening the NGO sector. Given the failure of the state to meet development challenges facing much of the South, most donor organizations and countries are now involving different types of NGOs in carrying out their programs at the local, national and global levels (see chapter six). They strongly believe that NGOs, as a major element of civil society, have the ability to both reach and benefit the poor. In addition to considering NGOs as relatively cheaper institutional mechanisms to implement donor-sponsored and supported programs, most donors view NGOs as a key force for democratization and market reforms. It is often argued that NGO programs not only create opportunities for popular participation in decision-making, but perhaps more importantly, the micro-finance initiatives of development NGOs enable the poor to be integrated into the formal structure of the market.

⁴³ Nasir Islam and David R. Morrison, “Introduction: governance, democracy and human rights”, Canadian Journal of Development Studies, 1996, Special Issue, pp. 5-18.

⁴⁴ See Gerald J. Schmitz, “Democratization and Demystification: deconstructing ‘governance’ as development paradigm”, in David B. Moore and Schmitz (eds.), Debating Development Discourse: institutional and popular perspectives (London: Macmillan, 1995), p. 71.

⁴⁵ Mark Robinson, “Strengthening Civil Society in Africa: the role of foreign political aid”, IDS Bulletin 26(2), April 1995, pp. 1-8.

Clearly, the emergence of “governance” programs reinforces the logic that market capitalism is positively correlated with liberal plural democracy. Many critics, however, see good governance as a political ideology of the West designed to undermine governmental accountability through devolving some of the state’s major functions to a variety of non-state organizations, particularly non-governmental organizations.⁴⁶

Do All Good Things Go Together?

What is missing in the prevailing optimistic liberal assumptions, however, is the fundamental tension between economic reforms and political democratization. Instead of creating the expected political landscape conducive to democratic consolidation, economic reforms can become a fertile source of confusions and contradictions with regard to democratization. While most policy-makers and scholars admit that economic liberalization programs produce both winners and losers (see chapter three), they pay almost no attention to the market’s lack of responsiveness to equitable distribution of the costs and benefits of economic liberalization programs.⁴⁷ Indeed, the mainstream literature makes very little effort to develop a mechanism for addressing the growing problems of distribution. Who suffers most when social services are cut or the entire public sector is either dismantled or liquidated? Who bear the costs of low rates of growth, rising unemployment and inflationary pressures on goods? Similarly, who benefits most when economic reforms lead to the concentration of wealth and power?

⁴⁶ Geoffrey D. Wood, Bangladesh: whose ideas, whose interests? (Dhaka: University Press, 1994) p. 541.

⁴⁷ Kenneth E. Bauzon, “Introduction: democratization in the Third World – myth or reality”, in Bauzon, (ed.), Development and Democratization in the Third World: myths, hopes and realities (Washington, DC: Crane Russak, 1992), p. 10.

These crucial questions are seldom raised in the literature. The fact is that most of these issues are basically left for the market to deal with.

A number of studies done on the socio-political effects of structural economic reforms have suggested that although economic liberalization programs helped the economy to stabilize and grow, they have negatively affected the lives of a vast majority, meaning the poor. In Ghana, for instance, economic liberalization has benefited only a few on the one hand, but has marginalized many, on the other. John Akokpari provides an interesting description of the situation:

Economic reforms produced few winners and more losers, including urban workers, salaried professionals, the rural folk and women, who were hardest hit by the effects of currency devaluations and the removal of subsidies on social services. In fact, big businesses and foreign companies were the only notable winners.⁴⁸

Many African, Latin American and South Asian countries have experienced similar predicaments, where widening income disparities, growing poverty, high inflation and rising unemployment have created a truly unhappy socio-political (dis)equilibrium. Most mainstream authors seem to ignore the impact of such problems upon the process of democratization. Considering the uneven distribution of both costs and benefits as “short-term consequences” of economic reform, they tend to focus on the need to implement sweeping changes. Stephan Haggard, for instance, contends that such adjustment related costs do not necessarily give way to public opposition that may

⁴⁸ John K. Akokpari, “Democracy Under Structural Adjustment: some aspects of Ghana’s experience under the Fourth Republic”, paper presented at the Canadian Association of the African Studies, McGill University, Montreal, 1-5 May 1996, pp. 5-6.

eventually derail the entire reform process.⁴⁹ Similarly, Barbara Geddes' findings suggest that the transitional costs of economic reforms, such as inflation, unemployment, and uneven distribution of income, do not pose any significant threats to democratic stability. On the contrary, she claims that a short-term economic crisis in effect decreases the bargaining power of potentially radical groups, namely labor, and hence increases the likelihood of democratic consolidation.⁵⁰

Unlike this optimistic liberal view, however, a number of more critical or skeptical authors argue that the inability of governments to properly deal with such heavy costs of economic reform programs may jeopardize the process of constructing and consolidating democracy. In fact, the growing tensions between the state and society largely generated by economic liberalization have created widespread popular discontent in a number of adjusting countries.⁵¹ Democratic regimes in these countries are becoming more and more vulnerable to such popular opposition to market reforms. More specifically, they are finding it extremely difficult to manage the political consequences of economic liberalization and to ease public pressure and resentment. In fact, economic

⁴⁹ Stephan Haggard, "The Politics of Adjustment: lessons from the IMF's Extended Fund Facility", in Miles Kahler (ed.), The Politics of International Debt (Ithaca, NY: Cornell University Press, 1986), p. 164.

⁵⁰ Barbara Geddes, "Economic Liberalization and Democracy", in Leslie Elliot Armijo (ed.), Conversations on Democratization and Economic Reform: working paper of the Southern California Seminar (Los Angeles, CA: Center for International Studies, University of Southern California, 1995), p. 64.

⁵¹ Peter M. Lewis, "Economic Reform and Political Transition in Africa: the quest for a politics of development", World Politics 49(1), October 1996, pp. 121-25.

liberalization appears to be political destabilizing as it introduces additional tensions and uncertainties into the volatile political landscape in much of the developing world.⁵²

Continued cuts in social services, privatization of SOEs, deregulation of trade and monetary regimes and removal of hitherto existing subsidies from basic consumer goods, such as bread, petroleum and electricity, have indeed strengthened resistance to economic reforms and, more importantly, have clouded the future of democratic consolidation.⁵³ Empirical evidence indicates that in such countries as Algeria, Cote d'Ivoire, Egypt, Ghana, Kenya, Sudan and Turkey, the process of constructing and/or consolidating democracy has been threatened by the implementation of structural economic reforms. In fact, the frustrating outcomes of building market capitalism have led to the resurgence of old ethnic conflicts, caused severe tension in state-society relations and contributed to the breakdown of socio-political consensus.⁵⁴ As a result, despite prevailing optimism about the future of democratic consolidation, many developing nations have witnessed the breakdown of democracy over the past few years.⁵⁵

⁵² Manfred A. Bienefeld, "Structural Adjustment and the prospects for Democracy in Southern Africa", in Moore and Schmitz (eds.), Debating Development Discourse, pp. 91-128.

⁵³ Timothy M. Shaw and Fahimul Quadir, "Democratic Development in the South in the Next Millennium: what prospects for avoiding anarchy and authoritarianism", in Caroline Thomas and Peter Wilkin (eds.), Globalization and the South (London: Macmillan, 1997), pp. 36-59.

⁵⁴ J. 'Bayo Adekanye, "Structural Adjustment, Democratization and Rising Ethnic Tensions in Africa", Development and Change 26(2), April 1995, pp. 355-74.

⁵⁵ Ali Abootalebi, for instance, argues that between 1980 and 1989 the developing world witnessed a contradictory process of building democracy and authoritarianism. During this period, not only did many developing countries undergo an inauguration of democracy, but a number of Third World nations also experienced the breakdown of democracy. See Ali R. Abootalebi, "Democratization in Developing Countries: 1980-1989", The Journal of Developing Areas 29(4), July 1995, pp. 507-30.

Thus, many authors cast profound doubts on the widely held assumption that economic reforms enhance the possibility of establishing liberal democracy everywhere. Referring to the growing evidence of continuing breakdown of democracy in many parts of the South, they refute the view that “all good things go together”.⁵⁶ In the context of Latin America, for instance, James Petras’s study shows that the compulsion to move toward the market has indeed encouraged the so-called democratic leaders, including Fujimorie of Peru, Salinas in Mexico and Menem of Argentina, to implement policies through non-democratic means. Instead of relying upon the legislature and other representative bodies, they have promulgated executive decrees to implement their economic reform policies.⁵⁷ In brief, these examples and analyses have generated more questions than answers about the market-democracy nexus.

Sequencing Political and Economic Liberalization

The related question of sequencing political and economic liberalization still remains a major unresolved issue in the literature. While a vast majority of mainstream authors prescribe the pursuit of dual transitions, most of them seem to be less than certain as to which one - economic liberalization or political democratization - should come first. Should the governments first embark on economic reform programs, followed by political democratization? Or, should they begin with political liberalization, followed by market-oriented reforms? Should governments simultaneously manage economic and

⁵⁶ Henry Bienen and Jeffrey Herbst, “The Relationship between Political and Economic Reform in Africa”, Comparative Politics 29(1), October 1996, pp. 23-41.

⁵⁷ James Petras, The Transformation of Latin America: free markets, democracy and other myths (Halifax, NS: Saint Mary’s University, 1991), pp. 16-17.

political liberalization?⁵⁸ Indeed, the authors are very much divided on the issue of sequencing reforms: whether economic liberalization contributes to democratization or vice versa.

Leslie Armijo, for instance, suggests that while market-oriented reforms and political liberalization can be successfully implemented under any sequence, prior political democratization can lead to successful economic reforms and democratic consolidation. She claims that prior democratization creates the environment in which democracy can be consolidated. This is largely due to the fact that financial and economic elites, who seek greater economic freedoms, are likely to join the groups demanding political liberties. Such an alignment may create a momentum for the transition to democracy on the one hand, and may enhance the likelihood of democratic consolidation, on the other. More specifically, she contends that democratic consolidation strengthens governments' ability to manage the stresses of economic reform. Unlike authoritarian regimes, democratic governments can ensure a "more equitable" distribution of the costs of economic liberalization. In other words, when democracy appears to be more or less consolidated, governments can successfully implement structural economic reforms, making transitions to free markets.⁵⁹

In a similar fashion, Geddes argues that political democracy creates a more favorable environment for carrying out successful economic liberalization programs. She believes that new democratic governments usually do not represent the interests of the

⁵⁸ Omar G. Encarnacion, "The Politics of Dual Transitions", Comparative Politics 28(4), July 1996, p. 481.

⁵⁹ Leslie Elliot Armijo, "Tradeoffs Implicit in Alternative Roads to Democracy and Markets", in Armijo (ed.), Conversations on Democratization and Economic Reform, pp. 24-7.

old system that traditionally benefited the “rent-seekers”. Upon coming into power, the new leaders therefore make attempts to destroy the old patronage-based system that in effect enables them to carry out successful economic reform programs.⁶⁰ Moreover, unlike Przeworski and others, she believes that many democratic leaders have undertaken policies of economic reform precisely because the political costs of such reforms are not high at all.⁶¹

Examining the Chilean case, however, Hector Schamis shows conversely that economic reforms paved the way for a successful transition to democracy in Chile. He suggests that the successful implementation of economic reform programs by Pinochet’s military regime directly contributed to the creation of a framework for democratic governance in the country. Indeed, the positive impacts of both adjustment and stabilization programs upon the economy eventually undermined the “very process of political domination”. In particular, market reforms rendered the military regime truly vulnerable to political pressures for democratization, leading it to put an end to authoritarianism.⁶² Drawing upon a similar kind of analysis, Genero Arriagada and Carol Graham also believe that the Chilean case offers a valuable lesson for other countries. They argue that the success of Pinochet’s stabilization program in both restoring fiscal discipline and resuming economic growth clearly set the ground for democratic competition. More importantly, during the post-transition period, the new leaders found

⁶⁰ Geddes, “Economic Liberalization and Democracy”, p. 65.

⁶¹ Barbara Geddes, “The Politics of Economic Liberalization”, Latin American Research Review 30(2), 1995, pp. 195-214.

⁶² Hector E. Schamis, “On the Relationship between Political and Economic Reform: the Chilean experience”, in Armijo (ed.), Conversations on Democratization and Economic Reform, pp. 164-78.

the job of consolidating democracy in a context of macro-economic stability and growth much easier than most analysts had assumed.⁶³ Likewise, a number of authors, including Albert Fishlow, Thomas Biersteker and Andrew Wyatt-Walter support the thesis that economic liberalization deserves first priority. They believe that prior democratization could bring unnecessary chaos that would eventually reduce governments' ability to implement rapid market liberalization programs.⁶⁴

By contrast, Jane Jaquette holds that the current debates over sequencing political and economic reforms provide a truly simplistic explanation about the problematic relationship between democracy and the market. She argues that neo-liberal authors take for granted that both economic reforms and political liberalization will work for all the systems in the world. Such an assumption hardly explains the so-called success of several East Asian countries, where the policies of economic nationalism played a crucial role in developing a competitive status for the region in the global political economy. As well, most of the countries in East Asia received widespread international support for gaining access to the global market. She therefore argues that the recent changes in the global political economy have already created a very different international environment,

⁶³ Genero Arriagada Herrera and Carol Graham, "Chile: sustaining adjustment during democratic transition", in Stephan Haggard and Steven B. Webb (eds.), Voting for Reform: democracy, political liberalization and economic adjustment (New York: Oxford University Press, 1994), pp. 242-89.

⁶⁴ See International Forum for Democratic Studies, Constructing Democracy and Markets: East Asia and Latin America (Washington, DC: International Forum for Democratic Studies, 1996), pp. 13-15.

which is less than flexible today in offering rapid growth opportunities to stabilize democratic institutions.⁶⁵

In brief, the sequencing of economic and political reforms still remains a major controversial issue in the literature. It seems that most authors have not yet been able to provide adequate empirical evidence to justify their position as to whether economic reforms should come first or vice versa.

Structure of the Thesis

The thesis consists of a total of seven chapters. The present chapter (chapter one) primarily deals with some methodological issues, such as the objectives of this dissertation, research methodology, justification of the country chosen for a case study, conceptual framework and limitations of the study. It also underlines the major theoretical arguments, both mainstream and critical, concerning the linkage between the market and democracy.

The focus of chapter two is on the four distinct phases of economic liberalization programs carried out by successive military and civilian regimes in Bangladesh. The chapter begins by providing a brief overview of the economic rationales, as discussed in the “Washington Consensus”, for undertaking market-oriented reform programs. It then explores the meanings of “economic liberalization” as they relate to both the theories and practices. The chapter ends by reviewing the economic and financial outcomes of structural economic reform programs adopted and implemented by the two Generals - Zia and Ershad - and Mrs. Zia.

⁶⁵ Jane S. Jaquette, “Some Thoughts on Sequencing”, in Armijo (ed.), Conversations on Democratization and Economic Reform, pp. 60-61.

Chapter three identifies the factors that have contributed to the apparent failure of adjustment programs to produce the expected results hoped by its planners. It proceeds to a theoretical discussion of the political economy of market liberalization initiatives by reviewing the works of some principal authors. The main body of the chapter then discusses the issues and factors that encouraged successive regimes to carry out market reform programs.

The focus of chapter four is on the compatibility of economic and political liberalization in Bangladesh. It provides a review of major theoretical issues related to the process of democratic consolidation. It then analyzes the process through which Bangladesh made a transition to democracy in December 1990. Some basic causes that led to the breakdown of democracy under an elected regime are examined. The chapter ends with some concluding observations that have been ignored by most mainstream authors.

Chapter five critically analyzes the role of civil society in promoting both democracy and development. It begins with an overview of the literature on civil society, focusing on the two major sets of perspectives: liberal and critical. It provides a brief historical analysis of the development of highly confrontational state-society relations in Bangladesh. The chapter, then, examines both the success and failure of civil society groups to protect the interests of the people vis-a-vis the state and the ruling elites.

Extending the analysis presented in chapter five, the role of NGOs in alleviating poverty and empowering disadvantaged groups, particularly women living in rural Bangladesh, is explored in chapter six. It first proceeds to summarize the strengths of NGOs in grassroots democratization and development. Also, the chapter discusses the

importance of classifying NGOs based on criteria such as their programs, objectives, organizational structures and relations to the government. It then examines the role of two groups of development NGOs - micro-credit and advocacy - in promoting development at the grassroots. The chapter ends by highlighting some basic findings that have rarely been addressed both in the Bangladeshi case and International Political Economy discourses.

Chapter seven makes an attempt to briefly summarize the major findings of this dissertation. It discusses the problems of democratization in the era of structural economic reforms and looks for alternatives. As well, it examines the prospect for democratic development in countries like Bangladesh in the next millennium. The chapter concludes by outlining some policy recommendations for enhancing the likelihood of sustainable democratic development in the South.

Limitations of this Study

This dissertation aims at developing a better understanding of the contemporary intellectual debates over economic reforms, political liberalization and civil society. While it is expected that the findings of this dissertation study might help both scholars and policy-makers to find a more appropriate comprehension about the market-democracy nexus, it does not intend to either generalize or draw firm conclusions as its exclusive focus is on the emerging case of Bangladesh. The lessons of Bangladesh may only be used to understand the problems of democratization and development faced by other countries that have similar socio-political settings and/or history. Thus, there is much research to be done on the issue to develop a general theory, if such a theory is

indeed possible, of the compatibility of economic reforms and political democratization in the twenty-first century.

This research is largely limited to the period between 1971 and 1996. In particular, it only analyzes the major political and economic events that took place in these 25 years. In 1971, Bangladesh came into being as an independent state, creating widespread hope that independence would usher in a new era of economic prosperity and political freedoms. However, the rise of authoritarian politics coupled with the emergence of what is called “the culture of street agitation” within four years of independence blew away people’s desire for economic development, peace and democracy. The country had to wait a decade and half to bring back a system that emphasizes people’s participation in government. Sadly enough, Bangladesh’s apparently successful transition to democracy in 1990 failed to create a comprehensive framework for meeting the popular aspirations for economic progress and political freedoms. Contrary to the expectations of the people, the country witnessed a true outbreak of anarchy under a democratically elected regime in 1996 that brought back a sense of despair among the ordinary citizens about the future of democracy and development at the turn of the twentieth century.

CHAPTER TWO

Structural Adjustment in Bangladesh: history and economic outcomes

Introduction

The debt crisis in the 1980s coupled with both a global recession and a sharp decline in prices of primary commodities subsequently set the stage for the adoption of market-oriented economic reforms around the globe. The collapse of the Soviet Union and the failure of other “interventionist” and/or “statist” models of development to bring about desired economic and social progress further triggered the move towards outward-oriented, market-driven reform programs. Indeed, the fiscal and economic crisis of many developing countries became so severe that many openly declared their total inability to service their debts on schedule. As well, the political and economic futures of many African and Latin America countries became uncertain as continued decline in their public savings rendered them incapable of financing much-needed development projects.

Given such unprecedented financial and economic turmoil, the World Bank in association with the International Monetary Fund (IMF) seemingly came to the rescue of this growing number of troubled economies in the developing world largely through their stabilization programs. In 1980, the World Bank introduced what are known as “Structural Adjustment Loans” (SALs) to the developing world, hoping to quickly restore fiscal discipline and resume growth. However, by the mid-1980s, it was evident to the international creditor community that a “quick-fix” approach was not enough to deal with

the deepening economic and financial crisis of the developing world.¹ The International Financial Institutions (IFIs) also realized that improvement in macro-economic structure only would not ensure economic recovery for most of the economies in turbulence. A comprehensive reform package designed to remove the barriers to the construction of free market mechanisms was thought necessary to ensure both macro-economic stability and rapid economic growth. Thus, the IFIs came to devise “Structural Adjustment Programs” (SAPs), which were presented as a panacea for all the myriad fiscal and economic problems plaguing the developing world.

This chapter examines the underlying issues of structural reform, provides a brief historical account of Bangladesh’s journey to the market and critically assesses the economic outcomes of its market-oriented reforms. It is comprised of four main sections. An analysis of the “Washington Consensus” is presented in section one, along with an explanation of the meanings of liberalization as they relate to both theory and practice. The second section deals with the four distinct phases of the history of economic reform in the case of Bangladesh. The economic outcomes of structural adjustment policies are discussed in section three. The fourth section summarizes the main findings of this chapter.

This chapter argues that structural adjustment programs have failed to set the stage for sustained growth on the one hand and, on the other, have proven to be

¹ Joan M. Nelson, “The Politics of Long-Haul Economic Reform”, in Joan M. Nelson (ed.), Fragile Coalitions: the politics of economic adjustment (New Brunswick, NJ: Transaction Books, 1989), pp. 3-6.

ineffective in restoring macro-economic balance. As a result, market reform programs have not emerged as an effective tool to alleviate massive poverty. More important perhaps is the finding that the process of constructing a market-friendly structure of national economic governance has intensified socio-political inequalities already in place. The inability of successive regimes to establish an appropriate mechanism for “overcoming discrimination against the poor” has strengthened the process of marginalizing vulnerable groups and has enabled a small group of financial, economic and political elites to concentrate wealth and power. Such disappointing results of economic liberalization programs have raised questions about the effectiveness of market reforms in meeting the enormous challenge of sustainable human development confronting Bangladesh.

The “Washington Consensus” and the Logic of Economic Liberalization

The assumption that only market-oriented economic reforms can effectively put an end to the developing world’s economic miseries - the IFIs’ response to the crises of the early 1980s - is popularly known as the “Washington Consensus”.² It regards the fiscal and economic turbulence of the developing world as essentially a failure of “state-

² Despite the fact that the “Washington Consensus” has come to shape the basis of neo-liberal economic programs sponsored by the IFIs, it is useful to mention that a number of authors, policy-makers and activists now object to this label. Many regard this concept as “ethnocentric”, as it seeks to present the West in general, and the USA in particular, as the “model” of development. Equally important to mention is that such a dominant development model and/or strategy is witnessing resistance from grassroots organizations as the failure of structural economic reform programs to produce the expected socio-economic results is increasingly becoming evident. See Barry K. Gills, “Editorial: globalisation and the politics of resistance”, *New Political Economy* 2(1), March 1997: 11-16.

led” development models/strategies. Referring to such issues as excessive state intervention, protectionism and economic populism, the “Washington Consensus” claims that a firm commitment on the part of the troubled economies to develop a market-friendly structure of national economic governance would enable them to overcome their financial and economic crises. In other words, international creditors and mainstream authors, notably David Lipton and Jeffrey Sachs, believe that only market-driven development strategies can ensure their ability to both establish fiscal discipline and recover sustained growth.

According to this approach, as John Williamson has outlined, countries must introduce comprehensive neo-liberal economic reform policies in order to reduce budget deficits and attain higher levels of growth. As a sequential and cumulative package of agreed measures, reform programs typically include the privatization of state-owned enterprises (SOEs), liberalization of trade, deregulation of the import, exchange and interest regimes, restructuring of the public sector, removal of price distortions, promotion of export-oriented businesses and elimination of all restrictive economic practices.³ Ultimately, market-oriented reforms are seen as the only effective means to unravel the mounting financial and economic crisis facing the developing world.

However, having observed frustrating socio-economic outcomes of reforms in Asia, Africa and Latin America, many critical authors have begun to view such reform measures as “ideological”. They have found very little or no positive co-relation between

³ John Williamson, “What Washington Means by Policy Reform”, in John Williamson (ed.), Latin American Adjustment: how much has happened? (Washington, D.C.: Institute of International Economics), pp. 8-17.

market-led economic reforms and economic recovery. From a critical perspective, Romesh Diwan, for instance, has examined the case of India and concluded that

These economic reforms are neither “economic” nor “reforms”, but instead a political ideology to shore up support for the use of power of the governing section of the ruling class of resident non-Indians (RNI). ... basically RNI are defined in terms of acceptance of the superiority of the western rational thought and inferiority of the Indian culture.... To maintain its privilege, and power, the RNI need an ideology.⁴

While economic reform programs have enabled the ruling class to enhance its goals, they have hardly helped the Indian economy to attain goals of macro-economic stability and higher growth. Similarly, while studying the economics of public service privatization within the context of the USA, Elliot Sclar has found no empirical evidence to support the widely held assumption that privatization programs reduce the drain on the budget.⁵

Economic liberalization is usually defined as a broader process of removing and/or reducing the regulatory functions of the state. The primary objective of any liberalization attempt, according to Anne Krueger, is to remove quantitative restrictions that control either buyers or sellers.⁶ Likewise, Leslie Armijo defines economic liberalization as the movement from an “excessively interventionist regime of national

⁴ Romesh Diwan, “Economic Reforms as Ideology”, Economic and Political Weekly 30(30), July 29, 1995, p. 73.

⁵ Elliot D. Sclar, “Public-Service Privatization: ideology or economics?” Dissent (Summer 1994), pp. 329-36.

⁶ Anne O. Kruger, “Problems of Liberalization”, in Armeane M. Choksi and Demetris Papageorgiou (eds.), Economic Liberalization in Developing Countries (New York: Basil Blackwell, 1986), pp. 15-16.

economic governance” to a “market-friendly regime of national economic governance”.⁷ Considering state intervention in the economy as an impediment to both efficiency and growth, the proponents of market-oriented reforms argue that eliminating controls not only ensures the establishment of a laissez-faire framework of economic management but, more importantly, helps achieve the broader goals of development. Luiz Pereira, Adam Przeworski and Jose Maravall, for instance, claim that the interventionist policies undertaken by most Latin American governments caused financial and economic decay in the region. They argue that

The state grew too much, regulated to excess, protected beyond reason: In Latin America the state was onerous; in Eastern Europe, overwhelming. Special interests of bureaucrats, managers of large firms, and private businessmen replaced the public interest. Populist practices, combined with inward-oriented developmentalist strategies, led to fiscal indiscipline and public deficits. The consequence, besides the increasing inefficiency of the entire economic system, was a fiscal crisis: In many countries, the state became bankrupt.⁸

Drawing on similar arguments, a number of mainstream authors, including Barbara Geddes, Stephan Haggard, Robert Kaufman and Joan Nelson, view economic liberalization as a pragmatic means to remove obstacles of a well-functioning market.

Central to the liberalization discussion is reform strategy - in other words, paths to economic liberalization. The literature identifies two major alternative paths to

⁷ Leslie Elliot Armijo, “Tradeoffs Implicit in Alternative Roads to Democracy and Markets”, in Leslie Elliot Armijo ed., Conversations on Democratization and Economic Reform: working papers of the Southern California seminar (Los Angeles: University of Southern California, 1995), p. 22.

⁸ Luiz Carlos Bresser Pereira et al., Economic Reforms in New Democracies: a social democratic approach (New York: Cambridge University Press, 1993), p. 1.

liberalization: radical (also known as shock therapy) and gradual/incremental. A radical path is often considered the most effective means of quickly and rapidly reforming the whole structure of the economy. Such a path enables policy makers to implement broader economic reform programs before political opponents organize and launch anti-reform movements. Therefore, in places where privileged groups are in a position to destabilize the political system, a radical path is widely believed to be the only way of ensuring the success of market-oriented reforms.⁹

Gradual and/or incremental reform, on the other hand, provides the opportunity for relevant actors to develop a broad-based consensus on market-oriented economic reforms. As well, it is believed that a gradual path enables policy-makers to lower the socio-political costs of transition. Indeed, this path gives decision-makers a chance to decrease social tension, thus minimizing the possibility of breaking up greater socio-political unrest. Such a strategy might appear to be a viable option for democratic countries, where the decision-making process is highly institutionalized and the political system is open to popular participation. However, the major disadvantage of this path is that the slow and lengthy process may make people feel “tired of reforms”, because they don’t see any visible signs of improvement in their economic lives. More importantly, the gradual process of reform may give the opposition the opportunity to mobilize popular sentiment against reforms, as Przeworski suggests, thereby forcing the regime in

⁹ Armijo, “Tradeoffs Implicit in Alternative Roads to Democracy and Markets”, p. 39.

power to abandon reform programs.¹⁰ This was exactly why many leaders of the developing world - for example Carlos Menem in Argentina, Alberto Fujimori in Peru, Lech Walesa in Poland and Victor Paz Estenssoro of Bolivia - adopted radical strategies for making transitions to the market.

Economic Reforms in Bangladesh

Unlike most developing nations, Bangladesh's journey to the market began long before the issue of structural economic reforms had been presented as a panacea for the economic problems of the developing world. Failing to meet the enormous challenge of poverty reduction and rapid economic growth through a socialist model, the country adopted market reforms, albeit only very slowly, as early as the mid-1970s - within five years of independence. In the past two decades, successive regimes have undertaken wide-ranging reform policies that have led to the creation of a market-friendly framework for economic governance in Bangladesh. Their policies have focussed primarily on restructuring the public sector, liberalizing the trade and exchange rate regimes and establishing an enabling environment for developing a healthy private sector.

Indeed, Bangladesh's history of economic development and/or reform could be broadly divided into four distinct phases. They are:

- first phase (1972-1975): statist approach to development;
- second phase (1975-1982): moving toward the market;

¹⁰ Adam Przeworski, Democracy and the Market: political and economic reforms in Eastern Europe and Latin America (New York: Cambridge University Press, 1991), p. 165.

- third phase (1982-1990): rapid economic reforms and
- fourth phase (1991-1996): accelerated pace of economic liberalization.

The following section provides a brief analysis of the policies and/or approaches adopted by four different regimes over the past twenty-five years.

Nationalization of Industrial and Commercial Enterprises: statist approach to development

Bangladesh's experiments with a so-called socialist model began following the country's independence in December 1971.¹¹ On 26 March 1972, the Awami League (AL) regime headed by Prime Minister Sheikh Mujibur Rahman announced its decision to introduce a massive nationalization program designed to ensure a socialist transformation of the economy.¹² Through the proclamation of the Presidential Order No. 27 of 1972, the regime began to bring the entire manufacturing sector under the direct

¹¹ Two major factors either encouraged or influenced the Mujib regime to adopt a truly interventionist strategy. First, the government was faced with a daunting challenge of managing about 725 industrial units, which were abandoned by their Pakistani owners. The emerging Bangladeshi industrialists had neither the required capital nor the necessary management skills to take over from the Pakistani entrepreneurs. In other words, the state was left with no other choice but to nationalize these predominantly large industries in order to keep these strategically important industrial units running. Second, the New International Economic Order (NIEO) that promoted the concept of state socialism in much of the Third World during the 1960s and 1970s intensified the campaign for building a socialist state in Bangladesh. The internal environment was also in favor of adopting an interventionist strategy as different socio-political groups, including student organizations and trade unions, were putting enormous pressure on the government for laying the foundations of socialism. Responding to both the internal and external dynamics, Mujib's pro-Western and pro-democracy regime announced the policy of nationalization in 1972.

¹² Nurul Islam, Development Planning in Bangladesh: a study in political economy (London: C. Hurst & Company, 1977), p. 24.

control of the state. This Order paved the way for the nationalization of all industrial units worth above Taka (Tk)¹³ 1.5 million, thereby restricting growth in the private sector. As shown in table 2.1, the AL regime's statist approach to industrialization and development dramatically changed the ownership pattern in the manufacturing sector. The public sector's share of total industrial assets rose from only 34 percent in 1969-70 to 92 percent in 1972. As a result of the nationalization program, on the other hand, the private sector became virtually non-existent. Its share of fixed assets was reduced from a 66 percent in 1969-70 to a mere 8 percent in 1972.

Important to mention was the fact that the AL regime's nationalization program was not limited to the manufacturing sector. As part of its strategy to establish effective

Table 2.1
Nationalization and the Changing Nature of Private and Public Ownership

Ownership Pattern	Pre-nationalization		Post-nationalization	
	Value of Assets (in million Tk)	Share of Fixed Assets %	Value of Assets (in million Tk)	Share of Fixed Assets %
Public Sector	2,097.0	34	3,567.5	92
Private Sector	4,040.5	66	500.0	8

Source: Rehman and Ahmad, Public Enterprise in an Intermediate Regime, p. 192.

¹³ Taka is the unit of currency of Bangladesh. In 1972, US\$ 1 was equivalent to approximately Tk 7.

control of the state over trade and financial sectors, the government decided to nationalize all commercial banks, insurance companies, and a variety of trading establishments owned and operated by both Bengali and non-Bengali entrepreneurs.¹⁴ As well, it set up a total of ten “sector corporations” designed to ensure smooth functioning of nationalized enterprises. All public enterprises were placed under the management of these newly created sector corporations.¹⁵

Identifying the necessity of controlling both the export and import regimes, the government announced a trade policy that put most trading organizations under the control of the state. At the same time, it took steps to set up some major organizations, namely the Trading Corporation of Bangladesh (TCB) and the Jute Export Corporation (JEC), through which it sought to restrict the role of the private sector in trade. The TCB was entrusted with the overall responsibility for handling the country’s imports. By contrast, the JEC was created for both managing and controlling the export of jute goods, which accounted for 90 percent of Bangladesh’s export earnings during the 1970s. As well, high tariffs were imposed on imports, preventing foreign goods from freely entering the country.

Considering the promotion of greater competition as a barrier to achieving the eventual goals of equitable growth, the government undertook various measures for

¹⁴ Rehman Sobhan and Muzaffer Ahmad, Public Enterprise in an Intermediate Regime: a study in the political economy in Bangladesh (Dhaka: Bangladesh Institute of Development Studies, 1980), p. 129.

¹⁵ See F.H. Yusuf, Nationalization of Industries in Bangladesh (Dhaka: National Institute of Local Government, 1985).

restricting the spontaneous evolution of a strong private sector. For instance, it declared a ceiling in the amount of Tk 2.5 million on all private sector investment. In other words, private entrepreneurs were only allowed to operate small businesses and/or cottage industries. More importantly, in order to make sure that such small enterprises would never pose a threat to the state's interventionist strategy, the government made a provision for nationalizing any private enterprise at any time, if it found it necessary. Also, the AL regime decided not to encourage foreign investors to operate businesses in the country. International investors were only allowed to set up projects jointly with local entrepreneurs.¹⁶

Contrary to what the planners anticipated, such an interventionist development strategy produced extremely frustrating politico-economic outcomes. Within a short span of time, it became evident that not only did growth rates remain less than satisfactory, the continued losses incurred by most nationalized industrial and commercial units negatively affected the state's fiscal situation. In the absence of an effective management structure for public sector corporations, most nationalized units failed to match the pre-nationalization output, productivity and capacity utilization rates.¹⁷ More important perhaps was the fact that most of them truly became symbols of rampant corruption and inefficiency.¹⁸ As loss-making enterprises began to rely more and more on the state for

¹⁶ Islam, Development Planning in Bangladesh, pp. 220-23.

¹⁷ Klaus Lorch, "Privatization through Private Sale: the Bangladeshi textile industry", in Ravi Rammurti and Raymond Vernon (eds.), Privatization and Control of State-Owned Enterprises (Washington, DC: World Bank, 1991), p. 128.

¹⁸ World Bank, Bangladesh: privatization and adjustment (Washington, DC: South Asia Country Department, World Bank, 1994), p. 4.

financial assistance, the drain on the budget reached a critical level, thus substantially reducing the government's ability to maintain a macro-economic balance. In the fiscal year 1973-74, for instance, the government provided a subsidy in the amount of Tk. 4,300 million to the Bangladesh Jute Mills Corporation in order to keep the loss-making jute industries running.¹⁹

Given such dire economic and financial outcomes from nationalization, the AL regime quickly decided to create some space for the private sector. By July 1974, the government announced a revised investment policy, allowing the private sector to participate in various economic activities. The policy raised the investment ceiling to Tk. 12 million and offered private entrepreneurs various incentives, such as tax holidays and rebates on the custom duty for imported products. In order to restore confidence in the private sector, the government also decided not to nationalize any newly set up enterprises for a period of 15 years. If the government were to nationalize any private enterprise after this period, it was announced that the owner would receive appropriate compensation for handing over the enterprise to the state.²⁰ Despite these changes, however, the policy did very little to deregulate the economy in general, and to privatize SOEs in particular. The state remained the key actor in the country's financial and economic governance.

¹⁹ Abul Hossain Mahmud, Jativokaran O' Bangladesh[Nationalization and Bangladesh] (Dhaka: Islamic Economics Research Bureau, 1978), p. 11.

²⁰ For a detailed description of the new investment policy of July 1974, see Sobhan and Ahmed, Public Enterprise in an Intermediate Regime, pp. 257-60.

The Military Coup of 1975: moving toward the market

The military coup of August 1975 marked the beginning of Bangladesh's slow but firm move toward the market. After coming into power, General Ziaur Rahman (1975-1981) wasted very little time putting an end to the socialist experiment by embracing a market-friendly framework for national economic governance. Considering the country's economic miseries to be a result of an excessively interventionist strategy adopted by the Mujib's pro-socialist regime, Zia²¹ went on to liberalize the economy. He identified the market as the only viable means for achieving high levels of economic growth and rapid industrialization and introduced market-oriented economic reforms to the country. In December 1975, his military regime announced the Revised Investment Policy (RIP) that, among other things, focused on the construction of a strong private sector.

Based on an export-led economic growth strategy, the RIP aimed to reduce levels of budget deficits and inflation, increase domestic savings and promote long-term growth. More importantly, it emphasized the need for transferring SOEs to the private sector and encouraged private entrepreneurs to invest in all but 8 strategically important sectors. The RIP significantly increased the ceiling of private investment to Tk. 100 million²² and announced that the state would never nationalize private enterprises. As well, it offered compensation to those Bengali and non-Bengali owners who had suffered financial losses due to the AL regime's nationalization program. The Revised Investment Policy opened

²¹ Since General Ziaur Rahman is known in Bangladesh by his first name Zia, hereafter, he will be referred to as Zia in this study.

²² However, in a later decision the government abolished the so-called investment ceiling.

up new opportunities for foreign investors and facilitated the formation of the country's first Export Processing Zone (EPZ) in the port-city of Chittagong.²³

In order to deregulate the economy, the military regime embarked on a disinvestment program and set up the Disinvestment Board which was given the responsibility for implementing the regime's just announced privatization policies. It reactivated the Dhaka Stock Exchange and established an Investment Promotion Center in Dhaka designed to foster private investment. Further, Zia's military regime directed Development Finance Institutions (DFIs) to provide financial support to private entrepreneurs. As a result, the DFIs emerged as the major financial source of private investment over the next few years.²⁴

Zia's liberalization program also attempted to improve the macroeconomic framework in order to ensure both competitiveness and higher economic growth.

Complying with the conditionalities set out in the International Monetary Fund (IMF)/World Bank sponsored adjustment and/or Extended Fund Facility (EEF) programs, the military regime undertook measures to control the budget deficit, reform the public sector, reduce subsidies on such items as food, fertilizer and petroleum and liberalize the trade regime. Additionally, the government made attempts to develop a competitive exchange rate policy primarily through the devaluation of the taka. In order to improve

²³ Ministry of Finance, Bangladesh Economic Survey: 1975-76 (Dhaka: Ministry of Finance, Government of Bangladesh, 1976), pp. vii-viii & 228-29.

²⁴ Rehman Sobhan and Syed Akhter Mahmood, "Trends in Repayment Performance to the DFIs: 1971-72 to 1981-82", in Sobhan (ed.), Debt Default to the Development Finance Institutions: the crisis of state sponsored entrepreneurship in Bangladesh (Dhaka: University Press, 1991), p. 158.

fiscal balances, it undertook a variety of measures, such as reforming the tax system, lowering inflation, increasing exports and improving the country's foreign exchange reserves.²⁵

Such a process of constructing market mechanisms truly transformed the public sector led development strategy of post-liberation Bangladesh. In less than ten years - between 1976 and March 1982 - some 374 SOEs,²⁶ approximately 40 percent of the nationalized industries, were returned to the private sector. Of the total industrial units transferred to the private sector, about 44 percent were returned to their former owners and the remaining 56 percent were sold to local or foreign buyers through national and international tenders.²⁷ During the same period, a huge number of commercial and financial units were transferred to the private sector.²⁸ As well, the government approved several thousand private projects of setting up industries. Foreign investors responded positively to the government's economic reform programs, negotiating with the government to expand their industrial and/or business activities in Bangladesh. In sum,

²⁵ Mashiur Rahman, Structural Adjustment, Employment and Workers: public policy issues and choices for Bangladesh (Dhaka: University Press, 1994), pp. 13-14.

²⁶ Abulmaal A. Muhith, "Privatization in Bangladesh", in V.V. Ramanadham (ed.), Privatization: a global perspective (New York: Routledge, 1993), p. 448.

²⁷ Syed Serajul Islam, Bangladesh: state and economic strategy (Dhaka: University Press, 1988), p. 147.

²⁸ The absence of reliable statistical data makes it difficult to precisely cite the number of financial and commercial establishments handed over to the private sector. According to Humphrey, the number would be anywhere between 2, 000 and 8,000. See Clare E. Humphrey, Privatization in Bangladesh: economic transition in a poor country (Boulder, CO: Westview Press, 1990), pp. 50-51.

the private sector slowly but surely began to replace the public sector in areas such as industrialization, trading and commerce.

While there was no doubt that General Zia moved away from the interventionist strategy of the previous government, he chose a somewhat incremental path to the market. Instead of adopting a rapid and revolutionary technique, he decided to go slow in order to overcome political opposition to his market-oriented reforms. No wonder that such a slow pace of reform made both the donor community and the country's business elite hesitant and uncertain about General Zia's commitment to the development of a reliable market mechanism in Bangladesh.²⁹

Military Takeover of General Ershad: rapid economic reforms

General Hussain M. Ershad's (1982-1990) military takeover in March 1982 dramatically changed the pace of market-oriented economic reforms in Bangladesh. Soon after the seizure of power, General Ershad introduced his reform package through the declaration of the "New Industrial Policy of 1982" (NIP). Drawing upon Zia's strategy, the NIP aimed to accelerate the process of privatization and improve the policy framework in order to institutionalize the role of the private sector in development. The NIP further limited the role of the public sector and focused on the urgent need to ensure macro-economic stability of the country.³⁰

²⁹ Stanley A. Kochanek, Patron-Client Politics and Business in Bangladesh (Dhaka: University Press, 1993), pp. 93-94.

³⁰ Ministry of Finance, Bangladesh Arthonoytik Jarip [Bangladesh Economic Survey]: 1982-83 (Dhaka: Ministry of Finance, Government of Bangladesh, 1983), pp. 87-88.

In order to speed up the process of both economic and financial liberalization, the military regime announced its second reform package in 1986, which came to be known as the Revised Industrial Policy of 1986 (RIP). The RIP was designed primarily to further expand the role of the private sector, to stimulate private investment – both local and foreign - and to strengthen the on-going processes of adjustment and stabilization. Specifically, it sought to accelerate the process of privatizing SOEs through a number of measures, notably the return of industrial units to their original owners, disinvestment of industries that were left abandoned by their Pakistani owners, and the conversion of SOEs into public limited holding companies by selling off the shares to ordinary people and employees. To prevent a further drain on the national budget, the RIP made provisions for inviting private management companies to run public enterprises.³¹

In brief, unlike Zia's hesitant approach, Ershad adopted a more defined and aggressive path to the market. His privatization program, for instance, was not limited to the transfer of either loss-making SOEs or strategically insignificant, small-scale industries. Instead, his privatization program aimed to transfer all sorts of industrial and commercial enterprises, including a number of key industries in the jute and textile sectors, to the private sector. Within a year of the announcement of the NIP, General Ershad's military regime transferred the ownership of 60 large jute and textile industries to private investors.³² In addition to this, the government continued to hand over the ownership of "profit-making" public enterprises. The number of profit-making units

³¹ Ministry of Finance, Bangladesh Arthonoytik Jarip [Bangladesh Economic Survey]: 1986-87 (Dhaka: Ministry of Finance, Government of Bangladesh, 1988), p. 70.

³² Humphrey, Privatization in Bangladesh, p. 60.

transferred to the private sector rose from 32 percent in 1981 to 78 percent in 1985.³³ Such a radical approach to privatization dramatically reduced the public sector's share in fixed industrial assets from 85 percent in 1980-81 to 40 percent in 1985-86.³⁴ Moreover, Ershad's privatization policy offered more flexible terms of payment to intending buyers of SOEs. They were required to make only a 25 percent downpayment at the time of purchase. Also, in order to provide financial assistance to buyers, the government made provisions for interested buyers to obtain interest free loans from DFIs.³⁵

Ershad's military regime also undertook quite a few important measures to deregulate the financial sector in the 1980s. For example, the government's financial sector reform program began with the announcement of a policy framework that allowed private commercial banks to operate in the country. In 1983, a total of six private banks received permission to start business, thus creating a more competitive banking environment in Bangladesh. Furthermore, the government transferred the ownership of two nationalized banks, namely Uttara Bank and Pubali Bank in 1984, which further reduced the hegemonic role of the nationalized commercial banks in the economy.³⁶

³³ Rehman Sobhan and Ahmed Ahsan, Disinvestment and Denationalization: profile and performance (Dhaka: Bangladesh Institute of Development Studies, 1984), p. 47.

³⁴ Rehman Sobhan, The Development of the Private Sector in Bangladesh: a review of the outcome of state policy (Dhaka: Bangladesh Institute of Development Studies, 1990), p. 25.

³⁵ Sobhan and Ahsan, Disinvestment and Denationalization, p. 32.

³⁶ Akhtar Hossain and Salim Rashid, "Financial Sector Reform", in M.G. Kibria (ed.), The Bangladesh Economy in Transition (Dhaka: University Press, 1997), pp. 224 & 231.

Based on the National Commission on Money, Banking and Credit's recommendations, the military regime made efforts to carry out effective financial sector reform programs in such areas as interest rates, loan recovery and exchange rates. In 1989, for instance, the government decided to partially deregulate interest rates, allowing banks to determine deposit and lending rates within the limits set by the Central Bank, which is known as the Bangladesh Bank.³⁷ Prior to the announcement of this policy, the Bangladesh Bank was solely responsible for fixing interests rates of deposits and advances. As part of its financial sector liberalization program, the government also introduced a legal framework for loan recovery that enabled financial institutions to improve their loan repayment performance. Besides, it adopted a policy of ensuring greater autonomy of financial institutions, making them able to develop more appropriate lending mechanisms.³⁸

In order to make the taka freely convertible, General Ershad attempted to develop a uniform, market-oriented foreign exchange rate. This was a significant move toward the elimination of the two exchange rates of taka. It is important to mention that, from the mid-1970s, the external value of taka was determined by two somewhat contradictory systems. One of them was known as the official rate, where the Bangladesh Bank determined the exchange rate of taka. By contrast, in the secondary foreign exchange market, commonly known as the Wage Earners' Scheme, the value of taka was

³⁷ Abu Ahmed, "Financial Liberalization in Bangladesh: the components, impediments and impact", Bank Parikrama xvii (1992), pp. 53-58.

³⁸ Nurul Islam Choudhuri and Toufic Ahmad Choudhury, "Financial Liberalization in Bangladesh: conceptual issues and impact on banking financial institutions", Bank Parikrama xvii (1992), pp. 59-69.

determined by the market. Like many other developing countries, in most cases taka was found to be “overvalued” under the official exchange rate. General Ershad made an effort to unify these two exchange rates by introducing a market-determined exchange rate policy.³⁹

The government’s reform programs also included the liberalization of trade in Bangladesh. As a first step to deregulate the import regime, it began to reform the tariff structure, which was characterized by excessively high tariffs and quantitative restrictions that not only provided incentives for cross-border smuggling but also encouraged importers to escape duty.⁴⁰ Ershad’s trade policy reform programs were, therefore, designed to develop an incentive system that would enhance competition and reduce price distortions. The policy focused on phasing out the quantitative restrictions, reducing the number of tariff rates, eliminating protection-related non-tariff barriers, streamlining import procedures and simplifying custom clearance of imported goods.⁴¹ As a result, all import duties and protective taxes fell sharply and the number of banned and restricted items was significantly reduced.⁴² The numbers of items in the banned list, for instance,

³⁹ Hossain and Rashid, “Financial Sector Reform”, pp. 232-33.

⁴⁰ World Bank, Bangladesh: trade policy reform for improving the incentive regime (Washington, DC: South Asia Division, World Bank, 1996), pp. 3-7.

⁴¹ Mohammad Alam, Trade and Financial Liberalization in Bangladesh (Dhaka: Desh Prakashan, 1995), pp. 20-25.

⁴² World Bank, Bangladesh, p. 5.

fell from 391 in 1986 to 156 in 1990. Similarly, the number of items in the restricted list reduced from 351 in 1986 to 182 in 1990.⁴³

Clearly, Ershad's military regime subscribed to the IMF-World Bank sponsored structural adjustment programs by making efforts to attain external equilibrium and fiscal balance. Unlike the policy of Zia, the regime adopted a more radical path to market liberalization. It introduced a comprehensive reform package to the country designed to reestablish a sound macroeconomic framework, thereby facilitating the construction of a market mechanism in Bangladesh.

Transitions to Democracy: accelerated pace of market-oriented reforms

Contrary to the expectations of various socio-political groups, Bangladesh's return to parliamentary democracy in 1990 did not affect the process of building market capitalism in the country. After coming into power, Khaleda Zia's democratically elected regime (1991-1996) reassured the donor community, particularly the World Bank and the IMF, that the government would adopt an even faster approach to economic liberalization. Under the leadership of finance minister Saifur Rahman, the regime acted decisively to both remove the remaining barriers to the market and restore macroeconomic stability. It made attempts to effectively deregulate the private sector, further downsize the public sector, "truly" liberalize the trade regime and restructure the financial sector.

⁴³ Alam, Trade and Financial Liberalization in Bangladesh, p. 31.

In 1991 the Bangladesh Nationalist Party (BNP) regime led by Prime Minister Khaleda Zia, announced the “National Industrial Policy”, which outlined the government’s reform priorities. Some of the salient features of this policy are summarized below:

- a) *Accelerated pace of privatization.* In order to reduce SOE losses, which represented about 2 percent of the country’s Gross Domestic Product (GDP) and 45 percent of the nation’s annual project aid disbursement, the government emphasized the need for implementing a massive privatization program.⁴⁴ It identified 40 large enterprises for immediate privatization and decided to eliminate the subsidy on working capital finance in the jute sector that was regarded as the major source of budget drain;⁴⁵
- b) *Changing role of the government in the development of the private sector.* By both simplifying investment procedures and eliminating the regulatory role of key governmental agencies such as the Ministry of Industry and the Board of Investment, the government expressed its desire to assume a “promotional” rather than “regulatory” role in facilitating the development of the private sector. It abolished the provision that formal permission must be obtained from the government before setting up industries;⁴⁶ and

⁴⁴ World Bank, Bangladesh: privatization and adjustment, p. I.

⁴⁵ Bangladesh Bank, Annual Report:1991-92 (Dhaka: Ministry of Finance, 1992), p. 7.

⁴⁶ DCCI, A Guide to Investment and Business in Bangladesh (Dhaka: Dhaka Chamber of Commerce and Industry, 1997), pp. 18-21.

c) *Incentives for foreign investment and export-oriented industries.* The industrial policy of 1991 sought to diversify the country's export base and encouraged both local and foreign investors to set up export-oriented enterprises. It offered foreign investors tax exemptions on the interest of foreign loans, royalty and technical assistance fees. Also, it allowed them to freely import machinery and receive long-term credit facilities from financial institutions.⁴⁷ Similarly, the policy introduced a well-defined incentive system for local investors involved in export-related business activities. In addition to tax exemption on export earnings, they were allowed to import commodities from the banned/restricted list. Finally, 100 percent export-oriented industrial units were given the opportunity to import duty free machinery.⁴⁸

The BNP regime also stepped up financial sector reform activity through the implementation of the "Financial Sector Reform Program" (FSRP) adopted by Ershad's military regime. In April 1992, the government formally withdrew interest rate bands from almost all categories and allowed financial institutions to determine interest rates on their lending programs. As mentioned above, although General Ershad underscored the need for unifying the two exchange rates, it was not until January 1992 that the official and secondary exchange market rates were unified.⁴⁹ Likewise, despite some efforts,

⁴⁷ World Bank, Bangladesh: selected issues in external competitiveness and economic efficiency (Washington, DC: South Asia Country Department, World Bank, 1992), p. 82.

⁴⁸ DCCI, A Guide to Investment and Business in Bangladesh, p. 20.

⁴⁹ Bangladesh Bank, Annual Report: 1991-92, p. 8.

Ershad's authoritarian regime was not successful in making the taka convertible for current account transactions. However, complying with IMF aid conditionalities, the democratically elected BNP regime made it freely convertible for international payments in March 1994.⁵⁰

As well, the government decided to reduce the number of subsidized sectors by 50 percent. This made only 3 sectors eligible for subsidy on working capital finance. In order to expedite the recovery of overdue bank loans, the government also took initiatives to enact the Financial Loan Court Act, which provided financial institutions with a legal framework for dealing with loan defaulters. The government set up financial loan courts at the district level and encouraged commercial banks to take legal actions against bad borrowers.⁵¹ As part of its financial sector reform program, the government took measures to improve the performance of the country's undeveloped capital market. In 1993, it passed legislation to establish a Securities and Exchange Commission and allowed non-residents to buy and sell shares through the Dhaka Stock Exchange.⁵²

Drawing on Ershad's trade liberalization agenda, the BNP regime further accelerated the process of freeing up imports and removing non-tariff barriers. Claiming that the government was committed to creating a competitive export-oriented economic structure for the country, it drastically reduced the list of banned and restricted items. While there were only 26 items on the "control list" in 1994, the government made

⁵⁰ Hossain and Rashid, "Financial Sector Reform", p. 233.

⁵¹ Alam, Trade and Financial Liberalization in Bangladesh, p. 38.

⁵² World Bank, Bangladesh: from stabilization to growth (Washington, DC: World Bank, 1995), p. 141.

explicit to the donor community that its eventual goal was to remove the entire list. In its attempt to develop a liberal trade regime, it also abolished import permit requirements, allowing importers to import virtually anything. Prior to this announcement, importers were required to obtain government permission for importing both industrial and consumer products.⁵³

In addition to import liberalization, the government sought to promote export growth by announcing a relatively low tariff regime. It accelerated the pace of rationalizing the tariff structure and attempted to ensure transparency in tariff administration. As a result, the average nominal tariff fell considerably from 89 percent in 1990/91 to only 25 percent in 1995/96.⁵⁴ Also, the new custom rules of 1993 set the highest custom duty of most products at 50 percent, which significantly reduced statutory levels of protection. Prior to the announcement of this policy, customs duty rates on different products varied between zero and 200 percent.⁵⁵

As part of its tariff reform program, the BNP regime replaced the import sales tax, domestic excise duty and development surcharge by the Value Added Taxation (VAT). Under the VAT, a standard flat rate of 15 percent was initially introduced. Such an action was regarded as an important step toward ensuring both trade neutrality and further tariff reduction.⁵⁶ Also, it was expected that the introduction of the VAT would enable the

⁵³ Ibid, p. 59.

⁵⁴ World Bank, Bangladesh: trade policy reform for improving the incentive regime, pp. 3-5.

⁵⁵ Alam, Trade and Financial Liberalization in Bangladesh, p. 22.

⁵⁶ World Bank, Bangladesh: from stabilization to growth, pp. 60-61.

government to increase the tax/GDP ratio. In particular, it was seen as an effective tool to enhance the government's ability to collect revenue.⁵⁷

In brief, under the BNP regime, the pace of economic reforms reached a new height. Responding to the need to improve the country's macro-economic performance, the democratically elected regime of Mrs. Zia undertook massive reform programs. It attempted to liberalize the financial sector, to deregulate the trade regime, to restore fiscal balance and to reform the public sector. As well, it took initiatives to attract Foreign Direct Investment (FDI) into the country. In other words, the government chose a faster path to the market, developing a solid framework for a market economy.

Economic Outcomes of Liberalization

Did these liberalization efforts yield significant returns to the economy? In other words, did they help the economy to grow? Did economic reforms enable the nation to restore its fiscal discipline? To what extent did these reform initiatives enable the majority to improve their living standards through the alleviation of poverty? According to the World Bank, Bangladesh has made remarkable progress in achieving macro-economic stability over the past few years. Having failed to register any visible success in the 1980s, the country began to attain the objectives of its stabilization program in the 1990s. Compared to the performance of other adjusting countries, the Bank regards the achievements of Bangladesh as "commendable." It claims that

⁵⁷ Alam, Trade and Financial Liberalization in Bangladesh, pp. 26-27.

... after FY90 both inflationary and balance of payments pressure sharply contained, the current account deficit relative to GDP fell rapidly, national saving rose beyond expectations, fueled largely by rising public savings as a result of fundamental fiscal reforms.⁵⁸

As a result of the significant increase in government revenue and corresponding decrease in current expenditures, the fiscal deficit continued to decline. The overall fiscal deficit has fallen sharply, as seen in table 2.2, from 9.90 percent in fiscal year (FY) 1980 to 6.8 percent of GDP in FY 1995. Similarly, the country has been very successful in keeping inflation rates at record lows. As shown in table 2.3, the inflation rate dropped from the staggering figure of 18.85 percent in FY 1980 to a modest 4.07 in FY 1995. The government's ability to maintain such a low level of inflation continued in FY 1996, when the rate further declined to 3.91 percent.⁵⁹ Thus, while much of the developing world struggled to attain the goals of IFIs' stabilization programs, Bangladesh registered some tangible success in restoring macro-economic balance.⁶⁰

As shown in table 2.2, the country's success in improving its fiscal health has also been strengthened by its ability to significantly increase government revenues, which rose from 8.8 percent of GDP in FY 1985 to 12.1 percent in FY 1995. Also, there has been

⁵⁸ World Bank, Bangladesh: from stabilization to growth, p. 7.

⁵⁹ Ministry of Planning, The Fifth Five Year Plan: 1997-2002, (Dhaka: Ministry of Planning, 1998), p. 12.

⁶⁰ For a comparative analysis of policy performance in adjusting countries, see, World Bank, Adjustment Lending and Mobilization of Private and Public Resources for Growth (Washington, DC: Country Economics Department, World Bank, 1992).

some progress in such areas as current expenditures, investment and domestic savings.

According to the World Bank, Bangladesh has been successful in keeping current

Table 2.2
Overall Fiscal Deficits
(Percent of GDP)

	FY80	FY85	FY90	FY95
Total Revenue	N/A	8.8	9.3	12.1
Tax Revenue	7.33	6.90	7.8	9.6
Fiscal Deficit	-9.90	-7.36	-7.9	-6.8

Source: Bangladesh Bureau of Statistics

expenditures on target,⁶¹ which stood at 8.8 percent of GDP in FY 1995. Domestic savings increased from 2.33 percent of GDP in FY 1985 to 8.31 percent in FY 1995.

Likewise, as seen in table 2.3, the level of investment rose from 12.94 percent of GDP in FY 1985 to 16.63 percent in FY 1990. Unlike many developing countries, Bangladesh has continued to improve its balance of payments situation over the last ten years. As shown in table 2.4, higher growth of both exports and overseas workers' remittances

⁶¹ World Bank, Bangladesh: from stabilization to growth, p. 20.

coupled with a visible decline in imports in the first few years of the 1990s helped the country to keep the current account deficit below the benchmark level.⁶² The current account deficit has dropped markedly from 8.4 percent of GDP in FY 1985 to 3.5 percent in FY 1995, reflecting a strong balance of payments position of the country. In other words, Bangladesh began to regain external equilibrium by lowering its current account deficit.

Table 2.3
Inflation, Investment, Domestic Savings and Exchange Rates
(In Percentage)

	FY80	FY85	FY90	FY95
Rate of Inflation (% change in CPI)	18.85	11.20	9.33	4.07
Investment	15.29	12.94	12.8	16.63
Domestic Savings	2.25	2.33	2.72	8.31
Exchange Rate (Taka/US\$)	15.47	26.06	32.93	40.20

Source: Bangladesh Bureau of Statistics, The Fifth Five-Year Plan (1997-2002) and Bangladesh Bank

⁶² Annual remittances grew from US\$ 761 million in FY 1990 to US\$ 1094 million in FY 1995, enabling the country to reduce the current account deficit. See Ministry of Planning, The Fifth Five Year Plan: 1997-2002, p. 8.

Table 2.4
Balance of Payments
(Percent of GDP)

	FY80	FY85	FY90	FY95
Exports	7.15	6.0	6.8	11.9
Imports	20.19	17.0	16.8	20.0
Current Account Balance	-11.33	-8.4	-6.9	-3.5

Source: Bangladesh Bureau of Statistics, The Fifth Five Year Plan (1997-2002) and Bangladesh Bank

On the other hand, successive governments' tax reform program changed the traditional import-based tax revenue structure of the country. As a direct result of both tax and tariff reforms, the share of custom duties (trade taxes) in total revenue declined from 37.4 percent in FY 1990 to 33.2 percent in FY 1996. In particular, efforts were made to gradually remove trade protection, namely import tariffs (see table 2.5). In addition, the country has been successful in expanding its tax base within a relatively short span of time. This was largely due to the introduction of the VAT, which represented about 34 percent of tax revenue in FY 1996. The VAT also enabled the government to increase the share of income and profit taxes.⁶³

⁶³ World Bank, Bangladesh: implementing structural reform, p. 3.

Table 2.5
The Changing Revenue Structure
(Percent of total)

	FY90	FY92	FY94	FY96
Custom Duties	37.4	36.5	33.2	33.2
Sales Tax	11.0	.*	-	-
VAT		23.3	30.5	34
Excise Duties	28.8	17.8	1.8	1.6
Income and Profit Taxes	13.6	16.1	20.7	15.2
Others	9.2	6.3	13.8	16

*The introduction of the VAT replaced the sales tax.

Source: World Bank, Bangladesh Annual Economic Update 1997, p. 52 & World Bank, Bangladesh: from stabilization to growth, p. 21.

Despite such remarkable success in stabilizing the economy, the country's hope to meet its myriad developmental challenges through market-oriented reforms has been frustrated largely by slow economic growth. Throughout the 1980s, the economy grew at

an estimated 4 percent annually, much lower than the 7-8 percent required to alleviate poverty. As shown in table 2.6, after a decade of virtual stagnation, the economy showed signs of taking off, when GDP growth surprisingly reached 6.6 percent in FY 1990. Unfortunately, such a trend did not last long and the growth rate again fell to 3.4 percent

Table 2.6
GDP Growth at Constant Prices (1984/85)

	FY80	FY85	FY90	FY95
GDP	1.5	3.9	6.6	4.4
Agriculture	-	1.0	10.0	-1.0
Industry	-	3.1	6.4	8.4
Services	-	7.3	4.0	6.9

Source: Bangladesh Bureau of Statistics

in the next financial year. This downward direction in effect remained unchanged over the next few years. In the 1991-95 period, the average growth rate was about 4.1 percent annually⁶⁴, reflecting a weak growth performance of the economy. In particular, macro-economic stability did not contribute to the attainment of higher levels of GDP growth.

⁶⁴ World Bank, Bangladesh Annual Economic Update 1997: economic performance, policy issues and priority reforms (Washington, D.C: South Asia Region, The World Bank, 1997), p. 38.

Rehman Sobhan, a well-known South Asian economist, essentially blamed donor sponsored SAPs for the failure of the economy to grow at a faster rate. He examined both the pre-adjustment and post-adjustment performance of the economy and suggested that the country did much better during the pre-adjustment period.⁶⁵ According to him, real GDP grew at an average 5.7 percent annually between 1972 and 1981, while the growth rate remained below 4 percent in the 1982-90 period. Regarding SAPs as “structural maladjustment”, Sobhan concluded that

Bangladesh’s reform programme remains in deep crisis because it has, over a decade failed to accelerate growth, diversify the economy, stimulate investment and domestic savings and create the basis for sustained growth process which can lead to greater self-reliance and substantial reductions in mass poverty.⁶⁶

While the World Bank appears to be equally concerned with the low growth rate of the economy, it blamed what it called “unfinished structural reforms” for Bangladesh failing to both resume and sustain high economic growth.⁶⁷

Slow GDP growth has had serious implications for human development in general, and poverty alleviation in particular. Although donor-sponsored studies show that the poverty situation improved somewhat in the 1990s, the slow economic growth

⁶⁵ This comparative statistical analysis is presented primarily to illustrate the inability of adjustment programs to improve the macro-economic framework of the country. From the discussion above, it is already apparent that the economy remained stagnant during the pre-adjustment period.

⁶⁶ Rehman Sobhan, “Structural Maladjustment: Bangladesh’s experience with market reforms”, Economic and Political Weekly, 28(19), May 8, 1993, p. 931.

⁶⁷ World Bank, Bangladesh: trade policy reform for improving the incentive regime, p. I.

Table 2.7
Bangladesh: Human Development Indicators Over Time

Year	Life Expectancy at Birth (years)	Adult Literacy Rate (%)	Real GDP Per Capita (US\$)	Human Development Index	Human Development Rank
1990	52	33	883	0.318	109 (out of 130 countries)
1992	51.8	35.3	820	0.185	135 (out of 160 countries)
1994	52.2	36.6	1,160	0.309	146 (out of 173 countries)
1996	55.9	37.0	1,290	0.365	143 (out of 176 countries)

Source: UNDP, Human Development Reports 1990, 1992, 1994 and 1996

did very little to alleviate absolute poverty.⁶⁸ Indeed, most studies suggest that both rural and urban poverty increased during the early years of structural adjustment.⁶⁹ Such a trend remained largely unchanged until the first few years of the 1990s. Since 1992, as the World Bank claims, poverty has at last begun to decline in both rural and urban areas. Using the cost of basic needs method, it suggests that the number of “very poor” dropped from 41 percent in 1983-84 to 36 percent in 1995-96. During the same period, the

⁶⁸ Overseas Development Institute, Briefing Paper (London: ODI, November 1990), p. 1.

⁶⁹ Martin Ravallion, “The Challenging Arithmetic of Poverty in Bangladesh”, The Bangladesh Development Studies 18(3), September 1990, pp. 35-53.

number of “poor” declined from 59 percent to 56 percent. However, rural poverty remained much higher than urban poverty throughout this period.⁷⁰

Although independent studies confirm that there have been some improvements in the living standards of the majority (see table 2.7), incidences of both “moderate” and “extreme” poverty are still very high. Using the daily calorie intake method, most estimates show that almost half of the population, about 47.5 percent, remained trapped below the poverty line in 1995-96.⁷¹ The situation is much worse when the Capability Poverty Measure (CPM) is used to determine poverty. According to the Human Development Report 1996, the CPM value for Bangladesh is 76.9 – one of the highest in the world.⁷² In other words, adjustment policies hardly enabled the poor to escape poverty. Therefore, much needs to be done to improve the living conditions of the vast majority of Bangladeshi people.

What is even more important is the growing inequalities between the rich and the poor in both urban and rural areas. As in the cases of many adjusting countries, Bangladesh has experienced rising inequalities since the beginning of the 1980s. This is not to say, however, that income inequalities did not exist in the country before the introduction of adjustment programs. On the contrary, the gaps between the rich and the poor have always been high in Bangladesh. Nonetheless, market-oriented reforms have

⁷⁰ World Bank, Bangladesh: from counting the poor to making the poor count (Washington, DC: South Asia Region, World Bank, 1998), p. 6.

⁷¹ See, Bangladesh Bureau of Statistics, Summary Report of the Household Expenditure Survey 1995-96 (Dhaka: Bangladesh Bureau of Statistics, 1997).

⁷² UNDP, Human Development Report 1996 (New York: Oxford University Press, 1997), p. 112.

worsened the situation. The Gini coefficient rose from 0.372 in 1985 to 0.430 in 1995 – a clear indication that inequalities are on the rise⁷³. Similarly, the number of landless people increased significantly over the last two decades. The rate of the landless in Bangladesh rose from 34 percent in 1972 to 68.8 percent in 1996.⁷⁴

Part of the reason for growing inequalities is that, as most studies suggest, adjustment programs have consistently benefited a small group of mainly financial and economic elites. Opportunities and gains have been concentrated in the hands of a few largely because of the absence of a mechanism to more equitably distribute both the costs and benefits of market-oriented economic reforms.⁷⁵ According to a report of the World Bank, inequality is higher in urban than in rural areas and women are more adversely affected than men throughout the country. The Bank admits that if appropriate measures had been taken to stop rising inequalities in the early 1990s, poverty would have been a minimum of 10 percentage points lower in 1995-96. In other words, about one third of the people categorized as “very poor” would have escaped poverty.⁷⁶

The results of the privatization program are even more disappointing. Despite the fact that privatization has been the most important component of Bangladesh’s market-oriented reform initiatives, the frustrating performance of the privatized industrial and commercial units hardly justify the logic that privatization is used as a means to both

⁷³ Ministry of Planning, The Fifth Five Year Plan: 1997-2002, p. 13.

⁷⁴ UNB, “Rate of Landless on the Rise”, The Daily Star, 19 August 1996, pp. 1 & 12.

⁷⁵ Overseas Development Institute, Briefing Paper, p. 1.

⁷⁶ World Bank, Bangladesh: from counting the poor to making the poor to count, p. 16.

improve efficiency and reduce the drain on the budget.⁷⁷ Many studies on the performance of divested units suggest that most privatized enterprises in the jute and textile sectors have not shown any clear signs of improvement in such areas as production, employment generation and profit.⁷⁸ While privatized mills performed somewhat better than the state-owned mills,⁷⁹ almost all divested jute and textile industries continued to incur losses since privatization.

More importantly, according to a report of the World Bank, 49.2 percent of the privatized industrial enterprises have performed so badly that they eventually closed their doors for good, reflecting the overall failure of the privatization program.⁸⁰ Although many of these industries were categorized by the Bank as “small industrial units”, the closure of 245 industries out of a total of 497 produced an extremely disappointing result for the country’s on-going privatization process. Similarly, privatized commercial banks failed to improve their operating efficiency in such crucial areas as credit management, deposit mobilization, financing of productive activities and net profit. Not only did they fail to develop competitive positions, but they also did poorly in preventing huge

⁷⁷ Sobhan, The Development of the Private Sector in Bangladesh, pp. 53-55.

⁷⁸ See Rehaman Sobhan and Syed Akhter Mahmood, The Economic Performance of Denationalized Industries in Bangladesh: the case of the jute and cotton industries (Dhaka: Bangladesh Institute of Development Studies, 1990).

⁷⁹ Lorch, “Privatization through Private Sale”, pp. 126-50.

⁸⁰ World Bank, Bangladesh: implementing structural reform, p. 73.

operating losses.⁸¹ If the trend remains unchanged, it is highly unlikely that the privatization program will ever improve the allocation of resources. Nor will it enable the country to develop an efficient, dynamic and productive private sector.

Frustration over the privatization program has been further compounded by the high default rate of the privatized enterprises. Interestingly enough, from the beginning of pro-market reforms, potential buyers received credits from DFIs toward the purchase and subsequent management of the SOEs. Indeed, the buyers were not required to make the full payment when becoming an owner of any SOEs. On the promise that the buyers could repay from their operating profits, in most cases, the successful bidders were only required to make a 20 percent downpayment of the bid total. The bidder was supposed to pay the balance within 5 years of purchase with a fixed annual interest rate of 8 percent.⁸² Further, on a number of occasions, the government announced loan forgiveness programs for the so-called sick industries.⁸³

In the absence of appropriate threats to borrowers, it soon became evident that most privatized firms were unwilling to service their loans. A recent study conducted on 201 divested industries shows that only 9 percent of owners bothered to maintain a solid credit history, while the remaining 81 percent defaulted on various accounts. This study

⁸¹ M. Moniruzzaman and Md. Sydur Rahman, "Profitability Performance of Denationalized Banks: a comparative study of the pre and post denationalization period", Bank Parikrama 15 & 16 (1990 & 1991), pp. 85-97.

⁸² Privatization Board, Privatization Policy (Dhaka: Privatization Board, 1994), pp. 4-5.

⁸³ Successive regimes have made "arbitrary remissions of interest and principal" for those privatized industries that have failed to repay loans on schedule largely because of their inability to promote dynamic efficiency following privatization.

also revealed that most firms have substantial amounts of both overdue and outstanding loans.⁸⁴ Unfortunately, the Financial Loan Courts have had very little impact on the recovery of such “bad loans”, while the defaulters have remained largely passive, refusing to meet their financial obligations. Sobhan and Sen provide a fascinating description of what the defaulters are doing with their public money:

..... a defaulter continues to live in a luxurious house, retain a fleet of cars, travel abroad, sponsor new ventures including financial institutions, and to borrow, in the name of other enterprises, from public financial institutions. There is no financial sanction on him to service his debt.⁸⁵

In brief, the lack of enforcement contributed to the creation of an extremely fragile financial system in Bangladesh, where defaulters rarely take initiatives to service their overdue and/or outstanding loans.

On the other hand, while continued devaluation of the taka partly reduced the anti-export bias of the economy,⁸⁶ it hardly enabled the export sector to become competitive in the changing global political economy. Part of the inability of the export sector to benefit from devaluation is due to the import bias of the export sector - which is largely dominated by non-traditional products, such as Ready Made Garments (RMG). For

⁸⁴ Tanweer Akram, “Problems of Privatization and Policy Options in Bangladesh”, paper presented at a seminar on “Privatization in Bangladesh”, Privatization Board, Dhaka 15 June 1998, pp. 9-11.

⁸⁵ Rehman Sobhan and Binayak Sen, “Trends in the Repayment Performance to the DFIs: implications for the development of entrepreneurship in Bangladesh”, in Sobhan (ed.), Debt Default to the Development Finance Institutions, p. 278.

⁸⁶ Nurul Islam, “Economic Policy Reform and the IMF: Bangladesh experience in the early 1970s”, in Rehman Sobhan (ed.), Structural Adjustment Policies in the Third World: design and experience (Dhaka: University Press, 1991), pp. 251-84.

instance, the RMG sector, which makes up about 50 percent of the country's export earning, relies heavily upon imported raw materials including fabrics, threads and buttons. Devaluation of the taka, therefore, makes such imported materials more expensive, and correspondingly, makes their export content cheaper.⁸⁷ This is exactly why currency adjustment failed to emerge as an appropriate method of increasing foreign exchange. Nor did it appear as an effective method for improving balance of payments or competitiveness of the export sector in the long run. Indeed, repeated devaluation of the taka in FY 96 negatively affected the country's external current account deficit. Following the six currency devaluations in FY 96, Bangladesh's foreign exchange reserves reached a dangerously low Level.⁸⁸

Conclusions

Many authors argue that during the transition to a market economy every adjusting country will inevitably experience some sort of turmoil in the economy. The economy may not positively respond to structural economic changes, both internal and external, as quickly as one would expect. This is largely due to the fact that the systematic replacement of what is called "interventionist structures" with pro-market mechanisms cannot be done overnight. More importantly, as most authors note, all types of reforms are always associated with transitional costs⁸⁹, meaning these reforms could

⁸⁷ Asma Baqi, "Why Slash Taka", Dhaka Courier 14 (15), 7 November 1997, pp. 29-30.

⁸⁸ World Bank, Bangladesh Annual Economic Update 1997, p. iii.

⁸⁹ Przeworski, Democracy and the Market, pp. 131-61.

enhance the levels of suffering of the majority in the short run. In other words, it usually takes a while before any benefits of adjustment become visible and the pains finally disappear. Unfortunately, the authors seem to be unable to clear up the issue of exactly how long a country needs to wait before adjustment begins to produce the expected socio-political results.

After almost two decades of experiments with economic liberalization, Bangladesh's economy is still struggling to both sustain macro-economic stability and develop a framework for rapid economic growth. Despite remarkable progress in stabilizing the economy in the early 1990s, the sudden increase in inflation rate, record low foreign exchange reserves, weak balance of payment situation and a revenue shortfall⁹⁰ have already undermined the prospects for restoring the fiscal health of the economy through liberalization programs. Indeed, the analysis above suggests that the net impact of market-oriented reforms can hardly be regarded as "satisfactory". Instead of ensuring the efficiency in the private sector, the privatization program has consistently benefited a small group of so-called entrepreneurs. Likewise, the financial sector reform activities failed to bring about improved performance in the financial sector, further worsening the crisis of debt default of commercial banks loans. More importantly, the enormous task of alleviating poverty has been virtually abandoned as growth of the economy remained stagnant for more than a decade. In fact, the country also witnessed a slow but steady process of rising inequality during the adjustment years.

⁹⁰ Inam Ahmed, "Rising Inflation, Low Forex & Revenue Shortfall Causes of Concern", The Daily Star, 9 June 1998.

In brief, the economic outcomes of the two decades' structural reforms are less than satisfactory. If the current trends remain unchanged, the desire of alleviating poverty and meeting the goals of sustainable democratic development through structural adjustment programs will inevitably face an uncertain future.

CHAPTER THREE

The Political Economy of Adjustment in Bangladesh: regime consolidation through economic reforms?

Introduction

As discussed in chapter two, structural adjustment programs (SAPs) apparently failed to improve the performance of Bangladesh's economy. Two decades after the introduction of market-oriented reforms, the economic policy elites are still struggling to develop a stable macro-economic framework, to increase productivity and to ensure rapid economic growth. What, then, explains the apparent inability of pro-market reform programs to bring about desired socio-economic outcomes? The World Bank blames "the unfinished reform program" for not achieving the expected goals of reform. It therefore focuses on the need for further accelerating reforms, "choosing the high road of faster policy and institutional reforms"¹. By contrast, a number of authors have criticized the international creditor community for imposing inappropriate reform policies that miserably failed to address the unique socio-economic reality of Bangladesh.²

This chapter, however, seeks to identify the main reasons for the failure of market reform programs to live up to their expectations by looking at the political economy of

¹ World Bank, Bangladesh: from stabilization to growth (Washington, DC: World Bank, 1995), p. xvii.

² Rehman Sobhan, "Structural Maladjustment: Bangladesh's experience with market reforms", Economic and Political Weekly 28(19), May 8, 1993, pp. 925-31.

adjustment. It focuses on three major questions: i) What political factors have led the successive regimes beginning with General Zia to implement structural economic reforms? ii) Despite unsatisfactory economic performance of adjustment why did all three regimes continue to carry out market reform programs? And iii) What encouraged the democratically elected government of Khaleda Zia to accelerate the pace of such reforms?

This chapter first proceeds to summarize the theoretical understanding of the political economy of adjustment by reviewing the works of principal authors in this case. It outlines some of the major politico-economic issues of market-oriented reforms. The chapter then provides a critical analysis of the liberalization program undertaken by General Zia. Looking at the process of using adjustment as a means to consolidate power, it examines the politics of adjustment under General Ershad's military regime. Then, the chapter attempts to develop a better understanding of the reasons for adopting a fast-track reform approach by the democratically elected government of Khaleda Zia. It focuses on the main constituencies of Mrs. Zia and examines the growing role of big business in the country's decision-making. The last section of this chapter provides some concluding remarks based on its main findings.

This chapter argues that structural adjustment programs were not implemented in order to accomplish macro-economic goals in Bangladesh. Contrary to the claims of the World Bank and the IMF, economic reforms were used primarily to consolidate the power of the ruling elites. Successive regimes, both military and civilian, treated market reforms as an instrument to build and maintain political coalitions in particular with traders and industrialists. In exchange for political support, they allowed business elites

to use SAPs as the primary tool to attain their financial and economic objectives. As a consequence, economic liberalization programs failed either to improve the performance of the economy, or to raise the living standards for the majority.

Understanding the Political Economy of Market Liberalization

Like many other reform programs, economic liberalization produces uncertain outcomes particularly in the short-run, and more importantly, generate both winners and losers. Both policy-makers and scholars therefore struggle to find an appropriate answer to questions such as “how to distribute the costs and benefits of adjustment among different social classes” and “how to minimize political opposition to adjustment”? Also, they deal with such puzzles as “to what extent do market liberalization measures enable most groups to benefit/gain” and “what actions should be taken if market-oriented reforms generate more losers than winners”? Interestingly enough, they make efforts as well to examine the impact of adjustment upon influential socio-political groups, which have the ability to effectively resist reform programs. It is no wonder that pro-reform actors are aware of the fact that the initiatives to develop a market-friendly economy almost inevitably generate popular resistance, when reform measures fail to pay appropriate attention to such crucial questions. In particular, the goals of reforms can easily be derailed if adequate measures are not taken to neutralize growing political opposition to economic reforms.

What becomes a major issue in adjustment literature, therefore, is how to overcome political resistance and/or opposition. This can be done, as John Waterbury suggests, by making sure that the regime in power is not “injuring the interests of all

coalition members simultaneously". In particular, when adopting reform programs, the regime needs to spread the burden of adjustment to different members of the coalition.³ More importantly, according to Haggard and Kaufman, governments must try to organize groups that have benefited from its economic liberalization program. This would certainly enable the pro-market forces to be in control of the overall political situation, meaning that they would be able to overcome political opposition led by the losers from adjustments, who are often found very effective in launching a resistance movement⁴.

In order for economic adjustment to succeed, quite a few authors - notably Joan Nelson, Jose Maria Maravall and Luiz Pereira - have focused on the need to develop a mechanism for providing compensation to those who experience severe losses. Most authors agree that it is generally the poor - low-wage workers, underemployed people and daily laborers - who suffer most when government services are cut, food subsidies are withdrawn and wage protection is removed. Unless the government adopts what Nelson calls a "pro-poor"⁵ strategy for economic reform, it is unlikely that these groups would remain passive until adjustment began to show some signals of improvement for the majority. In the absence of a compensatory mechanism, the losers are quite likely to initiate a broader political movement for scrapping adjustment programs, enhancing the possibility of creating a volatile political environment. Such a situation could force the

³ John Waterbury, "The Political Management of Economic Adjustment and Reform", in Joan M. Nelson, Fragile Coalitions: the politics of economic adjustment (New Brunswick, New Jersey: Transaction Books, 1989), pp. 39-56.

⁴ See Stephan Haggard and Robert Kaufman (eds.), The Politics of Economic Adjustment: international constraints, distributive conflicts, and the state (Princeton: Princeton University Press, 1992).

⁵ Joan M. Nelson, "The Politics of Pro-Poor Adjustment", in Nelson (ed.), Fragile Coalitions, pp. 95-113.

governments either to abandon or slow down the efforts to liberalize their economies, as happened in the cases of Brazil, Ecuador, Venezuela and Zambia.⁶

In addition to providing compensation to badly affected groups, governments need to generate wider support for reforms through building consensus on the necessity of removing barriers to the smooth functioning of the market. Attempts to reach a decision by not involving representative institutions not only can seriously jeopardize government's credibility, but may also contribute to a substantial decline in popular support for reforms. Such a situation could well lead to the development of a severe legitimacy crisis. In other words, the regime in power is very likely to witness erosion of public confidence and would probably face a major challenge to its ability to remain in office. Furthermore, the absence of a consensus on and widespread public support for economic reforms may reduce the chance of getting reelected. For example, the failure of structural economic reforms to immediately produce tangible economic outcomes was partly responsible for the defeat of the Narasimha Rao's government of India in the general elections of 1996.⁷ The opposition, particularly the Bharatiya Janata Party (BJP), launched a massive anti-reform campaign that not only did lead to the collapse of the Rao's secular regime, but also gave rise to the spirit of economic nationalism and Hindu fundamentalism in the world's "largest democracy". The BJP successfully exploited the anti-reform sentiment of the majority to its own political gain, emerging as the single

⁶ Barbara Geddes, "The Politics of Economic Liberalization", Latin American Research Review 30(2), 1995, pp. 195-215.

⁷ Timothy M. Shaw and Fahimul Quadir, "Democratic Development in the South in the Next Millennium: prospects for avoiding anarchy and authoritarianism", in Caroline Thomas and Peter Wilkin (eds.), Globalization and the South (London: Macmillan, 1997), pp. 36-59.

largest party in the *Lok Sabha*.⁸ Likewise, the voters of Turkey refused to reelect the ruling Motherland Party in 1991's general election as the latter failed to develop a broad consensus on the privatization of key state-owned enterprises in the country⁹.

This partially explains the reluctance on the part of many politicians to introduce liberalization programs. Even if they are informed about the long-term potential economic benefits of market-oriented reforms, they often want to make sure that the introduction of market reform programs will not radically change the prevailing power equilibrium simply because they have "enough stake" in it.¹⁰ Politicians are particularly reluctant to liberalize their economies in those places, where the traditional practice of economic populism have enabled the ruling elites to establish and maintain direct relations with their principal constituencies.¹¹ For obvious reasons, they refuse to adopt market reform policies, continuing to use interventionist strategies to benefit certain sections of the population in order to stay in power. In other words, politicians are primarily concerned with the maintenance of their political support as well as power base.

⁸ Shekhar Gupta, India Redefines its Role: an analysis of India's changing internal dynamics and their impact on foreign policy, Adelphi Paper 293 (Oxford: Oxford University Press, 1995), pp. 9-22.

⁹ See Ziya Onis, "Redemocratization and Economic Liberalization in Turkey: the limits of state autonomy", in Studies in Comparative International Development 27(2), Summer 1992.

¹⁰ Anne O. Kruger, "Problems of Liberalization", in Armeane M. Choksi and Demetris Papageorgiou (eds.), Economic Liberalization in Developing Countries (New York: Basil Blackwell, 1986), pp. 15-16.

¹¹ Luiz Carlos Bresser Pereira, "Economic Reforms and Economic Growth: efficiency and politics in Latin America", in Luiz Carlos Bresser Pereira et al., Economic Reforms in New Democracies: a social democratic approach (New York: Cambridge University Press, 1993), pp. 53-54.

Yet, governments may nevertheless pursue the agenda of economic reforms and sometimes take the risk of implementing a radical liberalization program. The lack of any real alternatives coupled with external pressure for removing market distortions has truly compelled many leaders of developing nations to adopt stabilization and adjustment policies.¹² For example, the pro-socialist Provisional National Defense Council (PNDC) government of Ghana¹³ and the anti-market regime of Carlos Menem in Argentina were left with no other choice but to initiate a somewhat contradictory movement toward free markets.¹⁴ Interestingly enough, in both cases, the governments sought to develop new political coalitions through the implementation of adjustment measures. Apart from the need to tackle economic crises, their attempts to construct market capitalism were largely driven by political goals. Both regimes viewed economic reforms as a process of building new forms of political coalitions.

In brief, economic reforms can be effectively used as a political tool to either generate a new coalition in favor of the regime in power or to expand the support-base for the reigning regime. Margaret Thatcher of the United Kingdom, for instance, was quite

¹² Peter Gibbon argued that almost all the programs of economic liberalization were designed outside many African nations that implemented market-oriented reforms. See Peter Gibbon, "The Introduction: structural adjustment and the working poor in Zimbabwe", in Peter Gibbon (ed.), Structural Adjustment and the Working Poor in Zimbabwe (Uppsala: SIAS, 1995), p. 21

¹³ Nii Kwaku Sowa, "A Decade of Structural Adjustment", West Africa, No. 3968, 11-17 October 1993, pp. 1809-1811.

¹⁴ To the surprise of many, given Argentina's mounting economic problems, Menem quickly decided to establish political alliances with both powerful national business groups and the international creditor community in order to attain macro-economic stability. In so doing, he obviously ended his traditional ties with unionized labor and working class. See Leslie Elliot Armijo, "Menem's Mania? the timing of privatization in Argentina", mimeographed, 1994, pp. 19-20.

successful in expanding and consolidating her popular support-base through the adoption of a radical liberalization program. She was able to convince enough people that her privatization programs were designed to improve living standards for ordinary citizens of the country.¹⁵ Likewise, in order to stay in office, Turgut Ozal of Turkey effectively used privatization to demobilize his political enemies.¹⁶

General Zia: economic liberalization as a means to consolidate power?

The severe financial and economic crisis that General Zia had inherited from the Awami League (AL) regime prompted the necessity of initiating a search for a better alternative to the excessively interventionist development model adopted by the post-independence Mujib government. Seeing the extremely frustrating results of the socialist strategy, he quickly decided to move away from the state-led development approach and took firm initiatives to build a market-friendly economic structure. While it appeared that his major concern was to ensure a rapid recovery of the collapsing economy, empirical evidence suggests that his market-oriented reforms were primarily driven by his political goals. He was indeed smart enough to realize that the military regime lacked legitimacy, in constitutional and popular terms, for ruling the nation. In order to gain legitimacy, therefore, his military regime needed both to develop a popular support base and to generate a new coalition.

¹⁵ Mariusz Mark Dobek, The Political Logic of Privatization: lessons from Great Britain and Poland (London: Praeger, 1993), pp. 3-5.

¹⁶ Ziya Onis, "Privatization and the Logic of Coalition Building: a comparative analysis of state divestiture in Turkey and United Kingdom", Comparative Political Studies 24(2), July 1991, pp. 231-53.

As a pragmatic politician, he clearly understood the inability of any interventionist development strategy to keep him in power, let alone expand his support-base. From mid-1974, the pressure for liberalizing the economy was gradually mounting. The World Bank had already begun to push the Mujib government to embark upon a massive denationalization program so that the private sector could play a key role in the economy.¹⁷ The assassination of Mujib in August 1975 added a new dimension to such a growing “political conditionality” of foreign aid. Both the IMF and the World Bank saw the demise of Mujib’s socialist regime as an opportunity to pursue their market-driven economic policies. In other words, they used Zia’s political vulnerability to the advantage of the international donor community. Therefore, the IMF and the World Bank increased their pressure upon Zia’s military regime for immediately abandoning the statist approach adopted by the Mujib regime.

Also, the pressure from key domestic actors, namely the emerging Bengali entrepreneurs, and high level bureaucrats and technocrats, was increasing as they had started demanding an immediate improvement in the business environment. Importantly, while most of these actors never lent their support to the AL’s interventionist development strategy, they kept their silence until such an approach began to produce extremely disappointing economic results. With the failure of Mujib’s so-called socialist program to improve the living standards for the majority, these powerful actors began to exert their political influence in order to develop a policy environment conducive to stimulating private investment.

¹⁷ Nurul Islam, Development Planning in Bangladesh: a study in political economy (London: C. Hurst & Company, 1977), p. 246.

Zia grabbed this rare conjuncture to create an anti-Awami League and anti-socialist political coalition designed to remain in power and mobilize popular support in favor of his military government.¹⁸ His target was to make alliances with the dominant politico-economic groups, namely the civil-military bureaucratic elite, businessmen and industrialists. Like most military leaders of the Third World, however, he began to consolidate his power-base with the support of Western-educated senior civil and military officials and professionals. Considering them as his strategic allies, he decided to heavily rely upon senior civil-military bureaucrats, which was clearly reflected in the formation of his first Council of Advisors. The seventeen-member Council was composed of seven senior civil bureaucrats/technocrats, five professionals, three former chiefs of the armed forces and two politicians.¹⁹ As part of his attempt to make such groups his coalition partners, he continued to focus on the appointment of bureaucrats, military officials and technocrats as his advisors and/or cabinet ministers throughout his rule.²⁰ Such a trend remained largely unchanged even after the completion of presidential and parliamentary elections. In 1981, for instance, senior civil bureaucrats and high level military officials dominated his so-called civilian cabinet. Of the 24 members, civil-military bureaucrats occupied a total of seventeen positions, accounting for some 70 percent of the total.²¹

¹⁸ Marcus Franda, Bangladesh: the first decade (New Delhi: South Asian Publishers, 1982), p. 223.

¹⁹ A. M. Quamrul Alam, "The Nature of the Bangladesh State in the Post-1975 Period", Contemporary South Asia 2(3) 1993, p. 313.

²⁰ Syed Serajul Islam, Bangladesh: state and economic strategy (Dhaka: University Press, 1988), pp. 122.

²¹ Ibid., p. 123.

Table 3.1
Occupational Background of the BNP Legislators Elected in 1979

Occupation	Number	Percentage of Total
Businessmen & Industrialists	84	28.0
Professionals	78	26.0
Landholders	58	19.3
Bureaucrats & Technocrats	40	13.0
Trade Union Leaders	6	2.0
Others	34	11.3
Total	300	100

Source: Islam, Bangladesh, p. 130

Apart from the bureaucrats and professionals, Zia's military regime drew its support from both established and emerging industrial and business elites of the country.²² As Zia began to legitimize his "unconstitutional power-base" through a

²² It is important to mention that traditionally traders and industrialists rely upon the state for financial and technical support required to operate business and industrial enterprises in Bangladesh. This is largely due to the failure of the local bourgeoisie to emerge as a dominant economic force during the periods of British and Pakistani colonial rule. Unlike the Indian case, at independence Bangladesh lacked a strong entrepreneurial class that could play a crucial as well as autonomous role in the economy. Such a situation in turn contributed to the emergence of a mutually dependent relationship between the state and big business. See Rehman Sobhan, "Public Enterprises and the Nature of the State", Development and Change 10(1), January 1979, pp. 23-40.

program of what is known as “civilianization of military regimes”, he went on to expand his coalition mainly by incorporating traders and industrialists.²³ After becoming his key partners, these large business and industrial groups offered financial and political support to Zia’s legitimization initiative. Both in the presidential elections of 1978 and the *Jaitya Sangsad* (parliamentary) elections of 1979, Zia and his newly formed political platform “the Bangladesh Nationalist Party” (BNP) received huge funds from businessmen and industrialists. Zia and his party candidates therefore never had any problems meeting massive election expenses. In fact, money was lavishly spent on pleasing and entertaining the voters. The candidates, more importantly, never bothered to report the actual amount spent on covering campaign costs. As well, the Election Commission did very little to audit election expenditures.²⁴

Zia’s attempt to make big business his coalition partner became more evident in the *Jaitya Sangsad* elctions of 1979. About 28 percent of the newly elected BNP members of the *Jaitya Sangsad* were traders and industrialists, emerging as the largest occupational group in the parliament. As shown in table 3.1, the professionals and bureaucrats/technocrats, on the other hand, accounted for 26 percent and 13.4 percent of the BNP members of the *Jaitya Sangsad* respectively. Similarly, Zia’s desire to find a commanding position for the “millionaires” was also reflected in the composition of the

²³ Zia became quite aware that without developing a political system based on popular support, his military regime might not be able to stay in power by force alone. He therefore sought to initiate a process of giving his military regime a civilian character. See Talukder Maniruzzaman, The Bangladesh Revolution and its Aftermath (Dhaka: Bangladesh Books International, 1980), pp. 214-28.

²⁴ Stanley A. Kochanek, Patron-Client Politics and Business in Bangladesh (Dhaka: University Press, 1993), p. 226.

Table 3.2
Occupational Background of the BNP Executive Committee in 1981

Occupation	Number	Percentage of Total
Businessmen & Industrialists	57	33.5
Professionals	53	31.2
Landholders	20	11.7
Bureaucrats & Technocrats	11	6.5
Trade Union Leaders	2	1.2
Others	27	15.9
Total	170	100

Source, Islam, Bangladesh, p. 128.

BNP Executive Committee in 1981. As shown in table 3.2, the businessmen and industrialists constituted 33.5 percent of the BNP Executive Committee, establishing their dominance in the Party's decision-making process. Following the *Jaitya Sangsad* elections of 1979, Zia also appointed four businessmen as cabinet ministers, sharing state power with the large trading families of Bangladesh.²⁵

²⁵ Islam, Bangladesh, p. 123.

It was no wonder that the business-industrialist group used Zia's political vulnerability to its own politico-economic advantage. Knowing that Zia would always turn to them for political and financial support, they successfully developed a true patrimonial state structure in Bangladesh. This is, however, not to say that, without Zia's tacit consent and involvement as well, the state became "patrimonial". On the contrary, General Zia deliberately offered legal and illegal, formal and informal economic and political concessions to business and industrialist groups. In return for donations and political support by business to his legitimization process, Zia indeed allowed them to use public resources to enhance their personal and organizational goals. These concessions included a variety of practices such as discouraging relevant financial institutions - including the Bangladesh Bank - from effectively designing and implementing tighter credit policy, overlooking large-scale tax evasion and non-enforcement of legal provisions.

In particular, the use of economic reform programs to benefit a small group of traders and industrialists was clearly reflected in the privatization of SOEs, which was the major component of his market liberalization program. His military regime, for instance, did virtually nothing to identify the broad objectives of the privatization program. Nor did it make any meaningful attempt to justify the government's decision to embark on its program of transferring SOEs. More importantly, unlike most adjusting nations, Zia and his policy advisors did not seek to generate revenue from the sale of public enterprises. Similarly, the government never really tried to win popular support, let alone employee participation and motivation.

Although it is a common practice that the market should determine the value of an SOE and the unit should be sold for cash, most SOEs were virtually sold for "give-away

prices”.²⁶ As well, the buyers did not have to invest their own money to buy a public enterprise. Subsidized credits from public funds were made readily available to them. Furthermore, the entire process of transferring SOEs to the private sector lacked transparency. The government never actually bothered to keep the people informed about the process of valuation and formal negotiations that took place between the state and interested buyers. Such practices not only drew severe criticism, but also contributed to the development of political opposition to economic reforms in the country. Almost all trade union federations demanded the scrapping of the government’s privatization program.

The government-business relationship also reduced the military regime’s ability to develop an appropriate legal and regulatory framework to enhance competition and efficiency of the private sector and to protect public interests. This in effect encouraged private entrepreneurs to quickly become rich by misusing public resources. A considerable number of buyers of SOEs and private investors, who borrowed money from different Development Financing Institutions (DFIs), emerged as “willful defaulters” as they refused to service their debts. Most of them invested money in non-productive and even illegal areas of business and made huge unreported profits.²⁷ Virtually no legal action was taken against them as they continued to enjoy political patronage from the Zia regime. In other words, corruption began to find institutional foundations during the rule of General Zia, who himself admitted that

²⁶ George F. Palmer, The EIU Global Privatisation Manual: a practical guide to the process and practitioners (London: The Economist Intelligence Unit, 1994), p. 31.

²⁷ Talukder Maniruzzaman, “The Fall of the Military Dictator: 1991 elections and the prospect of civilian rule in Bangladesh”, Pacific Affairs 65(2), Summer 1992, p. 219.

corruption and misuse of power have led to the wasting of almost 40 percent of the total resources set apart for development.²⁸

Despite of the fact that Zia was fully aware of such a deplorable situation, he did not take initiatives to either develop a well-defined legal framework or to enforce existing laws in order to prevent what Tat Yan Kong calls the “private misappropriation and abuse of public funds”.²⁹

While such a mutually dependent relationship between the government and big business severely undermined the ability of the government’s economic reform programs to live up to its expectations, it indeed enabled Zia to legitimize his unconstitutional regime. The political and financial support he received from the big businessmen and industrialists gave him a great deal of confidence in successfully carrying out the so-called civilianization programs. He registered a landslide victory, for instance, in the presidential elections of 1978, receiving 76 percent of the total votes cast. Likewise, the voters responded positively to his 19-point program in the *Jatiya Sangsad* elections in 1979. His BNP had no difficulty whatsoever in securing a two-thirds majority in the parliament.³⁰ By contrast, during his five-year rule, the opposition remained highly fragmented and therefore failed to build a momentum in its fight against military

²⁸ V. P. Puchkov, Political Development of Bangladesh: 1971-85 (New Delhi: Patriot Publishers, 1989), pp. 171-74.

²⁹ Tat Yan Kong, “Corruption and Its Institutional Foundations: the experience of South Korea”, IDS Bulletin 27(2), April 1996, p. 49.

³⁰ Zillur R. Khan, Martial Law to Martial Law: leadership crisis in Bangladesh (Dhaka: University Press, 1984), pp. 179-80.

authoritarianism.³¹ Part of the reason for their inability to mobilize popular support in general, and to draw support from the business community in particular, was that unlike the ruling party, they did not have any control over the established post-independence “patronage” system.³²

General Ershad: legitimization, market reform and patrimonialism

After coming into power in March 1982, unlike Zia, General Ershad had to deal with an extremely difficult political situation. Despite his promise of quickly restoring democracy, eliminating corruption, restoring people’s confidence in the deteriorating law and order situation and rebuilding the economy,³³ he found himself in a position that was less than welcoming. In fact the country seemed to have been surprised by the military takeover of General Ershad. The coup took place only five months after the presidential election through which the country was slowly returning to civilian rule. More significantly, the newly elected President, Justice Abdus Sattar, was enjoying popular support as he was trying to remove some of the ministers who were severely criticized for being corrupt and inefficient.³⁴ Thus, all major social groups, including students, workers,

³¹ The successful use of a “carrot and stick” policy by General Zia significantly reduced the ability of the opposition to emerge as an effective challenge to his military regime. Such a policy enabled Zia to coopt a number of important opposition leaders, which in effect frustrated the hope for launching a nation-wide anti-military movement in the late 1970s. Despite several attempts, the mainstream opposition led by the AL failed to generate adequate popular support for the restoration of democracy.

³² Kochanek, Patron-Client Politics and Business in Bangladesh, p. 229.

³³ Muhammad A. Hakim, Bangladesh Politics: the Shahabuddin interregnum (Dhaka: University Press, 1993), p. 11.

³⁴ Moudud Ahmed, Democracy and the Challenge of Development: a study of politics and military interventions in Bangladesh (Dhaka: University Press, 1995), p. 217.

journalists and university professors refused to lend support to the military regime. Instead, many of them decided to launching a resistance movement against General Ershad's unconstitutional government.

The rational choice for General Ershad was, therefore, to rely on key domestic and external actors for consolidating his position. He knew that the donor community, especially the World Bank and the IMF, was unhappy about the slow pace of reforms. They wanted to see Bangladesh adopting fast-track reform programs so that it could rapidly improve its macro-economic performance. In deed, the World Bank and the IMF did not waste anytime to put pressure on Ershad's military government for enforcing "conditionalities". For instance, the IMF suspended its Extended Fund Facility (EFF) program for failure of the country to conform to all the adjustment-related conditionalities.³⁵ However, the military regime's quick decision to pursue greater liberalization programs in general, and to comply with the articles of agreement of the IMF in particular, restored the confidence of international financial institutions. Similarly, the desire of the business community was to remove all kinds of ambiguity from the private sector-led development strategy adopted by Zia. The position of senior military and civil officials was very much the same, looking forward to further implementing neo-liberal economic policies.

In addition to drawing support from the international donor community, General Ershad chose to depend heavily upon the military and civil bureaucracy largely through the path which Zia had adopted. In other words, his primary target was to develop a

³⁵ Mashiur Rahman, Structural Adjustment, Employment and Workers: public policy issues and choices for Bangladesh (Dhaka: University Press, 1994), p. 14.

coalition with what is known as the “civil-military bureaucratic oligarchy”.³⁶ However, unlike Zia, he decided to more heavily rely on the military than its civilian counterpart; in other words the civil bureaucracy. This was largely done to keep the military, as his primary constituency, fully satisfied. Military officials, for instance, dominated his first Council of Advisors. Out of the total of 17, the military alone occupied 8 positions, followed by bureaucrats and technocrats with 7 positions. As he moved to the phase of legitimization and/or civilianization, he expanded his coalition by including a significant number of businessmen, industrialists and politicians.³⁷

But in the face of growing resistance to his military authoritarian regime, Ershad found it increasingly difficult to both expand and legitimize his political support base. Unlike Zia, he clearly failed to keep ordinary citizens quiet about and supportive of his regime. Realizing that he would probably never be able to draw support from key civil society actors, such as the students, the poor, public sector employees, workers and intellectuals, General Ershad went on to strengthen his ties with the business community, particularly with trading and industrial giants. In order to give his legitimization programs a chance to survive, he opened the floodgate to political donations from the business community. This was an important survival strategy largely because not only did he need a huge amount of money to keep his own party alive and dominant, but also to pay off some key opposition political parties. As Kochanek noted, it was believed that, General Ershad bribed the agitating opposition, which had initially refused to participate in any elections under his military regime. As a result, a number of major opposition

³⁶ Alam, “The Nature of the Bangladesh State in the Post-1975 Period”, p. 317.

³⁷ Ibid.

parties took part in the parliamentary elections of 1986 and 1988, giving the legitimization process some sort of credibility.³⁸

In exchange for their generous contributions to the party fund as well as their support for military rule, General Ershad allowed the business elites to further accumulate their wealth largely through the misappropriation of public resources. His economic liberalization programs became the means through which private entrepreneurs continued to enrich themselves. For instance, the massive transfer of SOEs to the private sector was basically done without putting an appropriate mechanism in place. There was no standard basis for valuation of public enterprises. As in Zia's time, no clear step was taken either to generate revenues for the state through the sale of public enterprises or to even make the deals transparent. Such a relaxed environment proved to be extremely beneficial for the buyers, enhancing the opportunity to cumulate their wealth.

The liberalization of the import regime, on the other hand, all of a sudden created a huge demand for foreign goods, ranging from shaving cream, shampoo and electronic appliances to luxurious cars. This increasing demand helped the traders to multiply their profits in two specific ways. First of all, taking advantage of an undervalued foreign exchange rate, they simply flooded the local markets with imported goods and sold them at relatively higher prices. And secondly, with the help of senior government officials, they commonly used the under-invoicing technique in order to evade appropriate customs duties and sales tax, therefore lowering the cost of imported goods and significantly increasing their profits.³⁹ Unofficial imports, in particular smuggling, also became a

³⁸ Kochanek, Patron-Client Politics and Business in Bangladesh, pp. 226-27.

³⁹ Maniruzzaman, "The Fall of the Military Dictator", pp. 218-19.

common practice during this period. According to one estimate, illegal imports have come to constitute about 18 percent of total imports into Bangladesh,⁴⁰ owing to loose enforcement of legal provisions.

Such an absence and/or weak enforcement of legal terms was also reflected in the financial sector, where the problems of loan default reached a precarious level. Despite his promise to decisively act against the loan defaulters, General Ershad did virtually nothing to check the problem. Instead, quite a few studies suggest that he actually encouraged the DFIs to make loans that were highly unlikely to be recovered.⁴¹ The World Bank also criticized the government for politically using the DFIs' lending operations. According to a World Bank report,

The high default rate among Nationalized Commercial Bank (NCB) borrowers has occurred because these banks have been poorly managed and have had little incentive to make good loans. Government direction and intervention has been rife. NCBs have had to make high-risk loans to priority sectors, new entrepreneurs, public corporations, 'sick' industries and borrowers with political influence. They have also had to endure loan forgiveness programs by the government. Their loan lending practices have not used commercial criteria; for example, they have used imprudently high debt to equity ratios as a basis for lending.⁴²

⁴⁰ World Bank, Bangladesh Trade Policy Reform for Improving the Incentive Regime (Washington, DC: Public Sector Development and Finance Division, World Bank, 1996), p. 7.

⁴¹ Rehman Sobhan, "National Sovereignty, External Dependence and Government of Bangladesh", National Professor Anwar Hossain Memorial Lecture, Dhaka, 26 October 1991, p. 10.

⁴² World Bank, Bangladesh: from stabilization to growth (Washington, DC: World Bank, 1995), p. 138.

DFI loan defaults doubled in the 1980s, increasing from Tk 5.2 billion in 1982 to Tk 10.5 in 1990.⁴³ It was no wonder that the private sector accounted for 96.5 percent of total bad lending. Also, the debt equity ratio reached 90:10 during General Ershad's nine-year rule.⁴⁴

In addition to weak implementation of existing rules, Ershad's increasing political dependence upon big business also enabled the defaulters to evade legal actions. With the intensification of an anti-military movement led by key civil society groups, Ershad began to focus on the inclusion of large business and industrial houses in his coalition. Like Zia, he encouraged them to emerge as a dominant political force in the country. In his 1988 cabinet, for example, he appointed six businessmen as ministers.⁴⁵ While the unavailability of any reliable data makes it difficult to provide accurate information on business representation in decision-making, according to one estimate some 40 percent of Jatiya Party (JP) members elected in 1986 *Jatiya Sangsad* were big businessmen. Representation of big business in the decision-making process continued to increase over the next few years.

Despite such growing partnerships with big business, the military and senior civil bureaucrats, General Ershad was not able to resolve the legitimacy crisis. Failing to overcome growing political opposition to his authoritarian military regime, he had to step down in December 1990. Yet, the fact cannot be denied that, without a solid political

⁴³ Rehman Sobhan (ed.), Debt Default to the Development Finance Institutions: the crisis of state sponsor entrepreneurship in Bangladesh (Dhaka: University Press, 1991), p. 5.

⁴⁴ Clare E. Humphrey, Privatization in Bangladesh: economic transition in a poor country (Boulder, CO: Westview Press, 1990), p. 75.

⁴⁵ Kochanek, Patron-Client Politics and Business in Bangladesh, p. 223.

support base, he remained in office for full nine years largely with the help of his coalition partners and the IFIs-sponsored adjustment programs.

Rapid Market Reforms under the Democratically Elected Regime: does external pressure explain the adoption of a drastic liberalization program by Khaleda Zia?

As discussed in the previous chapter, although Ershad made a departure from his predecessor's gradual approach to economic reform, it was not until the assumption of power by the democratically elected regime of Mrs. Khaleda Zia in 1991 that the country saw the implementation of massive liberalization programs. Under the leadership of Finance Minister M. Saifur Rahman, the regime took the reform agenda beyond the privatization of SOEs and the development of a strong private sector. Mrs. Zia's BNP government indeed undertook comprehensive reform programs that included, among other things, trade and financial liberalization, deregulation of the import regime and the reform of SOEs. Popular assumptions refer to external pressure as the primary cause of the adoption of a radical approach to market liberalization by Mrs. Zia's democratically elected government.

On a number of occasions, the World Bank, the IMF and other key bilateral donor countries and/or organizations indeed expressed their serious concern about the slow pace of reforms. Also, they emphatically stated their dissatisfaction over the failure of Ershad's military regime to develop an appropriate legal and regulatory framework for improving the performance of reforms. Such a frustration was clearly manifested in the

reduced aid commitment apparent in the Aid Group meeting in 1990.⁴⁶ Thus, after the collapse of the military regime, they began to push the BNP government to speed up its reform program in order to achieve broader goals of economic development, poverty alleviation and employment generation.⁴⁷ For example, referring to the disappointing results of market liberalization, the Bank suggested that

...the pace of reforms remains unsatisfactory. More and faster reforms are needed, if (the government's) high investment and high exports strategy is to succeed and have a significant impact on poverty alleviation.⁴⁸

Other major donor countries also came forward with similar policy prescriptions, emphasizing the need for further speeding up reforms.

This external pressure helps to explain the shift, but only in part. The government's inability to neutralize and/or resist donor pressure resulted from two major factors. First, Bangladesh's historical reliance upon foreign aid virtually made it impossible for the BNP regime to ignore donor advice. Despite a decline in the flow of foreign aid into the country, between 1990 and 1995 Bangladesh received a total of \$7,564 million, which constituted some 48 percent of the country's development

⁴⁶ Bhuian Monoar Kabir, "Politico-Economic Limitations and the Fall of the Military Authoritarian Government in Bangladesh", Armed Forces & Society 21(4), Summer 1995, p. 565.

⁴⁷ UNB, "Donors for Pushing Thru' Reforms", The Daily Star, 11 February 1994, p. 12.

⁴⁸ Star Report, "Political Resistance Behind Slow Pace of Reforms: World Bank", The Daily Star, 3 June 1994, pp. 1 & 12.

expenditure.⁴⁹ In other words, such a massive volume of external aid enabled the BNP regime to keep the economy moving.

Second, and perhaps more importantly, the growing government-big business nexus either pushed or encouraged Mrs. Zia's government to accelerate market reform programs. Like the donor community, key business actors believed that both the Zia and Ershad regimes did not do enough to ensure private participation in the economic development of the nation. They were particularly critical of the government's reluctance to allow the private sector to get involved in improving infrastructural facilities and activities. Also, they were disappointed with what they called "the slow pace of trade reforms", particularly import liberalization.⁵⁰ Thus, they demanded that the government must take concrete steps to further deregulate the economy and promote greater competition. As well, they called for making "actual progress" in privatizing SOEs.⁵¹

The BNP regime's vulnerability largely stemmed from the party's traditional reliance upon big business. Neither Prime Minister Mrs. Zia nor Finance Minister Saifur M. Rahman was in a position to act independently of the business community. Indeed, the BNP's willingness to establish even closer ties with big trading and industrial houses became crystal clear in the *Jatiya Sangsad* elections of 1991, when the party deliberately

⁴⁹ Ministry of Planning, The Fifth Five Year Plan: 1997-2002 (Dhaka: Ministry of Planning), p. 8.

⁵⁰ Interviews with a representative of the Metropolitan Chamber of Commerce and Industry, Dhaka, who wanted to remain anonymous, June 1998.

⁵¹ Comments of Laila R. Kabir, President, Metropolitan Chamber of Commerce and Industry, Dhaka, at a seminar on "Privatization Policy in Bangladesh and Options", Dhaka, 15 June 1998.

picked up almost half of its candidates from the big business category.⁵² This was partly done in response to the rapidly changing nature of electoral politics in Bangladesh. From the mid-1980s, it increasingly became clear that the chance of winning would no longer depend upon the candidate's credentials or the party's election manifesto. Instead, the

Table 3.3
Occupational Background of the Legislators Elected in 1991

Occupation	Number	Percentage of Total
Businessmen & Industrialists	177*	59.0
Professionals	64	21.34
Bureaucrats & Technocrats/Professors	22	7.33
Landholders	12	4.0
Journalists	6	2.0
Others	19	6.33
Total	300	100

*This figure includes a total of 17 former military officials who are currently running business and/or industrial enterprises.

Source: Maniruzzaman, "The Fall of the Military Dictator", p. 214.

⁵² MRCB, Nirbachan 1991 [Election 1991] (Dhaka: MRCB, July 1991), p. 6.

candidate needed to spend millions of Tk in order to ensure victory in any elections. In other words, without a lavish display of wealth one could hardly imagine getting people's endorsement for holding a public office.⁵³

The staggering campaign costs encouraged the BNP leadership to nominate the "millionaires" in the crucial *Jatiya Sangsad* elections of 1991, therefore further strengthening its relations with big business. This is not to say, however, that such a practice was only limited to the BNP. All other major political parties participated in the elections of 1991 followed a similar policy when choosing party candidates. For instance, 32.9 percent of AL candidates and 33.3 percent of Jatiya Party (JP) candidates were from the big business category.⁵⁴ In fact, high campaign costs, as Muhammad Hakim noted, "discouraged many formidable aspirants of low financial ability to contest the parliamentary elections".⁵⁵

It was no wonder that not only did the BNP emerge as the single largest party in the *Jatiya Sangsad*, but also traders and industrialists came out as the dominant group in the parliament. As shown in table 3.3, the business-industrialist group constituted some 59 percent of the newly elected members of the *Jatiya Sangsad*, reflecting an increase of

⁵³ Shah AMS Kibria, "A House of Millionaires: is this the kind of parliament we fought for?" The Daily Star, 27 February 1994.

⁵⁴ MRCB, Nirbachan 1991, p. 6.

⁵⁵ Hakim, Bangladesh Politics, p. 48.

Table 3.4
Occupational Background of the Members of Mrs. Zia's Ministry
in 1991

Occupation	Number	Percentage of Total
Businessmen and Industrialists	23	57.5
Professionals	8	20.0
Bureaucrats, Technocrats/Professors	7	17.5
Landholders	1	2.5
Others	1	2.5
Total	40	100

Source, Maniruzzaman, "The Fall of the Military Dictator", p. 217.

about 95 percent over a period of just twelve years.⁵⁶ In particular, the number of business representatives increased from 67 in 1973 to 91 in 1979 and 177 in the *Jatiya Sangsad* of 1991. Out of the 141 newly elected BNP members in the parliament, on the other hand, 94 were businessmen and industrialists.⁵⁷ In point of fact, while businessmen and industrialists constituted 28 percent of the elected BNP members in the 1979 *Jatiya Sangsad*, the same group comprised some 67 percent of the BNP legislators in the

⁵⁶ It is worthwhile to note that all major socio-political groups in Bangladesh tend to view parliamentary membership as a key to success in both economic and political terms. This is largely due to the fact that, while the *Jatiya Sangsad* does not always play a crucial role in decision-making, parliamentary members can use their position as a bargaining tool. In other words, parliamentary membership is often used to attain two principal goals: first, to advance individual and/or group interests and second, to wield control over the decision-making process.

⁵⁷ Maniruzzaman, "The Fall of the Military Dictator", p. 216.

parliament of 1991.⁵⁸ The dominance of big business in decision-making is also reflected in the composition of Prime Minister Mrs. Zia's ministry. As seen in table 3.4, big business constituted some 58 percent of the 1991 ministry, which was formed following the country's return to parliamentary democracy. This of course indicated a major change in the policy-making process of the country in general, and of the ruling BNP in particular. The overwhelming majority of business legislators and ministers made it evident that big business had emerged as the dominant political force in Bangladesh.

During Mrs. Zia's five-year rule, the business community therefore played a central role in implementing a rapid liberalization program. As discussed in the previous chapter, the democratically elected regime undertook massive reform programs in order to eliminate the barriers to both large and small-scale private sector investment. The programs also aimed at both improving the country's macro-economic performance and ensuring competition and efficiency. While such an accelerated pace of reforms enabled the country to achieve some sort of macro-economic stability,⁵⁹ it sparked popular opposition to reforms, which was clearly reflected in the BNPs' failure in the mayoral elections in Dhaka and Chittagong in 1994. Like Zia's and Ershad's military regimes, the BNP government did nothing to manage distributive conflicts generated by faster reform programs. Part of the reason for the regime's inability to even address the distribution issue was the total dominance of businessmen and industrialists in decision-making.

⁵⁸ Similarly, businessmen and industrialists emerged as the dominant force among the legislators of the two major opposition parties, namely the AL and the JP, in the *Jatiya Sangsad* elections of 1991. About 63 percent of the JP members of parliament were businessmen, while big business constituted some 51 percent of the AL legislators. See Maniruzzaman, "The Fall of the Military Dictator", p. 216.

⁵⁹ World Bank, Bangladesh: from stabilization to growth, pp. 7-11.

More important perhaps was the fact that business legislators and ministers used the liberalization program to ensure their personal gains in terms of accumulating both wealth and power. Indeed, the increasing presence of big business in decision-making put formidable obstacles in the path of an appropriate legal and regulatory framework necessary to ensure that private entrepreneurs comply with the rules of the game. Using their growing political power, businessmen-industrialists successfully prevented the government from constructing a well-functioning legal system that would protect consumer rights, make contracts enforceable and stop inappropriate/illegal business practices. Although, under donor and public pressure, the democratically elected regime of Mrs. Zia made some attempts to improve the regulatory framework, the lack of enforcement continued to help big business to abuse public resources for private gains. For instance, the newly established Financial Loan Courts made little progress in either recovering overdue loans from the defaulters or in ensuring an improved performance of the lending institutions. In fact, apart from making the legal provisions for setting up these courts, the government hardly did anything to enhance their ability to effectively act against the politically influential defaulters.⁶⁰

The absence of a minimum consensus on economic reforms under a democratic regime also contributed to the apparent failure of adjustment policies to bring about sustained politico-economic results. Like Generals Zia and Ershad, the BNP regime evidently neglected the importance of both generating popular support in favor of its liberalization program and of developing a broad political consensus on major reform

⁶⁰ World Bank, Bangladesh: annual economic update – economic performance, policy issues and priority reforms (Washington, D.C.: South Asia Region, the World Bank, 1997), p. 17.

issues by organizing dialogues with relevant actors, including the trade unions.⁶¹ Despite expectations, it did not initiate any programs for educating people as to the costs and benefits of market reforms. Nor did the government make any attempt whatsoever to resolve the distributive conflicts associated with market-oriented reform programs. Since the reform programs were not accompanied by any mechanism for compensating the losers/sufferers, they continued to generate political resistance to adjustment programs, which was manifested in the growing labor unrest in the country.

Considering the government's privatization program as a direct threat to the livelihoods of public sector employees, the Sramik Karmachari Oikka Parishad (SKOP) - an alliance of some fifteen national trade union federations - launched a massive anti-reform movement. Although it was widely hoped that a democratic government would pay more attention to the welfare of the workers, like Zia and Ershad, Mrs.Zia's regime failed to overcome the workers' opposition to the on-going liberalization program. This was largely due to the inability of the government to implement an acceptable compensation package that would ensure the protection of the interests of the workers.⁶² Also, in the absence of an effective reconciliation mechanism, the government could not act decisively and rapidly to resolve labor disputes, further contributing to the development of a highly confrontational labor-government relationship in the country, which eventually prompted the fall of the BNP regime.

⁶¹ This was largely due to the government's inability to act independently of the business community. The increasing reliance of the BNP government upon big business prevented the state from undertaking programs designed to promote and protect the interests of vulnerable groups.

⁶² World Bank, Bangladesh: privatization and adjustment (Washington, DC: South Asia Country Department, World Bank, 1994), pp. 49-50.

Conclusions

This chapter finds that economic rationales, such as rapid economic growth, improvements in the country's macro-economic performance, and public sector reforms, were important in the introduction of market-oriented reforms to Bangladesh. Successive regimes undertook various programs including the transfer of SOEs to the private sector, financial sector reform, trade and import liberalization and public sector reform in order to both restore macro-economic stability and ensure rapid economic growth for meeting the challenge of poverty reduction and human development facing the country. In view of the disappointing performance of economic liberalization, however, this chapter also shows that economic reforms were largely used by the two military regimes of Zia and Ershad as a tool to both legitimize and consolidate their power. Both of them sought to develop political coalitions with senior bureaucrats, businessmen and industrialists largely through their reform measures. Not only did big business lend its political support to the military authoritarian regimes' legitimization programs, perhaps more importantly, businessmen and industrialists also generously contributed to the coffers of the ruling BNP and JP. In return, both of the Generals allowed big business to play a crucial role in decision-making. As well, they indirectly encouraged the country's financial and economic elites to accumulate wealth through the abuse of scarce public resources. In other words, none of them took any serious steps to develop a well-functioning legal mechanism for regulating and enforcing contracts.

Similarly, even under a democratically elected regime, economic reforms did not appear to be a means of improving either the performance of the economy or the living

standards for the majority. Reforms were primarily used to protect and enhance the goals of big business during the rule of Mrs. Zia. Despite widespread optimism, the government did not even succeed in winning popular support in favor of the regime's fast-track reform programs. Nor did it make any visible progress in meeting the expectations of developing a broad consensus on market reform. More importantly, massive economic reform programs undertaken by Mrs. Zia's democratic government substantially increased the power of businessmen and industrialists and subsequently further reduced the state's ability to enforce contracts. In particular, big business truly emerged as the dominant political force in Bangladesh and effectively prevented the state from developing an appropriate regulatory framework that would stop the abuse of public funds by the so-called private entrepreneurs. Economic liberalization thus continued to frustrate the hopes of its advocates and ordinary citizens of the country.

CHAPTER FOUR

The Compatibility of Economic and Political Liberalization in Bangladesh: do all good things go together?

Introduction

In the early hours of 7 August 1991, an unprecedented event took place in the *Jatiya Sangsad*, the national assembly of Bangladesh. Putting aside their traditional rivalry, both opposition and government legislators were shaking hands, embracing each other, and exchanging flowers. They were celebrating a truly historical incident that had just occurred in parliament, which could usher in a new era of mutual trust and cooperation between the major opposition parties and the government. Indeed, the *Jatiya Sangsad* made history on that day by unanimously adopting the twelfth constitutional amendment bill to replace the autocratic presidential form of government with a democratic parliamentary system. What made the parliamentarians very emotional, however, was the newly established understanding between the governing and non-governing elites of Bangladesh. The event promised a complementary government-opposition relationship, which the country has rarely witnessed in its post-independence history. The nation viewed the process of amending the constitution as the successful ending of a decade long struggle for the transition to democracy from military authoritarianism. The event therefore generated a wave of optimism about the future of democratic consolidation. Most Bangladeshis believed that from then onwards, the government and the opposition would work together to institutionalize the newly achieved democracy.

Ironically, despite such widespread enthusiasm, the collapse of military authoritarianism, the subsequent assumption of power by a democratically elected regime and the promulgation of a democratic constitution did not lead to a consolidation of democracy. Instead, following the breakdown of consensus under Khaleda Zia's regime, Bangladesh witnessed the worst political deadlock in its 25 year history. With the failure of negotiations between the Bangladesh Nationalist Party (BNP) government and the mainstream opposition led by the Awami League (AL), the country plunged into a political crisis that not only paralyzed the economy but also caused severe tension in state-society relations. More importantly, the nation of 120 million people was horrified by the creation of an anarchic situation in which rival socio-political groups came to use violence as means to achieve their conflicting political goals.

Focusing on the relationship between the market and democracy, this chapter examines the problems of democratic consolidation in Bangladesh (1982-96). The analysis revolves around the following three interrelated questions: i) To what extent does economic liberalization enhance the likelihood of democratization? In other words, does the former contribute to or hinder the process of the latter? ii) Under what conditions is democracy likely to be consolidated? And iii) why has Bangladesh, despite prevailing popular enthusiasm, not been able to institutionalize democracy? More specifically, what factors led to the breakdown of democracy under an elected regime in the mid-1990s?

This chapter is divided into three major parts. First, it provides a brief theoretical overview of the literature on democratic consolidation. Second, it examines Bangladesh's transition to democracy from authoritarianism in 1990. The chapter, then, focuses on the process through which the country made its transition to democracy. Also,

it makes an attempt to identify the factors that led to the breakdown of consensus and/or democracy under the elected regime of Khaleda Zia. And finally, this chapter offers some concluding remarks based on the findings of this research.

After outlining some of the contradictions generated by market-oriented reforms, this chapter suggests that, instead of creating the basis for democratic consolidation, economic liberalization may undermine the future of constitutional democracy. Contrary to what most mainstream authors claim, it argues that, while market reform programs create pressure for democratization, they can equally upset the hope of institutionalizing democracy in places where and times when the costs and benefits of economic liberalization are distributed disproportionately. Indeed, the failure of pro-market reforms to benefit the majority makes democratic regimes truly vulnerable to opposition pressure. Thus, this chapter outlines the importance of moving beyond the analysis of mainstream authors. Focusing on the arguments used by some critical authors, it concludes that the future of democratic consolidation will largely depend upon the ability of both the market and constitutional democracy to enlarge people's choices.

Democratic Consolidation: a brief theoretical overview

The mainstream literature on democratization and economic reform seems to be primarily concerned with the issue of democratic consolidation. This is largely due to the widely held assumption that all major problems associated with the dual transitions can easily be overcome through the establishment of democratic institutions, which are likely to provide the framework required for resolving various types of socio-political conflicts. Most authors strongly believe that the inability to consolidate democracy could

undermine the state's capacity to neutralize political tensions generated by the transitions to democracy and the free market. For this reason, the literature pays considerable attention to the ways through which democracy can be consolidated.

The discussion begins with a procedural definition of democracy. Drawing upon Robert Dahl's notion of "polyarchy",¹ most authors focus on three principal elements of democracy: free and fair elections, meaningful competition among political elites and political freedoms. In other words, the system will ensure the legal rights of most adults to participate in elections so that ordinary citizens can play a role in choosing their leaders. As well, the nation will hold periodic elections in which all rival groups freely compete for government power. In addition, the system will make efforts to protect basic political liberties² in order to ensure the "integrity of political competition and participation".³ In brief, democracy is defined as a process of sharing power among all major social groups, which allows common people to act as a political force, enabling them to exercise some kind of control over decision-making.⁴

Most authors define the concept of democratic consolidation based on such a formal/procedural notion of democracy. They believe that a mere transition to democracy

¹ Robert A. Dahl, Polyarchy: participation and opposition (New Haven, CT: Yale University Press, 1971), pp. 3-20.

² Fareed Zakaria, "The Rise of Illiberal Democracy", Foreign Affairs 76(6), November/December 1997, pp. 22-43.

³ Larry Diamond, Juan Linz and Seymour Martin Lipset (eds.), Politics in Developing countries: comparing experiences with democracy (Boulder, CO: Lynne Rienner, 1990), pp. 6-7.

⁴ For definitions of democracy, see Tatu Vanhanen, The Process of Democratization: a comparative study of 147 states – 1980-88 (New York: Crane Russak, 1990), pp. 6-11.

and the subsequent promulgation of a new constitution do not necessarily guarantee political stability. According to Przeworski, democratic consolidation refers to a system

in which the politically relevant forces subject their values and interests to the uncertain interplay of democratic institutions and comply with the outcomes of the democratic process.⁵

In particular, Przeworski suggests that democracies become consolidated only when all major socio-political groups rely on the existing institutions for resolving disputes. In a similar vein, Diamond outlines the need for both behavioral and institutional changes that would minimize, if not eliminate, destabilizing factors. For him “consolidation is the process by which democracy becomes so broadly and profoundly legitimate among its citizens that it is very unlikely to break down”.⁶

Juan Linz also provides a fairly similar conception of consolidation. Like Diamond and Przeworski, his “minimalist” definition suggests that democracy cannot be consolidated until and unless all groups truly comply with the rules of the game. Linz argues that an institutionalized and/or consolidated democracy is,

one in which none of the major political actors, parties, or organized interests, forces or institutions consider that there is any alternative to democratic processes to gain power, and that no political institution or group has a claim to veto the action of democratically elected decision makers.⁷

⁵ Adam Przeworski, Democracy and the Market: political and economic reforms in Eastern Europe and Latin America (New York: Cambridge University Press, 1991), p. 51.

⁶ Larry Diamond, “Rethinking Civil Society: toward democratic consolidation”, Journal of Democracy 5(3), July 1994, p. 15.

⁷ Juan J. Linz, “Transitions to Democracy”, The Washington Quarterly 13(3), Summer 1990, p. 158.

Huntington's attention, on the other hand, is primarily devoted to periodic elections by which the peaceful transfer of power rotates among rival groups. In other words, democracy is consolidated if all major groups come both to accept and defend democratic rules and procedures.⁸

While quite a few other mainstream authors, including Samuel Valenzuela and Guy Hermet, adopt a similar approach to democratic consolidation, Richard Sandbrook defines the concept from a somewhat different perspective. According to him, democratic consolidation means the process of institutionalizing all those procedures and organizations that "facilitate the transparency, accountability and responsiveness of governance". In other words, his definition takes the agenda beyond free elections and elite compliance with the fundamental governing rules of democracy. In order to eliminate the tradition of patronage-based politics, which is particularly prevalent in Africa and Latin America, he highlights the importance of limiting the personal power of elected government officials.⁹

The literature also pays considerable attention to the conditions under which a transition is likely to be consolidated. Almost all of the mainstream authors tend to believe that transitions that emerge through political pacts involving major political elites often contribute to consolidation. By focusing on the

⁸ Samuel P. Huntington, The Third Wave: democratization in the late twentieth century (Norman, Oklahoma: University of Oklahoma Press, 1991), p. 266.

⁹ Richard Sandbrook, "Transitions Without Consolidation: democratization in six African countries", Third World Quarterly 17(1), March 1996, pp. 69-87.

typology of transitions, both Huntington¹⁰ and Karl¹¹, for instance, claim that transitions through negotiations and/or pacts are more likely to produce stable democracies. This is largely because in a negotiated transition the elites, as they suggest, can work out a mutually acceptable agreement through compromise that enhances the likelihood of consolidation. Likewise, in her work on Latin America, Remmer also finds that political pacts between rival groups of elites have enabled quite a few countries in the region, including Colombia and Venezuela, to institutionalize democracy.¹² Guillermo O'Donnell and Philippe Schmitter support such a view that negotiated transitions usually lead to viable democracies.¹³

Like most mainstream authors, Przeworski also assumes that radical approaches to transitions are highly unlikely to lead to democratic consolidation.¹⁴ In order to enhance the possibility of institutionalization, he suggests, democracy should emerge from bargaining. He claims that "managed transitions" have a better chance to

¹⁰ See Huntington, The Third Wave, Chapter 3.

¹¹ See Terry Lynn Karl, "Dilemmas of Democratization in Latin America", Comparative Politics 23(1), October 1990.

¹² Karen L. Remmer, "The Process of Democratization in Latin America", Studies in Comparative International Development (27(4), Winter 1992-93, pp. 3-24.

¹³ Guillermo O'Donnell and Philippe C. Schmitter, Transitions from Authoritarian Rule: tentative conclusions about uncertain democracies (Baltimore, MD: The Johns Hopkins University Press, 1986), p. 39.

¹⁴ Most mainstream authors, including Huntington and Przeworski, strongly believe that transitions through violent strategies are likely to create a political environment in which the inauguration of democracy becomes uncertain. In most cases, Huntington argues, radical groups, such as Marxist-Leninist guerilla leaders, not only do oppose democratic elections, but also make efforts to hinder the process of bringing down authoritarian regimes. See Huntington, The Third Wave, p. 161.

institutionalize democracy as they give all major actors an opportunity to accept the rules of the democratic game. For this reason, he suggests that the reformers and the moderates must control the negotiation process. Believing that the radicals may reverse the process of democratization, he advises that the reformers and the moderates should work together to develop a consensus on establishing democratic institutions. As well, the moderates need to control the radicals on the one hand, and the reformers should take necessary measures to politically neutralize the hardliners, on the other. Such tactics are likely to reduce significantly the ability of the radicals to pose any threats to democratization.¹⁵

John Higley and Richard Gunther's study gives equal importance to elite consensus. For them consensus and/or compromise is the most important factor in the process of democratic consolidation.¹⁶ Diamond and Putnam, on the other hand, stress the need for constructing a democratic political culture, which among other things requires the evolution of an autonomous civil society.¹⁷ In other words, they regard consolidation as an extremely lengthy process.¹⁸ For Michael Bratton and Nicholas Van De Walle, the commitment of elites to introduce a system that is both open and

¹⁵ Przeworski, Democracy and the Market, p. 80.

¹⁶ John Higley and Richard Gunther, Elites and Democratic Consolidation in Latin America and Southern Europe (New York: Cambridge University Press, 1992), p. 339.

¹⁷ Larry Diamond, Juan Linz, and Seymour Martin Lipset (eds.), Democracy in Developing Countries: Latin America, vol.4 (Boulder, CO: Lynne Rienner Publishers, 1988), pp. 6-35.

¹⁸ See Doh Chull Shin, "On the Third Wave of Democratization: a synthesis and evaluation of recent theory and research", World Politics 47(1), October 1994, pp. 145-46.

responsive to popular demands is one of the major factors in democratic consolidation.¹⁹ Karl, on the other hand, stresses the importance of ensuring civilian control of the military in order to complete the process of institutionalization.

In sharp contrast to the mainstream literature, Manfred Bienefeld, by linking democracy and development, essentially calls for the implementation of socio-economic policies that would pay equal attention to both social and political stability. More specifically, the deepening of democracy requires that governments and donors adopt policies that will promote popular participation in decision-making on the one hand, and will ensure economic success for the majority, on the other.²⁰ In a similar fashion, Gerald Schmitz and David Gillies claim that the success of democracy will depend upon the ability of democratic institutions to improve the human condition. For them, democracy is not merely a system for resolving conflicts of political interests, but rather a process of expanding human choices. Thus, initiatives need to be taken, they argue, to ensure the effective expansion of human freedoms and potentials.²¹

¹⁹ Michael Bratton and Nicolas Van De Walle, "Towards Governance in Africa: popular demands and state responses", in Goran Hyden and Michael Bratton (eds.), Governance and Politics in Africa (Boulder Co: Lynne Rienner, 1992), p. 29.

²⁰ Manfred A. Bienefeld, "Structural Adjustment and the prospects for Democracy in Southern Africa", in David B. Moore and Gerald Schmitz (eds.), Debating Development Discourse: institutional and popular perspectives (London: Macmillan, 1995), pp. 91-98.

²¹ Gerald J. Schmitz and David Gillies, The Challenge of Development: sustaining democratization in developing societies (Ottawa: North-South Institute, 1992), pp. 1-17.

Bangladesh's Transition to Democracy from Military Authoritarianism

Popular Struggles for Democracy: the fall of General Ershad

Like the Chilean case, under a military authoritarian regime, Bangladesh began its journey toward the market in the mid-1970s. As discussed in the previous two chapters, the attempt to construct a market-friendly framework of national economic governance was further strengthened by the assumption of power by General Hussain M. Ershad in March 1982. However, unlike Chile, the adjustment programs of Generals Ziaur Rahman and Ershad did not set the stage for sustained growth and macro-economic stability. Probably more important was the fact that the attempt to liberalize the economy hurt most socio-political groups, particularly the poor. In other words, economic liberalization programs of the two successive military regimes seemingly failed to create new opportunities for the majority in general, and organized interests such as public sector employees in particular, giving way to political opposition to market reform measures. Apart from the fact that unsatisfactory performance of sweeping economic changes did lead to anti-reform campaigns, resistance to reform found considerable support partly because both of the Generals implemented adjustment programs without generating popular support for their reform programs. Relying upon key domestic and external actors, they continued to implement different programs of economic liberalization, which eventually created a favorable environment for the growth of anti-reform campaigns.

Resistance to reform did not, however, appear to be a serious threat to regime consolidation and/or political stability until General Ershad entered the political stage. During his rule, General Ziaur Rahman (1975-1981) hardly faced any serious challenges

to the legitimacy of his politico-economic programs. And during his rule, General Zia was somewhat successful in managing tensions in state-society relations. Two main factors enabled him to maintain a relatively calm political climate. First, in the midst of a severe socio-economic crisis resulting from the so-called socialist policy of the civilian regime of Mujib, General Zia came to power and promised to build a better future for the country through his neo-liberal economic reform strategy. His 19-point program did in fact pledge to make Bangladesh self-sufficient in food production and ensure that everyone would be able to enjoy an improved standard of living through the alleviation of poverty, illiteracy and homelessness.²² It is no wonder that such a populist approach seemingly received a favorable response from ordinary citizens, which was reflected both in the presidential elections in 1978 and in the parliamentary elections of 1979. Zia easily defeated his civilian rival M. A. G. Osmani in the presidential elections by receiving almost 80 percent of the votes cast. Similarly, his political front registered a landslide victory in the parliamentary elections.

Second, General Zia successfully implemented a policy of co-optation in order to undermine anti-military as well as anti-reform movements. For instance, his political front, which came to be known as the Bangladesh Nationalist Party (BNP), was formed with pro-Beijing leftists, Islamists and so-called nationalists, belonging to a variety of different political parties, trade unions and civil society groups. Such a policy not only enabled Zia to expand his political support base, but more importantly, it caused

²² Muhammad A. Hakim, Bangladesh Politics: the Shahabuddin interregnum (Dhaka: University Press, 1993), pp. 122-23.

“progressive fragmentation” within the opposition camp.²³ More specifically, his co-optation strategy effectively isolated the major opposition party, the Awami League, and simultaneously neutralized the left radicals.²⁴ The mainstream opposition and organized interests never succeeded in creating a momentum against Zia’s quasi-military regime and his neo-liberal economic programs. In other words, Zia managed to keep state-society relations relatively less confrontational. Without facing any major political opposition, he implemented structural reform programs in an authoritarian fashion.

A Negotiated Transition to Democracy

Unlike Zia, however, the military take over of March 1982 that brought General Ershad to power prompted the development of a highly confrontational state-society relationship in the country. Right from the beginning, the military regime faced formidable challenges from major socio-political groups. Almost all key civil society groups, including students, trade union federations and professional organizations, reacted negatively to the seizure of power by a military dictator. This was partly because the country was not ready to see another military coup within five months of Bangladesh’s return to some sort of civilian rule. To make the situation even worse, General Ershad promised to give the military a permanent place in politics. More specifically, in sharp contrast with Zia, he openly sought to make a constitutional

²³ Talukder Maniruzzaman, The Bangladesh Revolution and its Aftermath (Dhaka: Bangladesh Books International, 1980), p. 226.

²⁴ Lawrence Ziring, Bangladesh: from Mujib to Ershad – an interpretive study (Dhaka: University Press, 1992), pp. 146-48.

provision to enable the military to engage in the nation's political business.²⁵ As a step to establish the military's domination over the politics and administration of Bangladesh, he quickly began to appoint military officials to key administrative positions that were traditionally held primarily by civil bureaucrats.²⁶ It is no wonder that such an initiative created the basis for political resistance to Ershad's authoritarian military regime.

This coincided with sudden economic decline, which the country began to witness following the military coup. Low GDP growth, rising food prices and stagnant agricultural production made it clear that the economy was quickly entering a period of uncertainty. The dismal performance of the manufacturing sector and extremely low levels of savings and investment also sent the signals of economic deterioration. Such a poor state of the economy further contributed to the erosion of public confidence in Ershad's military regime.²⁷ People openly blamed the regime for undertaking a drastic economic liberalization program that overlooked the necessity of meeting the economic needs of ordinary citizens. The popular sector therefore wasted very little time in voicing its opposition to market reform programs.

In brief, the politico-economic programs of the military regime provided the basis for a mass movement for democracy and development in the country. Against the silence of all major political parties, the first challenge to authoritarian rule came from students,

²⁵ Md. Ataur Rahman, "Bangladesh in 1983: a turning point for the military", Asian Survey 25(2), February 1984, pp. 240-49.

²⁶ Hassanuzzaman provides an interesting analysis of Ershad's militarization process. See Hassanuzzaman, Bangladesh: rastro o sarkarer shamorikikaran [Bangladesh: militarization of the state and government] (Dhaka: University Press, 1991), pp. 36-44.

²⁷ Ziring, Bangladesh, pp. 155-56.

who are known for their traditional support for democracy. Considering Ershad's newly announced education policy as "anti-people", all major student organizations decided to take to the streets in order to force the regime to stop implementation of the education policy. Many analysts, however, believe that the students were actually looking for an issue to begin the anti-military agitation.²⁸ While the education policy did not introduce any major change to the country's public education system other than making Arabic and English mandatory subjects at the primary and secondary levels, the students grabbed this opportunity to mobilize popular sentiment against the military regime. In February 1983, some 22 major student organizations ranging from centrist and leftist to nationalist formed an alliance, which came to be known as the All-Party Students Action Committee (APSAC). The APSAC carried out a massive protest in the streets of the capital city in mid-February, where the agitating students were confronted by the police, which resulted in the deaths of five students and the injuring of several hundreds. Following this violent student-police clash, the popular protest quickly took a distinct political shape. All major civil society associations, including professional groups, cultural forums, women's organizations and public sector labor unions, soon raised their voices against the military regime by organizing demonstrations, public meetings and strikes, which basically set the stage for a transition back to democracy.

The democracy movement gained momentum only after mainstream political parties decided to join the anti-military campaign. Yielding largely to the pressure of civil society's growing opposition to the martial law regime, major political parties formed two main political fronts, popularly known as the 15-party and the 7-party alliances. The

²⁸ Rahman, "Bangladesh in 1983", p. 240 and Ziring, Bangladesh, p. 157.

former was led by the Awami League (AL) and was composed primarily of left of center parties. Under the leadership of the BNP, a total of seven pro-Beijing socialist and nationalist parties formed the latter. Despite popular expectations of forming a united political platform to launch a massive movement, the personal enmity between the AL leader Sheikh Hasina and the BNP chairperson Khaleda Zia resulted in the formation of these two separate alliances. However, as the pressure for launching a united movement continued to grow, both of the alliances worked together to develop a common basis for making a successful transition to democracy. After an exhaustive process of negotiation, the two alliances eventually reached an agreement on the acceptance of a common formula for transition, known as the five-point demand. The formula included such demands as the immediate withdrawal of martial law, the restoration of fundamental rights and holding of parliamentary elections preceding all other elections.²⁹

While the announcement of a common formula for transition created unprecedented optimism about the country's immediate return to democracy, relentless bickering within the opposition prevented the country from witnessing a successful movement against Ershad's authoritarian regime. Indeed, it was not until November 1990 that the three major alliances, namely the AL led 8-party, the BNP led 7-party and the left 5-party alliance, agreed to launch a united movement against Ershad's military regime.³⁰ On November 19, they developed guidelines for the transfer of power to an

²⁹ Rahman, "Bangladesh in 1983", p. 242.

³⁰ By then the 15-party alliance became a platform of eight parties. Having failed to arrive at a consensus on the question of the movement's strategy, a total of seven parties eventually left the alliance. Some of these parties later formed a leftist platform, commonly known as the 5-Party alliance, which offered radical programs to oust General Ershad from power.

interim civilian regime, leading to the country's return to democracy. Such a formula included the formation of a caretaker government to which Ershad had to hand over power, the holding of a new parliamentary election under the caretaker government, and the transfer of power to a sovereign parliament. These alliances also agreed not only to boycott, but also to resist all elections under Ershad.³¹

The opposition's unity rapidly changed the entire mood of the anti-Ershad agitation, generating true momentum for the democracy movement. Following the declaration of the state of emergency on November 27, for example, journalists stopped publication of newspapers and the teachers of different universities and the physicians of Dhaka Medical College Hospital resigned from their jobs. Senior civil bureaucrats refused to work under Ershad's administration. Defying the curfew, the public held massive processions demanding the resignation of Ershad. Threatened by the movement, the military, the main constituency of Ershad, refused to support him any more, deciding to cooperate with the opposition parties to transfer power to a caretaker government. Ershad eventually decided to transfer power to a consensus-candidate Chief Justice of the Supreme Court, Shahabuddin Ahmed, on 6 December 1990.

In brief, the first stage of transition from authoritarianism was successfully carried out by continued negotiation that primarily involved the opposition and the military. Among the three political fronts, two moderate parties led the two major alliances: the

³¹ Hakim, Bangladesh Politics, pp. 32-33.

AL and the BNP.³² The only radical element involved in the movement and also in the bargaining was the five-party alliance. The role of this alliance was largely limited to acting as a broker between the 8 and 7-party alliances. Because of its insignificant popular support-base, the 5-party alliance neither had the ability to radicalize the formula for transition nor the bargaining power to influence the leaders of the two main alliances to adopt a militant strategy. Under pressure from the AL and the BNP, the radicals were actually forced to adopt a “moderate formula” for the departure of authoritarianism. The military, on the other hand, became a part of the deal as they sought to avoid a direct confrontation with the civilians. More importantly, unlike the Chilean case,³³ the military was not in a position to dictate the transition. Nor was the military able to maintain a “veto” power over the country’s civilian rule. In fact, the transition forced military leaders to stay away from politics, eliminating the hegemonic control of the armed forces over decision-making.

Likewise, civil society organizations, with the exceptions of the students and the *Sramik Karmachary Ooikya Parishad* (SKOP) - a federation of the labor unions - sought to make the transition largely through non-violent strategies. They acted as the agents of promoting democratic rights and individual freedoms. While the students and the

³² Following the interpretations of both Huntington and Przeworski, this study defines moderates as groups that reject the adoption of any revolutionary strategies such as guerrilla insurgencies for making a transition to liberal, procedural democracy. In other words, these political forces rely on largely constitutional means, particularly negotiations, in order to bring down authoritarian regimes.

³³ The Chilean transition to democracy in 1990 did not ensure the control of the Aylwin’s civilian government over national decision-making, See Brian Loveman, “Mission Cumplida? Civil-military relations and the Chilean political transition”, Journal of Inter American Studies and World Affairs 33(3), Fall 1991, pp. 37-39.

working class occasionally relied upon violence to press their demands, they were not able to radicalize the situation. This was largely because the students' activities were primarily limited to educational institutions. The SKOP, on the other hand, only remained active among the public sector employees, mainly workers. Neither of them had either the political power to challenge mainstream political parties, or the ability to question the opposition's constitutional path to the transition. Clearly, the radicals were not in a position to shape the outcome of the transition, which was determined mainly through elite competition.

Bangladesh's negotiated transition to democracy, however, raises two important questions: i) What factors led civil society groups to play such a vital role in the country's movement for democracy? And ii) why did the mainstream opposition remain hesitant for such a long time to forge a united movement for making a transition to democracy? Indeed, the answers to these two questions are somewhat inter-related. First of all, there is little doubt that the involvement of key civil society groups with the resistance movement resulted from their genuine commitment to democracy. Most of those organizations fought for democracy and individual freedoms during the country's war of independence. Yet this answers the questions only in part. If democracy were their primary concern, they could probably have tried to make attempts to mobilize popular sentiment against the military regime of General Zia. Obviously that was not the case as history tells us that they hardly did anything for the restoration of democracy in the late 1970s. In fact, many of them fell prey of Zia's co-optation strategy.

Part of their growing interest in the democracy movement was due to the economic downturn of the 1980s, which was largely caused by Ershad's aggressive

approach to economic reform. Indeed, many of the key civil society organizations felt threatened by sweeping economic changes, encouraging them to participate in the anti-military movement.³⁴ For instance, the SKOP lent their support to the movement largely because it sought to protect the interests of the public sector employees through the transition to democracy. Reacting to Ershad's economic reform programs, some 13 national trade union federations joined together, developing a united platform for the workers and employees in order to strengthen the anti-reform campaign. Its five-point program, which was designed primarily to protect the interests of public sector workers, called for stopping the government's privatization program and asked for increasing salaries of all workers and employees of both the public and private sectors.³⁵ In other words, the five-point program was mainly directed toward the advancement of various economic interests of the workers.

Similarly, continued cuts in government services coupled with the government's militarization program appeared as a direct threat to bureaucrats, engineers, agriculturists and physicians. These groups saw the democracy movement as a primary step toward regaining their dominant position in Bangladeshi society and politics. A variety of other civil society groups also became increasingly disappointed with the way General Ershad's market reform programs continued to foster the growth of a non-entrepreneurial

³⁴ B. M. Monor Kabir, "Bangladesh in 1981-84: military rule and the process of civilianization", The Chittagong University Studies 8(1), June 1985, pp. 171-209.

³⁵ Al Masud Hasanuzzaman, "Interest Group politics in Bangladesh: role of Sramik Karmachari Oikka Parishad (SKOP)", BISS Journal 12(3), July 1991, p. 305.

wealthy class without helping the economy to grow.³⁶ Frustration also grew over the military regime's policy of "franchising state responsibilities",³⁷ which mainly benefited the private sector in general, and General Ershad's close associates, including military officers, in particular. In brief, Ershad's socio-political programs not only contributed to the disengagement of civil society associations from the state but also resulted in the failure of its co-optation strategy. Most civil society groups therefore joined the democracy movement and sincerely hoped that a democratic transition would enable them to construct a political environment in which they could make politicians more responsive to their socio-economic demands. Thus, long before mainstream political parties managed to establish political platforms, civil society groups united and launched a series of programs to oust the military regime from power.

The mainstream opposition's reluctance, on the other hand, to quickly assume a major role in the country's democracy movement resulted from three major factors. First, the historical rivalry and distrust between the two women leaders, Sheikh Hasina and Khaleda Zia, made it extremely difficult for the AL and the BNP to act decisively in order to launch a united movement. For this reason, even when they decided to join the movement, they operated independently of one another.³⁸ Second, both major parties were suffering from internal feuds, leading to one split after another. Such a situation

³⁶ See Rehman Sobhan (ed.), Debt Default to the Development Finance Institutions: the crisis of state sponsored entrepreneurship in Bangladesh (Dhaka: University Press Limited, 1991).

³⁷ Geof Wood, "States Without Citizens: the problem of the franchise state", in David Hulme and Michael Edwards (eds.), NGOs, States and Donors: too close for comfort? (London: Macmillan, 1997), pp. 79-92.

³⁸ Ziring, Bangladesh, pp. 157-58.

considerably weakened their ability to lead a mass movement for democracy. Third, as discussed in chapter three, both of the parties became increasingly dependent upon business actors to implement their regular programs. This reliance acted as a major source of discouragement for them to create widespread popular discontent. Many businessmen and industrialists were less than interested in generating a volatile political climate as they saw new windows of opportunities in Ershad's drastic market reform program.

However, both of the parties broke their silence only when they began to realize that they were on the brink of losing public confidence. They became vulnerable to increasing pressure from their supporters in general, and civil society groups in particular. Equally important was the fact that both of the leaders believed that the martial law regime would come forward to create a favorable environment for an eventual retreat of the military. With the failure to reach a political agreement with General Ershad, however, the AL and the BNP began to work together to identify a common ground in order to initiate a joint democracy movement.³⁹ As the agitation continued to intensify, the mainstream opposition began to receive positive responses from the business community. Seeing the military regime's inability to reconcile with the mainstream opposition, many businessmen and industrialists became increasingly concerned about the political future of the country. Their frustration also stemmed from the distribution of import and export benefits to selected individuals close to General Ershad and his key associates. In the late 1980s, the business community, for instance, openly expressed its

³⁹ Moudud Ahmed, Democracy and the Challenge of Development: a study of politics and military interventions in Bangladesh (Dhaka: University Press, 1995), pp. 330-35.

dissatisfaction by criticizing the political and/or personal use of the government's import policies.⁴⁰

Problems of Democratic Consolidation in the Era of Market Reform

Theoretically, Bangladesh's transition to democracy provided real hope for democratic consolidation. The country's democratic transition indeed fulfilled most of the requirements that are regarded as essential elements for institutionalizing democracy. Not only did the democracy emerge from a negotiated transition, but also the moderates were in full control of the entire negotiation process. Besides, the relevant political actors had managed to develop a consensus on both the methods of democratic transition and consolidation. Also, civil society groups played a crucial role in bringing down Ershad's authoritarian regime. Unfortunately, such an apparent "successful" transition to democracy did not set the stage for consolidating democracy in Bangladesh. On the contrary, over the next few years, political violence, economic turmoil and an abortive military coup led to the breakdown of both consensus and democracy under a democratically elected regime.

The optimism surrounding the retreat of the military and the subsequent assumption of power by a neutral interim government was indeed very high. The holding of free and fair parliamentary elections in February 1991 further strengthened the enthusiasm. Under the leadership of Khaleda Zia, the BNP emerged as the majority party with 141 seats in the 300-member *Jatiya Sangshad*. Sheikh Hasina's AL won 88 seats, while the Jatiya Party (JP) of Ershad secured 35 seats. Soon after the assumption of

⁴⁰ Stanely A. Kochanek, Patron-Client Politics and Business in Bangladesh (Dhaka: University Press, 1993), p. 229.

power by the BNP, however, the great optimism about the future of democratic consolidation rapidly began to disappear as the two women resumed their political war over the question of returning to a parliamentary democracy. Like many Latin American elected regimes, as discussed by Petras, Khaleda Zia's democratically elected government refused to respond to the opposition demand for amending the constitution in order to replace the existing presidential system, which was seen as the basis for what is often called "constitutional authoritarianism".

Despite the fact that the growing conflicts of political interest between the ruling BNP and opposition created a precarious situation, the country escaped a breakdown of consensus when the BNP and major opposition parties reached an agreement on returning to parliamentary democracy. Accordingly, the parliament passed the twelfth constitutional amendment that created the provision for a "sovereign parliament" to which the government would be formally responsible.⁴¹ The event was televised live and enthusiastic viewers watched this so-called "historic amendment", staying up the whole night. To the surprise of many, however, such an exciting event did not mark the beginning of an era of hope and democratic consolidation. More specifically, the fervor surrounding the mutually dynamic relationship between the government and the opposition did not last long.

Within a year of the twelfth constitutional amendment, the widespread hope about the future of sustainable democracy had disappeared, replaced by renewed conflicts between the ruling BNP and the opposition led by the AL. The crisis began in 1992, when the AL and its allies, Ershad's JP and the Jammāt-i-Islami, demanded a

⁴¹ Hakim, Bangladesh Politics, pp. 67-82.

constitutional amendment in order to allow the formation of a neutral caretaker government (NCG), which would be responsible for conducting the next three parliamentary elections. Frustrated by the electoral rigging in a few by-elections held under Mrs. Khaleda Zia's regime, they argued that the BNP government would manipulate the polling to increase its chances of reelection. The BNP, however, rejected the charges, maintaining that the election would be fair.⁴² The opposition also charged Mrs. Zia's regime with corruption, demanding the dissolution of the parliament and holding of early elections. Given Mrs. Zia's refusal to come to a compromise, the opposition parties called for a number of *hartals* (general strikes) in the country, causing enormous tensions in state-society relations.⁴³ The government-opposition conflict deepened further in February 1994, when the opposition lawmakers walked out of parliament. With the failure of several negotiation attempts to resolve the political impasse, 147 opposition MPs resigned en masse from parliament on 28 December 1994, which unleashed a series of violent strikes and demonstrations for the next two years.⁴⁴

However, it was not until March 1996 that the political standoff entered a dangerously violent phase, when the mainstream opposition began its non-cooperation movement (NCM) for an indefinite period. Such a program was designed to force the BNP government to step down in order to hold the next parliamentary elections under a

⁴² S. Kamaluddin, "Politics of Distrust: opposition agitates for polls on its own terms", Far Eastern Economic Review 157(1), 30 December 1993, p. 24.

⁴³ S, Kamaluddin, "Siege Mentality: opposition revs up plans to oust government", Far Eastern Economic Review 157(16), 21 April 1994, p. 19.

⁴⁴ Swapan Chakrawarty, "Impasse Deepens", Dhaka Courier 11(22), 30 December 1994, pp. 8-9.

neutral caretaker authority. In addition to holding public rallies, street demonstrations and sit-in programs in front of important political places, the NCM also encouraged public sector officers and employees to disobey directives of the BNP regime. Interestingly enough, not only did opposition parties join this anti-government program, but civil society groups also participated in the NCM, demanding the resignation of the BNP government. What surprised even seasoned observers of Bangladesh politics, however, was the decision of a few key non-political groups to side with the opposition. By breaking their tradition of being apolitical, quite a few groups within the NGO sector, the business community and government officers openly criticized the Khaleda regime for failing to resolve the crisis. More important perhaps was the fact that most of them organized public meetings in support of the opposition demands and called upon the government to step down.⁴⁵

For instance, the Association of the Development Agencies of Bangladesh (ADAB), the apex body of the development NGOs, held protest meetings in support of the demand of the mainstream opposition. In association with other civil society organizations, the ADAB demanded that the government immediately hand power over to a non-partisan caretaker government. Likewise, the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), which represents the interests of the business community, organized public rallies and called upon the government to end the political turmoil.⁴⁶ To the surprise of many, on the other hand, the actions of government officers

⁴⁵ Farzan Hasan, "Hope Tinged with Despair", Dhaka Courier 12 (33), 15 March 1996, p. 9.

⁴⁶ D. G. Ashish, "Businessmen on the Offensive", Dhaka Courier 12(34), 22 March 1996, p. 13.

and employees were not limited only to the issuance of statements. In addition to expressing their grave concern over the political impasse, they formed a forum called "*Prajaaatantra Karmakarta Samannaya Parishad*" (Coordinating Council of the Officers of the Republic) comprising associations of all the cadre and non-cadre services, beginning formally to participate in various programs sponsored by the opposition, particularly the AL.⁴⁷

In brief, with the involvement of various civil society groups, the NCM ultimately led to the creation of the "most terrifying episode" in the entire political history of post-liberation Bangladesh. The country virtually witnessed what is often called a "statelessness syndrome", where politics was clearly overtaken by violence. Random use of bombs, guns and the killing of innocent people created an extremely frightening political landscape in the country.⁴⁸ In fact, the actions of the mainstream opposition brought the country to a halt. Luckily, Bangladesh narrowly escaped a total breakdown when Mrs. Zia's regime finally agreed to the formation of a non-partisan caretaker government. The two-year long political deadlock came to an end with the resignation of the BNP regime and the subsequent assumption of power by a caretaker government headed by former Chief Justice Habibur Rahman on 30 March 1996.

The failure of the government and the opposition to come to a compromise was partly due to the personal enmity between Sheikh Hasina and Khaleda Zia, which has its roots in the country's bloody political history. Ms. Hasina regards Khaleda Zia as the

⁴⁷ D. G. Ashish, "Government Officers on the Streets", *Dhaka Courier* 12(35), 29 March 1996, p. 11.

⁴⁸ Enayetullah Khan, "Give Peace a Chance, Please", *Dhaka Courier* 12(34), 22 March 1996, p. 7.

product of the country's military establishment, which was responsible for the killing of her father Sheikh Mujibur Rahman in 1975. Mrs. Zia, on the other hand, considers Sheikh Hasina as the product of the pro-Indian authoritarian regime of Mujib. She often claims that the AL led by Ms. Hasina "wants to turn Bangladesh into a state of India".⁴⁹ Therefore, when Mrs. Zia's BNP came into power in 1991, Sheikh Hasina seemingly made no meaningful efforts to resolve her political conflicts with Mrs. Zia through constitutional means. Indeed, she and her AL wasted no time launching an anti-BNP movement in order to enhance the possibility of the AL becoming a ruling party. Likewise, Mrs. Zia's regime hardly made any attempt to come to terms with the opposition demands as she firmly believed that the AL was using the opposition platform to bring down her democratically elected government. Like authoritarian regimes, she continued to rely on non-democratic procedures to address growing opposition to her ruling party. Such rivalry, which is better known as "the politics of mutual distrust", pushed the country to the brink of anarchy.

This alone, however, does not explain the role of civil society groups in the anti-BNP movement. Their disappointment largely stemmed from the government's inability to meet their socio-economic expectations. Indeed, most of them hoped that a democratic government would adopt a populist strategy to fulfill their expectations. In particular, many of them, including the SKOP, expected that the transition to democracy would at least change the pace of on-going economic reform programs. As discussed in the second and third chapters, however, the situation became even worse under the BNP regime. Instead of generating minimum consensus on economic liberalization, it adopted a more

⁴⁹ "Bangladesh: old feuds", *The Economist*, 341(7993), 23 November 1996, p. 40.

aggressive approach to market reform, which led to widespread popular discontent. The growing dissatisfaction of ordinary citizens over the reform agenda was first reflected in the mayoral elections of January 1994. Both of the ruling party candidates in Dhaka and Chittagong failed to hold their seats. Considering the election results as a clear indication of people's disapproval of the government's policy, most observers viewed it as a real embarrassment for the BNP.⁵⁰

Primarily frustrated with the government's emphasis on the construction of a market economy, the SKOP, for instance, did not wait long before it launched violent anti-reform campaigns. From the beginning of 1992, the workers in the jute and textile sectors demanded, among other things, a 10 percent increase in salaries and the scrapping of the government's privatization policy. Failing to realize such demands, the SKOP went on a 96-hour strike that began on 12 February 1995, sparking violent clashes between police and workers, killing a dozen and injuring several thousand civilians. Also, the strike caused huge damage to the growing economy, badly affecting the export sector and foreign investment. Quite a few other professional groups, namely government sector engineers, agriculturists, college teachers and university professors were also at the forefront of a non-violent campaign to raise monthly salaries and to increase professional and other benefits.⁵¹

Such deteriorating state-society relations in effect created the ideal ground for

⁵⁰ EIU, Bangladesh: country report (London: The Economist Intelligence Unit, 1st quarter 1994), pp. 12-13.

⁵¹ Center for Policy Dialogue, Experiences with Economic Reform: a review of Bangladesh's development 1995 (Dhaka: University Press, 1995), p. 14.

mainstream opposition parties to speed up their efforts to bring down the BNP regime. Not only did they wholeheartedly support these civil associations to carry out their populist demands, they also encouraged civil society groups to participate in their street agitation program to unseat Mrs. Zia's government. Believing that the BNP regime would do nothing either to meet their demands or to end the political turmoil, most civil associations lent their support to the opposition-sponsored NCM. In other words, the mainstream opposition successfully exploited the frustration of civil society groups for its own political gain.

Conclusions

The post-transitional political crisis in Bangladesh does not support the hypothesis that economic liberalization creates the opportunity for democratic consolidation. Clearly, unlike the Chilean case, where the introduction of market-oriented reforms allowed the country to make a successful transition to democracy, prior-economic liberalization created a complex political situation in which the prospect for democratic consolidation in Bangladesh became a remote possibility. Contradictions generated by structural economic reforms prompted the fall of General Ershad's military authoritarianism on the one hand, and impeded the process of institutionalizing democracy, on the other. Bangladesh's experience also suggests that the frustrating outcomes of market-oriented reforms can effectively help relevant political actors to keep their traditional rivalry alive. Contrary to what the mainstream literature argues, then, the two major political parties, the AL and the BNP, did virtually nothing to maintain the consensus achieved through the anti-Ershad movement. Instead of proceeding with the

program of institutionalizing democracy, they brought back old feuds, blamed each other for the breakdown of consensus and, more importantly, used civil society groups to achieve their own political goals, which ultimately led to political unrest and anarchy. Equally important is that the necessity of implementing rapid market reform programs virtually created the need for an elected regime to behave in a more or less authoritarian fashion. The BNP government indeed adopted a non-democratic process to carry out a massive liberalization program.

Most authors on political and economic liberalization assume that a vibrant civil society not only plays a crucial role in forcing an authoritarian regime to embark on liberalization programs, but also facilitates the process of democratic consolidation. Unfortunately, this did not happen in post-transition Bangladesh. While civil society associations played a key role in making possible a transition to democracy, their involvement in street agitation with the opposition alliance contributed to the post-transitional political stalemate in the country. Clearly, their hopes that a democratic regime could easily help them to realize their unfulfilled demands went to waste in post-authoritarian Bangladesh. With utter surprise, they witnessed that the immediate priority of the BNP regime quickly shifted from fulfilling popular demands to the removal of "market barriers". It therefore did not take long before a new sense of despair returned to civil society groups, which eventually pushed them to take to the streets one more time, jeopardizing the path to democratic consolidation.

CHAPTER FIVE

Authoritarian State and An Overly Politicized Civil Society in Bangladesh: an endless struggle for hegemony?

Introduction

Making reference to the concept of “civil society” has become a recent fashion in the burgeoning literatures on democracy and development. The concept is clearly in demand: its use is no longer limited to academic discussions and debates. Authors from across the ideological spectrum, activists, NGO leaders and even policy-makers are frequently using the term and are trying to glorify the presence of civil society everywhere. This is largely because most of them seem to believe strongly that civil society is central to the evolution of a democratic political culture. A vibrant civil society is seen to play not only a crucial role in making the transition from authoritarianism to liberal democracy, but also as vital to the promotion and protection of individual liberties. Most authors also claim that civil society associations strive to organize themselves within an autonomous space and act to facilitate popular participation in various developmental activities. In so doing, they behave in a “non-political” manner; in other words, they do not make efforts to capture state power.

Given such a widely held assumption that civil society promotes both democracy and development, this chapter is structured as follows. First, it provides a brief theoretical understanding of civil society through the scrutiny of two major sets of perspectives: liberal and critical. Second, it examines the history of state-society relations

in Bangladesh. In particular, it analyzes the actions of the state that resulted in the disengagement of civil associations from it. Third, it investigates the presence of a plethora of civil society associations in the country and examines their ability to work toward the promotion and protection of individual rights and liberties against the potential abuse of power by ruling elites. As well, it focuses on the impact of the country's extremely polarized political environment upon the "autonomy" of civil society groups. More specifically, it raises questions about the assumption that civil society seeks to maintain autonomy vis-a-vis the state and other political forces. And finally, it concludes by summarizing the main findings of this chapter.

This chapter raises questions about the dichotomy expounded by liberal theorists between the state and civil society and it finds no empirical evidence to support the commonly held assumption that civil society acts as a primary force for both democracy and development. In particular, it suggests that the liberal approach does not provide a satisfactory analysis of the excessive politicization of civil society in Bangladesh. Nor does it provide a clear understanding as to why civil society groups often give up their autonomy and assume a substitute political role for a particular political party and/or ideology. This chapter also argues that, while the critical perspective offers a much better explanation for the evolution of an overly-politicized civil society in Bangladesh, it fails to grasp the complexities of reality. In fact, the critical perspective only provides a partial analysis of the failure of most civil society groups to promote and protect popular interests. Therefore, this chapter concludes that no general theory is capable of explaining the meaning and role of civil society in all countries.

Defining Civil Society

The recent widespread interest in civil society clearly demonstrates a revival of the term once regarded as a key concept in Western liberal political and social philosophy. However, like many other concepts in the social sciences, the notion of civil society has come to offer a variety of contradictory and conflicting meanings.¹ Part of this is due to both ideological and philosophical understandings of the concept in competing paradigms and/or perspectives. Among the perspectives on civil society, two stand out both theoretically and conceptually and thus draw much attention. The first approach is rooted in the Western tradition of liberalism and is therefore known as the liberal perspective. This dominant conception of civil society largely centers on the state versus civil society debate and is widely used by the international donor community.² On the other hand, the second perspective, which is heavily influenced by the writings of Antonio Gramsci and a variety of more critical theorists, is regarded as the “critical” or “Post-Marxist” perspective. Such an approach is particularly prevalent in the literature on global development.³ For the purpose of this chapter, the following section provides an overview of the major arguments presented by both mainstream liberal and critical authors.

Exactly what constitutes civil society? In liberal literature, civil society is usually defined as an arena or political space outside of the state. Identifying the need for

¹ Ellen Meiskins Wood, “The Uses and Abuses of Civil Society”, in Ralph Miliband et. al. (eds.), The Socialist Register 1990 (London: Merlin Press, 1990), pp. 60-84.

² See Alison Van Rooy (ed.), Civil Society and the Aid Industry (London: Earthscan, 1998).

³ See Laura Macdonald, Supporting Civil Society: the political role of NGOs in Central America (London: Macmillan, 1997).

restricting the functions of the state to “the protection of rights and the upholding of justice”,⁴ liberal authors see civil society as the centre of opposition to all kinds of arbitrary rule, including military dictatorship, authoritarianism and totalitarianism. Ernest Gelner, for instance, refers to civil society as a

set of non-governmental institutions which is strong enough to counterbalance the state and, while not preventing the state from fulfilling its role of the keeper of the peace and arbitrator between major interests, can nevertheless prevent it from dominating and atomizing the rest of society.⁵

In other words, the presence of civil society not only ensures that the state does not arbitrarily exercise governmental authority, but a vibrant civil society also makes sure that the state does its job properly.⁶ Apart from keeping a check on state power, civil society is seen as a promoter of individual rights and freedoms. According to Charles Hamilton,

. . . civil society is simply the arena of voluntary action. It encompasses a myriad of institutions both formal and informal . . . where people pursue their individual and common goals: moral, spiritual and material.⁷

In a similar fashion, quite a few authors, including John Keane, Larry Diamond and Harry Blair, suggest that civil society stands between the state and the individual or

⁴ John Gray, Liberalism (Minneapolis, MN: University of Minnesota Press, 1986), p. 73.

⁵ Ernest Gelner, Conditions of Liberty: civil society and its rivals (New York: Penguin Books, 1994), p. 5.

⁶ Gordon A. Christenson, “World Civil Society and the International Rule of Law”, Human Rights Quarterly 19(4), November 1994, p. 724.

⁷ Charles H. Hamilton, “The Ties that Bind”, The American Scholar 63, Winter 1994, p. 141.

family.⁸ They argue that civil society enjoys autonomy from the state and often exists in opposition to the state and/or state institutions, such as the military, bureaucracy and the judiciary. Blair believes that although civil society groups do not aim at capturing state power, they work together to influence the state in order to achieve their socio-political goals.⁹ Likewise, Diamond conceives civil society as the “realm of voluntary social life”, where organized civil associations act collectively “to express their interests, passions, and ideas, exchange information, achieve mutual goals, make demands on the state, and hold state officials accountable”.¹⁰

Drawing upon the characterization used by Marc Nerfin, Richard Holloway considers civil society as the “third sector”. He believes that a liberal democratic society is divided into three major sectors: the state, the private sector (the business community) and civil society. Unlike the state and the private sector, the third sector’s primary concern is to improve the living conditions of the majority through a shared vision of building a better society. In other words, civil society is separated from the state largely because it does not aim at maintaining law and order through the use of force. Similarly, it shares very little with business organizations as the goals of civil society are not driven by profit-motives.¹¹ In sum, he argues that social associations are neither engaged in

⁸ John Keane (ed.), Civil Society and the State: new European perspectives (London: Verso, 1988), p. 1.

⁹ Harry Blair, “Donors, Democratisation and Civil Society: relating theory to practice”, in David Hulme and Michael Edwards (eds.), NGOs, States and Donors: too close for comfort? (London: Macmillan, 1997), p. 25.

¹⁰ Larry Diamond, “Rethinking Civil Society: toward democratic consolidation”, Journal of Democracy 5(3), July 1994, pp. 5-7.

¹¹ Richard Holloway, Supporting Citizens’ Initiatives: Bangladesh’s NGOs and society (Dhaka: University Press, 1998), pp. 31-35.

activities that are profit-oriented, nor involved with political efforts to capture and/or control state power.

While quite a few liberal authors emphasize the need for excluding both business enterprises and political groups from the non-state domain, the mainstream literature usually identifies civil society with the private sector.¹² This is largely because the literature is primarily concerned with the potential abuse of state power by political leaders. Most liberal authors believe that in the absence of an effective check on the arbitrary exercise of governmental authority, the state could easily come to establish its hegemonic control over civil life. Thus, the presence of a vigilant civil society that encompasses all sorts of “non-state” actors is seen as essential in order to prevent the state from becoming “despotic”. More specifically, civil associations, as Alexis de Tocqueville argued, not only challenge the state’s drive into political and economic domination, but they also enable individuals to nurture and protect fundamental rights and freedoms.¹³ In other words, civil society exerts its pressure upon the state, making sure that state power is exercised on the basis of popular acceptance.¹⁴

Such an understanding probably explains the literature’s recent interest in civil society. It partly demystifies and legitimizes as well the role of the donor community in pushing the strategy of supporting and strengthening civil society everywhere. Considering civil society as the means to “universalize” liberal ideas of democracy and

¹² Macdonald, Supporting Civil Society, p. 16.

¹³ Keane, Civil Society and the State, p. 61.

¹⁴ Michael Bratton, “Civil Society and Political Transitions in Africa”, in John W. Harbeson et. al. (eds.), Civil Society and the State in Africa (Boulder, CO: Lynne Rienner, 1994), p. 59.

the free market at “the end of history”, the mainstream literature outlines the importance of “directly contributing resources to strengthen civil society”.¹⁵ This is largely because, as liberal authors affirm, without a strong civil society the on-going democratization wave may face an uncertain future. In the absence of a viable civil society, they argue, many new democracies may witness a process of regression back toward authoritarian populism, where the old political elites will try to use democratic mandates to further consolidate their power.¹⁶ The strengthening of civil society can only prevent such a despotic trend. The key donors are, therefore, directing financial and technical resources toward the construction of an enabling environment in which civil society can assume a greater responsibility for promoting democracy and market-oriented development.

In the liberal approach, thus, the expansion and legitimation of civil society is seen as vital to both democratization and economic liberalization. In addition to forcing authoritarian regimes to embark upon democratization initiatives, civil society associations can play a crucial role in widening political participation, deepening governmental accountability, promoting democratic citizenship and supporting market liberalization initiatives.¹⁷ Naomi Chazan, for instance, shows that civil society groups in Ghana have successfully developed alternative institutions to assert the role of ordinary citizens in decision-making.¹⁸ In a similar fashion, Goran Hyden examines the role of

¹⁵ Blair, “Donors, Democratisation and Civil Society”, p. 31.

¹⁶ Michael Ignatieff, “On Civil Society: why Eastern Europe’s revolutions could succeed”, *Foreign Affairs* 74(2), March/April 1995, pp. 128-36.

¹⁷ Diamond, “Rethinking Civil Society”, pp. 7-11.

¹⁸ Naomi Chazan, “Ghana: problems of governance and the emergence of civil society”, in Larry Diamond et. al. (eds.), *Democracy in Developing Countries: Africa*, vol 2 (Boulder, CO: Lynne Rienner, 1988), pp. 130-32.

voluntary associations in Africa in creating opportunities for ordinary people to acquire the knowledge and skills that are regarded as essential in pursuing broader issues related to economic and political reforms.¹⁹ Also, most authors argue that by helping the private sector to grow, civil society organizations can reduce people's economic reliance upon the state on the one hand, and can successfully generate alternative sources of livelihood within the "non-state" domain, on the other.

Despite increasing emphasis on the concept, however, liberal authors tend to suggest that excessive reliance on civil society could be politically dysfunctional.²⁰ This is largely because radical socio-political groups can use the liberalized environment to their partisan political advantage. Such a problem can particularly appear as a direct threat to on-going political and economic reforms in places where the beneficiaries of the old system are in a position to derail the process of building democracy and the market. Instead of coming to terms with the newly developed rules of the game, they are likely to make efforts to mobilize popular sentiment, demanding the restoration of the old political and economic systems from which they received "rents". Thus, the mainstream literature focuses on the ethics of tolerance and patience²¹ and advises civil society groups not to create a "radical environment".

Unlike the liberal approach, however, the critical perspective does not proceed from the distinction between the state and civil society. Although it does admit that civil

¹⁹ See Goran Hyden, No Shortcuts to Progress: African development management in perspective (London: Heinemann, 1983).

²⁰ Iliya Harik, "Pluralism in the Arab World", Journal of Democracy 5(3), July 1994, p. 56.

²¹ Mustapha K. Al-Sayyid, "A Civil Society in Egypt?" Middle East Journal 47(2), Spring 1993, pp. 228-42.

society may exist in opposition to the state, it rejects the thesis that the state is the primary source of oppression and exploitation. In his theory of superstructures, Gramsci, for instance, refuses to separate civil society from the state. According to him, “the state should be understood not only as the apparatus of the government, but also the ‘private’ apparatus of ‘hegemony’²² or civil society.”²³ More importantly, Gramsci does not think that hegemony is only exercised by the state. Instead, he claims that hegemony is maintained and exercised by the combination of two somewhat contradictory means: force and consent. By force he refers to the means of coercion such as the police and the military. On the other hand, consent is defined as the instrument of establishing intellectual and moral leadership - in other words, hegemony - in civil society. Such a leadership can be achieved through the use of a variety of ideological devices, including education, the media and cultural practices.²⁴

In particular, Gramsci’s civil society is composed of those long-lasting institutions that are neither part of the material basis of society, nor of the state machinery. These organizations are engaged in developing what he calls “moral and intellectual leadership”. Some of the examples of such organizations would be voluntary

²² Important to mention is that unlike many thinkers, Gramsci refrains from using the concept of hegemony in a narrower sense of political leadership. His notion of hegemony includes both political and cultural leadership. By cultural leadership he refers to the transformation of customs, traditions and culture. See Norberto Bobbio, “Gramsci and the Conception of Civil Society”, in Chantal Mouffe (ed.), Gramsci and Marxist Theory (London: Routledge, 1979), P. 39.

²³ Antonio Gramsci, Selections from the Prison Notebooks, edited and translated by Quintin Hoare and Geoffrey Nowell-Smith (London: Lawrence and Wishart, 1971), p. 261.

²⁴ Joseph V. Femia, Gramsci’s Political Thought: hegemony, consciousness, and the revolutionary process (New York: Oxford University Press, 1981), p. 24.

associations, educational institutions, the media, religious institutions and organizations, professional groups and cultural associations.²⁵ Like political society, Gramsci claims, civil associations are very much engaged in a complex set of power struggles. More specifically, he comes to suggest that power relations and exploitation can also be found in civil society. This is largely because of the involvement of civil society groups with the making and maintenance of hegemony.²⁶ According to Roger Simon,

The social relationships of civil society are relations of power just as much (though in a different way) as are the coercive relations of the state.²⁷

Such an understanding of civil society not only calls into question the liberal distinction between the state and civil society, but more importantly, it challenges the assumption that civil society is the site of democratic and egalitarian relationships.

In a somewhat similar fashion, Jean Cohen and Andrew Arato provide a broader conceptual framework in which civil society may or may not exist in opposition to the state and/or the material basis of production. Civil society, according to them, is a

sphere of social interaction between economy and state, composed above all of the intimate sphere (especially the family), the sphere of associations (especially voluntary associations), social movements, and forms of public communication.²⁸

²⁵ Robert Bocoock, Hegemony (New York: Tavistock Publications, 1986), pp. 33-34.

²⁶ Krishan Kumar, "Civil Society: an inquiry into the usefulness of an historical term", British Journal of Sociology 44(3), September 1993, p. 382.

²⁷ Roger Simon, Gramsci's Political Thought: an introduction (London: Lawrence and Wishart, 1982), p. 72.

²⁸ Jean L. Cohen and Andrew Arato, Civil Society and Political Theory (Cambridge, MA: MIT Press, 1994), p. ix.

They argue that civil society generally operates within its own mediating sphere through which it makes an attempt to influence the administrative and economic processes. Its relation with the state or the economy becomes hostile only when the mediating role of civil society groups fail.²⁹ In other words, Arato and Cohen also reject the confrontational relation of civil society to the state or the economy.

Equally significant to the analysis of critical theorists is the understanding that the relation between the state and social groups depends on the particular socio-political context. It could either take a collaborative form or could assume an antagonistic character. Similarly, this perspective suggests that civil society is not a homogenous entity. It is often constituted of extremely diverse elements of society. Instead of sharing a vision of a better world, these may well represent, as has been observed in the case of Brazil, highly conflicting socio-political interests.³⁰ It would also be misleading to assume that all civil associations promote the goals of democracy and development. While many civil society organizations may effectively get involved with either the preservation of popular interests or the protection of people from potential abuses of power, some civil associations may work together for the maintenance of elite-dominated hegemony. Ellen Wood, for instance, argues that, as market-oriented reforms sweep the world, civil society can be the site of mobilizing popular sentiment toward the construction of free markets. More important perhaps is the fact that civil society organizations can be used to mask the coercive power of market capitalism.³¹

²⁹ Ibid., pp. x-xi.

³⁰ Anthony W. Pereira, "Economic Underdevelopment, Democracy and Civil Society: the North-East Brazilian case", Third World Quarterly 14(2), April 1993, p. 371.

³¹ Wood, "The Uses and Abuses of Civil Society", p. 65.

Critical theorists also question the pluralist interest group hypothesis that all groups have equal opportunity and ability to influence the state and the market. In reality, elite associations may dominate the non-state realm and may make efforts to prevent the state from undertaking radical reform programs that would dramatically improve the access to political and economic resources of a variety of disadvantaged groups such as rural poor, women and ethnic and religious minorities.³² This is exactly why Nicos Mouzelis outlines the importance of developing what he calls “a balanced pluralism”. As an essential element of a strong civil society, he identifies “the existence of a balanced pluralism among civil society interests so that none can establish absolute dominance”.³³

Despite such a nuanced understanding of civil society, the critical perspective views civil society as the domain of a real social change toward sustainable democracy, human development and justice. Most authors believe that such civil associations as trade unions, women’s groups, non-governmental organizations (NGOs) and voluntary associations can play a crucial role in giving people the right to determine their own future. Also, in their efforts to establish some form of control over the political and economic institutions that profoundly affect their lives, they can create the environment in which new social movements (NSMs) may gain the momentum necessary for making broader socio-political changes. Indeed, many critical authors, notably Chantal Mouffe, Ponna Wignaraja and John Clark, view the growing strength of NSMs in different parts

³² Macdonald, Supporting Civil Society, p. 20.

³³ Nicos Mouzelis, “Modernity, Late Development and Civil Society”, in John A. Hull (ed.), Civil Society: theory, history, comparison (Cambridge: Polity Press, 1995), p. 226.

of the world as expressions of resistance to the “hegemony of the market”.³⁴ As well, they see these movements as reflections of popular desire to build countervailing structures of power that would eventually ensure the construction of a more participatory democracy.³⁵

In other words, the critical perspective assigns greater responsibility to civil society groups for the advancement of the goals of sustainable democratic development in the world. Unlike the mainstream literature, it does not restrict the role of civil society to the promotion of electoral democracy and market capitalism. Nor does it regard civil society as a principal ally³⁶ of political and economic liberalization. Instead, it focuses on the diversity of civil society and considers civil associations as agents of radical socio-political change.

State-Society Relations in Bangladesh: growing distrust between the state and civil society

As discussed in brief in chapter four, state-society relations in Bangladesh have remained largely confrontational since independence in 1971. Right from the beginning, all state leaders - military and civilian or elected - have constantly struggled to resolve

³⁴ Chantal Mouffe, “Hegemony and New Political Subjects: toward a new concept of democracy”, in Cary Nelson and Lawrence Grossberg (eds.), Marxism and the Interpretation of Culture (Chicago: University of Illinois Press, 1988), pp. 93-94.

³⁵ Ponna Wignaraja, “Rethinking Development and Democracy”, in Wignaraja (ed.), New Social Movements in the South: empowering the people (London: Zed books, 1993), pp. 11-12.

³⁶ Augustus Richard Norton, “Introducton”, in Norton (ed.), Civil Society in the Middle East, vol 2 (Leiden, The Netherlands: E. J. Brill, 1996), p. 16.

various degrees of what Lucian Pye calls “the crisis of legitimacy”.³⁷ Diverse “non-state” groups, including civil society organizations, have continued to challenge the authorities, causing enormous tension in the relationship between the state and society. Muhammad Hakim provides a brief, but a clear description of the situation:

The political history of Bangladesh is checkered with agitations, demonstrations, protest rallies, general strikes, and other manifestations of anti-government movement. Every regime, whether civilian or military or quasi-military, experienced movements against itself by the opposition forces.³⁸

Such an increasing disengagement of the Bangladeshi society from the state raises the inevitable question: why have state-society relations remained antagonistic? All popular responses to this question point to the military. Indeed, most analysts blame the armed forces for their repeated intervention in politics that led to the total erosion of political legitimacy in the country. As discussed in the previous chapter, the military’s attempt to establish its control over the state machinery began in August 1975, when it overthrew the civilian regime of Sheikh Mujibur Rahman (1971-75). Since then, the army largely remained in control of politics until the fall of General Hussain M. Ershad’s regime in December 1990.

It is no wonder that, during this long 15-year era, major socio-political groups were primarily engaged in launching movements for restoring democracy. Viewing the military as the major impediment to the country’s much-desired transition to democracy,

³⁷ See Lucian W. Pye, Aspects of Political Development (Boston, MA: Little Brown, 1966).

³⁸ Muhammad A. Hakim, Bangladesh Politics: the Shahabuddin interregnum (Dhaka: University Press, 1993), p. 6.

they continued to emphasize the adoption of political programs that would force the military to withdraw from politics. Various civil society associations therefore directed much of their activity to putting an end to military authoritarianism. They hoped that a democratic transition would create a political environment in which civil associations could come to play a key role in meeting popular expectations. Also, they regarded the transition to democracy as a necessary prerequisite for the eventual realization of their demands.³⁹

All major women's organizations, for instance, formed a coalition called *Ooikkyaboddho Nari Samaj* - United Forum for Women - in 1990 and joined the mainstream opposition sponsored movement for democracy. Similarly, some 22 student organizations formed the All-Party Student Union (APSU) in 1990 to join the anti-military movement. As well, journalists used their national forum known as Bangladesh Federal Union of Journalists (BFUJ) and all the principal trade unions came together under the alliance called *Sramik Karmachari Ooikkya Parishad* (SKOP) to declare their total support for the democracy movement. These were obvious and overt manifestations of growing disengagement of socio-political groups from the military-dominated state. In fact, mutual distrust between General Ershad's military regime and major social groups reached such an unprecedented level that even many activists and intellectuals became totally confused about what civil society was. During the democracy movement, they

³⁹ Meghna Guhathakurta, "The Women's Agenda and the Role of Political Parties", in Najma Chowdhury et. al., (eds.), Women and Politics (Dhaka: Women for Women, 1994), pp. 49-50.

clearly perceived civil society in that era in Bangladesh as the aggregate of political activities by different social groups against military dictatorship.⁴⁰

This partially explains the evolution of a confrontational state-society relationship in the country. The state's attempt to achieve social control or to manufacture hegemony and the lack of responsiveness on the part of the state also contributed to the increasing alienation of society from the latter. No regimes - military or elected - took any solid initiatives to run the country based on a participatory political ideology of governance. Instead, they relied either on force or on non-democratic practices to exercise social control. The civilian regime of Mujib, for instance, chose to address the post-independence dilemma of political authority and popular legitimacy through the imposition of an authoritarian structure of governance – similar to those adopted by a vast majority of post-colonial rulers in the 1950s and 1960s. Following independence, like many other nationalist leaders in the Third World, his regime faced the daunting task of creating a political space for opposition parties and civil society groups to promote alternative ideas of democracy and development. As well, he encountered a formidable challenge of meeting the needs of the disadvantaged sections of the population, especially the poor.

Not only did the regime's interventionist economic policy prove to be disastrous for both alleviating poverty and achieving higher levels of growth, even its political programs shattered the hope of promoting debates and dialogues on state policy. Within three years of independence, it became quite evident that the regime was primarily concerned with the maintenance of its political hegemony/control and was, therefore,

⁴⁰ Shamsuddin Ahmed, "Civil Society to Replace Evil Society", Dhaka Courier, 14 (1) 1 August 1997, p. 17.

unwilling to accommodate the interests of opposition groups. The government, for instance, used force to deal with the armed struggles led by a few radical left parties, which were claiming that the liberation war of 1971 “left the revolution unfinished”. They blamed the “imperialist powers”, especially India, the Soviet Union and the United States for not allowing the people of Bangladesh to complete a true social revolution and therefore decided to begin a “class war” against the Mujib regime.⁴¹ The timing was perfect for mobilizing popular support against the ruling party as ordinary citizens became increasingly disillusioned with the unsatisfactory outcomes of the government’s socio-economic programs.

What surprised most analysts, however, was the way the civilian regime responded to this insurgency issue. Instead of attempting to tackle the problem politically, the government undertook various repressive measures to contain the insurgency, which resulted in the creation of an extremely volatile political landscape.⁴² The civilian government of Mujib also faced armed resistance from the ethnic minorities living in the southeastern part of the country known as the Chittagong Hill Tracts (CHT) – the homelands of about 12 different tribal groups.⁴³ Indeed, the government’s policy of assimilating all ethnic groups within the framework of Bengali nationhood isolated these ethnic groups from the new Bangladeshi state and in turn forced them to gear up their autonomy movement. Like the authoritarian Pakistani state, Mujib’s government refused

⁴¹ Talukder Maniruzzaman, The Bangladesh Revolution and Its Aftermath (Dhaka: Bangladesh Books International, 1980), pp. 167-75.

⁴² Ibid, pp. 175-79.

⁴³ See M. S. Qureshi (ed.), Tribal Cultures in Bangladesh (Rajshahi: Institute of Bangladesh Studies, 1984).

to grant them political autonomy so that they could preserve their distinct ethno-cultural identities. The government instead sought to crush the growing autonomy movement by using the military, further fueling the armed resistance.⁴⁴

In the wake of such a deteriorating state-society relationship, Mujib's so-called civilian regime proclaimed a State of Emergency in December 1974 that severely restricted individual freedoms and rights.⁴⁵ It then drastically amended the constitution in January 1975 and formalized the construction of authoritarianism in independent Bangladesh. In addition to replacing the multi-party parliamentary system, the amendment introduced a one-party presidential form of government to the country.⁴⁶ Not only did such a move create an all-powerful executive authority, but it also prohibited all sorts of anti-government activities, including the actions of civil society.

The ascension to power by the military further strengthened the process of alienating civil society from the state. As discussed in the previous chapter, the policy of militarizing both the administrative machinery and society adopted by successive military regimes of Generals Ziaur Rahman and Hussain Ershad widened mutual distrust between the government and various socio-political groups. Of equal importance is that both of them, albeit in varying degrees, used organizations of the market and civil society to establish their hegemony in several ways.

⁴⁴ Talukder Maniruzzaman, "The Future of Bangladesh", in A. Jeyaratnam Wilson and Denis Dalton (eds.), The States of South Asia: problems of national integration (London: C. Hurst, 1982), p. 270.

⁴⁵ Subendhu Dasgupta, "A Class in Pursuit of Power: industrial bourgeoisie of Bangladesh", in Ramakant and B. C. Upatri (eds.), Nation-Building in South Asia (New Delhi: South Asian Publishers, 1991), p. 301.

⁴⁶ Syed Serajul Islam, "Polity and Politics During Mujib Era", in Emajuddin Ahamed (ed.), Society and Politics in Bangladesh (Dhaka: Academic Publishers, 1989), p. 51.

First, largely through economic reform programs, they developed a patrimonial structure of the state in order to distribute public resources to their clients and/or partners, particularly a small group of financial and economic elites (see chapter three). Such a patrimonial strategy clearly obstructed the process of properly managing resources for development on the one hand, and reducing mass poverty, on the other. Second, and perhaps most important, both Generals manipulated Islam and traditional Islamic institutions such as mosque, *madrassa*⁴⁷ and associations of *madrassa* teachers to develop a new political ideology called “Bangladeshi Nationalism”.⁴⁸ While the notion of Bangladeshi nationalism enabled both of them to manufacture some sort of hegemony, it continued to alienate religious minorities, particularly the Hindus, who make up about the 12 percent of the total population. As well, their so-called Islamization⁴⁹ programs deepened the crisis in the CHT. The non-Muslim ethnic groups readily rejected the use of Islam as a tool to develop a new sense of national identity. Considering Bangladeshi nationalism as a political ideology primarily designed to ignore the very existence of ethnic minorities in the country, they stepped up the autonomy movement.⁵⁰ Moreover,

⁴⁷ Traditional Islamic educational institutions that offer professional and religious training to Muslims based on the guidelines of *Sharia*.

⁴⁸ See Ahmed Shafiqul Haque and Muhammad Yeahiya Akhtar, “The Ubiquity of Islam: religion and society in Bangladesh”, *Pacific Affairs* 60(2), Summer 1987, pp. 200-25.

⁴⁹ For a detailed analysis of using Islam as a legitimacy doctrine see Rafiuddin Ahmed, (ed.) *Religion, Nationalism and Politics in Bangladesh* (New Delhi: South Asian Publishers, 1990).

⁵⁰ Aftab Ahmed, “Ethnicity and Insurgency in the CHT Region: a study of the crisis of political integration in Bangladesh”, *The Journal of Commonwealth and Comparative Politics* 3(3), November 1993, p. 46.

both of the regimes' military approaches⁵¹ to ethnic insurgency in the CHT exacerbated the already worsened state-minority relations.

However, the transition to democracy in 1990 and the subsequent assumption of power by an elected regime proved to be insufficient to develop a complementary state-society relationship in Bangladesh. Sadly enough, the country experienced the total breakdown of mutual trust between the state and society under the democratically elected regime of Mrs Zia. As discussed in the fourth chapter, this was partly due to Mrs. Zia's inability to develop responsive politics in the country. Like her husband, General Zia, she was primarily concerned with the maintenance of power primarily through the imposition of personal rule. Her reluctance to respond positively to popular demands resulted in an unprecedented political impasse that kept state-society relations extremely confrontational for about two years. Despite the consensus developed at the societal level on the formation of a non-partisan caretaker government for conducting the next three parliamentary elections, Mrs. Zia repeatedly refused to amend the constitution and focused on the idea of social control instead.

Equally significant was her emphasis on the politics of Bangladeshi nationalism that she inherited from her husband. In addition to isolating religious minorities, such a divisive political ideology caused progressive fragmentation within civil society, resulting in massive infighting among diverse "non-state" actors. On the question of enacting an anti-blasphemy law, for instance, the whole nation became politically divided. The controversy began when feminist author Taslima Nasrin demanded a change in the Quaranic law to promote women's rights that eventually fueled an Islamic

⁵¹ Amena Mohsin, "Military, Hegemony and the Chittagong Hill Tracts", The Journal of Social Studies, 72, April 1996, pp. 1-26.

backlash in the country. A number of Islamic groups came together under the umbrella alliance of Combined Action Committee (CAC) and took to the street to press Mrs. Zia's government both to set up Islamic courts and accommodate Islamic principles in the country's civil law. They also demanded exemplary punishment of Ms. Nasrin.⁵² By contrast, secular socio-political groups organized around the group popularly known as the *Nirmul Committee* and coordinated a series of protest movements demanding an immediate ban of all forms of Islamic politics.⁵³ The failure of the government to mediate among these rival socio-political groups kept state-society relations in a high state of strife.

Civil Society: autonomy versus partisanship

Most analysts of the Bangladeshi case argue that growing disengagement of civil society from the state resulted also from the fact that the third sector - in other words, civil society - is weak or undeveloped in Bangladesh. Kirsten Westergaard, for instance, identifies two major factors that impeded the process of developing a vibrant civil society in the country. First, the industrial classes remained weak or loosely organized as the country experienced a low level of industrialization over the last 25 years. Second, despite empirical evidence clearly showing that the number of landless people is on the rise, the peasant society has not yet been able to emerge as a strong interest group

⁵² S. Kamaluddin, "Religious Right Pushes for Blasphemy Law", Far Eastern Economic Review 157(33), 18 August 1994, p. 23.

⁵³ Hakim, Bangladesh Politics, pp. 107-12.

because of “the fragmented nature of the social structure”.⁵⁴ By contrast, Holloway argues that the absence of financial assistance from both the state and private sector to support citizens’ initiatives has severely obstructed the development of a strong civil society in Bangladesh. He also believes that the lack of interest on the part of the third sector in lobbying to make necessary changes in the legal system is partly responsible for the apparent failure of civil society to emerge as a key actor.⁵⁵

There is little doubt, then, that civil society in Bangladesh has apparently failed to protect citizens from the abuses of power by the forces in both state and market. As well, it has not succeeded in preserving the political space required to promote broader developmental issues such as justice, equality and empowerment. Unlike the dominant responses discussed above, however, this chapter argues that the inability of societal groups to pursue popular interests is primarily due to the emergence of an “overly-politicized” civil society in Bangladesh. In the industrial and/or manufacturing sectors, for instance, there is no real shortage of civil associations, in particular labor unions. Contrary to Westergaard’s claim, some four thousand labor unions represent approximately two million industrial workers across the country. In order to strengthen trade union activities, these associations have also set up umbrella organizations; in other words, labor union federations. By one estimate, the country has more than 90 registered national trade union federations that are seemingly active in the broader areas of

⁵⁴ Kirsten Westergaard, “Decentralization, NGOs and Democratization in Bangladesh”, in Lars Rudebeck and Olle Tornquist (eds.), Democratization in the Third World: concrete cases in comparative and theoretical perspective (London: Macmillan, 1998), pp. 174-75.

⁵⁵ Holloway, Supporting Citizens’ Initiatives, p. 34.

industrial relations and labor disputes.⁵⁶ These numbers would go up significantly if unregistered unions and federations are added to the list.

Funding, as Holloway suggests, does not appear to be a real problem for their operations largely because almost all of the unions are acting as front organizations of different political parties. Contrary to the conventional wisdom, most trade unions and federations have political affiliations with major national political parties. According to a World Bank report,

. . . major political parties have formed their respective national-level labor front organizations. Also, most of the trade union leaders at central as well as district levels are important political party functionaries.⁵⁷

In other words, the trade unions and national federations do not act independently of political parties. Not only do they formulate programs and policies based on the party guidelines, but they also rely on the directives of the party high command for choosing their local and national leaders. These trade unions are, therefore, more concerned with the promotion of particular political goals and programs than with the protection of the general interests of the workers.

Sadly enough, this characteristic is not limited to the trade unions. Indeed, most so-called civil society groups are either the creations of different political parties or the product of an extreme ideological polarization of the country's politics. With a very few exceptions, almost all professional, associational, religious and ethnic groups belong to

⁵⁶ World Bank, Bangladesh: selected issues in external competitiveness and economic efficiency (Washington, DC: South Asia Country Department, World Bank, 1992), p. 63.

⁵⁷ World Bank, Bangladesh: privatization and adjustment (Washington, DC: South Asia Country Department, World Bank, 1994), p. 46.

one of the three major ideological camps that have evolved over the past two decades: secularist, nationalist and Islamist. The Awami League (AL) and its leftist allies lead the secular front, which advances, among other things, the principle of secularism. The nationalist camp is led by the Bangladesh Nationalist Party (BNP) and is mainly composed anti-Indian political forces. The concept of “Bangladeshi nationalism” serves as the driving impetus for such an ideological coalition.⁵⁸ The Islamic front is primarily made up of religious political parties that are aiming at building an Islamic state largely through the implementation of *Sharia* law.⁵⁹ Despite ideological differences, however, the latter two groups often work in close cooperation since they share the assumption that religion and politics are inseparable.

Like the trade unions, such ideological divisions are acute within most professional associations, such as Bangladesh Federal Union of Journalists, Bangladesh Medical Association and Bangladesh Bar Council. While these associations cannot formally seek affiliation with any political party, they are known for championing the cause of a particular political party and/or ideology. In fact, party-dominated contests for electing their organizational executives have become so common that they usually ignore

⁵⁸ The concept of Bangladeshi nationalism was formally introduced by General Zia and was later carried out by General Ershad and Mrs. Zia. While such a concept seeks to promote a new sense of national identity largely through Muslim nationhood, all of them used the concept to safeguarding the country’s independence from India’s socio-political aggression. For an analysis of Bangladeshi nationalism, see Talukder Maniruzzaman, Group Interests and Political Changes: studies of Pakistan and Bangladesh (New Delhi: South Asian Publishers, 1982), pp. 216-19.

⁵⁹ It is important to mention that like elsewhere, Islamists are basically divided into a number of different groups largely because they do not treat Islam as a unified discourse. Most groups maintain distinct ideological and philosophical understandings of Islam. Yet, they have the ability to challenge the existing secular socio-political settings of the country.

the importance of safeguarding their organizational autonomy. The leadership of these professional associations is basically contested between members of the three ideological groups noted above. Election to the executive committee of the Dhaka University Teachers Association, for instance, is usually contested among three distinct panels: Blue, Pink and White, representing the interests of those three major ideological camps.⁶⁰ Likewise, the leadership of the Bangladesh Medical Association, the professional body of the physicians, is contended among the supporters of the AL, BNP and Jammāt-i-Islami. Depending on the results of the election, the leadership assumes a substitute role for a particular ideology or political party.

A vast majority of cultural, social, and voluntary associations also play a purely partisan role in Bangladesh. Instead of taking on the responsibility for representing collective interests, most of them direct their efforts toward the practice and promotion of the ideals of a certain brand of politics. This is primarily due to the fact that they are front organizations of major political parties. Of particular importance is that all political parties in Bangladesh strive to dominate the “social realm” in order to generate public support in favor of their programs, policies and ideologies. In so doing, they create a variety of forums, such as students unions, women’s associations, peasant organizations, and cultural forums, many of which appear to be non-partisan organizations. In reality, however, at the societal level, these organizations make efforts to manufacture and maintain some sort of ideological hegemony on behalf of their parent political organization. For instance, the Bangladesh Mohila Parishad (Bangladesh Women’s Council) and the Khet Majur Samity (Association of Landless Laborers), are the two

⁶⁰ “Blue, White Panels to Contest DUTA Polls”, The Daily Star, 22 December 1997, p. 1.

active groups working among women and landless farmers in the country.⁶¹ While it seems that their primary concern is to represent the interests of women and peasants, they are indeed involved in advancing the cause of building a socialist country, owing to the fact that they are political fronts of the Bangladesh Communist Party.

Similarly, the AL, BNP and Jammāt-i-Islami have front organizations that are politically active among different socio-cultural groups. All of them are engaged in rationalizing particular politics and are trying to expand their political support at all the three levels: grassroots, local and national. It would be misleading, however, to say that these so-called civil society associations do not put forward the demands of the social groups that they seemingly represent. These organizations do raise issues of particular importance to their groups and they even sometimes fight to improve the status of women, peasants, workers, and ethnic and religious minorities. Yet, these roles often get subsumed under “political priorities”.⁶² In other words, they focus more on ideological issues than on representing and fulfilling popular interests.

This excessive politicization of civil society was also reflected in the recent political role of NGOs, especially development NGOs, in bringing down the “nationalist” regime of Khaleda Zia. The NGO sector remained largely non-committal in terms of party politics until the collapse of General Ershad’s military authoritarian regime in 1990. Despite the widely held belief that NGOs are a major force for democracy, the NGO sector kept its distance from the democracy movement that drew widespread support from all sections of the Bangladeshi society. What disappointed many analysts, however,

⁶¹ Holloway, Supporting Citizens’ Initiatives, pp. 35 & 159.

⁶² Guhathakurta, “The Women’s Agenda and the Role of Political Parties”, p. 49.

was their active participation in quite a few development programs sponsored by the military regime. For obvious reasons, such an “anti-democratic” role of NGOs met harsh public criticism. In particular, all major political parties and social groups condemned the involvement of NGOs with the government program of distributing public lands, popularly known as “*khas* land”, to landless farmers.⁶³

The NGO sector emerged as an important political force during Mrs. Zia’s rule however. Abandoning their seemingly apolitical and non-partisan role, many development NGOs - both micro-finance and advocacy - began to take serious interest in political matters, trying to develop a new image that NGOs are part of the country’s pluralist democracy.⁶⁴ The Association of Development Agencies in Bangladesh (ADAB) - the coordinating organization of development NGOs - for instance, openly criticized the government for failing to combat the resurgence of fundamentalism, protect the legal rights of women and eliminate corrupt practices. More important perhaps is that when the conflict between the BNP regime and mainstream opposition reached its peak, ADAB decided to side with the opposition. Considering the crisis situation as a “state of civil war”, ADAB facilitated the holding of a huge public rally, involving major professional associations, business groups and NGOs. The rally demanded an immediate transfer of power to a neutral caretaker government and issued an ultimatum to Mrs. Zia’s regime.⁶⁵ As well, ADAB coordinated the formation of the “Organization of

⁶³ F. R. Mahmood Hasan, “Journey into the Morning”, paper presented at the Asia Pacific Civil Society Forum, Seoul, 11-14 August 1996, p. 13.

⁶⁴ Holloway, Supporting Citizens’ Initiatives, p. 27.

⁶⁵ ADAB, “Declaration from Historic Rally of Civil Society”, leaflet circulated by ADAB, Dhaka, 16 March 1996.

Grassroots People” that aimed at bringing together secular forces. The organization held its first national convention in the capital city on 1 January of 1996 and vowed to “resist”, among other things, communalism and fundamentalism.⁶⁶ Clearly, development NGOs under the leadership of ADAB came out as an ideological force in the 1990s.

This raises an obvious question: what factors have led the NGO sector to suddenly assume an ideological and/or partisan role? Most analysts suggests that the fall of the authoritarian regime in 1990 and the following general elections that brought an elected regime to power eventually created the “political space” that the NGO sector needed for playing a more direct role in politics. The “fear of reprisal”, as Mahmood Hasan claimed, had prevented them from acting as a key political force in the country for a long time previously.⁶⁷ Although this provides a partial explanation, it ignores the basic fact that NGOs are regarded as an important force for democratization throughout the world. Empirical evidence clearly indicates that NGOs do not rely on socio-political groups for the creation of a democratic environment, but rather play an active role in democracy movements elsewhere. In particular, by mobilizing popular sentiment, they exert a great deal of pressure for the establishment of pluralist democracy.⁶⁸

Three interrelated factors seem to have played a major role in dramatically altering the traditional apolitical role of the NGO sector in Bangladesh. First, the changing donor discourse on “aid” has created a very different environment in which

⁶⁶ Staff Correspondent, “Grass-roots People Rally in City: call to eradicate poverty”, The Bangladesh Observer, 2 January 1996.

⁶⁷ Hasan, “Journey into the Morning”, p. 13.

⁶⁸ John Farrington and David J. Lewis, “Background”, in Farrington and Lewis (eds.), Non-Governmental Organizations and the State in Asia: rethinking roles in sustainable agricultural development (London: Routledge, 1993), p. 6.

most NGOs throughout the world began to focus on such issues as secularism, democratization and human rights. Due to their excessive reliance on external funding, most NGOs in Bangladesh have also been making efforts to go beyond “micro-credit” activities since the start of the 1990s, giving increasing emphasis to democratization and secularism.

Second, the rise of what is called “*fatwabaz*” had created sudden tensions in the traditionally peaceful environment of rural Bangladesh in which NGOs carried out various programs over the last two decades. Viewing NGO activities, particularly those programs that involve women in income-generating activities, as “anti-Islamic”, some religious leaders began to pronounce *fatwas*⁶⁹, in other words, decrees, against large NGOs such as BRAC, Grameen Bank and Proshika. They launched a “resistance movement” against NGOs in some parts of rural Bangladesh, torching schools run by different NGOs and physically assaulting NGO workers. Between 1992 and 1994, these so-called resistance programs led to the killings of about 40 rural people, mainly women, and the destruction of some 200 non-formal schools.⁷⁰ Such a volatile political situation prompted the necessity for the NGO sector to align itself with the secular forces and to assume a more defined ideological role.

⁶⁹ *Fatwa* is defined as an interpretation of Islamic law/*Sharia*. In response to the needs of a particular context, only recognized Islamic scholars or a council of Islamic scholars are allowed to pronounce a *fatwa*. See Khalid Bin Sayeed, Western Dominance and Political Islam: challenge and response (New York: State University of New York Press, 1995), pp. 136-39.

⁷⁰ See S. M. Nurul Alam, NGOs under Attack: a study of socio-cultural and political dynamics of NGO operations in Bangladesh (Dhaka: Department of Anthropology, Jahangirnagar University, 1995) and The Daily Sangbad, 13 August 1994.

Third, and probably the most important factor that encouraged the NGO sector to take a direct stand against the nationalist BNP regime was its deteriorating relationship with Mrs. Zia's government. This came to a head-on collision in August 1992, when the government issued a letter canceling the registration of ADAB by accusing it of being involved in political activities, so posing a challenge to the government.⁷¹ While, under tremendous donor pressure this notice was withdrawn within an hour of its issuance, the government-ADAB relations remained antagonistic during Mrs. Zia's tenure. This was precisely why the leadership of ADAB wasted very little time in joining the anti- BNP movement, playing a crucial role in overthrowing the ruling BNP from power in 1996. It is important to mention that ADAB and a large number of its member organizations campaigned for the secular candidates, mainly those who contested under the banner of the AL during the parliamentary elections of 1996.⁷² In many cases, they openly asked their members to vote for the AL.⁷³ Such a partisan role however led to the apparent split of ADAB, which became evident in its last organizational election that was contested between the "old guards" and the "reformists". The latter blamed the leadership for

⁷¹ Rashed Rain, "NGO Bureau Accuses NGOs of Political Involvement", Dhaka Courier, 14 August 1992, pp. 11-12.

⁷² This information was gathered from the author's field visit. Also, quite a few studies done on the elections of 1996 show that some NGOs actively participated in supporting the candidates nominated by the Awami League and its secular allies. See Golam Farouque (ed.) Nirbachan '96: NGO prashasan, kalo taka abong karchupy [Election '96: NGO, the bureaucracy, black money and corruption] (Dhaka: Mimma Prokashan, 1996).

⁷³ Syed Hashemi and Mirza Hassan, "Building NGO legitimacy in Bangladesh: the contested domain", in David Lewis (ed.), International Perspectives on Voluntary Action: reshaping the third sector (London: Earthscan, 1999), p. 129.

compromising its independent status and supporting the cause of a particular political party, namely the Awami League.⁷⁴

Despite an increasingly partisan and ideological role of civil society, some social groups and local NGOs are struggling to maintain political and ideological autonomy in order to effectively promote and protect popular interests. *Adhunik*, for instance, is engaged in educating people about the danger of smoking. Likewise, *Sandhani* - a national organization of medical students - encourages people to donate blood and organs. The Bangladesh Independent Garment-Workers Union Federation (BIGUF) tries to mobilize public opinion in favor of the adoption and implementation of necessary laws required to improve the working conditions of garment workers. This organization is also engaged in developing a more democratic mechanism for resolving labor disputes. The *Ain o Salish Kendra* undertakes a variety of programs to improve people's awareness of legal and human rights. The Forum of Environmental Journalists of Bangladesh (FEJB) and the Environment Development Alliance (EDA) make efforts to enhance people's understanding about the environmental challenges facing the country. Both of the organizations also active in generating popular support for the formulation and implementation of an integrated "National Agenda 21" based on the global action plan adopted in the Rio Earth Summit.⁷⁵ Similarly, *Mahila Samity* runs various programs for women to help them achieve self-reliance. Nonetheless, none of these organizations have yet emerged as a key actor within Bangladeshi civil society.

⁷⁴ Nazmul Ahsan Kalimullah and Saleem Samad, "The NGO Contest", *Holiday* 33(19), 5 December 1997, p. 8.

⁷⁵ Quamrul Islam Chowdhury, "Capacity 21: role of civil society", *The Daily Star*, 16 April 1998.

Conclusions

The findings of this chapter suggest that the rise of authoritarianism, both civilian and military, coupled with the attempt of the state to establish social control contributed to the emergence of a truly confrontational state-society relationship in Bangladesh. Instead of promoting debates, dialogues and participation, successive regimes adopted different political ideologies for regulating socio-political relationships that not only isolated civil society groups from the state, but also created a persistent crisis of legitimacy. The mutual distrust between the state and citizens' groups widened further because of the ineffectiveness of government's politico-economic programs that continued to fail to meet the needs of the majority. Thus, diverse socio-political groups spent a great deal of time and energy on organizing popular resistance movements against the state over the last two decades. Even a transition to democracy, despite widespread optimism, failed to develop a complementary state-society relationship. Nor did it achieve any tangible success in altering the authoritarian way of maintaining state power.

Despite the disengagement of civil society from the state, the findings of this chapter do not support the hypothesis that civil society maintains political autonomy and creates a supportive environment for representing the interests of ordinary citizens. On the contrary, this chapter illustrates that organizations of civil society in Bangladesh have truly failed to play this expected role of protecting the people from the abuse of political and economic power by both the state and the market. Also, they have not succeeded in promoting popular interests, issues and concerns. More specifically, civil society has not yet emerged as a site of democratization and development. Part of the reason for the

failure of civil society to give ordinary citizens a voice and to act as an expression of public opinion is “excessive politicization of civil society”. Most so-called civil society organizations are indeed the product of the country’s profound ideological polarization. As part of a particular political party or ideology, so-called civil society groups make efforts to promote and/or perpetuate certain visions, ideals and goals. In other words, a vast majority of these so-called civil associations try to both manufacture and maintain elite-dominated hegemony. Clearly, most of them lack autonomy, behave in more or less partisan fashion and therefore fail to advance the genuine interests of the group(s) they seem to represent.

CHAPTER SIX

Prospects for Democratic Development in Bangladesh: the role of development NGOs

Introduction

It may appear surprising that more than 20, 000 Non-Governmental Organizations (NGOs) - small, medium and large; local, national and international - are operating in a tiny land of about 55, 000 square miles. In fact, most development researchers hold that no other country of similar size in the world has more NGOs than Bangladesh.¹ While only a few of these NGOs - roughly 5 percent - are involved in broader developmental activities, some of these have already become “legendary” in such areas as micro-credit, non-formal education, primary health care and empowerment. In particular, the “success” of some NGOs - notably the Grameen Bank (GB) and the Bangladesh Rural Advancement Committee (BRAC) - in poverty alleviation, private sector development and empowering rural women has become a popular subject of discussion among development practitioners and policy-makers globally. These indigenous NGOs are widely acclaimed for their innovative development strategies focussing on group-based mobilization, beneficiary participation, micro-enterprises and the involvement of women in various income-generating activities.

¹ John Farrington and David J. Lewis (eds.), Non-Governmental Organizations and the State in Asia: rethinking roles in sustainable agricultural development (London: Routledge, 1993), p. 32.

Inspired by the success of some Bangladeshi NGOs, particularly the GB, many developing countries in Asia, Africa and Latin America are now engaged in undertaking similar programs.² Indeed, the performance of the GB, BRAC, Proshika and Association for Social Advancement (ASA) is so “amazing” that even many developed countries, including the United States and Canada, have already begun to replicate these models in order to promote development at the grassroots in their own communities and countries.³ Not to mention that the “achievements” of some Bangladeshi NGOs in helping the poor alleviate poverty through micro-finance initiatives have drawn attention of the donor community, especially the World Bank. In addition to encouraging many of its member countries to replicate the GB model, the World Bank has already established a forum called the “Consultative Group to Assist the Poorest” (CGAP) to systematically coordinate micro-credit programs across the globe.⁴

Although the donor community seems to be primarily interested in successful micro-credit programs developed by a few Bangladeshi NGOs, most authors and development practitioners praise them for successfully initiating “participatory development” strategies that have enabled a variety of marginalized groups, such as

² David Hulme, “Can the Grameen Bank be Replicated: recent experiments in Malaysia, Malawi and Sri Lanka”, Development Policy Review 8(3), September 1990, pp. 287-300.

³ Drawing upon the GB model, the Royal Bank of Canada has begun to help community organizations in different parts of Atlantic Canada to get involved in various micro-enterprises. The program is designed to offer small loans to women to improve their entrepreneurial ability. See John Stackhouse, “Its a New Form of Credit: only women need apply”, The Globe and Mail, 7 November 1998.

⁴ Grammen Trust, Grameen Dialogue 26, April 1996, pp. 1-3.

women, marginal farmers and the rural poor to be empowered.⁵ They are also widely acclaimed for effectively raising the issue of female oppression in a male-dominated society, where women are rarely allowed to do anything without the approval of their husbands and/or male guardians. NGO programs have given women the power to challenge traditional patriarchal values and have encouraged them to become self-reliant.

Given such apparently remarkable achievements by the NGO sector in Bangladesh, this chapter makes an attempt to explore the role of NGOs in creating space for democratic development in the next millennium. The chapter has four major parts. First, it deals with the problems of both conceptualizing and classifying NGOs. It then moves on to provide a general understanding of the role of NGOs in democratic development. Second, this chapter examines the history of the proliferating NGO sector in Bangladesh. In particular, it examines the ways NGOs have gradually shifted their focus from relief and rehabilitation works to both empowerment of the poor and grassroots development over the past 25 years. Third, it critically examines different models of micro-credit provisions and their ability to empower the rural poor. As well, it analyzes the role of advocacy NGOs in mobilizing disadvantaged groups for ensuring both social justice and development. The findings of this chapter are summarized in the final fourth part.

While this chapter observes that the proliferation of development NGOs in Bangladesh has created the necessary political space for promoting the goals of sustainable human development, it finds very little empirical evidence to support the widely held claim that NGOs have enabled disadvantaged groups, especially women, to

⁵ Kirsten Westergaard, "People's Empowerment in Bangladesh: NGO strategies", The Journal of Social Studies 72, April 1996, pp. 28-57.

be empowered in a sustainable manner. It argues that NGOs, particularly those engaged in micro-finance activities, are manipulating the vulnerability of women rather than enabling them to manage their own development. Contrary to the belief of the donor community and many development practitioners, this chapter also suggests that instead of initiating development from below, NGOs often implement programs that are largely designed by NGO executives in consultation with their major donors. This chapter concludes that because of these factors the ability of NGOs to promote democracy and development at the grassroots is more limited than many analysts claim.

NGOs: definitions and typologies

The current interest in NGOs in general, and development NGOs in particular, stems from three major interrelated factors: i) the failure of the state in fulfilling popular expectations; ii) the changing goals of development; and iii) the widely held assumption that NGOs are much better in both reaching and benefiting the poor. First, most empirical studies show that almost everywhere state-led development programs prove to be ineffective in addressing the socio-economic issues that affect the lives of the majority. Government programs have too often failed, as Michael Bratton argues, to reach the needy since they were primarily used to advance both personal and class interests.⁶ As well, in most cases, certain groups have always been excluded from the socio-economic benefits of various government programs. Such a failure of the state to deliver what people want has further been compounded by the emergence of structural adjustment programs (SAPs) as a dominant development strategy in the current global

⁶ Michael Bratton, "Beyond the State: civil society and associational life in Africa", *World Politics* 41(3), April 1989, p. 425.

political economy. SAPs have already redefined the traditional domain of state activity and have indeed compelled the state to change its role as the principal actor in development.⁷ The state is now seen as the provider of what the World Bank calls “an enabling environment for sustainable and equitable growth”.⁸ In other words, states come to devolve some of their functions to the non-profit sector, giving rise to the “franchise state” in different parts of the world, as suggested by Geoffrey Wood.⁹

Second, a new realization seems to be emerging among development practitioners and key donor organizations that development can no longer be defined as economic growth alone. While growth is still viewed as one of the essential elements of development, most scholars hold that the latter must be seen as a process of enabling people to achieve their broader socio-political goals in a sustainable manner. More specifically, development is defined as a process of reducing people’s helplessness, vulnerabilities and powerlessness. Emphasis is, therefore, given to issues and programs that are designed to help ordinary citizens to both gain access to key resources and to establish some form of control over the institutions which profoundly affect their lives.¹⁰ This new meaning of development is in effect expanding the role of NGOs in developmental activities, mainly at the grassroots.

⁷ Geoffrey R. D. Underhill, “Conceptualising the Changing Global Order”, in Richard Stubbs and Underhill (eds.), Political Economy and the Changing Global Order (Toronto: McClelland and Stewart, 1994), p. 36.

⁸ See World Bank, Governance: the World Bank’s experience (Washington, DC: World Bank, 1994).

⁹ Geoffrey D. Wood, Bangladesh: whose ideas, whose interests? (Dhaka: University Press, 1994), p. 541.

¹⁰ Alan Fowler, Striking a Balance: a guide to enhancing the effectiveness of NGOs in international development (London: Earthscan, 1997), pp. 3-4.

Third, believing that NGOs are effective in working with ordinary citizens at the local level, the donor community is attaching more importance to involve the NGO sector with the implementation of various development programs throughout the world. Apart from this, most donor organizations consider NGOs as relatively cheaper institutional mechanisms to successfully carry out their programs at the grassroots. Thus, most key donors, including Canada, Norway, Sweden and the USA, have increasingly directly “contributed to the NGOs’ own development projects and programs”. Such a major shift in donor strategy has been clearly reflected in the growing share of official aid going to NGOs. By one estimate, the volume of the total official aid channeled to NGOs increased from 0.7 percent in 1975 to about 5 percent in 1993. However, the Overseas Development Institute suggests that this figure is solely based on the information provided by some bilateral donors. If data were collected from all donors, and if multilateral aid channeled through NGOs were added, this figure would have been much higher. According to the Institute, some individual donors channeled up to 30 percent of their total official aid to NGOs in 1993/94.¹¹

Before we further explore the role of NGOs in development, it would be useful to discuss what is meant by an NGO? Like many other concepts used in the literature on development, NGOs are rarely defined. Most authors, however, understand NGOs as a residual category and provide extremely broader definitions of them. They see NGOs as voluntary, non-state and non-profit organizations working for the cause of humanity. Such organizations usually work independent of the state and always try to protect the interests of the disempowered section of the population. According to Farouk Mawlawi,

¹¹ Overseas Development Institute, “NGOs and Official Donors”, Briefing Paper 4, August 1995, p. 1.

. . . NGOs are private, voluntary and non-profit organizations whose members combine their skills, means and energies in the service of shared ideals and objectives. . . . NGOs enjoy growing autonomy with respect to governmental decision makers.¹²

In a similar fashion, the World Bank regards NGOs as non-state organizations which are engaged in promoting the interests of the poor.¹³ In addition to autonomy, David Brown and David Korten focus on shared values that motivate people to organize themselves and to get involved in various development activities.¹⁴ Alan Fowler, on the other hand, stresses the importance of separating the voluntary sector from both the business and government sectors. According to him, the voluntary sector is largely engaged in the “pursuit of recreational, spiritual, cultural, and other personal and collective interests”.¹⁵

Although most authors and organizations tend to emphasize the distinction between the state and NGOs, quite a few authors, notably Laura Macdonald, Telmo Frantz and Noeleen Heyzer, focus on the heterogeneity of NGOs. They argue that all NGOs cannot be classified in the same category as they have different ways of relating to

¹² Farouk Mawlawi, “New Conflicts, New Challenges: the evolving role of non-governmental actors”, Journal of International Affairs 46(2), Winter 1993, pp. 392-93.

¹³ Paul J. Nelson, The World Bank and Non-Governmental Organizations: the limits of apolitical development (London: Macmillan, 1995), p. 37.

¹⁴ David L. Brown and David C. Korten, Understanding Voluntary Organizations: guidelines for donors (Washington, DC: Country Economics Department, World Bank, 1989), p. 5.

¹⁵ Fowler, Striking a Balance, p. 22.

both people and governments.¹⁶ Contrary to what most authors claim, they argue that NGOs may share common goals with governments in places where the state comes to co-opt the voluntary sector.¹⁷ In other words, NGOs are neither as homogenous nor as monolithic as they sometimes appear to be. Rather, the NGO sector is extremely diverse and plural in its objectives, strategies, approaches, organizational structures and method of action. Several authors therefore underscore the need to focus on NGO typologies in order to understand different types of roles played by NGOs in development.

Primarily based on the changing roles of NGOs, David Korten, for instance, identifies three major types of NGOs: i) relief and welfare NGOs; ii) small-scale local development NGOs; and iii) sustainable systems development NGOs. While relief and welfare NGOs are largely involved in delivering various services to disadvantaged groups, small-scale local development NGOs are primarily concerned with the implementation of "community development" projects. In most cases, these local development NGOs operate in close association with governments in order to realize common goals of development. The third group of NGOs, on the other hand, is mainly engaged in promoting broader socio-political changes necessary for achieving the goals of sustainable democratic development. Despite Korten's suggestion that NGOs progress

¹⁶ Noeleen Heyzer, "Toward New Government-NGO Relations for Sustainable and People-Centred Development", in Heyzer et. al., (eds.), Government-NGO Relations in Asia: prospects and challenges for people-centred development (London: Macmillan, 1995), p. 11.

¹⁷ The co-optation strategy has been particularly prevalent in East Asia and Latin America, where a large number of NGOs have clearly shown their willingness to serve either the state or major external donors over the past two decades. For a discussion of the Latin American case, see Jenny Pearce, "Between Co-optation and Irrelevance? Latin American NGOs in the 1990s", in David Hulme and Michael Edwards (eds.), NGOs, States and Donors: too close for comfort? (London: Macmillan, 1997), pp. 257-74.

from first generation (relief/missionary) to third generation (comprehensive/sustainable), he does not contend that all NGOs will eventually assume the responsibility for facilitating people-centered development. While most NGOs are likely to attempt to shift their focus from relief and rehabilitation programs to people's empowerment strategies, a considerable number of charitable and/or welfare organizations may try to keep their traditional role unchanged.¹⁸

Using a similar evolutionary framework, John Clark identifies six types of NGOs working in the broader areas of democracy and development. First, relief and welfare agencies (RWA); these NGOs are primarily engaged in various relief and rehabilitation programs. Second, technical innovation organizations (TIO), whose main focus is to undertake various development programs based on their own innovative approaches. Third, public service contractors (PSC), which are contracted and/or sub-contracted by donor countries and organizations to implement official aid projects. Fourth, popular development agencies (PDA); these organizations, often in close association with Northern NGOs, concentrate on such issues as self-help, grassroots democratization and social development. Fifth, Grassroots Development Organizations (GDO), which aim to ensure the participation of the poor and underprivileged in decision-making at the grassroots. And finally, advocacy groups and networks (AGN); this category reflects a variety of groups that are largely involved in campaigning and/or lobbying for broader socio-political reforms.¹⁹

¹⁸ David C. Korten, "Third Generation NGO Strategies: a key to people centred development", World Development 15(Supplement), Autumn 1987, pp. 145-59.

¹⁹ John Clark, Democratizing Development: the role of voluntary organizations (London: Earthscan, 1991), pp. 40-41.

By contrast, Michael Edwards and David Hulme offer a simple distinction between NGOs and grassroots organizations (GROs). While the former usually work as intermediary organizations for supporting various voluntary organizations that aim at promoting development at the grassroots, the later refer to those local initiatives, where the poorer community members strive to manage their own development. Unlike NGOs, GROs are primarily accountable to their members.²⁰ James Riker, on the other hand, divides NGOs into four main categories by using a few important variables such as funding source, relations with governments, organizational structures and policy objectives. These are: i) government-organized NGOs (GONGOs), which are created and sponsored by states to implement government supported development programs; ii) donor-organized NGOs (DONGOs) that are promoted and funded by different donor organizations to successfully carry out donor initiated and/or designed development activities; iii) autonomous or independent NGOs (ANGOs), which are primarily aimed at maintaining autonomous status in financial and policy terms when representing popular interests; and iv) foreign NGOs (FNGOs) that are representing diverse ideas, groups and interests and whose activities are subject to the approval of the host country government.²¹

In a fairly similar fashion, Frantz identifies four main factors that separate one voluntary organization from another: affiliations, objectives, methods of action and

²⁰Michael Edwards and David Hulme, "Scaling-up the Development Impact of NGOs: concepts and experiences", in Edwards and Hulme (eds.), Making a Difference: NGOs and development in a changing world (London: Earthscan, 1992), pp. 24-25.

²¹ James V. Riker, "Contending Perspectives for Interpreting Government-NGO Relations in South and Southeast Asia: constraints, challenges and the search for common ground in rural development", in Heyzer et al (eds.), Government-NGO Relations in Asia, pp. 26-27.

internal structures. The author suggests that, although it appears that all NGOs work toward the fulfillment of some sort of popular expectations, they do not promote the same agenda. Nor do they adopt common strategies to achieve their stated objectives. Besides, they often rely upon different organizational settings and distinct methods of action for realizing their goals.²² This is precisely why some authors argue that NGOs can also be distinguished on the basis of political ideology and/or political programs. NGOs, which exclusively focus on various political programs to ensure a radical social transformation and make efforts to involve the poor in the political process, are categorized as radical NGOs. These NGOs often believe that the goals of development cannot be achieved until and unless the structural basis of oppression is completely eliminated.²³ It is no wonder that most donor organizations hardly promote relations with such political NGOs. The World Bank, for instance, works primarily with a group of NGOs known as “operational non-governmental organizations” (ONGOs), which are largely engaged in implementing development projects. In addition to delivering services, ONGOs also serve as a very useful source of information necessary for effectively designing and implementing projects at the grassroots.²⁴

Given such diversity in the NGO sector, the focus of this chapter is limited to the operations of those voluntary organizations which are popularly known as non-

²² Telmo Rudi Frantz, “The Role of NGOs in Strengthening of Civil Society”, World Development 15(Supplement), Autumn, 1987, p. 122.

²³ Anthony Bebbington and John Farrington, “Government, NGOs and Agricultural Development: perspectives on changing inter-organizational relationships”, Journal of Development Studies 29(2), January 1993, p. 201.

²⁴ World Bank, The Bank and NGOs: strengthening linkages to increase development effectiveness (Washington, DC: World Bank, 1995), p. 6.

governmental development organizations (NGDOs). Not only do NGDOs make efforts to alleviate poverty, more importantly, they also try to give the poor and disadvantaged groups a voice in decision-making.

NGDOs and Democratic Development

Many authors and organizations claim that NGOs have a comparative advantage over governments in alleviating poverty, building democracy at the grassroots, protecting the environment and promoting the interests of vulnerable groups at global as well as national levels. It is widely believed that, unlike governments, NGOs can effectively focus on certain specific development goals and can successfully adapt to local needs and diversity. NGOs are particularly effective in working closely with disadvantaged groups at the local level. As well, they are often able to adopt strategies that give the poor a rare opportunity to get involved in decision-making. A recent World Bank document summarizes the strength of NGOs in the areas of development:

. . . they have advantages as intermediaries in reaching people – including women, ethnic minorities and the very poor – who are not represented equitably by formal institutions. . . They may have better rapport with the poor and a clearer understanding of poor people's survival strategies and perceived needs than other kinds of intermediaries. They may be familiar with low-cost techniques and innovations relevant to poverty alleviation. . . Many intermediary NGOs have experience in participatory project design and skills in participatory project research, community mobilization, facilitation techniques, and group dynamics.²⁵

²⁵ World Bank, The World Bank Participation Source Book (Washington, DC: World Bank, 1996), p. 1996.

In particular, it is often believed that NGOs have considerable advantages in both reaching and benefiting larger number of poor people, particularly vulnerable groups.

Apart from the claim that NGOs have a comparative advantage over governments, many authors see NGOs as a force for democracy and/or empowerment. While democracy, participation and empowerment are often used interchangeably, empowerment is usually defined as a process of assisting the poor to gain access to decision-making and resources.²⁶ Many development practitioners believe that NGOs pursue a dual strategy²⁷ that focuses on the importance of linking income-generating activities with the creation of a political space for enhancing popular participation in decision-making. Such “empowerment strategies” help the people to achieve their eventual goal of managing their own development, encouraging people to actively take part in designing and implementing development projects. More important perhaps is the claim that these strategies enable disadvantaged groups to influence those institutions that affect their lives. It is believed that empowerment programs not only develop the ability of the poor to emerge as an influential political actor, but they also significantly reduce their traditional dependence upon the prevailing power structures, which are often seen as the major source of oppression.

Thus, many development NGOs make efforts to improve people’s livelihoods on the one hand, and try to represent the interests of the poor in both local and national decision-making structures, on the other. As part of their empowerment strategies, they undertake a variety of programs that are aimed at organizing and mobilizing the poor,

²⁶ Edwards and Hulme, “Scaling-up the Development Impact of NGOs”, p. 24.

²⁷ Westergaard, “People’s Empowerment in Bangladesh”, p. 29.

increasing the self-help capability of vulnerable groups and institutionalizing the practice of democracy at the grassroots. These political programs are regarded as effective means to create a political environment in which disadvantaged groups can effectively pursue their own developmental activities. In other words, empowerment strategies often change the traditional passive role of the poor, making them able to become “active participants of their own affairs”. Some left critics, however, argue that such empowerment programs have very little or no ability to transform the existing politico-economic process. Indeed, the empowerment discourse adopted by various NGOs shifts focus away from transforming the power structure to mainly poverty alleviation programs.²⁸

In addition to empowerment, Farrington and Lewis identify two other major developmental roles played by a variety of NGOs throughout the world. First, NGOs are said to be effective in alleviating poverty in a sustainable manner. This is largely because, as they argue, intermediary NGOs take steps to go beyond credit activities, supporting community efforts to establish grassroots organizations (GROs) in order to promote development at the local level. Unlike large organizations, these small-scale initiatives are capable of adapting their operations to meet the needs of the community members. Second, NGOs are seen as efficient service delivery mechanisms. Most development practitioners argue that, largely because of their strong presence in rural areas, NGOs are more informed than governments about any particular situation and are more capable of delivering appropriate services. As well, they have the ability to quickly respond to the needs of the poor. More importantly, compared with both government and

²⁸ Manoranjan Mahanty, “On the Concept of Empowerment”, The Indian Journal of Social Science 8(4), October-December 1995, 333-38.

official aid agencies, NGOs are often more cost effective in delivering necessary services.²⁹

In brief, NGOs are usually viewed as an impetus for grassroots democratization and development. They are widely seen to play an effective role in poverty alleviation, environmental protection and human resources development. As well, development NGOs often assume the responsibility for ensuring fair representation of vulnerable groups in local and national decision-making. Above all, they strive to give the poor the means to control the environment within which they live and pursue developmental activities.

NGOs in Bangladesh: from relief and poverty alleviation to empowerment

It was only after the independence of Bangladesh in 1971 that the country witnessed a phenomenal growth of the NGO sector. The immediate task of rehabilitating the war-ravaged economy prompted the need for involving local, regional and national NGOs in reconstructing the country's social and economic structures that were totally destroyed by the war of liberation in 1971. Responding to such a crisis situation, quite a few local activists came forward with the mission of setting up NGOs in order to accelerate the on-going relief and rehabilitation efforts undertaken by the government and international NGOs. Their primary purpose was to offer help to resettle about 10 million home-returned refugees who fled to India during the war of independence. These "first generation" NGOs gradually moved to adopt broader development programs and became increasingly involved with poverty alleviation, community development, gender equality

²⁹ John Farrington and David J. Lewis, "Background", in Farrington and Lewis (eds.), Non-Governmental Organizations and the State in Asia, p. 6.

and grassroots democratization as they began to face a new challenge of ensuring development at the local level. Their emphasis first shifted from rehabilitation efforts to a variety of community development initiatives known as Integrated Rural Development Program (IRDP). The IRDP approach encouraged them to deal with largely sectoral programs, including health and family planning, adult education, cooperatives and vocational training.³⁰

Table 6.1
Growth of Foreign Funded Development NGOs in Bangladesh

Period	Numbers of Active NGOs		Total	% of local
	Local	Foreign		
Up to 1990	293	89	382	76.70
1990-91	395	99	494	79.95
1991-92	523	111	634	82.49
1992-93	600	125	725	82.76
1993-94	683	124	807	84.63
1994-95	790	129	911	86.72
1995-96	882	132	1014	86.92

Source: NGO Affairs Bureau, Flow of Foreign Funds Through NGOAB, 1998.

³⁰ Iqbal Shailo, "Genesis and Growth of NGOs: their achievement and success in national development", *Grassroots* 4(13 & 14), July-December 1994, p. 10.

By the late 1970s, however, it became quite evident that without enhancing the socio-political consciousness of the rural poor, NGOs would not be able to achieve the goals of sustainable development. As well, they realized that, without helping the poor to form their own organizations, NGOs might not be able to ensure popular participation in planning and implementing development projects. In particular, given the shift in donor priorities, they comprehended the importance of focusing on collective actions that would allow disadvantaged groups to work together for both asserting their rights and ensuring social justice.³¹ Thus, a number of local non-governmental organizations, namely the BRAC, *Proshika Manobik Unnayan Kendra* (Proshika) and the *Gono Shasthya Kendra* (GK) began to undertake programs for mobilizing the rural poor and building people's organizations.³² This coincided with the coming into operation of the GB, which popularized the concepts of micro-credit and group-based lending in rural Bangladesh.

These new innovations soon drew widespread attention from both international non-governmental groups and the donor community. As well, their preliminary success encouraged many local groups, particularly left activists, to direct their efforts toward strengthening the position of the poor. By adopting various approaches to targeted development, many of them have, thus, formed NGOs in order to promote development at the local level. Equally important is that from the late 1970s, Islamic groups have also

³¹ Proshika, Doing Development in People's Way: the Proshika praxis (Dhaka: Proshika, 1995), p. 1.

³² Of particular significance is the fact that the new international context of development which emerged in the 1980s brought dramatic changes in donor policies and priorities. Abandoning their traditional emphasis on macro-economic aspects of development, most major donors began to undertake broader development programs that address a variety of issues, such as empowerment, participation, gender and human rights. Given such major shifts in the aid paradigm, most development NGOs in Bangladesh began to re-define their roles in development.

begun to step up their own developmental programs in different parts of the country. They have come to form a number of voluntary organizations, mainly mosque-based, to deliver alternative support services to the poor.³³

Bangladesh has, therefore, experienced what is often called “the NGO revolution” over the past few years. By one estimate, the country has more than 19,000 voluntary social welfare organizations that are registered with the Department of Social Welfare.³⁴ A vast majority of these organizations are small clubs, cooperatives and cultural groups, many of which have either no real welfare programs or virtually no existence. It is believed that only those NGOs which receive external funds from both official and unofficial sources have an active presence in various development programs. Such organizations are required by law to register with the government’s NGO Affairs Bureau (NGOAB). According to a government estimate, about one thousand development NGOs are registered with the NGOAB and are actively participating in national development. As shown in table 6.1, the numbers of NGOs receive external funds have dramatically increased from 382 in 1990 to 1014 in 1996. More significant is perhaps the fact that their annual foreign support has grown from just US\$.37 million in 1990 to about US\$ 367 million in 1995-96, reflecting a positive donor interest in channeling funds to the growing NGO sector in the country.³⁵

³³ Shailo, “Genesis and Growth of NGOs”, p. 10.

³⁴ World Bank, Pursuing Common Goals: strengthening relations between government and Development NGOs (Dhaka: World Bank Resident Mission, 1996), p. 3.

³⁵ NGO Affairs Bureau, Flow of Foreign Grant Funds Through NGOAB (Dhaka: Prime Minister’s Office, 1998).

Table 6.2
NGO (Local) Objectives, Strategies and Role of Participants

Type of NGO	Main Objectives	Development Strategy	Role of Participants
Micro-Finance	<ul style="list-style-type: none"> • Poverty Alleviation • Raise income, employment and living standards • Empowerment • Promote sustainable development 	<ul style="list-style-type: none"> • Group-based mobilization • Credit without collateral • Create grassroots organizations 	<ul style="list-style-type: none"> • Involved in income-generating activities • Promote group solidarity • Manage and repay credits
Advocacy	<ul style="list-style-type: none"> • Enhance socio-political consciousness • Increase bargaining power • Ensure social rights and distributive justice • Empowerment • Promote self-reliant development 	<ul style="list-style-type: none"> • Group-based mobilization • Facilitate popular representation in decision-making • Develop and strengthen grassroots organizations • Promote networking 	<ul style="list-style-type: none"> • Foster group solidarity • Contest in local elections • Participate in programs for enhancing their self-help capabilities • Utilize and mobilize local resources

Of particular importance is that most development NGOs rely heavily upon external sources to finance their various programs and cover their office expenses. By one estimate, funds generated and/or received from local resources constituted less than four percent of the total budget of non-governmental organizations in the 1980s. While NGO efforts to mobilize local resources have reduced somewhat their excessive dependence upon foreign funding, it is estimated that foreign sources accounted for some

94 percent of the total budget of ten large, leading NGOs in 1991.³⁶ In most cases, development NGOs receive these resources as grants and low interest loans. Also, donors provide subsidized funding in order to help NGOs to build their organizational structures.³⁷

Development NGOs can be divided into two broad categories: micro-finance and advocacy (see general typologies above). The majority, about one thousand development NGOs, including the GB, BRAC, Proshika, and ASA, are primarily engaged in alleviating poverty and empowering the people by providing credit and organizational help to the poor. These NGOs account for some 65 percent of the total rural credit disbursed every year. They have already surpassed “the combined total of the government and the national banks in the sector”.³⁸ But a minority of NGOs - namely *Gono Shahajjo Sanghstha* (GSS) and *Nijera Kori* (NK) - are organizing disempowered groups such as the landless, marginal farmers and rural women for enhancing their social consciousness.³⁹ Their primary intention is to forge unity among the poor so that they can emerge as a political force and can successfully protect their fundamental rights. As

³⁶ The lack of information and or records on funds channeling to NGOs makes it very difficult to provide a comprehensive picture of NGO finance. In order to analyze the issue of financing NGOs, this research relies upon a few sample studies conducted mainly by the World Bank. See World Bank, Pursuing Common Goals, pp. 33-34.

³⁷ Shahidur Rahman Khandker et. al., Grameen Bank: performance and sustainability (Washington, DC: World Bank, 1995), pp. 21-22.

³⁸ World Bank, Pursuing Common Goals, p. 9.

³⁹ The programs of most advocacy NGOs, including GSS and NK, are funded and supported by key donor organizations such as the Canadian International Development Agency (CIDA), Danish International Development Agency (DANIDA), Norwegian Agency for Development Cooperation (NORAD), Swedish International Development Agency (SIDA), and Oxfam (UK).

shown in table 6.2, both groups of NGOs, however, claim that their main objective is to empower vulnerable groups. A brief comparison of the objectives and strategies of these two groups of NGOs is presented in table 6.2.

Poverty Alleviation and Empowerment through Micro-Credit Programs

As mentioned earlier, Bangladeshi NGOs are known for their astonishing success in carrying out group-based credit programs. Identifying the lack of access to financial resources as a major impediment facing the poor in easing the burdens of poverty, NGOs organize poor individuals into groups and provide them with small amount of unsecured credit to start up micro-enterprises. In addition to providing credit, NGOs also offer skills training and other programs to the borrowers so that they can make productive use of their credit(s). Empirical studies done on various models of micro-credit clearly suggest that such lending programs significantly improve both the productivity and income of the poor on the one hand, and ensures high loan recovery rates, on the other. As well, these programs have shown their ability to reduce the transaction costs of lending to the poor.⁴⁰ More importantly, most studies suggest that micro-credit programs have contributed to the empowerment of the poor, particularly women living in rural Bangladesh. In brief, micro-finance is seen as a commercially viable strategy for poverty alleviation and empowerment.⁴¹

The GB first invented the group-based lending programs called “credit without collateral” in the country. Unlike conventional banking practices, its credit operations

⁴⁰ See Khandker et. al., Grameen Bank.

⁴¹ Hal Kane, “Microenterprise”, Grameen Dialogue 27, July 1996, pp. 1-4.

center on the concept of “collective action of the borrowers” that fosters both group solidarity and peer responsibility. The recipients take loans in groups and agree to monitor the activities of one another in order to ensure strict financial discipline. The process of delivering credit therefore begins with the formation of basically the landless or assetless people into groups of five. After the formation of a group, the bank organizes a week-long training program for group members to make them familiar with the rules and regulations of its lending operations. At the same time, they start mandatory small weekly savings. The group thereafter becomes a member of a center, an apex organizational body, which is composed of five to eight groups of a village and is led by an elected chair and a secretary. All members of the center are required to attend weekly meetings, where they discuss matters of common concern. The center is also responsible for monitoring loan utilization and repayment performances.

Only two of the group members get loans at one time and usually two of the neediest members receive their loans first. Upon receiving applications for loans, the group holds a meeting and selects two members for receiving the credits. This selection is then discussed at a center meeting in the presence of a GB employee. After a careful review of the projects selected, the center finalizes its recommendation and submits it to the branch manager of the GB, who forwards his/her decision to the area program officer for an opinion. If the proposals are found acceptable, the program officer submits his/hers recommendation to the area manager for final approval. Apparently, this lengthy

as well as bureaucratic procedure is put in place in order to minimize the risk of defaults.⁴²

The loan repayment performance of the first two borrowers is closely observed for about two months. If they make regular weekly payments and strictly adhere to Bank guidelines, two more members become eligible for receiving loans. The chair of the group usually is the last to get credit. Default on a loan, however, affects the activity of the entire group. If a member fails to repay on schedule, the whole group loses the opportunity to receive any future loans from the GB. In other words, the group is held responsible for enforcing financial discipline. This in effect encourages all of the members to closely guide and monitor the activities of one another. In most cases, they help each other to select a feasible project, to ensure a productive use of the credit and to make weekly payments. Despite such an extremely careful monitoring mechanism, if any member faces difficulty repaying his/her loan, the other members of the group try to resolve the issue within the group without involving the GB employee.⁴³ In other words, “peer responsibility” and/or “peer pressure” ensures on-time recovery of the credits.

In addition to facilitate lending operations, the GB model also focuses on a social development program that seeks to promote socio-cultural awareness among the rural poor, especially women. The GB attempts to improve its members’ social practices through an extensive social development program known as the “Sixteen Decisions”. One of the main components of this program is to keep members free from the curse of

⁴² Most financial institutions regard lending in rural areas as a high-risk activity. This is largely because “rural credit markets are characterized by imperfect information and imperfect enforcement”. See Khandker et. al., Grameen Bank, pp. ix-x.

⁴³ Susan Holcombe, Managing to Empower: the Grameen Bank’s experience of poverty alleviation (London: Zed Books, 1995), p. 40.

dowry. All of them make pledges that they will neither take dowry in their sons' weddings nor will they give dowry in their daughters' marriages. This appears to be a daunting task as the acceptance of dowry is rampant in rural Bangladesh. Indeed, the practice of dowry is so common that only a few people could actually afford not to take dowry in their sons' weddings.⁴⁴ Apart from dowry, the "Sixteen Decisions" encourages its members to implement the four principles of the Bank, namely discipline, unity, courage and hard work. It also inspires the poor to commit themselves to a variety of programs such as tree planting, the growing of vegetables and appropriate waste management. The program also aims at encouraging members to keep their families small and to take necessary actions to educate their children. Above all, it emphasizes the need to both collectively take part in various community development projects and to help each other in realizing common socio-political objectives.

The Bank has witnessed a remarkable expansion since 1983 when it formally emerged as a rural credit institution. As of May 1996, it has been serving 2,060,761 members with its 1,056 branches located in different parts of the country. The Bank's lending activities currently covers a total of 35,726 villages; in other words, its poverty alleviation programs cover more than half of Bangladesh's rural area. The cumulative amount of disbursements in 1996 was about US\$ 2 billion. Its average loan repayment rate is 98 percent, which is only comparable with the repayment rate of the Chase Manhattan Bank.⁴⁵ More important perhaps is the fact that about 94 percent of its

⁴⁴ Ruchira Naved, "Empowerment of Women: listening to the voices of women", The Bangladesh Development Studies 22(2&3), June-September 1994, pp. 172-73.

⁴⁵ David Bornstein, "The Barefoot Bank with Cheek", The Atlantic Monthly 276(6), December 1996, p. 40.

members are women, who received some 92 percent of its credits disbursed for various income-generating purposes.⁴⁶ Defying the cultural practices of the country, the Bank has deliberately targeted women in order to ensure their participation in national development.

Like those of the GB, BRAC's ventures are aiming at achieving its twin objectives: poverty alleviation and empowerment of the poor. However, unlike the Bank, its activities do not center on credit operations. This organization has identified three umbrella programs as core activities: the rural development program (RDP), the health and population development (HPD) and the non-formal primary education program (NFPE). Among these three development programs, the RDP "now provides the basic framework for the rest of BRAC's activities".⁴⁷ The RDP is composed of three somewhat interrelated programs, namely institution building, rural credit and savings, and income and employment generation. As a primary step toward poverty alleviation, the RDP focuses on income and employment generation for disadvantaged groups through micro-credit provisions.

Like the Bank, this program also begins with the mobilization of the poor into "Village Organizations" (VO). The BRAC targets the landless and daily laborers as the main participants in its credit program. Under the direct supervision of BRAC's Program Organizers (POs), a total of five such individuals can form a primary group and can move on to the establishment of a VO, which is typically composed of 8 or more groups. Each

⁴⁶ These statistical data are gathered from personal visits to the Bank's head office located in the Capital City, Dhaka, in July 1997 and in June 1998. See, Grameen Bank, "Consolidated Cumulative Statement Upto May 1996" (Dhaka: Grameen Bank, 1996).

⁴⁷ Novib, Going to Scale: the BRAC experience, 1972 – 1992 and beyond (Toronto: Aga Khan Foundation Canada, 1993), p. 12.

participating village has two separate VOs: one for men and the other one for women. The VO is considered as the core group at the grassroots that implements all socio-economic programs for its members. It conducts weekly meetings for discussing mostly credit-related issues. Also, it holds monthly meetings for allowing both of its female and male members to discuss any common social and economic problems.

Unlike the GB's program, VO members can apply for either a small-scale loan in the maximum amount of Tk 9,000 or a large-scale loan, which varies between Tk 20, 000 and 40,000. While a small-scale loan is primarily given to facilitate a member's participation in various income-generating activities, such as poultry farming, fisheries, vegetable and maize cultivation and livestock development, a large-scale loan is designed to help the members to become successful entrepreneurs. Usually large-scale loans are given to the members for setting up business enterprises in the village. Important to mention is that, although the VO identifies the projects and makes recommendations for credits, the final decision is made by BRAC, particularly by the Area Manager who is in charge of approximately 50 villages. Like the GB, peer responsibility/pressure also plays a vital role in BRAC's credit programs. Since the credit is not given to the individual, but rather to the VO, the later is held responsible for the timely repayment of the loan. If a member is in default, the group is supposed to manage the funds for repayment. If, for any reason, the group fails to work out a solution, BRAC automatically deducts the outstanding loan from the savings of the group known as "group fund" which is planned for emergency use.⁴⁸

⁴⁸ Naveeda Khan and Eileen Stewart, "Institution Building and Development in Three Women's Organizations: participation, ownership and autonomy", The Journal of Social Studies, 63, January 1994, p. 57.

Since the inception of the rural credit program in 1979, it has experienced a remarkable progress in terms of extending its operation to a considerable number of villages.⁴⁹ By one estimate, some 54,000 VOs were serving about 1.8 million members in 1996. These members had saved a total of about one billion taka and had borrowed over five billion taka in 1996. Like the GB, the RDP's main focus is on the participation of women in various productive enterprises.⁵⁰ For instance, female members, who are primarily involved in poultry projects, run some 70 percent of its VOs.⁵¹ BRAC is also creating jobs for women through its mulberry tree plantation program. Knowing that one hundred trees can generate a job for a woman in the production of silk, it has planted about 25 million mulberry trees. Besides, BRAC has trained women to do silkworm rearing effectively.

Proshika, the second largest NGO after BRAC, also identifies credit programs as a means to achieve its dual objectives: poverty alleviation and sustainable development. It operates all of its development programs, including lending activities, through what it calls "people's organizations". It encourages the poor living in both rural and urban areas to form "primary groups" in order to ensure their socio-political emancipation. Such groups are composed of about 20 poor and disempowered members living in the community. Following the formation of a group, Proshika facilitates the promotion of group solidarity and cohesion mainly through training programs. Once the group begins

⁴⁹ Catherine H. Lovell, Breaking the Cycle of Poverty: the BRAC strategy (West Hartford, CT: Kumarian Press, 1992), pp. 75-76.

⁵⁰ Elora Halim Chowdhury, "Making a Difference: 25 years of BRAC", Star Magazine 2(55), 13 June 1997, p. 7.

⁵¹ Khan and Stewart, "Institution Building and Development in Three Women's Organizations", p. 55.

to demonstrate that it has the ability to both act as a group and that it has a clear understanding of the importance of taking collective actions, Proshika starts offering its support services. In other words, unlike most other NGOs, it requires that the group must be complete six months from the time of registration in order to become eligible for undertaking income-generating activities.⁵²

While the members can borrow either from their own savings or from the Revolving Loan Fund (RLF) of Proshika, they are encouraged to pool their own resources to initiate income-generating programs.⁵³ Like the procedures of the GB and BRAC, Proshika also retains total control over the loan disbursement process. A high level Proshika official, usually the Zonal Coordinator, always makes the final decision. Like other NGOs, the group is held responsible for ensuring strict financial discipline. In case of default, the group may face legal action. As of December 1995, with a membership of 1.27 million, Proshika has been serving over 6,800 villages and 220 slums. It has some 48,000 primary groups of which women constituted about 56 percent. The organization has distributed a total credit in the amount of 1.73 billion taka for implementing various employment and income-generation programs.⁵⁴

Seeing the “success” of the credit programs operated by the GB, BRAC and Proshika, a variety of other large, medium and small NGOs later adopted different

⁵² Proshika, Doing Development in People’s Way, pp. 13-16.

⁵³ Yuwa Hedrick-Wong et. al., “Experiences and Challenges in Credit and Poverty Alleviation Programs in Bangladesh: the case of Proshika”, in Geoffrey D. Wood and Iffath A. Sharif (eds.), Who Needs Credit? poverty and finance in Bangladesh (Dhaka: University Press, 1997), p. 147.

⁵⁴ Proshika, “Proshika: a centre for human development”, leaflet, Dhaka, 1995.

models of micro-credit for poverty alleviation. The lending program of ASA,⁵⁵ for instance, is growing at a faster speed than many other NGOs. Based on a model of collective responsibility, the organization is trying to get the poor involved in a variety of income-generating activities. ASA's micro-credit program covers 61 districts, serving a total of 1.2 million clients, most of them being women. It has disbursed a total of almost one billion taka among its members. More importantly, its loan recovery rate is over 99 percent - one of the highest among the micro-finance NGOs working to alleviate poverty in Bangladesh.⁵⁶

Most studies suggest that these credit programs have achieved remarkable success in creating jobs⁵⁷ for disadvantaged groups, particularly women. While conducting field work in Bangladesh (see table 1.1 of chapter one) it became evident that such small loans made a positive impact on the lives of a considerable number of poor people, who were otherwise excluded from the formal credit system. As a direct result of their involvement with different NGO sponsored micro-credit programs, they are getting more working days than they had before. As well, their wage rate slightly increased due to their improved technical knowledge and newly achieved bargaining power. Most women borrowers, who were never formally employed before, now have the ability to earn money through their involvement with income-generating activities. In other words, like

⁵⁵ For a description of ASA's approach to poverty alleviation and empowerment, see Stuart Rutherford, ASA: the biography of an NGO (Dhaka: ASA, 1995).

⁵⁶ Md. Enamul Haque, "Banking for the Poor: NGO intervention", The Daily Star, 4 March 1998.

⁵⁷ Abu N. M. Wahid, "The Grameen Bank and Poverty Alleviation in Bangladesh: theory, evidence and limitations", The American Journal of Economics and Sociology 53(1), January 1994, pp. 5-6.

their male partners, they are now actively supporting their families and are directly contributing to the reduction of poverty. It seems that micro-finance activities have begun to change the traditional child-bearing role of women in Bangladesh.

Many authors and development practitioners regard such dramatic changes in the role of women in poverty alleviation as clear examples of empowering female in a society that is largely dominated by patriarchal values and restrictive practices. They believe that micro-finance programs not only create opportunities for women to participate in development programs, they also give them the “power” to resist all sorts of malpractices against their gender.⁵⁸ During field visits, it was observed that women’s involvement with income-generating activities had significantly increased their self-confidence. Since joining these credit programs, they had become more aware of their legal and political rights and had begun to enjoy more freedom in making their own decisions. Instead of keeping their historical silence, they were seen coming forward to find ways of protesting violence against women. They became more capable of mobilizing the group to take actions to protect their fundamental socio-political rights. Also, they had used their better bargaining power to protest unfair wages given to them by landowners. More importantly, quite a few NGO members had run in the Union Parishad elections, trying to emerge as important actors in local decision-making. Such an assertive role of women in politics had enhanced their self-image.

In spite of these tremendous changes in the lives of women, most studies ignore the fact that credit programs have hardly helped women members to establish control over the loans or other resources. During field visits, it appeared that women had much

⁵⁸ Ainoon Nahar Mizan, In Quest of Empowerment: the Grameen Bank impact on women’s power and status (Dhaka: University Press, 1994), p. 152.

pressure on them to repay the loan on schedule and had to answer all the questions regarding the utilization of the credit. Sadly enough, however, they had no real control of the loan since their husbands and/or male guardians often consume the borrowed money. It was found that most women were either encouraged or forced by their husbands to borrow from NGOs in order to use the loans for their own businesses. While interviewing women members, they clearly stated that they were encouraged by their husbands to become a member of an NGO. A recent study conducted on BRAC's credit programs also revealed the same story, suggesting that "husbands permit their wives to become VO members because they know that BRAC provides loan".⁵⁹ This practice became rampant as NGOs' focus increasingly shifted to women.

While most NGOs are quite aware of such a phenomenon, they seem to overlook the problem as they regard women more reliable than men in terms of making repayments. There is no doubt that all NGOs involved in providing micro-credit are primarily concerned with the timely recovery of credits. Part of the reason for their excessive focus on the rates of recovery is due to the demand placed on them by the donors that they must come up with enough evidence that their micro-finance activities are commercially viable. As well, in order to stay competitive in the micro-credit business, they need to show the world that the concept of group liability works better than any existing systems based on collateral. Therefore, they tend to lend money to women because "women are better credit risks than men and are more eager to properly use" the

⁵⁹ Manzurul Mannan, "Culture, Cash and Credit: the morality of money circulation", paper presented at the European Network of Bangladesh Studies Workshop, University of Bath, UK, 16-18 April 1998, p. 6.

loans.⁶⁰ Most NGOs know that their field workers have better access to women as opposed to men since women in rural Bangladesh tend to be found at home. Women are also found to be more sincere in both attending group meetings and fulfilling financial commitments. Thus, the monitoring tasks become much easier for NGOs if loans are given to women members.⁶¹ By targeting women as the primary beneficiaries of their projects, however, NGOs leave out a crucial fact that these credits place enormous burdens on women for ensuring repayment of the loans that are often used by their male so-called “guardians”.

Clearly, this raises serious doubts about the intention of the NGOs in focusing on women. Such doubts have been further strengthened by the observation that the organizations of the micro-credit NGOs are male-dominated. It seems strange that while all micro-finance NGOs, including the GB, BRAC, Proshika and ASA, claim that their primary objective is to empower the poor, particularly women, the people occupying the important positions in their organizations are men. Similarly, despite their assertion of implementing bottom-up development models, all these organizations were found to be highly hierarchical in delivering services to the poor. As discussed before, not only do they make sure that they retain total control over the disbursement and collection of credits, but also their field level staff always make efforts to “guide” the programs of so-called “people’s organizations”.⁶²

⁶⁰ Khandker et. al., Grameen Bank, p. 12.

⁶¹ Anne M. Goetz and R. S. Gupta, “Who Takes the Credit? Gender, power and control over loan use in rural credit programs in Bangladesh”, IDS Working Paper no 8 (Brighton: Institute of Development Studies, University of Sussex, 1994), p. 6.

⁶² Khan and Stewart, “Institution Building and Development in Three Women’s Organizations”, pp. 58-59.

During field visits, it was observed that group members had very little autonomy to design and implement development projects. They heavily relied upon the instructions of the field-level NGO officers and workers for undertaking any schemes. In other words, the members were only allowed to choose from the already selected objectives and programs. More important perhaps is the observation that most of these organizations lack a democratic culture. In almost all cases, it was found that the decision-making power rested solely in the hands of the “executive director” and his close associates. Field level officials were seen to be engaged in implementing the decisions of the high command.

This raises the inevitable question: why do micro-credit NGOs focus on the issue of empowering women? The prominent response to this question is that while NGOs strive to give people the right to determine their own future, they operate “in a hostile institutional environment” that forces them to remain hierarchical. In other words, popular answers blame the existing hierarchical social structure of the country within which the NGO sector pursues developmental activities. They believe that “NGOs cannot easily insulate themselves from the prevailing organizational culture.”⁶³ Yet, this only explains the situation in part. Most authors and development practitioners tend to ignore the fact that NGOs claim to be different, representing themselves as a force for democracy and popular development. In fact, their excessive dependence upon external funding inspires and/or compels them to use popular jargon such as “empowerment”, “participation” and “gender-balanced development”. “The primary purpose of any NGOs”, as stated by an NGO executive,

⁶³ Wood, Bangladesh, p. 548.

is to make its donors satisfied. The concern is not so much about the invention of something that suits well into our context. The priority of all NGOs is to ensure a smooth access to foreign funds. In particular, if asked by the donors, NGOs do not hesitate to include anything in their program.⁶⁴

Seemingly, NGOs use just about any concepts in order to make it easier to have access to donor funds.

NGOs' interest in alleviating poverty through micro-finance initiatives is grounded in the assumption that micro-credit programs can successfully link the poor with the formal financial sector. In other words, micro-finance activities are seen as an effective tool to bring disadvantaged groups into mainstream economic activities. According to a World Bank document, the micro-enterprise sector "often absorbs excess demand during periods of economic restructuring and responds quickly to excess demand during periods of economic expansion."⁶⁵ NGOs are therefore using micro-credit programs, as is expected by the donor community, as a market niche for improving entrepreneurial skills of the poor. The willingness of the NGO sector to get involved in the activities of the market is recently reflected in their interests in launching purely business programs.

Indeed, most large NGOs, namely the GB and BRAC are currently engaged in expanding their operations to a variety of profit-making large-scale commercial ventures. The GB, for instance, has already established about eighteen different companies in such areas as textiles, telecommunications, fisheries, energy and securities management. One

⁶⁴ Confidential interview, Dhaka, 21 June 1998.

⁶⁵ Reprinted in a Grameen Bank publication. See Grameen Trust, Grameen Dialogue, 26, April 1996, p. 1.

of its companies, called Grameen Phone, is now providing cellular phones services. While the company operates only in Dhaka and the surrounding areas, it has started expanding the network across the country through the use of its well-established village organizations. In the name of bringing the fruits of the technological revolution, the Grameen Bank (Inc.) has begun to lend money to rural women in order to buy cellular phones for use commercially. The company has already captured 60 percent market share against its two major competitors.⁶⁶

The BRAC, on the other hand, has set up quite a few large business enterprises, including cold storage, printing press, dairy plant, convention center and department stores. Furthermore, it has launched a new micro-credit program that aims at encouraging its members to take larger credits so that they can get involved in establishing bigger enterprises.⁶⁷ Also, it is about to start a lending institution called the “BRAC Bank” and a university. In order to facilitate such commercial and development ventures, the organization recently built two spectacular twenty story buildings at the heart of the capital city. Important to mention is that both the BRAC and the GB are also engaged in commercially providing Internet services to the people, trying to popularize the use of the net in one of the world’s poorest countries. Both of the organizations have plans to expand the computer network throughout the country within the next few years.

⁶⁶ John Stackhouse, “Village Phones Ring up Profit”, The Globe and Mail, 6 July 1998, pp. A1 & A8.

⁶⁷ Chowdhury, “Making a Difference”, p. 9.

Mobilizing the Poor for Social Justice: role of advocacy NGOs

In sharp contrast to the above majority of profit-oriented groups, by defining poverty in terms of powerlessness, a few NGOs began to organize the landless and powerless marginalized groups in different parts of the country. In order to both alleviate poverty and to empower disadvantaged groups, they aim at the improvement of the bargaining power of the rural poor. They try to promote and consolidate group solidarity among them, enabling the poor to emerge as a political force so that they can effectively assert their socio-political rights. While many micro-finance NGOs, such as BRAC and Proshika,⁶⁸ have come to combine mobilization approaches with micro-credit programs, our focus will be only on those NGOs that exclusively pursue the agenda of building group solidarity. More specifically, this section deals with two particular NGOs - namely GSS and NK - which are known for their ability to successfully mobilize marginalized groups in rural Bangladesh.

GSS began its operation in 1983 as a local NGO based in the Khulna Division. In less than a decade, it has become a national NGO, which operates in 11 districts covering some 300,000 landless people. Considering empowerment as a process of improving people's ability to make and enforce decisions, it seeks to alleviate poverty by institutionalizing people's organizational ability. In particular, it makes efforts to politically mobilize the landless people and assist them in establishing their own organization called *Gano Sangathan* - in other words, the people's organizations (POs).

⁶⁸ Proshika is one of the very few micro-credit NGOs that emphasizes the need for generating popular power through organizing the landless and marginal farmers into political groups. See Bosse Kramso and Geoffrey D. Wood, Breaking the Chains: collective action for social justice among the rural poor of Bangladesh (Dhaka: University Press, 1992).

The primary objective of these organizations is to increase their representation in institutional decision-making at both the local and national levels.⁶⁹

Its mobilization program begins with the bringing together of about 20 landless agricultural laborers, both male and female, into an informal group. Following the formation of the group, GSS organizes functional education programs for the group members, where emphasis is given to learning about the structural causes of poverty and underdevelopment of the poor. The group members are also taught about their fundamental socio-political rights, including their rights to literacy, employment, healthcare and legal protection. Such a functional education program usually lasts for two months. After the successful completion of this program, the group members are encouraged to form a more formal group. GSS provides support to these small groups to expand their organizational base by joining with other similar groups.⁷⁰ This process of building a broader coalition continues until they form a PO, which is regarded as the structure of popular resistance to all sorts of discrimination against the poor.

GSS provides legal and organizational support to POs to establish their legal and political rights. One of the main aspects of its support program is to offer legal services to the rural poor who often fail to assert their legal rights because of their ignorance. In addition to making them aware of their legal rights on a variety of issues such as inheritance laws, and fair terms in share-cropping and divorce settlement, it offers legal aid to enable the POs to increase their bargaining capability. In particular, it helps the PO members to claim the minimum wage and to lease *Khas* (government) land and water.

⁶⁹ GSS, Education and Social Mobilization Program: five-year project proposal (1993-1998) (Dhaka: GSS, 1993), p. 14.

⁷⁰ Westergaard, "People's Empowerment in Bangladesh", pp. 38-9.

Given the fact that the distributions of Khas land and water is a highly complicated legal issue, GSS appoints lawyers to assist POs to get leases from the relevant government office. Besides, GSS facilitates the representation of the landless groups in the Union Parishad (UP), which is primarily responsible for implementing government-sponsored development projects. It encourages PO members to contest the UP elections and assists the candidates to launch successful election campaigns.⁷¹

In a similar fashion, NK is engaged in building grassroots organizations by involving the landless people in promoting development at the local level. Like GSS, it does not consider micro-finance activities as an effective means to either reduce poverty or to empower the poor. Indeed, it views micro-credit programs as “anti-developmental” and suggests that

We must choose our roles; we cannot tell the people to fight for their dues and then oppress them by collecting loans; a factory owner cannot be a trade unionist at the same time.⁷²

NK therefore focuses on the need for creating awareness among the rural poor in order to make them able to successfully participate in both economic and political decision-making processes. Since its inception in 1977, the organization has been preparing people for resisting the forces of exploitation and oppression. Like those of GSS, the programs of NK begin with offering organizational help to the landless and marginal farmers to form self-help groups.⁷³ It conducts training sessions for both awareness

⁷¹ GSS, Education and Social Mobilization Program, p. 10.

⁷² Cited in Aditee Nag Chowdhury, Let the Grassroots Speak: people's participation, self-help groups and NGOs in Bangladesh (Dhaka: University Press, 1989), p. 174.

⁷³ Westergaard, “People's Empowerment in Bangladesh”, p. 42.

building and skill development for its members. Also, it encourages people to mobilize their own resources in order to undertake collective economic programs. As part of its resource mobilization program, the organization offers legal help to lease *Khas* land and water. More importantly, NK assists its members to take actions against different forms of injustice prevalent in rural Bangladesh. In particular, it helps the members hold protest meetings to raise their particular concerns and/or voice their socio-political demands on issues such as violence against women and corruption.⁷⁴

A number of studies done on these mobilization efforts show that the involvement of the poor in the political process has given them a greater degree of political autonomy and bargaining power.⁷⁵ These programs have enabled them to participate effectively in local politics and helped them emerge as an important political force, which was manifested in the past few UP elections. A considerable number of group members nominated by a variety of NGOs, including GSS and NK, successfully defended their candidacies by defeating their rivals.⁷⁶ In other words, these conscientization efforts have significantly reduced their traditional political vulnerability. Besides, the activities organized by GSS, NK and other advocacy groups proved to be effective in both acquiring and redistributing *Khas* land to landless laborers.⁷⁷ Their programs also

⁷⁴ Chowdhury, Let the Grassroots Speak, pp. 184-85.

⁷⁵ Pieter Streefland et. al., Different Ways to Support the Rural Poor: effects of two development approaches in Bangladesh (Amsterdam: The Royal Tropical Institute, 1986), p. 49.

⁷⁶ Westergaard, "People's Empowerment in Bangladesh", pp. 41-45.

⁷⁷ Richard Holloway, Supporting Citizen's Initiatives: Bangladesh's NGO and society (Dhaka: University Press, 1998), p. 162.

succeeded in reducing violence against women, curbing corruption and giving the rural poor a voice in their efforts to resist socio-economic injustice.⁷⁸

During field visits, it appeared, however, that most of these groups achieved very little in terms of managing their own development. While their involvement with a variety of advocacy NGOs certainly enhanced their social awareness, most of the “people’s organizations” still heavily relied on the NGO staff to identify their own development needs. Without the guidance of a concerned NGO worker, they were found more or less incapable of using the group as a forum for pursuing common goals. Indeed, they relied upon the NGO worker for just about everything – from selecting the agenda of the meeting to writing the minutes. The group meetings were mainly used to discuss the issues that they were asked to discuss by the NGO staff. Moreover, when discussing any problem or issue, most group members repeatedly referred to some jargon that they had had preached to them. During my attendance in quite a few meetings of these self-help groups, it became quite evident that most group members hardly understand the meanings of the terms they frequently used. In other words, the whole question of participation seemed nothing more than what Adil Najam calls “a feel-good exercise” for the NGOs.⁷⁹

It was also observed that the activities of these groups frustrated the hopes of their planners that their political programs would generate both political and economic benefits. Although the mobilization initiatives created group solidarity and enabled them to emerge as a vote bank, the programs proved to be ineffective in creating tangible economic benefits. This was largely due to the ambivalent attitude of the NGO

⁷⁸ Chowdhury, Let the Grassroots Speak, pp. 184-85.

⁷⁹ Adil Najam, “NGO Accountability: a conceptual framework”, Development Policy Review 14(4), December 1996, p. 346.

executives toward the generation of both income and employment through micro-credits. While interviewing, quite a few group members expressed their utter dissatisfaction with the inability of these programs to generate immediate economic benefits for the poor. One group member commented on this issue: “why should I keep my membership, if I cannot arrange three meals per day for my family”? Such a problem was further compounded by the inability of the elected UP officials to positively respond to the needs of the groups. Indeed, the assumption that the representation of the rural poor in the institutional decision-making bodies would significantly increase the bargaining power of the poor was not supported by empirical evidence. In fact, it appeared that most advocacy NGOs had failed to capture the complex dynamics of rural power structures in Bangladesh.⁸⁰ In many cases, it was found that the elected representatives of the poor hardly used the newly achieved political status to benefit the group. Part of the reason for this is the strong presence of the co-optation process in rural Bangladesh. It is awfully difficult for anyone to resist the temptation of using political power to gain personal advantages. This was precisely why some elected representatives of the poor did not even bother to attend the group meetings any longer.

Equally important to mention is that these advocacy NGOs maintain highly hierarchical structures. The headquarter in general, and the executive director in particular makes, all the important decisions for the organization. Not only does he or

⁸⁰ Most advocacy NGOs rely on the analysis of village society, known as the differentiation and polarization thesis, which became popular among academicians and left political activists in the 1970s. Such a thesis focuses on the importance of understanding rural Bangladesh through a Marxist framework of class struggles. Although recent socio-political changes in rural Bangladesh have already reduced the ability of such a thesis to explain the current dynamics of rural Bangladesh, NGO executives seem to have ignored the importance of developing a more critical understanding of the recent changes.

she hardly allow anyone to share the decision-making power but, more importantly, the high command almost never leaves any room to allow his/her subordinate staff to become critical about the organization's strategy, objectives and approaches.⁸¹ The problem is even more acute at the field level, where the NGO staff is supposed to teach the poor about the meanings and benefits of participation, grassroots democratization and empowerment. A field-level NGO worker commented on the issue by saying "how can I even try to empower people when I know that I am not empowered enough to make my own judgement in dealing with the poor? I do exactly what I have been told to do."

Conclusions

This chapter finds that the proliferation of development NGOs in Bangladesh has created hope for democratic development at the turn of this century. The financial and institutional interventions of both micro-credit and advocacy NGOs have significantly improved the living standards of a variety of disadvantaged groups, including women, the landless, marginal farmers and slum dwellers. Their innovative programs have enabled them to reduce, if not alleviate, the burdens of poverty. As a direct result of their participation in NGO programs, their employment opportunities have expanded, wage rates have increased, and the ability to assert their socio-political rights has considerably strengthened. As well, NGO interventions have enabled them to become more articulate and candid. NGO programs, particularly the group-based mobilization strategy, have increased social awareness, helping these groups to take collective actions against social

⁸¹ A number of mid-level NGO officials expressed this view to me on a number of different occasions during my field visits in Dhaka in 1998.

injustice. The rural poor also have better bargaining power for realizing their socio-economic expectations.

Contrary to popular assumptions, however, this chapter finds very little or no empirical evidence that the programs of development NGOs have enabled marginalized groups, particularly women, to be empowered in a sustainable manner. Part of the reason for this is the inability of development NGOs to truly make efforts to improve women's status in a highly patriarchal society like Bangladesh. Almost all development NGOs, especially micro-finance organizations, are primarily concerned with the recovery of loans. Taking advantage of women's vulnerable situation, they appear to have chosen women as the borrowers in their micro-credit programs. Similarly, other NGOs are apparently busy paying lots of lip service about ensuring popular participation in development. It is observed, however, that too often participation means to agree with the already developed "revolutionary" ideas and programs of the NGOs. Their programs seldom allow the members to achieve the goals of becoming self-reliant in both financial and organizational terms. If the current trend continues, it is very likely that the poor will have to go a long way to become capable of managing their own development. In other words, it becomes evident that the concepts of "empowerment", "participation" and "democratic development" are either misused or used to exaggerate the "success" of NGO activities.

This chapter also finds very little evidence to support the assumption that NGOs are the primary force for formal democracy. While it is observed that NGO interventions have created political space for greater politico-economic mobilization of the rural poor at the local level, their top-down development models have truly impeded grassroots

democratizing initiatives. In fact, the major barrier to such grassroots democracy is the hierarchical and non-democratic organizational frameworks within which most NGOs operate in Bangladesh. As well, their inability to effectively initiate and sustain true democratization initiatives at the local level also stems from the observation that their programs are largely designed to satisfy the needs of the donor community. The excessive reliance of the NGO sector upon external funding creates the imperative for them to comply with donor suggestions and/or instructions.

CHAPTER SEVEN

Conclusions: problems and prospects for democratic development in the South in the next millennium - emerging lessons from Bangladesh

Is the Market Enough?

As the world community begins to recognize that “the most urgent tasks facing humanity today”¹ is to again reduce the burdens of poverty, the imperative of creating market mechanisms and competition becomes increasingly unavoidable. In the still prevailing and optimistic paradigm, the market is regarded as absolutely essential both in achieving high rates of growth and alleviating poverty. It is believed that the construction of a free market not only promotes economic recovery, but also ensures sustainable growth required to increase productivity and real incomes for all, including the poor. In other words, the optimism about the market is based on the assumption that ‘getting the prices right’ leads to rapid economic growth that creates jobs, raises income and reduces poverty.

The Bangladeshi case, however, provides no “definitive proof” of such a success around the market in either achieving rapid economic growth or in alleviating poverty. As discussed in chapter two, much has been done over the last two decades to develop a market-friendly framework for national economic governance. The country has witnessed the implementation of a massive market reform program that included

¹ World Bank, Poverty Reduction and the World Bank: progress and challenges in the 1990s (Washington, DC: World Bank, 1996), p. vii.

privatization of nationalized industrial and commercial enterprises, deregulation of the import regime, liberalization of exchange rates, restructuring the tax system and elimination of restrictive practices. While such liberalization measures have registered some initial success in improving the country's macro-economic performance, these policies have failed to raise economic growth to a sustainable level needed to generate employment in order to alleviate mass poverty. Even the World Bank admits that, despite Bangladesh's remarkable progress in restoring macro-economic balance, both stabilization and adjustment programs have had very little impact on reducing poverty. In fact, the Bank's report acknowledges that the absolute number of poor has constantly increased each year since independence in 1971.² In addition to stagnant growth, increasing problems of distribution have also contributed to the failure of adjustment programs to effectively reduce poverty.

Such a finding is very consistent with a number of adjusting countries in Latin America, the Middle East and Africa, where market-oriented reform measures have steadily increased inequality between the rich and the poor. For instance, in a number of countries in Latin America, including Colombia, Dominican Republic, Mexico, Peru and Venezuela the process of building market mechanisms has further widened inequitable distributions of wealth, land and income.³ Similarly, instead of reducing poverty, adjustment programs in Africa have apparently increased "the poverty of the very poor".⁴

² World Bank, Bangladesh: from stabilization to growth (Washington, DC: World Bank, 1995), p. 3.

³ Lawrence E. Harrison, "Latin America: democracy and the market are not enough", World Affairs 155(4), Spring 1993, p. 169.

⁴ J. Bayo Adekanye, "Structural Adjustment, Democratization and Rising Ethnic Tensions in Africa", Development and Change 26(2), April 1995, p. 366.

This has been the case in Turkey as well, where economic liberalization programs have come under growing criticism for their inability to benefit the poor.⁵

The absence of an appropriate mechanism for both addressing and reducing economic disparities has in effect strengthened the process of concentrating economic gains in the hands of a small group of financial and economic elites. In Bangladesh, as already discussed in detail in chapter two, the state has made no attempt to either redistribute assets or to adopt policies designed to promote growth and equality simultaneously while implementing economic reforms. In other words, successive governments – both military and civilian – have ignored the importance of keeping the provision of safety nets for those who suffer most from the country's economic transition. As a consequence, economic liberalization programs have continued to punish vulnerable groups, such as the rural poor, public sector employees and daily laborers, on the one hand, and have consistently benefited corrupt politicians, big business and a section of civil bureaucrats, on the other. A number of studies conducted on different adjusting countries confirm that the costs and benefits of reforms are too often distributed disproportionately.⁶ In particular, the disempowered section of the population is most likely to bear the heavy costs associated with market-oriented economic reforms.⁷

⁵ Stuart Gold, "The Costs of Privatization: Turkey in the 1980s", Multinational Monitor, 10(10), October 1989, pp. 11-16.

⁶ Robin Broad et. al., "Development: the market is not enough", in John Cavanagh et. al. (eds.), Beyond Bretton Woods: alternatives to the global economic order (London: Pluto Press, 1990), p. 3.

⁷ Romesh Diwan, "Economic Reforms as Ideology", Economic and Political Weekly 30(30), July 29, 1995, p. 77.

The Bangladeshi case clearly illustrates the inability of the state to maintain the autonomy vis-a- vis big business needed if the former is to initiate safety-net operations for the poor. As discussed above in chapter three, the increasing reliance of successive regimes upon big business for political and financial support has contributed to the development of a patrimonial state, which has continued to focus more on the protection of clientele interests than on devising strategies for reducing poverty and inequality. Indeed, the use of economic liberalization programs to develop political coalitions with big business has gradually shifted the locus of decision-making to business and industrial elites. The growing political power of big business was clearly reflected in the parliamentary elections of 1991, when traders and industrialists emerged as the dominant group constituting some 60 percent of the total seats. For understandable reasons, these business cum political elites have considerably limited the state's ability to either enforce contracts or to develop a mechanism for redistributing assets. Taking advantage of their increasing political power, they have successfully prevented the state from carrying out redistribution programs. As well, they have blocked the process of developing an effective regulatory framework required to stop the abuse of public resources by the established business actors.

What Constitutional Democracy Means?

The current global movement toward constitutional democracy creates high optimism about the "coming reign of reason and peace".⁸ It is believed that the transitions to democracy from different forms of authoritarianism are setting the stage for

⁸ Arthur Schlesinger, Jr., "Has Democracy a Future?" *Foreign Affairs* 76(5), September/October, p. 2.

human progress and prosperity across the world because democracy develops the framework for governing “in the interests of all the people”.⁹ More importantly, democracy ensures that socio-political conflicts will be resolved through constitutional means. It is also expected that a liberal democratic structure will always uphold the rule of law and protect basic individual liberties.

Bangladesh’s transition to democracy, however, provides clear examples of how a democratically elected regime can act precisely to “routinize” and/or perpetuate either authoritarian or non-democratic practices. The democratically elected regime of Khaleda Zia, as discussed in detail in chapter four, continued to ignore “constitutional limits on her power”. Once she got elected, Mrs. Zia indeed put aside the need to institutionalize the basic rules and procedures that were accepted by all the major parties during the transition. To the surprise of many Bangladeshi political observers, like her authoritarian predecessors, she refused to put a limit on her “discretionary power”, deciding instead to exercise a form of personalistic rule. She hardly allowed existing democratic institutions, particularly the parliament, to play a key role in decision-making. Even at the peak of the political deadlock that eventually created an anarchic situation in the country, Mrs. Zia did not take advantage of democratic procedures to settle disputes with the mainstream opposition. Instead, like the case of Mrs. Indira Gandhi of India,¹⁰ she sought to adopt a populist approach in order to strengthen her direct personal ties with the electorate.

⁹ “Boosting Democracy in Africa”, Commonwealth Currents 1(1997), p. 3.

¹⁰ Atul Kohli, “Centralization and Powerlessness: India’s democracy in a comparative perspective”, in Joel S. Migdal et. al., (eds.), State, Power and Social Forces: domination and transformation in the Third World (New York: Cambridge University Press, 1994), pp. 89-107.

It would be, however, misleading to blame only the ruling party for not resolving the political disputes through the existing democratic institutions. The mainstream opposition also deliberately avoided the use of constitutional means to settle its growing conflicts of political interest with the government. In particular, under the leadership of Sheikh Hasina's Awami League, major opposition parties took virtually no steps to strengthen democratic institutions, especially the parliament. The *Jatiya Sangsad*, for instance, was rarely used as an effective forum for discussions, debates and decision-making. By resorting to the politics of street agitation, the mainstream opposition indeed undermined the ability of the national assembly to sustain democracy in the country. More importantly, such a failure of opposition political parties to act democratically in turn encouraged their supporters to push the country practically to ruin through the adoption of various non-democratic, mainly violent, methods of protest.

Like the cases of Peru, Pakistan, the Philippines and Sierra Leone,¹¹ the transition to democracy in Bangladesh did not lead to the creation of the required political environment to preserve citizen's rights. All available evidence indicates that Mrs. Zia's democratically elected regime made virtually no attempt to protect the fundamental rights and freedoms of the country's citizens, as most Bangladeshi had expected. Despite her pledge to repeal all the "black laws" - especially the Special Powers Act (SPA) - which were enacted in 1974 by the Mujib regime, she kept using them as an oppressive tool. The SPA contains a variety of anti-freedom and anti-people laws that allow the government to deprive the people of their basic human rights. According to the SPA, for instance, the government can detain any person at any time "in the national interest".

¹¹ Fareed Zakaria, "The Rise of Illiberal Democracy", *Foreign Affairs* 76(6), November/December 1997, pp. 22-43.

Actions taken under this act cannot be challenged in any Court of Law and no prejudicial report can be published in newspapers.¹² All successive regimes, starting with Mujib, used the SPA to continuously violate the freedom of expression in general, and to “suppress the movement of the opposition forces”¹³ in particular. Not surprisingly, Mrs. Zia also found the SPA to be an effective weapon to consolidate her personal political authority.¹⁴

Clearly, the Bangladeshi case illuminates the failure of constitutional democracy to bring about the necessary political changes that are essential to ensure political freedom and material prosperity for the majority. Both the government and the opposition have only paid lip service to democracy. None of the sides have taken any concrete steps to institutionalize the rules and procedures of democratic organizations. Contrary to the expectations of the people, they have often bypassed the *Jatiya Sangsad* and have neglected the importance of upholding basic democratic practices. As well, the virtual non-existence of trust between the government and mainstream opposition has given rise to fresh disputes, paving the way for generating an unprecedented political standoff. For obvious reasons, they have blamed each other for failing to arrive at a

¹² Moudud Ahmed, Bangladesh: era of Sheikh Mujibur Rahman (Dhaka: University Press, 1984), p. 152.

¹³ Syed Serajul Islam, “Polity and Politics During Mujib Era”, in Emajuddin Ahamed (ed.), Society and Politics in Bangladesh (Dhaka: Academy Publishers, 1989), p. 55.

¹⁴ For a general discussion of the violation of human rights in Bangladesh in 1996, see Ain O Salish Kendra, Human Rights in Bangladesh: 1996 (Dhaka: University Press, 1997).

negotiated settlement. What disappointed most political analysts, however, was the mutual treatment of their political opponents as “enemy” in post-transition Bangladesh.¹⁵

The functioning of parliamentary democracy has also been hindered by the declining capability of the Bangladeshi state. As in the case of Africa – from Congo and Ghana to Zaire¹⁶ - economic liberalization programs have severely reduced the ability of the Bangladeshi state to directly contribute to the improvement of the living standards of the majority. After coming into power, as discussed in chapters two and three, the democratically elected regime of Mrs. Zia accelerated reforms in the hope that a faster pace of liberalization would enable her regime to meet the enormous challenge of development facing the country. For understandable reasons, however, reform measures further eroded the state’s control over the resources needed for successfully carrying out various development programs. Indeed, the growing inability of the state to satisfy popular aspirations was clearly reflected in the government’s “franchise strategy” that began to change the traditional role of the state in delivering universal services, such as health care and education. As a result of a fast-track liberalization program, Mrs. Zia’s democratically elected regime came to devolve various functions of the state to the private sector, which further undermined the credibility of a democratic regime.

In other words, the transition to democracy in 1991 was nothing more than a change in the system of governance. Such a transition from military authoritarianism to civilian rule only brought a new group of ruling elites to power, which continued to rely

¹⁵ Many political observers sincerely hoped that the country’s return to democracy based on a common formula would enable the two women leaders to treat each other as “partner” rather than “foe”. Obviously, they were found to be naïve and “idealistic”.

¹⁶ See Peter Gibbon et. al., (eds.), Democracy and Adjustment: the politics of economic reform in Africa (Uppsala: Swedish Institute of African Studies, 1992).

on practices that were essentially “authoritarian”. It was no wonder that the democratically elected regime did very little to cope with the pressing problems of development. It did not therefore take very long before the optimism or naivete about constitutional democracy turned into deep despair.

Is Civil Society the Answer?

In academic discussions as well as socio-political activities, the concept of “civil society” has come into sharper focus as most analysts, policy-makers and activists strongly believe that civil society can play a vital role in promoting both democracy and development in sustainable ways. Civil society is defined as the ensemble of private, non-state organizations working independently of the state for the protection and advancement of citizen’s rights, freedoms and interests.¹⁷ Considering the liberation of civil society from the “suffocating grip of the state”¹⁸ as a primary step toward the construction of both liberal democracy and free markets, an increasing number of donor organizations are now engaged in implementing various projects across the globe called “the strengthening of civil society”. These projects are designed to create conditions for smooth functioning of civil society. Likewise, many Southern organizations, mainly NGOs, are also describing their work in civil society terms and are claiming that they are facilitating groups in civil society to work together for the promotion of democracy and development both at the local and national levels.

¹⁷ Michael Bernhard, “Civil Society and Democratic Transition in East Central Europe”, *Political Science Quarterly* 108(2), Summer 1993, pp. 307-26.

¹⁸ Bjorn Beckman, “The Liberation of Civil Society: neo-liberal ideology and political theory”, *Review of African Political Economy* 58, November 1993, p. 20.

This dissertation, however, finds that the democratic potential of civil society in Bangladesh is more limited than is widely assumed. Like many Middle Eastern countries, including Egypt and Turkey,¹⁹ civil society groups in Bangladesh are overly politicized and are primarily interested in advancing the goals of a specific political party and/or ideology. As discussed in detail in chapter five, contrary to conventional assumption, most socio-cultural groups and forums have often played a purely partisan and ideological role, which has negatively affected the broader popular struggle for democracy and development in the country. Most of them have served what different political parties have wanted them to do. As a result, what appeared to be a major achievement in 1990 later turned out to be either something insignificant or not nearly as meaningful as people had originally thought. Part of the reason for the failure to translate the collapse of a military authoritarian regime into sustainable democracy is that many so-called civil society groups are not actually “social” groups at all. Rather, a large number of women’s groups, trade unions, professional associations and religious organizations operate as fronts for major national political parties and strive to create and maintain the hegemony of a particular ideology.

This is, however, not to say that these associations cannot make efforts to either respond to popular demands or to pursue common goals. Most of these so-called civil society groups often try to relate their particular political agenda to broader development challenges facing different vulnerable groups. Many of them undertake programs to create awareness among different disempowered social groups and organize their

¹⁹ Nilufer Gole, “Authoritarian Secularism and Islamist Politics: the case of Turkey”, in Augustus Richard Norton (ed.), Civil Society in the Middle East (Leiden, The Netherlands: E. J. Brill, 1994), pp. 17-43.

members for improving their economic and political status. Yet, such campaigns and mobilization programs clearly represent the ideology and politics of their parent political organization. In particular, the absence of political autonomy tends to place decisive limits on the democratizing role of civil society.

Such an excessive politicization of civil society also reduces the ability of most development NGOs to play a constructive and continuing role in the democratic process. As discussed in chapters five and six, NGOs refused to become a part of the massive democracy movement that ultimately brought down General Ershad's military regime in 1990. Instead, many development NGOs, under the leadership of the Association of Development Agencies in Bangladesh (ADAB), chose to co-operate with the authoritarian regime through their involvement in a variety of programs sponsored by the government. Such an apolitical role remained largely unchanged until the assumption of power by the "nationalist" regime of Mrs. Zia, when various NGOs - mostly of the advocacy type - began to commit themselves to the promotion of "party politics". Not only did this sudden shift from "pure developmentalism" to "particularistic politics" raise questions about the integrity of the NGO sector, but also this dramatic change significantly limited their autonomy and capability of both restricting state power and advancing the interests of ordinary citizens.

The capability of development NGOs to act as agents of national democracy and development has also been constrained by their excessive reliance on foreign funds. This dissertation finds that both drawing upon the language and responding to the practices of northern NGOs and donors, an increasing number of Bangladeshi NGOs claim that their programs encourage popular participation, ensure sustainability and empower the

beneficiaries. During field visits, however, it was observed that most NGOs indeed use such popular development jargon without understanding the appropriateness of these concepts within the socio-cultural reality of the country. In particular, like many NGOs in Central America - especially those funded by the United States²⁰ - a vast majority of development NGOs in Bangladesh undertake various programs and projects largely to satisfy the needs of their major donors rather than responding to the demands and interests of their beneficiaries. As a consequence, NGO programs have not achieved much success in representing and promoting the interests of disadvantaged groups.

The Epistemology of Comparative Politics and International Relations: what does the Bangladeshi case mean?

Despite the idiosyncratic nature of political systems, both comparativists and internationalists always strive to advance cross-nationally applicable explanatory theory designed to successfully analyze different types of functions of each political system. The logic behind such attempts of theory construction is simple and easily understandable. Comparativists and internationalists do not only make efforts to provide a better understanding of a particular phenomena; they also want to expand the ability of their discipline to predict future occurrences of similar events.²¹ Does this work? Unfortunately, there is no guarantee that any one theory can be effective in explaining all

²⁰ Laura Macdonald, Supporting Civil Society: the political role of non-governmental organizations in Central America (London: Macmillan, 1997), p. 64.

²¹ Lawrence C. Mayer, Redefining Comparative Politics: promise versus performance (Newbury Park, CA: Sage, 1989), pp. 15-16.

phenomena²² even if these have common cultural, institutional and functional characteristics. While the propositions of a theory may effectively explain certain situations and/or phenomena, as Robert Keohane agrees, it is unlikely that all similar events can be successfully explained and analyzed by one single theory.²³

The Bangladeshi case takes the epistemological issue little further, suggesting that the attempts to generalize and/or develop explanatory theory based on the evaluation of one or more similar phenomena is always problematic. This is largely because the success of one society may not be easily replicated in another, as each society has its own distinct culture, history and tradition.²⁴ Even if conclusions are drawn after a thorough and careful observation of all the facts available within a geographical boundary, the same may not be applicable to other cases since countries and communities vary greatly one from another in terms of politics, economy and society.

This is precisely why general theories of democratic transition do not provide a satisfactory explanation as to why this successful transition to democracy did not result in the creation of the expected political environment within which democracy could be consolidated. As discussed in chapter three, the transition apparently met most of the conditions that are regarded as essential for democratic consolidation. It emerged from a

²² Robert O. Keohane and Joseph S. Nye, Power and Interdependence, second edition (Glenview, IL: Scott Foresman, 1989), p. 4.

²³ Robert O. Keohane, "Realism, Neorealism and the Study of World Politics", in Keohane (ed.), Neorealism and its Critics (New York: Columbia University Press, 1986), p. 3.

²⁴ Geof Wood regards such attempts of "making the myth of one society reality in another" as "ethnocentric", see Geof Wood, "States Without Citizens: the problem of the franchise state", in David Hulme and Michael Edwards (eds.), NGOs, States and Donors: too close for comfort? (London: Macmillan, 1997), p. 79.

successful negotiation that primarily involved the military and the two major “pro-democratic” alliances. The radicals were not in a position to set the rules of the game and the military did not try to keep a “veto” power over the structure of civilian administration. Besides, civil society groups played a vital role in promoting the transition to democracy.

Yet, these were not found to be enough - contrary to what Diamond, Huntington, Linz and Przeworski may assume - to keep the process of democratic consolidation moving. In fact, theories of democratic transition and consolidation have very little explanatory capability to analyze the post-transitional political crisis in Bangladesh largely because of their inability to adopt a micro-level approach²⁵ to understand the state-society complex.²⁶

For similar reasons, this dissertation research also finds no definitive proof about the widely held assumption that the market is inextricably linked with democracy. In particular, it finds no solid evidence about the supposedly mutually dynamic relationship between economic and political liberalization. As well, the findings of this study do not support the thesis that prior-economic reforms create conditions for democratic consolidation. On the contrary, it is observed that economic liberalization programs have made the process of democratic consolidation more difficult than it is generally assumed. As discussed in chapters two and three, the frustrating financial and economic results of

²⁵ Many theorists of International Relations would, however, consider a micro-level analysis as “reductionist”, since it makes an attempt to understand the whole by examining the attributes and the interactions of its various parts. see, Kenneth N. Waltz, Theory of International Politics (New York: Random House, 1979), p. 18.

²⁶ Robert W. Cox, “Social Forces, States and World Orders: beyond international relations theory”, Millennium 10(2), Summer 1981, p. 138.

market reform programs have indeed made democratic regimes truly vulnerable to political pressures, creating a highly complex political environment in which the likelihood of institutionalizing democracy became increasingly uncertain.

The findings of this dissertation research also question the widely held assumption that authoritarian regimes are more capable than democratic regimes of both undertaking and implementing far-reaching economic reform programs.²⁷ Contrary to such a thesis, the analysis herein suggests that the ability of adopting and implementing economic liberalization programs largely depends upon the question: who makes decisions? In the Bangladeshi case, it has been clearly found that the elected regime of Khaleda Zia made stronger efforts to accelerate the speed of market reforms than those of the two preceding military authoritarian governments of Zia and Ershad. This was largely because big business came to establish its hegemony over the Bangladeshi state during the leadership of Mrs. Zia. Important to mention then is that her democratically elected regime as well played a catalytic role for enabling big business to emerge as the dominant political force in the country.

Bangladesh's post-transitional political standoff also casts doubt about the role of civil society in democracy and development. While this dissertation recognizes the ability of civil society to transform existing structures of both authoritarianism and underdevelopment, it suggests that the prevailing optimism centering on civil society is based on a false impression of the socio-political reality or political culture of many

²⁷ International Forum for Democratic Studies, Constructing Democracy and Markets: East Asia and Latin America (Washington DC: International Forum for Democratic Studies, 1996), pp. 10-12.

Southern nations,²⁸ particularly Bangladesh. In the case of Bangladesh, not only do many civil society groups contain hierarchical structures, but they also promote ideas, visions and goals that are far from democratic. In other words, the mainstream literature hardly understands the fact that civil society may try to reproduce existing social and cultural practices, thereby hindering the process of both democratization and development.

In Search of Alternatives: future of democratic development

The Meaning of Democratic Development

The current global movement toward formal constitutional democracies and official free markets is likely to continuously produce, as in the case of Bangladesh, unsatisfactory outcomes for both marginal countries and communities. This is largely because democracy promises voting rights rather than justice and equality. Likewise, the market creates hopes for higher levels of growth, but does not guarantee that the fruits of growth will not miss the needy and disadvantaged groups. What, then, seems important to do is to take the agenda beyond both orthodox economic growth and popular participation in elections. Obviously, this is not an easy task; it requires, among other things, linking democracy and development - both of which are themselves multi-faceted - together.

In fact, the concept of sustainable democratic development and/or people-centred development and human development may include a variety of issues such as greater

²⁸ In a similar fashion, Laura Roper Renshaw warns that over-simplified understanding of civil society may "lead to distortions, poor analysis and poor outcomes". See Renshaw, "Strengthening Civil Society: the role of NGOs", *Development* 4, 1994, pp. 48-49.

people's participation, social and political mobilization of the poor, partnership and gender that are otherwise excluded from conventional development paradigms.²⁹ As a primary step to construct a framework for pro-people and pro-environment development, such a concept outlines the need for expanding individual choices – economic, political and social.³⁰ As well, it focuses on the importance of bringing vulnerable groups into the process of development by making them able to control economic and political resources. More importantly, it seeks to enhance the self-help capability of the poor so that they can manage their own development without depending excessively upon external - national, regional and global - forces.³¹

Central to the understanding of sustainable democratic development is the role of the state and civil society. Unlike the liberal proposition, this approach neither wants to de-legitimize the state nor glorify the role of civil society in advancing the interests of the people. Instead, it suggest that not all forms of states and civil society(ies) are effective in defending individual rights, preserving the physical environment and assisting vulnerable groups to benefit from the process of development and/or growth. In particular, it makes a clear departure from “excessive statism”, assuming that a transparent, accountable and responsive state can only create a political environment necessary for the improvement of human condition. Similarly, it suggests that a non-

²⁹ Ponna Wignaraja, “Rethinking Development and Democracy”, in Wignaraja (ed.), New Social Movements in the South: empowering the people (London: Zed Books, 1993), pp. 4-35.

³⁰ Richard Jolly, Human Development: the world after Copenhagen (Providence, RI: Academic Council on the United Nations System, 1997), p. 3.

³¹ David C. Korten, Getting to the 21st Century: voluntary action and global agenda (West Hartford, CT: Kumarian Press, 1991), pp. 217-21.

partisan, active and committed civil society is likely to promote genuine democracy and development.

Policy Suggestions

Based on comparative analysis and field work in Bangladesh, it may be concluded that the success of any state in promoting both democracy and development will largely depend on the implementation of the following factors:

- the ruling elites will make efforts to come to terms with democracy; in particular, relevant actors must not treat losing in the elections as the end of the game. The opposition should not forget that they also have an important role to play in consolidating democracy. Likewise, the ruling party will treat their opponents with due respect and will create adequate room for the opposition to perform its duties and responsibilities;
- the state will maintain its autonomy vis-a-vis big business and other key socio-economic actors. Such autonomy will ensure the enforcement of contracts and will enable the state to successfully mediate between different conflicting groups and interests;
- the state must take actions to create a political space in which civil society groups, including voluntary organizations, can promote development without facing

unnecessary obstruction from the regime. In other words, the state will establish an appropriate legal and regulatory framework for ensuring smooth functioning of civil society and

- the donor community will make more resources available to the state in order to reduce adjustment-related sufferings of vulnerable groups. In particular, the international community will provide both financial and political support to the state for effectively designing and implementing safety networks for those disadvantaged groups and regions that suffer most from the country's economic transition. In so doing, donors will take into account the priorities of the country.

The success of civil society organizations, on the other hand, in both protecting the people from the potential abuse of power by the state and market and promoting development at the grassroots will primarily depend upon their ability to transform their traditional roles based on the following recommendations:

- civil society will maintain its autonomy vis-a-vis the state, political parties, and business and industrialists groups. More important perhaps is the assurance that civil society will not play a partisan role and will not assume a substitute role for political parties. Instead of promoting the causes of a particular party or ideology, civil society will make attempts to advance the interests of ordinary citizens;

- **civil society groups will undertake programs to develop non-hierarchical and non-authoritarian organizational structures in order to ensure greater participation in their own processes of decision-making. In other words, they will adopt practices that are essentially democratic. Such policies will enable them to develop more appropriate bottom-up approaches;**
- **development NGOs must make attempts to reduce their excessive reliance upon foreign funding and priorities. This will enable them to adapt more to local conditions and diversity and will help them to adopt pro-people rather than pro-donor development strategies and policies. Such an attempt will involve, among other things, the mobilization and utilization of local resources;**
- **development NGOs should direct their efforts to the creation and strengthening of “autonomous” self-help groups (grassroots organizations) at the local level. This will inevitably shift the current focus away from ‘doing things for the people’ to ‘letting the poor decide and/or manage’. In other words, NGOs will mainly assist vulnerable groups in their own efforts to become self-reliant;**
- **NGOs will explore the possibility of developing broader networks, within and outside the country, by linking like-minded groups together. Such networks will enable the NGO sector to create resistance against the imposition of anti-people ideology. Also, these networks will serve as the forum for undertaking collective programs for the promotion of common interests and goals;**

- the donors will allow NGOs to enjoy more autonomy for successfully adopting and implementing programs that are compatible with the needs and demands of NGO beneficiaries. In other words, the donors will make efforts to establish partnerships with local and national NGOs, encouraging them to formulate their own policy and programs and
- instead of dealing only with the “executive directors”,³² the donor community should began to deal directly with NGO beneficiaries and field level NGO staff in order to help communities to promote development at the grassroots. Such an effort will also ensure a more appropriate use of their money channeled to NGOs.

Of course, these major changes will not take place overnight as most of them are more complex than they might appear to be. More importantly, these policy-relevant recommendations involve vigorous changes in the way the state, civil society and donors operate. Without a total commitment to sustainable democratic development, it is unlikely that the people in the South, particularly in Bangladesh, will witness a clear movement toward the construction of a world based on the ideals of sustainable justice, equality and participation at the start of the twenty-first century.

³² Geoffrey D. Wood, Bangladesh: whose ideas, whose interests? (Dhaka: University Press, 1994), p. 549.

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