

Corruption and Governance in South Asia

General Survey

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Since the early 1980s the problem of corruption and issues of governance have come to the fore in all South Asian countries. Internal public concern over corruption, and pressure from international agencies, such as the World Bank and the IMF, and from bilateral agencies alarmed by the misuse of aid, has been growing. Closely linked to the issue of corruption is a wider set of concerns regarding governance, including the operation of the judicial system, the stability of property rights, and the functioning of democracy. Corruption has been foremost on the agenda, out of all these issues, as it is widely perceived to be not just a problem in itself but also an indicator of other failures of governance. In response to internal and external pressures, political parties in South Asia have adopted anti-corruption programmes, although usually only as populist slogans or to attack their opponents. Furthermore, citizens' groups and local and international non-governmental organizations (NGOs) have led intense campaigns and, significantly, a mainstreaming of anti-corruption policies by the World Bank and other international agencies has occurred. However, the problem of corruption persists in South Asia, as measured by the intense public debate on and media coverage of corruption, the ongoing concern of international agencies and investors, as well as the poor showing of these countries in international rankings of corruption indices constructed by the NGO Transparency International and other such agencies.

Since the early 1980s prime ministers and presidents in Bangladesh, India and Pakistan have been legally implicated in and sometimes even convicted of corruption, and in Nepal and Sri Lanka prime ministers have been regularly accused of corruption by their political rivals and the media. Provincial, state and local governments have been accused of being equally corrupt, with a number of flamboyant chief ministers in India acquiring an international reputation for corruption. The form of government also seems to have had little effect on the magnitude of corruption, with both democracies and authoritarian regimes displaying equally high levels of corruption. Public disclosures of large-scale corruption in Bangladesh, India and Pakistan have recently been dominated by major irregularities in government procurements, in particular of defence-related equipment. While in the past public-sector industries attracted the most attention for nepotism and clientelism, recently a number of spectacular corruption-related scandals and crises in privatization deals and the regulation of financial markets have been exposed. At a lower level, government functionaries of all types are widely engaged in corruption; police, customs, land registration and irrigation officials receive frequent negative attention in the media. In public opinion surveys, police forces throughout the Indian subcontinent are often accused of being the most corrupt agencies, not necessarily because they appropriate the greatest amount in bribes but because for most people their corruption is the most visible and irksome on a daily basis. This qualitative and journalistic evidence of widespread corruption in South Asia is supported by surveys of public perceptions of corruption that are collated by the World Bank to provide indices for the 'control of corruption' in different countries. These indices are constructed in such a way that they range from -2.5 (the worst corruption) to +2.5 (the lowest

corruption), with the average of all countries indices being 0. Under each index is the standard error, which shows the degree of confidence given the variation in the indices available for each country.

Control of Corruption Index for South Asia

(range: -2.5 to +2.5, standard error shown in brackets)

Country	1996	1998	2000	2002	2004
Afghanistan	na	na	-1.56 (0.44)	-1.32 (0.27)	-1.33 (0.21)
Bangladesh	-0.47 (0.24)	-0.40 (0.21)	-0.60 (0.16)	-0.95 (0.14)	-1.09 (0.14)
India	-0.31 (0.17)	-0.17 (0.13)	-0.25 (0.15)	-0.36 (0.13)	-0.31 (0.12)
Maldives	na	-0.55 (0.37)	-0.45 (0.24)	-0.05 (0.22)	0.12 (0.24)
Nepal	-0.28 (0.47)	-0.59 (0.27)	-0.56 (0.20)	-0.37 (0.18)	-0.61 (0.16)
Pakistan	-0.98 (0.23)	-0.76 (0.18)	-0.80 (0.16)	-0.81 (0.15)	-0.87 (0.14)
Sri Lanka	-0.23 (0.24)	-0.24 (0.21)	-0.09 (0.15)	-0.13 (0.14)	-0.16 (0.14)

Source: Kaufmann et. al. (2005)

Note: na = not available

These indices should be interpreted carefully as they are based on subjective perceptions; however, they do suggest that official policies and pressure from NGOs and civil society had minimal effect on reducing corruption until 2004. According to these indices, corruption remained virtually unchanged in India in 1996–2004. In Pakistan there was a small improvement (although the long-term

anti-corruption achievements realized by the military, and now civilian, government might come under threat in the future), and in Bangladesh perceived corruption actually worsened, with the country registering one of the highest corruption ranking among the countries surveyed in 2004. There is considerable controversy in Bangladesh about whether the steep decline in these subjective indicators in recent years reveal more about the changing sensitivities of Bangladeshi respondents rather than real changes in the degree of corruption. Nevertheless, while subjective perception indices may not reflect true changes in the degree of corruption, at the very least they reveal growing public disquiet with slow progress in dealing with the problem. Sri Lanka, a much more developed nation, with a per caput gross national income two to three times higher than its neighbours, registered a correspondingly lower corruption index. However, even in Sri Lanka, corruption has become one of the main issues to dominate accusations and counter-accusations made by government and opposition parties. Nepal was included in the Transparency International Corruption Index for the first time in 2004, receiving an identical rating to that of India. The small tourist island of Maldives has the lowest recorded corruption in the Indian subcontinent, and is the only South Asian country with a corruption indicator that is positive in 2004, which means a corruption ranking better than the global average. In contrast Afghanistan has the highest corruption indicator in the South Asia, reflecting the continuing role of warlords and criminality in its economy. Here the corruption is largely of a different type and magnitude, compared with its neighbours, since a nation-wide state structure does not exist, but there may be underlying tendencies that are quite similar to the other South Asian countries.

The extent of corruption in South Asia has led to wider concern regarding poor

governance, which in turn is responsible for poor economic performance, persistent poverty, the subversion of democracy and the inability to attract sufficient foreign investment. However, in assessing corruption in South Asia, it is desirable to remember that corruption is rife in all developing countries, regardless of their economic growth rates; indeed, the level of corruption is strongly connected to the country's level of development. Generally, the poorer and less developed a country is, the more it suffers from corruption. This is even true of high-growth developing countries such as the Republic of Korea in the 1960s or the People's Republic of China in the early 2000s. This cross-country evidence suggests that studying the aggregate evidence of corruption is likely to be misleading, since even rapidly growing economies experience relatively high levels of corruption in their nascent stages. Clearly, it is necessary to distinguish between different types of corruption and to identify why the more damaging types predominate in less dynamic economies such as those found in South Asia. This will also help to assess the likelihood of specific anti-corruption strategies succeeding.

A Typology of South Asian Corruption

Corruption can be defined in various ways, but it is typically understood to mean a violation of law by public officials for private gain. The violation of law may result in the provision of a proscribed service and/or the subversion of state policies in a way advantageous for the bribe-payer. At a general level, all corruption is damaging: time and resources are wasted in the paying of bribes, in identifying the officials to bribe and determining the amounts to pay, and all these resources could evidently have been better used in productive investments. Moreover, unlike taxes, the payment of a bribe is not guaranteed, and the public

official taking bribes cannot be taken to court for the non-delivery of promised services or decisions. In addition, corruption can have important indirect effects on business confidence and thus on investments. Furthermore, corruption could potentially result in sudden changes in government policy or in the reallocation of property rights, thereby adversely affecting the investment climate and increasing the overall costs of corruption. However, while bribery always imposes a cost on society, the net economic effect of corruption also depends on the type of intervention or subversion of policy that is achieved as a result of the bribe. Violations of useful and necessary laws are clearly damaging for the economy, and examples of such corruption are not difficult to find in South Asia. In these cases corruption is unquestionably damaging for the economy. However, there are also many legal violations in developing countries that may be necessary. For instance, emerging capitalists might have to navigate around politically necessary but restrictive laws, or necessary interventions might exist that have not yet been legally sanctioned, or in some cases cannot be legally sanctioned for political reasons even though they are essential for maintaining political stability or economic growth. In these cases, the economic effects caused by the instance of corruption are anomalous; accordingly corruption could be associated with either stagnation or growth. These types of corruption can also be found in the South Asian countries. The distinction between types of corruption is important in order to understand both the economic and political effects of corruption and the appropriateness of different anti-corruption strategies. It is possible to distinguish between at least four types of corruption in South Asia, based on whether the underlying interventions are potentially necessary for economic or political reasons, and whether the law allows these interventions. This classification is

shown below.

- i) *Interventions that are required for economic development or political stability and are legally permitted:* these types of corruption may be associated with growth or stagnation depending on how seriously necessary interventions (market regulation, promotion of industries, subsidies for political stabilization) are subverted. Anti-corruption policy should seek to improve implementation and reduce corruption, but not to remove the interventions
- ii) *Interventions that are required for economic development or political stability but are legally prohibited:* all these interventions are likely to involve corruption. These types of corruption may be associated with growth or stagnation depending on the nature and extent of these interventions (discriminatory benefits for powerful groups to maintain stability, preferential access to resources for emerging capitalists). Policy should focus on legalizing necessary interventions and reducing damaging interventions
- iii) *Interventions that are not required for economic development or political stability and are legally permitted:* these types of corruption are associated with dysfunctional interventions (unnecessary paperwork and permissions, protection of inefficient industries) and always have negative effects. Policy should seek to remove these state 'functions' (through liberalization and privatization). This has been the focus of mainstream anti-corruption strategies
- iv) *Interventions that are not required for economic development or political stability and are legally prohibited:* these are primarily predatory

extortions. This type of corruption only begins to predominate in failed or failing states where armed groups can extort from society regardless of political stability or economic performance (intimidation by Afghan regional military commanders, extortion by political mafias). Effective policy has to strengthen the centralized coercive power of the state.

The first type of corruption explained above is associated with interventions that are potentially necessary for the economy or polity, and are allowed and regulated by law. Examples of these interventions are subsidies to maintain political stability, tariffs to boost the domestic industry, and the regulation of financial markets. Although economic liberalization has been taking place in all the major South Asian countries since the 1980s, a wide range of interventions remains important and necessary for economic growth and political stability. Individuals and groups might become involved in corrupt activity to subvert the implementation of these interventions. However, here the problem is not the interventions themselves, but the state's lack of capacity to implement them. Here, anti-corruption policies should concentrate on strengthening the capacity of the state to enforce necessary policies.

The second type of corruption, concerning necessary interventions that are not—or cannot be—regulated by law, is much more problematic. In South Asia, a proportion of the widespread political corruption that involves allocating resources in a partisan way to maintain political stability is an example of this type of corruption. Similarly, interventions to accelerate and promote emerging capitalism in countries where domestic capitalism is weak often have to be partisan and cannot be recognized in law. These interventions are very likely to result in corruption, since they cannot be explicitly recognized in law for political reasons.

It would be futile to try and target this form of corruption directly, since such action would counter the fundamental interests of the state and therefore not be implemented. A more feasible, albeit limited, policy would be damage-limitation in the short term and, in the longer term, ensuring the country's rapid progress to a position where it would be possible to legalize some of these interventions, or achieving political and economic development so that these interventions are no longer essential. Unfortunately, this is the area in which feasible anti-corruption strategies in South Asia are most lacking.

The third type of corruption has received more attention than the other types. It comprises corrupt acts associated with laws that enable interventions in contexts where the interventions themselves are not required. Typical examples of these are tariff protection for industries that do not have the potential to achieve the level of production of their competitors; or excessive regulation and requirements of permissions that have no purpose except to enable bureaucrats to extract bribes from businessmen. South Asian countries are well known for enforcing these types of regulations. These dysfunctional interventions not only cause direct economic damage, but also create secondary damage, as entrepreneurs use corrupt means in an attempt to gain monopoly profits or to circumvent futile restrictions. In these circumstances the liberal prescription of liberalization and privatization is most appropriate, combined with direct anti-corruption measures. However, this is not the most important type of corruption in South Asia, and an excessive focus on this type hitherto has hindered, rather than aided, the development of feasible anti-corruption strategies.

Finally, the worst type of corruption is the fourth one, which is most prevalent in areas where the social order has broken down completely. Illegal interventions

take place that do not serve any economic or political purposes for any groups apart from the avaricious 'officials' involved in this form of corruption. Thus, this type of corruption is based solely on the coercive power of small groups to extort from the public. While there are aspects of such extortions in every South Asian society, it is only in Afghanistan that it takes on significant proportions.

Political Corruption

Political corruption refers to the corruption operated by politicians. In all South Asian countries, political corruption can be traced from the highest levels of the political establishment, down to the lowest. Unsurprisingly, it has proved difficult for the political system to engage credibly in anti-corruption activities lower down the hierarchy. In democratic Bangladesh, India, Nepal and Sri Lanka, prime ministers have been frequently accused of corruption, and have sometimes been convicted of criminal offences, as have their authoritarian counterparts in Bangladesh and Pakistan during military or authoritarian regimes. In the latter countries, where there have been cycles of democracy and dictatorship, no significant long-term difference is observed in the extent of corruption under either type of regime. This evidence compels us to question the widespread belief that corruption is caused by the lack of accountability of public officials. In fact the evidence from South Asia shows that electors are very aware of the corruption and even criminality of their political representatives but still vote for corrupt politicians, often at the expense of 'clean' campaigners who occasionally stand against them.

In 1997 the Indian Election Commission conservatively estimated that 40 members of parliament and 700 state assembly representatives in India, altogether equal to 10% of all legislators, had been convicted of serious criminal offences or

faced serious criminal charges, ranging from extortion to murder. In the 2002 Indian state elections as many as 20% of the candidates in certain states were convicted criminals or had been charged with crimes. The true number of legislators involved in crime is likely to be considerably higher than these figures, which account for legislators who have already been convicted or whose cases are being processed in the courts. It is fairly certain that many other legislators in the early 2000s are engaged in criminal activities without being indicted. It is also widely perceived in the Indian press and in opinion surveys that the proportion of criminals involved in politics is increasing. Yet the freedom of the media in reporting political corruption in India is comparable to advanced countries, and even in Bangladesh, Pakistan and other South Asian countries, the evidence of corrupt activity by leading politicians is well known and freely available.

When asked to explain their voting decisions, South Asian voters frequently report that they vote for 'mafia-style' politicians because they have proved able to deliver resources and security to powerful local constituents, who in turn provide the organizational weight to ensure electoral victories and enforce political order. The logic driving this pattern of politics can be better understood once the constraints facing the delivery of services and the provision of security are studied. As is the case in other developing countries, South Asian states generally lack the fiscal resources to perform these functions effectively because their central budgets are in structural deficit; funds are not available to provide even the most essential services adequately. In these circumstances conflicts over resources are intense; 'intermediate-class' groups often organize themselves around factional symbols, based on ethnicity, religion or caste in competing for these resources. Politicians subsequently find that they can only be successful if they offer selective benefits to

at least some of these effectively organized factions. Since providing preferential benefits to some but not others is not legal, the legitimacy of the politician is not of great concern to his or her most critical supporters. Indeed, a truly honest politician would find it impossible to secure any organized support from these critical factional groups, and without their support, power cannot be attained. The growing malaise of criminality in politics and the rise of factional politics in South Asia is at least partly due to the 'prisoner's dilemma problem', where credible politicians are excluded by the competition from less scrupulous political entrepreneurs who can offer more to factions that are in search of a patron. Thus, while democracy is desirable in itself, it has anomalous effects on the extent of corruption. A long-term change in this pattern of politics is unlikely before economic development has proceeded to the point where the central budget can provide sufficient resources for honest politicians to stay in power through providing widespread service-delivery and redistribution. Meanwhile, in the early 2000s, a symbiotic relationship between politicians who use political power for personal enrichment and the enrichment of their close allies, and the powerful social factions, which require access to resources, jobs and contracts (all services that honest politicians cannot possibly provide) remains a dominant characteristic in South Asian politics. This would explain why all major political parties regularly accuse each other of corruption while eagerly recruiting criminals who can offer resources and secure the support of powerful factions. It also explains why ordinary citizens criticize their politicians for being involved in corruption while simultaneously voting for corrupt leaders who they think are most likely to protect their constituency and provide their own faction with disproportionate benefits.

South Asian political corruption is largely of the second type (see above), since

the current strategies of maintaining political power cannot be legalized, and the approach of legitimately maintaining power through the provision of generalized benefits is not viable given the level of economic development. This type of political corruption may eventually result in sufficient political stability for rapid economic growth to take place, as did happen in some South-East Asian countries, such as Thailand. This would, subsequently, permit the growth of formal budgetary redistributions and service-delivery to take place, thereby allowing more honest politics and politicians to emerge in the future. However, in South Asia the continual emergence of new groups and factions has meant that, over time, politics has become more factional, fragmented and crime-driven. As this continues to happen, there is always the risk that more and more political corruption will convert into the fourth type, where the criminal activities of politicians enrich only themselves, using the coercive force of private mafias to extort from the rest of society. In the early 2000s in Afghanistan an extreme version of this fragmentation existed, where regional military commanders extorted from society and engaged in crime but had no need to enlist the support of any other social groups. However, this degree of social fragmentation and the use of coercive force should be distinguished from the clientelist politics of other South Asian countries, where local mafias have had to engage in a political process of suborning powerful groups and forming political coalitions that, however imperfectly, has maintained some form of social stability. But in all these cases, where political corruption is driven by the demands of politically powerful groups, greater transparency, democracy or civil society participation would be unlikely on their own to have a significant impact on reducing this type of corruption in South Asia. There is no reason to suggest that democracy or transparency would reduce the political

requests of powerful groups. Indeed, the focus on greater democracy and transparency as a method of countering corruption in Bangladesh and Pakistan has yielded very disappointing results. In Bangladesh a decade of democracy witnessed a rapid rise in corruption. In Pakistan the return of military rule in 1999 appeared to reduce corruption, although the sustainability of this development will be questionable once it becomes necessary for the Government to begin constructing wider political support bases to remain in power.

The greater fiscal capacity necessary for governments to provide legally the demands of its constituents will be generated only once the region undergoes longer-term economic development. In the mean time, the rapid growth and negative effects of political corruption could conceivably be reduced through the development of large, inclusive political parties that aim to impose social discipline in order to achieve long-term development goals. Such parties would not entirely curb political corruption, but might succeed in countering the growing fragmentation and factionalization of politics across South Asia. It is not surprising that the Indian states that perform relatively better than others are those that are run by disciplined and centralized parties; however, such parties are not visible at the national level in India. Even in the much smaller countries of South Asia, national parties have become loose coalitions of factions, with each faction demanding ever greater rewards for not defecting to the opposition. This explains the escalating cost of politics in these countries and the escalating cost of political corruption.

Further, albeit limited, progress towards mitigating the extent of political corruption would also be possible through the legalization of large donations to political parties. Allowing political parties to pay legally for some of their expenses during and after election campaigns would not remove the problem

entirely, since political organizers demand much more than the cost of organizing elections in exchange for their support; nevertheless, it would reduce the need for political parties to engage in corrupt or criminal activities simply to raise funds for election campaigns. In Bangladesh and India politics is increasingly funded by so-called 'black money' (money generated by crime or from 'grey' activities that are not declared to avoid paying tax). It has been estimated that the black economy has burgeoned to approximately one-third of the size of the official economies in these countries. However, attempts to regularize election funding have been blocked by other political considerations. In India the proposed Election and Other Related Laws Bill was introduced in Parliament in 2001–02 to provide, among other measures, income tax exemptions for private and corporate donations to political parties. This legislation was stalled in Parliament, partly because it challenged the dominant political ideology shared by all major parties that rejects any 'disproportionate' political influence for the rich. Aside from ideology, in an emerging economy it is also problematic to legalize donations from such sources when much of the wealth of this emerging rich élite is tainted by association with sharp practices (a large proportion of the 'new rich' has engaged in corrupt activity, such as illegally obtaining land, or using political connections to gain lucrative contracts). However, although there are problems surrounding political fund-raising reform, the current system is far worse. Thus, when the Indian Election Commission attempted to prohibit criminals from contesting elections, the Government also delayed this proposal. The Indian Election Commission has imposed limits on election spending by candidates, but these restrictions have proved difficult to enforce; in any case, the limits currently apply only to spending by individual candidates and not to expenditure by their political parties. Indeed,

rather than showing any signs of being constrained by these attempts, it is widely perceived that election expenditure is increasing. However, under a new law enacted in 2003, all candidates for election have to submit details of any criminal case pending against them, a record of their assets and liabilities and their educational qualifications. This may help to encourage political parties not to field questionable candidates, but it is not clear how reported assets and liabilities can be cross-checked to check their accuracy.

Similar tendencies of entrenched political corruption are observed in Bangladesh, Pakistan, and other South Asian countries. In 2002 the Pakistani President, Gen. Pervez Musharraf, enforced a strict electoral rule barring politicians convicted of criminal offences from contesting elections. However, critics argued that the real intention behind the enforcement of this rule was to exclude the two prominent civilian political leaders of the country from standing against the military regime in elections held later that year. The possibility of enforcing such a rule under a future civilian administration is arguable, given the pressures outlined above. Attempting to exclude from politics those who have been charged with or convicted of criminal offences is also problematic given that in countries like Bangladesh the ruling party, upon assuming office, has traditionally withdrawn corruption cases against its own supporters and instituted corruption cases against its opponents. This was possible because the Bangladesh Bureau of Anti-Corruption operated under the Prime Minister's office. A genuinely independent anti-corruption commission responsible for identifying and prosecuting corrupt politicians might prove to be a positive development. This has certainly been the advice of external agencies, and in Bangladesh and Pakistan there has been some progress towards creating such agencies. In Bangladesh, this

culminated in November 2004 in the establishment of the three-member Independent Anti-Corruption Commission (IACC), and the simultaneous abolition of the Bangladesh Bureau of Anti-Corruption. The IACC has been given the power to investigate allegations of corruption against any government servant without having to seek government permission, as was previously the case. However, the credibility of such commissions remains questionable given that their ability to investigate, prosecute, but most of all to enforce punishments depend critically on political support from the very quarters that are most likely to be investigated. Even the National Accountability Bureau (NAB) in Pakistan, which has achieved considerable success in recent years in prosecuting public officials and retrieving their misappropriated funds, is considered to be an agency of the armed forces rather than an independent authority. It is significant that the military (and the judiciary) are excluded from its mandate. In India the Central Vigilance Commission is regarded as autonomous, but its remit covers only state employees and not politicians. Most importantly though, if it is accepted that much political corruption in these countries is entrenched and 'society-driven', the task of any anti-corruption commission would at best be partial in the short term, and this would make it difficult for it to defend itself convincingly as non-partisan.

Bureaucratic Corruption

Corruption committed by bureaucratic officials in South Asia ranges from the petty corruption of police officers collecting nominal bribes for minor traffic offences, to multi-million dollar bribes collected by senior army officers and defence officials in major military contracts. Bureaucratic corruption is intimately connected with political corruption; at the highest levels politicians and bureaucrats have to collude in large-scale corrupt activity. Moreover, the

persistence of low-level bureaucratic corruption cannot be understood without taking into account the absence of political will to combat corruption on the part of high-level political office-holders who are themselves vulnerable to attack for their own corruption. For example, newspapers in South Asian countries frequently report stories of police forces being prevented from prosecuting heads of criminal organizations or of crime cartels protected by powerful politicians. In such a context, were politicians to attempt to curb the internal, comparatively petty corruption of the police, their efforts would not be considered very credible.

A common argument in South Asia is that low bureaucratic pay contributes to high levels of bureaucratic corruption. This is undoubtedly true, but it is not clear that raising bureaucratic salaries would necessarily reduce corruption. Higher-paid bureaucrats would only consider refraining from corrupt activity if it were possible to identify the perpetrators and dismiss those who were occasionally caught. However, if the political capacity to attack bureaucratic corruption is absent, higher salaries may have little effect. Furthermore, bureaucratic corruption takes many different forms in South Asian countries, and there are instances of each of the four types identified above. First, the misappropriation of funds by bureaucrats engaged in the operation of legally recognized regulatory structures that have necessary or useful economic or political functions is common. These include structures established to regulate markets, promote industry and agriculture, and manage subsidies and redistributions that aim to maintain political stability. Although these systems of state intervention or regulation are beneficial for society, they inevitably confer benefits on some and costs on others and are therefore susceptible to either the attempts of bureaucrats to extract a share of the benefit by demanding bribes from intended beneficiaries, or attempts by non-

eligible recipients to obtain some of these benefits by offering bribes, or both. The degree to which state policy is subverted and the magnitude of the bribes determines whether the act of corruption has encouraged or discouraged reasonable economic performance or not. If bureaucrats were to implement what was intended by policy and then extract bribes, the result would be much more favourable than if they were to accept a bribe to subvert what was intended.

Unfortunately, in many parts of South Asia bureaucratic corruption has seriously subverted numerous critical state functions, including regulatory functions and the protection of property rights. For instance, corrupt activity has subverted the operation of welfare subsidies and of policies to encourage industrialization or regional development. Factories that never produce anything continue to receive production subsidies or are permitted to roll over their debt to publicly owned banks, for example. A further problem is the absence of a functioning judicial system. In South Asia many civil cases take more than a decade to resolve. The judicial process is susceptible to manipulation: those who want to prevent a judgment can pay relatively small bribes on a regular basis to delay a case or force an adjournment. Some attempts have been made to address these problems through state withdrawal in the form of liberalization and privatization. However, progress has been slow and in the case of effective state functions, interventions and regulations, state withdrawal is not a solution.

Nevertheless, strategies of liberalization and privatization were introduced in the major South Asian countries from the 1980s onwards; an acceleration of liberalization occurred in the 1990s. In India the average tariff rate was reduced from 87% in 1990 to 25% by 1998. Licensing of industries and controls over imports were almost entirely removed. In Bangladesh and Pakistan the

nationalization process that took place in the 1970s was reversed through extensive privatization programmes. Some of the restrictions that were removed had no potentially positive function, and little was lost as a result. However, other parts of the regulatory structure had been intended to accelerate the development of local entrepreneurial capacity through industrial policy and protection, or to maintain internal regional and social balance, and here state withdrawal was potentially damaging. Even the privatization of large enterprises in Bangladesh and Pakistan in the absence of effective regulatory structures and safeguards often resulted in inefficiency and subsidy appropriation in the private sector replacing the inefficiency and deficits of the public sector. In India liberalization of financial markets resulted in dramatic allegations in 2001 of widespread share price manipulation in the stock market and multi-million dollar irregularities in India's largest investment fund, the Unit Trust of India. Moreover, the withdrawal of the state from traditional redistributive and regulatory functions has resulted in the development of illegal redistributive mechanisms governed by the type of criminal organizations described in the section on political corruption. Finally, in the case of the police force and judiciary, state withdrawal is not even possible. In fact, the appropriate response in all cases of corruption associated with the subversion of essential state functions is to strengthen state capacities. Progress on this front has been limited across South Asia. If the state had the capacity to enforce decisions that were beneficial for society, bribery committed by public servants would be undesirable but would not subvert development goals completely. However, where corruption undermines the enforcement of necessary regulations, the results are much more detrimental. This is an important aspect in the difference between corruption in high-growth and low-growth economies.

The second type of bureaucratic corruption that emerges because a legal framework to enforce a large number of necessary state actions or decisions does not exist is more prevalent and causes greater problems for government anti-corruption policy. In the same way that political stability in South Asia is partially dependent on powerful factional groups receiving disproportionate benefits, rationing scarce resources often requires disproportionate amounts of resources being allocated to the rich, or to emerging capitalists. Although developing countries are often legally committed to granting equal access to public resources to all citizens, if public resources become very scarce, not only will the rich be willing to pay a high price to gain privileged access, but it may also be desirable to give emerging capitalists privileged access to *some* resources to accelerate growth. However, state agencies involved in the allocation of public resources, such as land rights, credit, and other scarce resources, or indeed any aspect of regulation or service-delivery, are legally bound to operate according to rules that are far removed from the reality of stark differences in the purchasing power, economic potential, social status or political influence of claimants. In all these cases, alternative rationing devices are used in practice, based either on willingness to pay or political power. This kind of corruption is ubiquitous, ranging from the illegal sale of formally free hospital services, to the allocation of government land for new developments in exchange for bribes. These types of corruption are difficult to deal with because state capacity alone is not the issue. The real obstacle is that, for political reasons, realistic criteria for resource allocation cannot be legally recognized. Some legal changes could be enforced to improve the situation, for instance introducing a nominal fee for some services that would be sufficient to achieve rationing. In most cases, however, charging would not solve the problem

because the market price that would balance demand and supply would not be politically acceptable. In any case, it is not desirable that all public resources should be allocated through the market; however, where resources are publicly allocated on the basis of need or any other criteria, sufficient resources have to be available to meet the demands from all those who satisfy these criteria. Since this requirement is generally not met in developing countries, there may be no alternative but to endure some of this corrupt activity until the economy is developed enough to provide the state with sufficient funds to allocate resources in the way expected by law. In the mean time, the only policy response would be to strengthen state capacities and prevent egregious violations, although these actions alone would clearly not remove this type of corruption.

Much of the anti-corruption strategy advocated by international agencies is dominated by the assumption that the third type of corruption is the dominant force in South Asia. This is the corruption associated with unnecessary legislation that hampers the operation of markets and creates opportunities for corruption among relatively poorly paid public officials. This type of corruption is associated with entirely unnecessary and damaging state interventions in the form of legislation, and could easily be dealt with by removing such restrictions. It is not hard to find many examples of excessively restrictive and apparently superfluous regulations in all South Asian countries. These include requirements to fill in many different forms for all kinds of permissions, which are then subject to inordinate delays. Whether it is an application for a passport or even an attempt to pay the correct amount of tax on time, the ordinary citizen faces endless delays and irritation. However, while this type of corruption is irritating, it is only a part, and perhaps a small part, of the overall problem. The conventional policies of liberalization,

privatization and greater accountability would appear to be the most relevant solutions to this type of corruption, but they may have little overall effect in either reducing corruption or mitigating its negative effects when we consider all types of corruption together. Moreover, many of the procedures of bureaucratic record-keeping, on which this type of corruption is based, are very difficult to change rapidly even with liberalization and privatization. After more than a decade of liberalization in a number of South Asian countries, the daily procedures of the bureaucracy have undergone some simplification, but a great deal more progress needs to be achieved. Furthermore, liberalization has added new regulatory burdens on the state with respect to financial markets and the corporate sector. Liberalized markets require strong and effective regulatory frameworks to operate properly, and the absence of adequate state capacity in these areas has created a paradox whereby corruption of the first type has increased in the aftermath of liberalization. This explains why, when all types of corruption are studied together, journalistic reports or corruption perception indices record rapidly worsening corruption in South Asia in the 1980s, precisely when liberalization began to be introduced.

Finally, South Asian countries suffer to varying extents from corruption linked to extortion and other forms of crime. By definition, extortion offers no economic or political benefits to anyone other than the extortionists. There are many low-level examples of this type of extortion in all South Asian countries, particularly involving the police force, customs officials and, increasingly, criminal organizations associated with the political élite. Individuals without political connections and patrons, for example, are regularly forced to pay police officers bribes in exchange for a (temporary) end to harassment. Also, political mafias

seize land from the weak, encouraged by the knowledge that the criminal justice system repeatedly fails the aggrieved. However, only in Afghanistan has the central state apparatus collapsed to the point where this type of corruption plays a significant role in the operation of the economy as a whole. In other South Asian countries there are pockets of extortion, but the state still retains enough centralized coercive capacity to limit its extent and is able and willing occasionally to use this capacity for the simple reason that extortion is a threat to the survival of the state itself. It is not enough to expect democratic pressure to limit this type of corruption because unarmed citizens are not likely to be able to stop extortion through a democratic process. The coercive capacity of the central state is the critical determinant of the extent to which this type of corruption can grow. So far, at least, most South Asian countries still have central states that have been able to limit the uncontrolled growth of extortion.

Prospects

A large number of mechanisms have contributed to the entrenchment of corruption and the associated problems of governance in South Asian countries. Foremost amongst these has been the deep-rooted phenomenon of political corruption, and its growth over time, closely connected to the growing fragmentation of politics in South Asia. Since political corruption has become embedded in the democratic process, its removal is likely to be a long-term effort. Significant progress is likely to depend on economic development, which will allow the state to enhance tax collection and redistribute more resources legally in order to achieve political stability. As well as being an important issue in itself, the reduction of political corruption would also allow the diminution of different types of bureaucratic corruption. Bureaucratic corruption persists and thrives largely

because the political élite is dependent on corruption for its survival. An examination of the significance of different types of bureaucratic corruption in South Asia shows why moves towards liberalization and privatization have had anomalous effects on corruption; in the short term, at least, the economic developments have appeared to contribute to an increase in corruption. The public concern with corruption and the role of the media and of NGOs have so far also had limited effects on reducing corruption even in the more democratic countries of South Asia. The more prevalent types of corruption in South Asia have particularly damaging effects on economic performance for a number of reasons. First, political fragmentation has always been prevalent in these countries and appears to be increasing. Greater fragmentation is likely to lead to more extensive political corruption and reduce the ability of central states to control the predatory tendencies of competing factions. Second, bureaucratic corruption has been particularly damaging in South Asia because state capacities have not been strong enough to prevent the subversion of essential state functions and interventions. Enhancing state capacities across the entire range of state functions is a particularly important task in all South Asian countries. Expanding state capacity is not likely to reduce all levels of corruption in the short term, but is expected to enhance governance by ensuring that economic development and political stability are achieved to a greater extent. Finally, the problem of military factionalism (although it is prominent only in Afghanistan) has emerged in the milder form of mafia-dominated politics in all the major South Asian countries, drawing attention once again to the importance of enhancing central state capacities in all these countries.

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