

UTTARA UNIVERSITY



Project Report

On

**“Does corruption responsible for economic growth? A Long run
case study in Bangladesh.”**

Submitted to:

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Date of Submission: 07 October 2020.

Letter of Transmittal

Mohammad Sharif Hossain

Assistant Professor of Accounting

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Subject: Submission of Project Report.

Dear Sir,

It is my pleasure to submit you my project report entitled “**Does corruption responsible for economic growth? A Long run case study in Bangladesh.**” The purpose of this report was to fulfill the partial requirement of the **degree Bachelor of Masters Administration** (MBA).

I would like to thank you for your support and guidance that you provided for this report completion. Without your help, it would have been impossible to complete. This has given me the opportunity to investigate the economic conditions of Bangladesh. The report contains the corruption and the economic conditions in Bangladesh. I have tried to collect relevant information to make my report as analytical and reliable as possible. I have gathered huge knowledge and experience during my report preparation, which certainly offer assistance me in my proficient life.

I, therefore, would really be grateful if you enlighten me with your thoughts and views regarding the report. Thank you once again for your support and patience.

Sincerely Yours,

.....

Sohanur Rahman Sohag

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Student's Declaration

I am Sohanur Rahman Sohag bearing ID: 2162011028, hereby declare that this project report entitled **“Does corruption responsible for economic growth? A Long run case study in Bangladesh.”** has been prepared by me towards the partial fulfilment of the requirement for the award of the **Bachelor of Masters Administration (MBA)** degree under the guidance of **Mohammad Sharif Hossain, Assistant Professor of Accounting, School of Business, Uttara University.**

I also declare that this project report is my original work and has not been previously submitted.

.....

Sohanur Rahman Sohag

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Batch: 50th (A)

Program: MBA

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Supervisor's Declaration

This is to certify that Sohanur Rahman Sohag, ID: 2193061034, Batch: 50th (A), Program: MBA, Major in Accounting a student of Uttara University, **Department of Masters Administration** has completed his Project report entitled **“Does corruption responsible for economic growth? A Long run case study in Bangladesh.”** under my supervision. I am pleased to state that he has worked hard in preparing this report. The data and findings are presented in the report seems to be authentic.

I wish his every success in life.

.....

Mohammad Sharif Hossain

Assistant Professor of Accounting

Department of Business Administration

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Uttara University

Acknowledgement

In the present world of competition there is a race of existence in which those are having will to come forward succeed. Project is like a bridge between theoretical and practical working. With this I joined this particular project.

First of all, I would like to express my gratitude to Almighty Allah to enabling me to complete this report on “Does corruption a matter for economic growth? An evidence from Bangladesh.”

Next to him are my parents, whom I am greatly indebted for me brought up with love and encouragement to this stage.

Successfully completion of any type of project requires helps from a number of persons. I have also taken help from different people for the preparation of this report.

I convey my sincere gratitude to my Academic Supervisor Mohammad Sharif Hossain, Assistant Professor of Accounting, School of Business, Uttara University. Without his kind direction and proper guidance this study would have been a little success. In every phase of the project his supervision and guidance shaped this report to be completed perfectly.

At last but not the least I am thankful to my teacher and friends who have been always helping and encouraging me throughout the year. I have no valuable words to express my thanks, but my heart is still full of the favors received from every person.

Table of Contents

SECTION 1: JUSTIFICATION OF THE STUDY.....	7
SECTION 2: OBJECTIVE OF THE STUDY	7
SECTION 3: METHODOLOGY	8
SECTION 4: DISCUSSION.....	9
OBJECTIVE-1.....	9
OBJECTIVE-2.....	9
OBJECTIVE-3.....	11
SECTION 5: FUTURE FORWARD	12
SECTION 6: APPENDICES	13
APPENDIX I	13
Introducing Consulted Articles	13
APPENDIX II.....	15
Compilation of Objectives/ Purposes/ Questions/Hypotheses Addressed by the Articles	15
APPENDIX III	18
Compilation of Methods	18
APPENDIX IV.....	22
Complication of Conclusions	22
SECTION 7: REFERENCES	28

Section 1: Justification of The Study

This study is unique in that it addresses the relationship between corruption and economic growth in Bangladesh. This reason highly motivates me in doing research about this topic.

Every sector in Bangladesh whether it is government or non government organization corruption is existed. “Bangladesh has ranked 14th among the most corrupt countries, according to the Global Corruption Perception Index 2019 released by the Berlin-based Transparency International.” That’s why I am very much curious about this topic.

Moreover, this study is going to help me in finding the current status of corruption and how it affects the economic growth in Bangladesh. It will also serve as a future reference for researchers on the subject of Economics & Finance and the society. It will create an awareness of corruption and its impact on our economy in Bangladesh.

Finally, as a student of business studies it will also help me in finding a lucrative job and my future research. The findings of this study will redound to the benefit of society considering that the impacts of corruption on our economy is huge and will help our government to reduce the corruption.

Section 2: Objective of the Study

1. I want to learn more about the impacts of corruption on economic growth.
2. I want to explain the relationship between corruption and economic growth.
3. I want to tell my readers that corruption is a huge resistant for economic growth for a developing country like Bangladesh.

Section 3: Methodology

Every research has a methodology. On the way of the formation of this report, it has a methodology too. The study is descriptive in nature to analyze the existing studies. In this report qualitative approach has been applied by analyzing existing theories and relevant kinds of literature. Due to this CORONA Pandemic situation this study is largely based on the secondary data from academic articles, books, working papers, academic theses, reports, policy documents by the government, and domestic and international development agencies. The applied data have been gathered from several authentic sources.

In this report most of the information's are collected from various articles. To collect all this articles my supervisor suggests me go ABDC journal ranking website. Where I found several categories of journal related to Accounting, Finance and economics. I choose some A categories of journal website and go through it. After analyzing all the journals, I selected my topic.

Then, I selected some key words related to my topic as like relationship between corruption and economic growth, impacts of corruption on economic growth, does corruption matter, economic condition in Bangladesh, corruption in Bangladesh etc. I put these key words in Google Scholars. Then I found many articles related to my topic. From those articles I selected 11 important articles based on my topic. It was quite impossible for me to collect or download all my articles. But in this case my supervisor helped me very much. Even he collects some articles for me. After collecting those articles, I numbering those articles from 1 to 11 which helps me in preparing my report appendices. After collecting articles at first, I read them very carefully and marked my important paragraph from those articles. Then I started to write my report.

Initially, the thesis will review the previous studies on corruption, economic growth, and sustainable development in context on Bangladesh. Secondly, it will highlight some potential impacts of corruption on sustainable development & growth and will suggest some essential recommendations.

Section 4: Discussion

Objective-1: I wanted to learn more about the impacts of corruption on economic growth.

I learned that there are negative impacts of corruption on economic growth. **MH Pulok (2017)** studied “Does corruption matter for economic development? Long run evidence from Bangladesh.” His findings revealed that the results of co-integration test confirm that there is a long run relationship between corruption and real GDP per capita. The long run estimates indicate that corruption has negative impact on per capita GDP i.e. economic development of Bangladesh during the study period (**p. 8**).

Another empirical finding suggest that increased levels of corruption reduce a country’s standard of living. Since this finding is linear, an increase in the amount of corruption has a proportional decrease in a country’s level of investment – regardless of the size of the country. The results for standard of living are not so uniform (**E Coupet & Jr, 2003, p. 103**).

Moreover **PH Mo (2001)** studied “Corruption and Economic Growth”. They found that a 1% increase in the corruption level reduces the growth rate by about 0.72% or, expressed differently, a one-unit increase in the corruption index reduces the growth rate by 0.545 percentage points. The most important channel through which corruption affects economic growth is political instability, which accounts for about 53% of the overall effect (**p. 76**).

Now I can summarize my main discoveries that the impacts of corruption on economic growth is negative meanwhile corruption also reduces the standard of living and growth.

Objective-2: I wanted to explain the relationship between corruption and economic Growth.

Table 1: CPI Score, Rank in Countries, GDP Growth Rate

Year	CPI Score Source: Transparency International Bangladesh (TIB)	Rank in Countries	GDP Growth (in %) Source: BBC
2014	25	145/198 Countries	6.06 %
2015	25	139/198 Countries	6.55 %
2016	26	145/198 Countries	7.11 %
2017	28	143/198 Countries	7.28 %

2018	26	149/198 Countries	7.86 %
2019	26	146/198 Countries	7.90 %

Figure 1: CPI Score

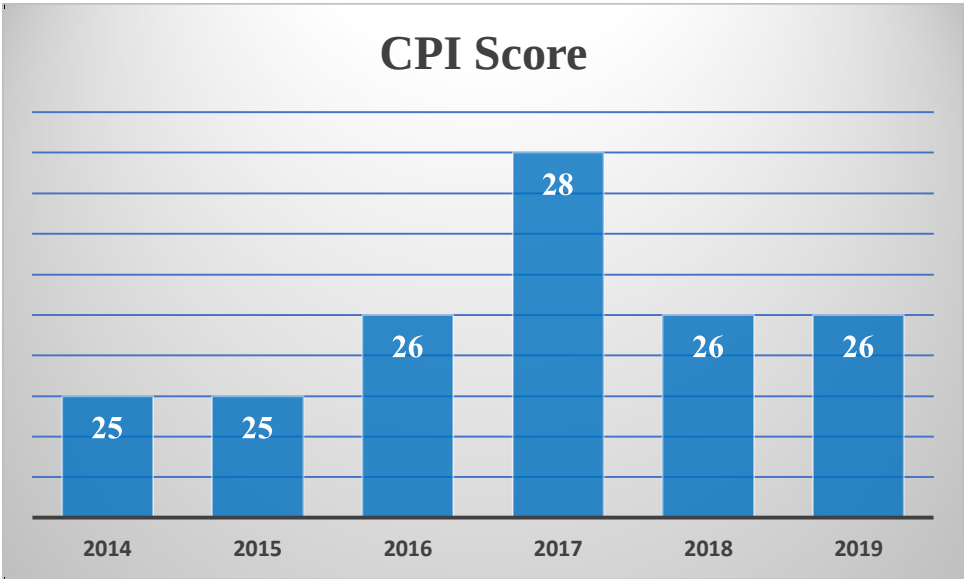


Figure 2: GDP Growth Rate

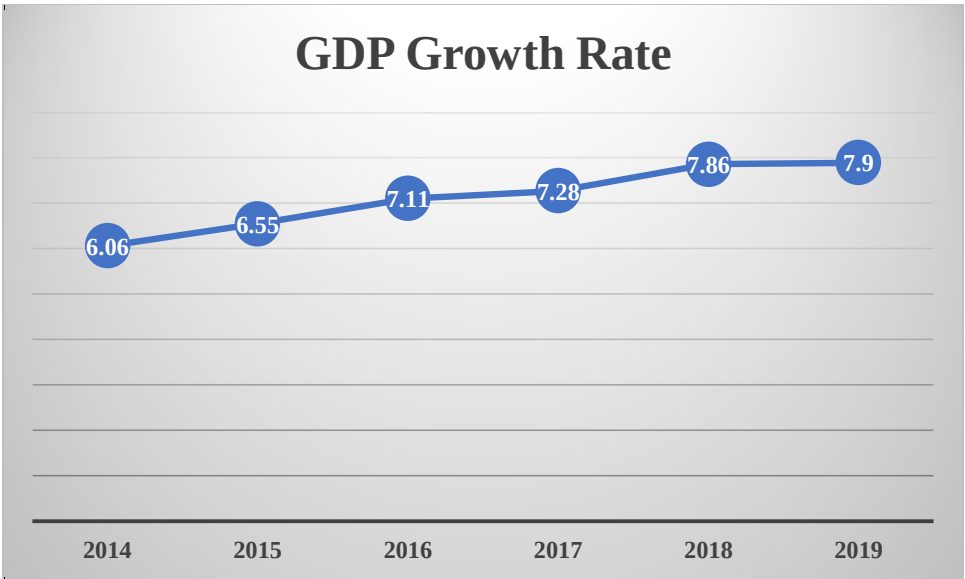
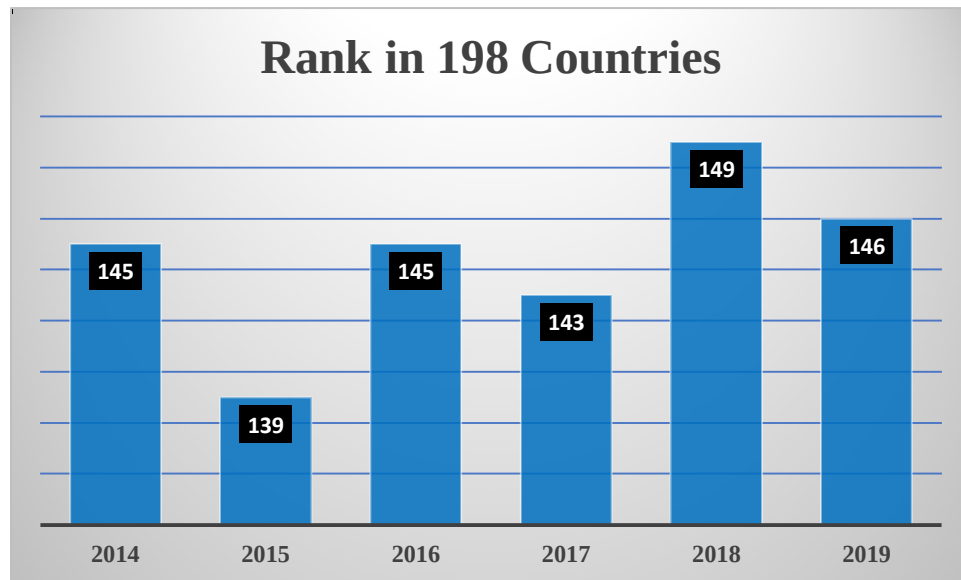


Figure 3: Rank in 198 Countries



Here I can explain that corruption and economic growth is inversely correlated with each other. These figures demonstrate that in 2017 the CPI index was very high and as a result rank was very low. On the other hand, we can see that in 2017 CPI index was 28 which is decreased in 2018 by 2 index as a result GDP growth rate increased in 2018 from 2017 by 0.56%. Meanwhile in 2018 and 2019 CPI index remain same and we can see that GDP growth rate changed by 0.04%. Thus, we can say that there is a negative relationship between corruption and economic growth. If corruption decrease then GDP growth rate increased and if corruption increase then GDP growth rate decreased.

Objective-3: I wanted to tell my readers that corruption is a huge resistant for economic growth for a developing country like Bangladesh.

The most interesting learning that I will share now is corruption and economic growth is highly interrelated with each other. Though only corruption is not responsible for increasing or decreasing economic growth other factors are responsible too. But corruption is a huge resistant for economic growth specially for developing country like Bangladesh.

My readers should accept that corruption is a huge resistant for economic growth for a developing country like Bangladesh. And Bangladesh govt. should take necessary steps for reducing the corruption.

Section 5: Future Forward

The study has some limitations which could not avail to overcome during the study. As the study mainly covers the recent trend, a short time period 2014 to 2019 on a single country which does not show any broader and comparative view. The research is qualitative in nature based on a secondary study which lacks some concrete findings. As the study is futuristic in nature based on recent trend and covering very few factors is challenging to measure the impact on economic development. In terms of methodologies, the study lacks any scientific methods which challenge the reliability. Despite of these limitations, the thesis makes a scope for further study by forwarding few questions in relevant areas:

- Does corruption only the matter for economic growth or development?
- How to control over the corruption in Bangladesh? What necessary steps should be taken by the government?
- How do the impacts of corruption in Bangladesh can be measured more accurate way?
- What can be the optimal combination of corruption level and economic growth for attaining sustainable development for Bangladesh?
- Does corruption reduce investments or reduce the positive effects of investments on growth?

Section 6: Appendices

Appendix I

Introducing Consulted Articles

Sl	Article Title	Author(s)	Journal Name	Volume & Issue	Year	Publisher
1	Does corruption matter for economic development? Long run evidence from Bangladesh	Mohammad Habibullah Pulok Moin Uddin Ahmed	International Journal of Social Economics	Volume 44, Issue 3	2017	emerald.com
2	Corruption and economic growth	Pak Hung Mo	Journal of comparative economics	Volume 29, Issue 1	2001	Elsevier
3	Corruption and growth	PAOLO MAURO	The quarterly journal of economics	Volume 110, Issue 3	1995	academic.oup.com
4	Corruption's Effect on Growth and its Transmission Channels	Lorenzo Pellegrini and Reyer Gerlagh	KYKLOS International Review for Social Science	Volume 57, Issue 3	2004	Wiley Online Library
5	The comparative politics of corruption: accounting for the East Asian paradox in empirical studies of corruption, growth and investment	MT Rock, H Bonnett	World Development	Volume 32, Issue 6	2004	Elsevier.com

6	Development of Bangladesh Economy: Obstruction and Challenges	Mukut Sikder, Xuecheng Dou	IJCIRAS	Volume 3, Issue 1	2020	academia.edu
7	Does Corruption Matter?	Asma Ara Begum	International J. Soc. Sci. & Education	Volume 6, Issue 4	2016	ijsse.com
8	Corruption and Good Governance: The Case of Bangladesh	Sebak Kumar Saha	SUST Journal of Social Sciences	Volume 22, Issue 2	2014	researchgate.net
9	Corruption, Investment and Economic Growth: Theory and International Evidence	Ernst Coupet, Jr	Journal of Business & Economics Research (JBER)	Volume 1, Issue 1	2003	clutejournals.com
10	Does Corruption Lead to Welfare Loss? an empirical evidence from real estate sector of Bangladesh	AT Muzaffar, SSM Huda	Organizations and markets in emerging economies	Volume 2, Issue 1	2011	search.ebscohost.com
11	Corruption and Economic Growth	Pak Hung, Mo	Journal of Comparative Economics	Volume 29, Issue 1	2001	Elsevier.com

Appendix II

Compilation of Objectives/ Purposes/ Questions/Hypotheses Addressed by the Articles

Article	Objectives/ Purposes/ Questions/Hypotheses
1	Despite commendable progress in economic growth, corruption is a ‘way of life’ in Bangladesh. The objective of this article is to investigate the long run relationship between economic development and corruption in Bangladesh over 1984-2013.
2	This study introduces a new perspective on the role of corruption in economic growth and provides quantitative estimates of the impact of corruption on the growth and importance of the transmission channels
3	This paper analyzes a newly assembled data set consisting of subjective indices of corruption, the amount of red tape, the efficiency of the judicial system, and various categories of political stability for a cross section of countries. Corruption is found to lower investment, thereby lowering economic growth. The results are robust to controlling for endogeneity by using an index of ethnolinguistic fractionalization as an instrument.
4	In the present paper, we use a method similar to one developed by Mo (2000, 2001) and elaborated on in Papyrakis and Gerlagh (2004), to analyse empirically the contribution of various direct and indirect channels through which corruption affects economic growth. Our findings suggest that corruption slows down economic growth, mainly through its effect on investments and trade policies. The latter transmission channel has not been taken into account in previous empirical work, while trade openness has been shown to be of major importance for economic growth.
5	Numerous empirical studies demonstrate that corruption reduces investment and/or slows growth. But how robust are these relationships? This question is answered by conducting a series of cross-country regression tests using four different corruption datasets. We find that corruption slows growth and/or reduces investment in most developing countries, particularly small developing countries, but increases growth in the large East Asian newly industrializing economies. The latter finding provides solid empirical support to a country case literature that explains the East Asian paradox—the combination of high corruption and high growth—in terms of stable

	and mutually beneficial exchanges of government promotional privileges for bribes and kickbacks.
6	The article proffer some tentative challenges to the obstructions within the Bangladesh economy. The data for the work was gathered by reviewing relevant literature in the subject matter. The work first presents an abridged profile of Bangladesh and also identifies the problems each component of the economy comes with. The need for competent government policies, administrative rules, and effective proposals are unequivocal in increasing education, health, micro and macro-economic indicators in Bangladesh. The study postulates effective judicial law as the best way to curb corruption. The work concludes by calling for a sustainable tax reform system to help increase the country's national revenue.
7	Corruption is a matter for both developed and developing countries as it restricts economic growth that is crucial for poverty alleviation and retards poverty reduction processes through increasing income inequality. This research essay will provide a cost-benefit analysis to support the above statement. The benefits that are gained by voters through corruption, are not well-distributed as different elite groups benefit the most from scarce resources and the net benefit of elite classes, bureaucrats and politicians are the net losses of poor citizens. Therefore, the benefits that corruption can bring, is a matter for poor citizens as corruption creates economic, social and political costs for them. Corruption reduces GDP growth and imposes a tax on FDI and these are crucial for developing and transitional economies. In addition, it restricts poverty alleviation by limiting job opportunities for poor.
8	This paper highlights the view that corruption can be combated if good governance can be put into practice, i.e. 'good governance' has been viewed as a key strategy to curb corruption. The argument is developed in three sections: in the first section, the article focuses on the conceptualization of corruption, governance and good governance. In the second section, the article examines corruption-good governance nexus and in the final section, the article outlines issues and experiences related to corruption in Bangladesh.
9	This paper analyzes the real effects of corruption on a firm's production function. Using an augmented-Solow Growth model, with multifactor productivity as a

	function of corruption, a closed form solution is derived for real GDP per capita, economic growth and physical capital per capita, at steady-state. With the a priori assumption of a negative relationship between corruption and multifactor productivity, it is shown that corruption negates a society's standard of living, economic growth and investment level. OLS results of the closed-form solutions not only support this theoretical finding for a full cross-section of countries, but they also reveal that corruption may have a positive concave effect on economic variables for the OECD sample. Nonlinear least squares estimate of the elasticities of physical and human capital, with the inclusion of the corruption index, confirm that the productivity of inputs is impacted.
10	This research aims at measuring the impact of corruption on the real estate sector of Dhaka city, the capital of Bangladesh. It makes an attempt to measure the welfare loss resulting from corrupt practices exercised mainly by government regulatory agencies. Bribe and extortion fee are the two main indicators whereby welfare loss is measured. Evidence from the study reveals that around 8 floors are lost due to payment of bribe and other such payments.
11	This study introduces a new perspective on the role of corruption in economic growth and provides quantitative estimates of the impact of corruption on the growth and importance of the transmission channels. In our ordinary least squares estimations, we find that a 1% increase in the corruption level reduces the growth rate by about 0.72% or, expressed differently, a one-unit increase in the corruption index reduces the growth rate by 0.545 percentage points. The most important channel through which corruption affects economic growth is political instability, which accounts for about 53% of the total effect. We also find that corruption reduces the level of human capital and the share of private investment.

Appendix III Compilation of Methods

Article	Methods
1	This paper uses International Country Risk Guide (ICRG) corruption index as a proxy to measure the level of corruption. This study employs auto regressive distributed lag (ARDL) bounds test method to examine the long run relationship or co-integration between corruption and per capita real GDP in Bangladesh using annual time series data.
2	Except for the corruption index, all data are obtained from the panel data set assembled by Robert Barro and Jong-Wha Lee. ⁴ The data begin in 1960, go through 1985, and are divided into five 5-year subperiods. In the periods before 1970, some essential variables have a large number of missing observations. Hence, meaningful estimations can start only from 1970. Recent financial crises in the world reveal that the short-term GDP growth rate of a country may fluctuate wildly according to its country-specific conditions. To study the determinants of the growth rates of total factor productivity and the capital stock, we need a relatively long observation period. Hence, the period from 1970 to 1985 is chosen for this study. As similar data sets have been used for empirical studies, our results can be easily reproduced and compared with other studies employing a similar framework.
3	The indices proxying for corruption and various other institutional variables are drawn from Business International (BI), now incorporated into The Economist Intelligence Unit. BI is a private firm that sells these indices typically to banks, multinational companies, and other international investors. BI published indices on 56 "country risk" factors for 68 countries, for the period 1980-1983, and on 30 country risk factors for 57 countries, for the period 1971-1979. "Factor assessment reports" are filled in by BI's network of correspondents and analysts based in the countries covered. Assessment reports undergo further checks at BI's regional level, as well as BI's corporate headquarters, in order to ensure accuracy and consistency of the results.
4	The paper proceeds as follows. In the next section, basis cross-country regressions are presented with estimates of the direct effect of investments, schooling, trade

	openness, political instability, and corruption, on growth. In Section III, the transmission channels through which corruption affects growth are studied and their relative importance and long-term effect on growth are calculated. The last section concludes. Furthermore, Appendix 1 provides the derivation of long-term income effect, Appendix 2 provides estimates with instrumental variables for corruption and robustness checks of our main results and Appendix 3 provides a description of the variables and of the sources.
5	We made four adjustments to these basic corruption variables. As is well known, each of our corruption variables was originally scaled so that an increase in the measured variable indicated a decline in corruption. To begin with, we simply re-scaled each corruption variable so that an increase signifies an increase in corruption. To capture the impact of corruption on investment and growth in developing countries we created several new corruption variables. The first is a simple developing country corruption variable where, for example, for the Business International corruption score $BILDC \times 40$ if the country is a developed country and $BILDC \times$ the country's corruption score if the country is a developing country. This particular developing country corruption variable is constructed on a traditional neoclassical rent-seeking hypothesis that increases (reductions) in corruption anywhere in the developing world slow (increase) investment and reduce (raise) growth. Since the region and country case literature suggests that corruption is likely to be investment and growth reducing everywhere in the developing world except in the large East Asian newly industrializing countries (NICs) we created two other developing country corruption variables.
6	This paper uses data and information from both secondary sources a large part of the literature of Bangladesh, recent information and many authors have been reviewed. It is about the principles of existing national issues, the overall trade and development of the country, related issues related to foreign trade, development of different countries, political difficulties and other trade-related projects, future planning, mutual planning, trade policy, flow monitoring and evaluation impact the existing and process for national Analysis of information related to current evolving development from international literature and information. A model was

	developed to show the effect of all the problems and solutions of commercial and internal problems on the economic Cervical growth of Bangladesh. Then the model was compared to all the South Asian countries and the economic development models among developed and rapidly developing countries of the world. In these advanced models has shown economic growth of real GDP, infrastructural development and the positive impact of foreign trade, etc. The actual GDP is dependent and the country's internal variables are used because of the increase in the population. It is acknowledged that due to the excessive population, corruption, and lack of investment at speed the higher impact on the economy.
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10	In order to measure the welfare loss due to corruption which in turn results from regulations and extortion, the research makes an attempt to collect information on completed projects of real estate companies in Dhaka city. A structured questionnaire was designed to collect data relating to payment of legal fee, bribe, extortion fee, and other such information. A number of government agencies are identified from the study of Haque & Muzaffar (2008), responsible for providing different kinds of permission to the builders of apartments. These include: Design: The design of the project needs approval from the regulatory agency called RAJUK (Dhaka Development Authority). Water, Gas, and Electricity: To supply the utility services such as water, gas, and electricity a builder requires to take permission from Dhaka WASA (Dhaka Water Supply Authority), TITAS Gas Supply and Distribution, and Dhaka Electric Supply Authority (DESA) respectively. Leaving equipment on the roadside: In order to leave the construction equipment, such as rods, bricks, and cement, on the roads adjacent to the construction site, the builder needs a temporary permission from the Dhaka City Corporation. Hand-over of the apartment to the client: At the time of hand over of apartments to flat-owners, the builder sometimes requires to pay a fee on the basis of per square foot to RAJUK. This fee sometimes is paid by the flat-owners depending on how the contract is signed. Registration of the project: The Registry Office located at Tejgaon; Dhaka

	charges a fee from the builder at the time of registration process. Value added tax (VAT): The builder needs to pay VAT at 3% rate of the apartment price quoted when the hand-over is done. The agency responsible for collecting the VAT is the Circle Zone Office at Shegunbagicha, Dhaka. Apart from the above government regulatory agencies where payment of legal fee and bribe (the possibility of it) is involved during the completion of a project, the other two areas where a builder might require to pay bribe or extortion fee are the police and local extortionists (the “mastans”). Using the structured questionnaire, a survey was conducted during the months of November and December 2008 on companies, enlisted with the Real Estate and 28 Housing Association of Bangladesh (REHAB), in Dhaka city. Although a random selection process of companies was followed, collection of information was possible only from the companies who were willing to respond and provide such data. The data was analyzed using spreadsheet and software such as SPSS.
11	The measure of the corruption level is obtained from the Transparency International Corruption Perception Index for the period 1980 to 1985. Transparency International and the University Gottingen trace the evolution of a country’s integrity performance and form a comparative assessment on the change of corruption perception starting from 1980. The index ranges from 0 to 10, with 10 indicating a highly clean country and 0 indicating a highly corrupt country. The index is a poll of polls, as it has been prepared from various sources. For example, the countries included in the 1996 index have at least four sources in order to present a balanced view and avoid malperformance of any single survey. Based on this stringent selection criterion, there are 54 countries available in the 1996 ranking. The corruption index used in this study is obtained from their Historical Comparisons table. The table presents two figures for each historical period. The first is the average score and the second is the number of surveys available. The data from the original sources have been normalized so as to be comparable with the much more reliable data of 1996. The normalized data are based on two sources, the surveys conducted by Business International and Political Risk

	Service. In general, fewer sources have been available in the past, so that the historical data are usually not as reliable as the more recent data. Moreover, as institutions tend to evolve slowly, these selected normalized 54 observations will be more reliable, precise, and comparable than any single source. Therefore, we choose this data set as a proxy for the corruption level in the period.⁵ Among the 54 countries, 2 of them are not in the Barro–Lee data set and the growth rates of GDP for China, Hungary, and Poland are missing in that data set. Therefore, we have a maximum of 49 observations. Additionally, most of the key regressions in the two data sets have only 46 common observations. Therefore, we use a maximum of 46 observations in our regressions to avoid the possible problem of different sample sizes in this relatively small sample. Our estimations use the ordinary least squares method (OLS) and the White Heteroskedasticity-adjusted t statistics are reported.
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Appendix IV

Complication of Conclusions

Article	Conclusions
1	Corruption has become rampant almost in every sphere of life in Bangladesh. The country is one of the most corrupt countries in the world in various rankings of corruption while GDP growth rate is also impressive. The article pays a particular attention to study the economic development and corruption nexus in Bangladesh using annual time series data for the period of 1984-2013. According to our knowledge, this study is the first attempt to apply a multivariate time series approach to examine the long run relationship between GDP per capita and corruption for Bangladesh. We investigate the long run relationship between corruption and real GDP per capita using ARDL bounds method. We use International Country Risk Guide (ICRG) corruption index as a proxy to measure the level corruption and real GDP per capita measures economic prosperity. The results of co-integration test confirm that there is a long run relationship between corruption and real GDP per capita. The long run estimates indicate that corruption has negative impact on per capita GDP i.e. economic development of Bangladesh

	during the study period. This finding is similar to the results of (Dreher and Herzfeld, 2005; Mauro, 1995; Rahman et al., 2000) but differs in magnitude as these studies are based on average of cross-sectional data for different time periods. Our results highlight that the contribution of government expenditure is positive while the contribution of investment is downsized due to corruption in Bangladesh. Because corruption provides opportunities to increase the size of public investment at the cost of private investment. Earlier studies also support this proposition. For example, Mo (2001) found that investment channel causes about 28% of the growth rate reduction in the corruption–growth linkage. Further studies may get results that are more robust after the inclusion of other determinants of GDP. However, it will not probably alter the conclusion drawn from our analysis that corruption has strong and significant retarding impact on economic development of Bangladesh. From policy perspective, this study suggests that Bangladesh would be able to accelerate her economic development further by reducing the level of corruption through institutional reforms and raising public awareness. Digitalization of public services from the root level can be an effective tool to curb the extent of corruption. Most importantly, government should focus on identifying and abolishing laws and programs promoting corruption. Finally, corruption should be prevented not cured to lead Bangladesh into middle-income country.
2	Given the complexity of the growth process, our framework is necessarily incomplete. However, our new perspective generates the estimations of the impact of corruption on growth and the relative importance of the channels of transmission. We find that a 1% increase in the corruption level reduces the growth rate by about 0.72% or, expressed differently, a one-unit increase in the corruption index reduces the growth rate by 0.545 percentage points. The most important channel through which corruption affects economic growth is political instability, which accounts for about 53% of the overall effect.¹³ The other channels include the level of human capital and the share of private investment.
3	This paper has used a newly assembled data set consisting of subjective indices of bureaucratic honesty and efficiency to provide empirical evidence on the effects of corruption on economic growth. The negative association between corruption and

	investment, as well as growth, is significant in both a statistical and an economic sense. For example, if Bangladesh were to improve the integrity and efficiency of its bureaucracy to the level of that of Uruguay (corresponding to a one-standard-deviation increase in the bureaucratic efficiency index), its investment rate would rise by almost five percentage points, and its yearly GDP growth rate would rise by over half a percentage point. As these relationships are robust to controlling for endogeneity by using an index of ethnolinguistic fractionalization as an instrument, there is evidence that bureaucratic efficiency actually causes high investment and growth. Furthermore—though some caution is needed, owing to data limitations—the paper has shown the extent to which the relationship is robust to controlling for standard determinants of investment and growth. In particular, there is evidence that bureaucratic efficiency may be at least as important a determinant of investment and growth as political stability
4	In this paper, we have studied the effect of corruption on economic growth, directly and through its impact on investment, schooling, trade openness, and political instability. Based on the empirical results, we can search for a better understanding of the transmission channels through which corruption affects the economic performance. While combating corruption is a long-term task, an understanding of the transmission channels through which corruption affects the economy may suggest ways to limit corruption's negative, but indirect, effects on growth. Our results suggest that the most important (for its effect on growth) policy variables that are likely to be distorted by the presence of corruption are investments and trade openness.
5	Taken together, these empirical results provide substantial statistical support for our two central hypotheses. To begin with, they suggest that corruption is likely to be much more damaging to investment and growth in small as opposed to large developing countries. They also demonstrate that corruption tends to slow growth and/or investment in most developing countries but increase growth in the large East Asian newly industrialized economies. What are the implications of these results for policy-makers? Several deserve mention. Although we found some evidence to support the conclusions reached in other cross-country regression

	studies of the impact of corruption on growth and investment, our findings are more ambiguous and nuanced. By itself, this should caution those committed to reducing or eradicating corruption as it suggests that efforts to reduce corruption may not always yield the expected economic outcomes. Demonstration that corruption is more damaging to investment and growth in small developing countries than in large ones is important because it tentatively suggests that the international institutions, regional development banks and bilateral aid donors might have more to gain by focusing their anti-corruption programs on small developing countries. It also suggests why it may be so hard to reform corrupt governance structures in large developing countries.
6	Summarily, it is obvious from the findings that, since independence, Bangladesh has made frantic efforts to warrant economic growth and development. Speaking in relative terms, Bangladesh has surpassed many countries in terms of economic growth and GDP performance. However, the major obstructions of Bangladesh sustain growth and development include: High population growth rate. Bangladesh is the world's 8th most populous country with a population density of 1138 per kilometer. This phenomenon of high population amidst limited resources not only results in pressure on amenities but also constant increase in unemployment. Also, Bangladesh heavy dependence on imports rather than export, also impedes the country's economic growth, since more Bangladesh currency is spent in buying foreign currency particularly the dollar. The country most often is without foreign exchange because she lacks exports. The greatest obstruction of Bangladesh economic growth and most important obstacle to economic development is corruption on the part of both government and non-government departments. It has destroyed society from human conscience and people are losing faith in the ministry and judiciary, respect for the law. The rich continue to become richer and the poor become poorer.
7	From the above cost-benefit analysis, it can be concluded that the costs that are generated through corruption is a serious matter for a developing country's economic and social, political perspectives. Though it costs severely developed countries also, however, the cost of corruption is significantly high in developing

	and transitional economies. Corruption reduces GDP growth and imposes a tax on FDI and these are crucial for these economies. In addition, it restricts poverty alleviation by limiting job opportunities for poor. Furthermore, it weakens democracy, public institutions, rule of law, result in weak state. However, grand corruption in public procurement is not only a serious matter for developing or developed countries but also for international business firms and aid agencies. Because, corruption restricts competition, increases cost of production, result in efficiency and low quality of goods and services. Though bureaucrats for personal gain, growing middle classes might be benefited through corruption. However, bureaucracy as an institution, can be devastated entirely that also poisons politics and state apparatus. International donors also consider it as a serious matter due to the devastating effect of corruption on foreign aid that could be invested for poverty alleviation and other development purposes. Furthermore, if \$500 billion that was robbed from Nigeria could be invested in education and health, or the money that was received from foreign aid by Bangladesh, this would help the poor more efficiently (Cullen 2008). Therefore, corruption is a great concern for developing and transitional economies where every day thousands of people enter into poverty and a substantial number of them die every day due to poverty-related causes.
8	Corruption is the tip of the iceberg. It has deleterious effect on the development process of a country. The existence of corruption clearly denotes that there is something wrong in the management of the state affairs, because it is the visible sign of underlying governance failures. A number of fundamental changes must be brought immediately to reduce deeply entrenched corruption in Bangladesh. Consecutive governments in Bangladesh have tried to reduce corruption by taking isolated punitive measures but they have mostly failed to address the underlying structural issues. Addressing the underlying governance failures, successful anti-corruption programs should be targeted to decrease the opportunities for corruption. Efforts targeted to fight corruption should take into account the underlying causes of corruption or in other words, drivers of dysfunctional governance; otherwise these efforts will not be able to generate desirable and sustainable results.

9	The empirical findings suggest that increased levels of corruption reduce a country's standard of living. Since this finding is linear, an increase in the amount of corruption has a proportional decrease in a country's level of investment – regardless of the size of the country. The results for standard of living are not so uniform. Increases in the level of corruption retards standard of living proportionally for developing countries, but it does so in a decreasing, convex way for the OECD. An analysis of the effects of corruption on economic growth produces similar results. Corruption has a negative linear effect on developing countries. However, the results are rather surprising for OECD countries. A reduction in corruption has a positive concave effect on economic growth. OECD countries can improve their economic growth by becoming more corrupt. Hence, there is a n “optimal” level of corruption for OECD. One potential explanation for these results is that the eradication of corruption carries an opportunity cost. Ceteris paribus, as a developing country deploys its resources from productive activities to the detection and prevention of corrupt ones, there are positive, but diminishing returns.
10	The paper provides information on taking bribes in government regulatory agencies and the amount of loss incurred as a result of it. The primary objective of the study was to show a quantitative measure of welfare loss studied in economic literature. Despite several limitations, such as information on a few completed projects and availability of confidential data, the study reveals evidence of significant amount of welfare loss in the construction of apartments in Dhaka city. Perhaps what is required is to identify critical governance capacities of the institutions and set realistic and feasible institutional reforms and anti-corruption strategies to combat corrupt practices.
11	Given the complexity of the growth process, our framework is necessarily incomplete. However, our new perspective generates the estimations of the impact of corruption on growth and the relative importance of the channels of transmission. We find that a 1% increase in the corruption level reduces the growth rate by about 0.72% or, expressed differently, a one-unit increase in the corruption index reduces the growth rate by 0.545 percentage points. The most important

	channel through which corruption affects economic growth is political instability, which accounts for about 53% of the overall effect. ¹³ The other channels include the level of human capital and the share of private investment. However, our results are more general. Corruption is most prevalent where other forms of institutional inefficiency, such as bureaucratic red tape and weak legislative and judicial systems, are present. Although these problems may be alleviated by including variables like the Gastil political rights index and initial per capita income to capture the institutional characteristics of countries, we find it more compelling to interpret the corruption index as a set of institutional problems associated with corruption.
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