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Self-Regulation: A Risky Option for Developing Countries?
The Case of Bangladesh

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Abstract
In recent years, the command and control type of government regulation is giving way to self-regulatory approaches in which industry sectors are responsible for controlling the conduct of their own members. Although self-regulatory approaches are increasingly being adopted with the objective of both improving the rate of compliance and reducing costs in developed countries, this paper argues that this might be a risky option. Developing countries often do not have adequate levels of standards of efficiency, effective legal regulatory frameworks, institutional safeguards and public awareness. Using the Bangladesh agriculture sector as an exemplar, this paper investigates the prospects of self-regulation of small businesses trading in agricultural inputs as a possible remedy for the recent problems associated with the sale of contaminated inputs to the farmers. The paper argues that self-regulation does not develop and is not sustained independently of the context in which business operates. Importantly, the context includes the legal infrastructure created by the state and the enforcement effort imposed by the state. In the absence of effective state intervention in the public interest, institutional safeguards and public awareness, private entrepreneurs are less constrained to behave in the public interest and in conformity with the objectives of self-regulation. The findings of this paper provide significant implications for addressing the issue of effective regulation in developing countries.

Introduction
The command and control type of government regulation is increasingly giving way to self regulatory approach in recent years. The self regulatory approach is seen as flexible and cost effective and has emerged as an alternative to traditional government regulation which on the contrary is viewed to be rigid and as an obstacle to a country’s economic development in rapidly changing industries (Federal Commissioner, 2001). In the self-regulatory approach, industry members define and enact codes of conduct and set standards and rules regulating their activities, without any interference of the state. This includes a variety of actions i.e. disclosure of product information, policing of deceptive practices, establishment of minimum standards of safety and quality, the grading of products and industry codes of conduct (Garvin, 1983). Although self regulation has gained popularity and firms/ companies adopting self regulation have multiplied in recent years, it has received less attention in developing countries. Developing countries often do not have adequate levels or standards of efficiency, effective legal regulatory frameworks, institutional safeguards and public awareness. As the developing countries have a different market setting and context, self regulation can be a risky option for them.

This paper explores the prospects of self regulation in developing countries using the Bangladesh agriculture sector as an exemplar. Self regulation is generally associated with industries and large companies; this paper uses this term to apply the same concept to small businesses dealing in the supply of goods and services in the developing country context.

The paper draws upon the findings of an exploratory study conducted by one of the authors during 2003-2004 investigating the perception of the key stakeholders on the performance of the market-based reforms and the business climate. The findings of this study are used in this paper to explore the prospects of self-regulation of small businesses. The paper also attempts to establish whether self-regulation can be used as an alternative to the traditional command and control type of regulation.

The paper firstly presents the case of the Bangladesh agriculture sector, discussing the market based-reforms undertaken in this sector and how the system has changed. Section two draws upon the findings of the exploratory study, and provides a review of the reform measures highlighting the problems. The
third section discusses and argues for government regulation based on the findings of the empirical study. Section four discusses the limits of self regulation in the context of Bangladesh.

**Perspective on the Market-based reforms in Bangladesh Agriculture Sector**

Bangladesh - a developing country of South Asia - has a large population, low per capita income, and an agrarian economy. As in other developing countries, the agriculture sector is vital not only for its overall economic development and food security, but also for a stable social and political conditions. Although the share of agriculture in GDP is gradually declining (40% in the 1970s to 22% in 2005), agriculture still plays a very important role in the economic growth of the country in terms of its contribution to GDP, foreign earnings (5% in 2005), employment (51.7% in 2003) and its link with the development of other sectors of the country through input supply and demand linkages (Ministry of Finance, 2005).

Bangladesh has increasingly moved towards a market-based economy since the mid 1970s as a condition of structural adjustment programs of the World Bank and the IMF. The reforms have been most pervasive in the agricultural input sector, resulting in a shift away from a state dominated system to a privatized system. Until the agricultural reforms that started in the late 1970s, the Bangladesh Agricultural Development Corporation (BADC) — a state agency with branches all over the country — had the monopoly of sales and distribution of agricultural inputs i.e. fertilizer, irrigation equipments, pesticides and seeds to farmers. By the early 1990s, agricultural input delivery services had been privatized and these inputs are now being delivered to the farmers by the private sector (Ahmed, Haggblade and Chowdhury, 2000). The reform policies involved reductions in subsidies and increased private sector involvement in sales and distribution of agricultural inputs through liberalization, deregulation and privatization.

**Review of the Reform Measures**

The present study draws upon the findings of the exploratory study, conducted in Dhaka. The study involved both surveys and interviews with key stakeholders to investigate their perceptions on the performance of market-based reforms and the business climate in this sector. A total of 154 surveys were conducted with three key stakeholder groups of the reform policies i.e. public officials, private entrepreneurs trading in agricultural inputs and farmers. In addition, sixteen in-depth, face-to-face, semi-structured interviews were carried out with nine senior bureaucrats and seven officials from donor agencies, who were actively involved with the implementation of reform policies in this sector.

The reforms were undertaken with the aim to increase efficiency of the delivery system, increase access by farmers to inputs at a reasonable price, increase food production and food security and, decrease the budgetary burden of subsidy. It was predicted that these benefits would ‘trickle down’ and lead to improved crop sector profitability and socio-economic conditions of the farmers.

**Empirical analysis of the study** has suggested that the reforms in the agriculture input sector have been successful to some extent in creating: the necessary platform of a market in terms of creation of the concept of market; some awareness among people to view the market as alternative service delivery mechanism; institutional changes; distribution networks; and the necessary infrastructure (Azmat and Coghill, 2005).

The reforms have also contributed to increased agricultural production, improved food security and access to agricultural inputs. Despite flooding and other natural calamities which are a regular phenomenon adversely affecting agricultural production, Bangladesh has been successful in changing its state from a food deficit country to one which is self-sufficient in food grain production, in a span of less than three decades. Ahmed argues that reforms have contributed to the increased production and without the market reforms, the country would have reverted to the historical situation of regular food crises and high prices (Ahmed, 1995).

Although agricultural production has increased, studies have found that there has been no significant impact on socio-economic conditions of the ‘very poor’ farmers (Bhattacharya and Titumir, 2001). This

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1 Dhaka is the capital city of Bangladesh.
2 The donor agencies used for interviews were World Bank and United States Agency for International Development.
has been due to both lower prices for agricultural produce and the rise in the cost of agricultural production. This situation is made worse by the recent incidences of the sale of low quality inputs by private suppliers who do not accept responsibility for the social impact of their actions i.e. they demonstrate low levels of Corporate Social Responsibility (CSR)

In this paper, CSR as related to the problems of the agricultural input sector of Bangladesh, is used to explain the need of the businesses to be socially responsible and focus on the economic, social, legal, ethical and environmental issues. Farmers are being cheated into buying underweight, low quality inputs sometimes at higher prices, which do not benefit yields. The contaminated inputs also cause damage to soil fertility, which eventually results in decreased yields. While the economic aspect is represented by the resultant effect of a price hike on the farmers, the social impact is due to the decrease in farmers’ income. The legal and ethical component are represented by the private sector not complying with the laws and rules and not meeting the obligations placed on them by the state and the society. Finally the environmental consideration is also important because of the effect of contaminated and unbalanced inputs on the soil and on soil fertility (Azmat and Coghill, 2005).

Empirical findings also suggest that in addition to poor CSR practices, lack of market information available to the farmers on price trends, the poorly developed transport system, exploitation of farmers by middlemen, the lack of awareness among the farmers of their rights are other factors creating an unfavorable system for the farmers, preventing them from realizing the benefits of increased production.

In short, the reforms have been successful in facilitating increased production and improved access by farmers to inputs, leading to improved food security. It has also helped in creating a concept of market in a sector which has experienced long and strong tradition of state involvement. However the positive effect of the reforms has not improved the socio-economic conditions of the farmers. In addition to the problems of lack of market information and infrastructure facilities, the poor CSR practices of the businesses are having an adverse impact on the socioeconomic condition of the farmers and also on the sustainability of the positive effect of the reforms through their effect on soil fertility.

A Case for Government regulation?

Low levels of CSR relating to small businesses trading in agricultural inputs has been a major deterrent inhibiting the success and sustainability of the reforms. Based on the findings of the empirical study, the present section argues that there is a case for legal based regulation in this sector to deal with this problem.

There is growing evidence about the positive relationship between stable and credible business environment and the performance of the reform policies. According to Santiso, a good governance system extends beyond the capacity of the public sector to the rules that create a legitimate, effective and efficient framework for the conduct of public policy (Santiso, 2001). Good governance is therefore vital in establishing markets through rules, and enforcement mechanisms, and also in creating institutions promoting market transactions. The six indicators of ‘good governance’ recognized as an effective measurement tool of governance across the world are voice and accountability; political stability and absence of violence; government effectiveness; regulatory quality; rule of law and control of corruption (Kaufmann, Kraay and Lobaton, 2003). These indicators are closely interlinked as the effectiveness of one depends upon the other and a problem in any of the indicators will eventually compromise the effectiveness of the other indicators.

Empirical findings suggest that the lack of good governance indicators particularly regulatory quality, rule of law, control of corruption along with lack of market information and awareness have led to the emergence of poor CSR issues related with the sale of low quality, underweight inputs as the private sector has taken on state sector responsibilities. This in turn is having a significant adverse impact on agricultural yields and farmers income, bringing into question the sustainability of the positive impact of the reforms.

Lack of good governance has been an endemic problem in Bangladesh having far reaching adverse effect on every sector of the economy including the agriculture sector. Table-1 shows the relative position of Bangladesh in terms of its good governance indicators among other countries of the region where it ranks lowest in all the indicators except Voice and accountability and Political Stability.
Table 1: Governance Indicators 2002: Selected Countries in the Asian Region (Percentiles rank)

<table>
<thead>
<tr>
<th></th>
<th>Voice and accountability</th>
<th>Political Stability</th>
<th>Government effectiveness</th>
<th>Regulatory Quality</th>
<th>Rule of law</th>
<th>Control of Corruption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>65.7</td>
<td>91.9</td>
<td>100.0</td>
<td>99.5</td>
<td>93.3</td>
<td>99.5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>42.4</td>
<td>61.6</td>
<td>80.9</td>
<td>68.6</td>
<td>69.6</td>
<td>68.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>57.1</td>
<td>62.7</td>
<td>64.9</td>
<td>65.5</td>
<td>62.4</td>
<td>53.6</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>48.0</td>
<td>20.5</td>
<td>59.8</td>
<td>58.8</td>
<td>60.8</td>
<td>54.6</td>
</tr>
<tr>
<td>Vietnam</td>
<td>10.6</td>
<td>61.1</td>
<td>48.5</td>
<td>25.3</td>
<td>44.8</td>
<td>33.0</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>29.3</td>
<td>26.5</td>
<td>35.1</td>
<td>13.9</td>
<td>26.3</td>
<td>7.7</td>
</tr>
</tbody>
</table>

Source: (Kaufmann, Kraay and Mastruzzi, 2003)

Despite the fact that reforms have been ongoing in this sector for more than three decades empirical analysis suggests the existence of an anti-market bias, and an adversarial relationship between the private sector and the state until recently. There remains a support for the involvement of the state in various activities by the general population. In the surveys, a low percent of farmers, private entrepreneurs and public officials have supported a reduced role of state in all the activities and a high percent of respondents have answered in favor of increase role of the state. Table 2 shows the responses of the three groups i.e. public officials, private entrepreneurs and farmers on reduced role of the government in various activities in agriculture sector. Also in the surveys, more than 79% of respondents in each group agreed that government should play a role in input management system, more than 83% agreed that government regulation is needed and more than 88.4% in each group agreed that the present system needs improvement. This indicates the perception of the stakeholders in favor of government regulation and also the need for improvement in the present system.

These quantitative findings are supported by the interviews, where all the respondents agreed that although a regulatory framework for agricultural inputs was in place, it was not working effectively. The legal and regulatory arrangements as specified in Fertilizer, Seeds and Pesticides Ordinance spell out penalties and fines for misbranding and selling adulterated inputs. The regulatory framework also includes functioning of monitoring committees at both national and local level with elected representatives to monitor the distribution of agricultural inputs. Despite these regulatory arrangements, there are incidences of the sale of low quality, underweight inputs which indicate that the regulatory steps taken by the government are not working adequately.

The anti market bias can be explained by the long and strong tradition of state authority and administration, the failure of the state to fully delegate authority, and also the irresponsible business practices of the private sector that have failed to create a positive image as a substitute for the state.

Table 2: Perception of the Public sector, Private sector representatives and the farmers on the reduced role of the government

<table>
<thead>
<tr>
<th>ISSUES</th>
<th>PUBLIC (n=40)</th>
<th>PRIVATE (n=53)</th>
<th>FARMERS</th>
<th>χ² (df=2)</th>
<th>Cramer’s V</th>
<th>% ANSWERED ‘YES’</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government should have a reduced role in regulation</td>
<td>35.2</td>
<td>76.7</td>
<td>10.5</td>
<td>45.993**</td>
<td>.54</td>
<td></td>
</tr>
<tr>
<td>Government should have a reduced role in research</td>
<td>13.0</td>
<td>2.3</td>
<td>0.0</td>
<td>10.459**</td>
<td>.26</td>
<td></td>
</tr>
<tr>
<td>Government should have a reduced role in extension</td>
<td>18.5</td>
<td>9.3</td>
<td>7.0</td>
<td>3.882</td>
<td>.16</td>
<td></td>
</tr>
</tbody>
</table>

4
Government should have reduced role in providing information 11.1 0.0 0.0 11.562** .27

*p<.05, p<.01
Source: Survey Data

Empirical findings also suggest that lack of good governance indicators i.e. lack of control of corruption and lack of rule of law were the major problems inhibiting the success of the reforms.

In the surveys as shown in Table-3, more than 50% respondents from all the groups agreed that extra irregular payments and the weak law and order situation were significant problems. The high percent of public and private entrepreneurs responding to extra irregular payments suggests that although illegal, this payment is expected by both payers and payees. The comparatively low number of farmers agreeing to these issues can be explained by the fact that as the majority of the farmers are poor, they are not in a position to pay extra irregular payments and therefore they don’t experience this problem that much. A relative low response by the private officials on this issue as compared to public official suggests that because of the prevalence of corruption, the private entrepreneurs view sanctions and compliance as merely another obstacle to overcome in any possible way.

Table-3: Perception of the Public sector, Private sector representatives and the farmers on business environment.

<table>
<thead>
<tr>
<th>ISSUES</th>
<th>PuPublic (n=54)</th>
<th>Private (n=43)</th>
<th>Farmers (n=57)</th>
<th>χ²</th>
<th>CramersV (df=4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>It is common to pay extra irregular payments to get things done</td>
<td>88.9</td>
<td>67.4</td>
<td>52.6</td>
<td>18.824**</td>
<td>.25</td>
</tr>
<tr>
<td>Law and order situation increases the cost of doing business</td>
<td>90.7</td>
<td>78.6</td>
<td>57.9</td>
<td>18.418**</td>
<td>.24</td>
</tr>
<tr>
<td>Enforcement of law and unpredictability of judiciary is a major problem in doing business/ farming</td>
<td>79.6</td>
<td>65.1</td>
<td>71.9</td>
<td>4.459</td>
<td>.12</td>
</tr>
</tbody>
</table>

**p<.01

A higher percent of public and private officials as compared to farmers agreed that the weak law and order situation increases the cost of doing things. The law and order situation also includes the incidence of organised crimes\(^3\) which recently have become a trend imposing significant costs on business. Again the low number of farmers agreeing to this issue can be explained by the fact that farmers are generally poor and therefore are not victims of these crimes. Nevertheless as more than 50% of the respondents in each group have agreed that the law and order situation increases the cost of doing business indicates their low trust and reliance on police service in protecting themselves and their property. It is also clear from the table that poor enforcement of contracts and the unpredictability of judiciary is a problem.

In the interviews, the lack of good governance indicators i.e. rule based governance, control of corruption were cited as the main reasons why the regulation was not effective. All respondents stated that the efficiency of legal and regulatory environment was compromised by the possibility of

\(^3\) Organised crimes have become common in Bangladesh where a group of people demand money or ransom from capable citizens irrespective of their profession
influencing prosecution and litigation through corrupt means. The respondents indicated that the lack of rule based governance was having an adverse impact on an otherwise good business environment, leading to divergent problems and was impeding the success of the reforms. One of the respondents commented that,

'We do have rules but the problem is that these rules are not being implemented. The influential people can always twist the implementation of rules in their favor' (Interviewee-1)\footnote{The interviewee was interviewed as part of the research conducted for PhD study entitled, 'Market and Governance: Study of the market-based reforms in the input delivery sector of agriculture sector in Bangladesh'. The interview was conducted on 13\textsuperscript{th} January, 2004 in Dhaka.}

Referring to the global business survey conducted by the World Bank and International Finance Corporation that has rated Bangladesh as the costliest in South Asia in terms of starting a business, it is argued that the improvement and the positive attempts to reform are being neutralized by failure to contain corruption, rent-seeking and what-is-there-in-it-for-me self-serving attitude on the part of functionaries. (The Daily Star \textit{a}, 14-09-2005). In addition lack of capacity building on the part of the government i.e. low paid public officials, lack of trained personnel and basic infrastructure and equipment were mentioned as other factors contributing to the weak regulatory authority.

Empirical analysis suggest that there are complicated rules and procedures, that do not ensure the quality of the product or service, instead they act as impediments as they are associated with corruption. There was strong consensus regarding the need to review the rules and make it more appropriate, simple and consistent with the recent trends and development. In some cases the fines and punishments for adulteration and misbranding which were consistent with the time period in which they were enacted have become nominal and insignificant in the present context due to inflation and need to be reviewed to provide disincentives for any socially irresponsible behavior. The present environment therefore offers opportunities for businesses to behave unethically.

The interviews the respondents reported that there is no consumer protection law and institutional safeguard to protect the rights of the consumers. Consumer pressure is constrained by lack of information and also due to the fact that consumers are not organized. They emphasized on the need to create effective regulation, institutional safeguards to guarantee that the rights of the consumers are protected.

Findings suggest that the business environment in the input market is not conducive for the growth of the private sector. Evidence from this research suggests rule of law, corruption and ineffective regulatory quality are compromising the expected benefits of the reforms. These were the main reasons for the sale of contaminated inputs and incidences of hoarding. Absence of effective regulation, weak monitoring capacity, rule of law, prevalence of corruption and lack of awareness have all created an environment which is encouraging the private entrepreneurs to behave unethically. The problems are further compounded by lack of information flow, and inadequate infrastructure facilities. In addition the findings also indicate that private sector is not in a position to takeover entirely, from the state mainly due to their lack of competence and awareness of the importance of socially responsible business conducts.

CSR does not develop and is not sustained independently of the context in which business operates. Importantly, the context includes the legal infrastructure created by the state and the enforcement effort imposed by the state. In the absence of an effective state intervention in the public interest, private entrepreneurs are less constrained to behave in the public interest and in conformity with CSR. Thus lack of capacity or lack of will, or both, by the state weakens the incentives for private sector entrepreneurs to practice CSR. The evidence from this research suggests that if the state simply vacates the field to private sector entrepreneurs, the public interest in good governance of the market is weakened.

\textbf{Limits to Self Regulation}
There are certain prerequisites for self regulation to be effective. These include: an effective legal and regulatory framework that can hold the businesses accountable in case of failure to comply; an organized
and integrated market structure; flow of market information to the businesses and the consumers; and awareness by the consumers of their rights. In the absence of these prerequisites, self regulation may be a risky option. The following section discusses how these factors are limiting self regulation as an alternative to government regulation.

It is argued that self regulation is preemptive in nature (Garvin, 1983). If self regulation is effective, government will not regulate. The weak legal and regulatory framework in Bangladesh not only fails to create any pressure on the firm for self regulation, instead the weak regulatory sanctions, absence of institutional safeguards and the prevalence of corruption encourage the businesses to behave irresponsibly. Garvin also (1983) argues that in fragmented markets, self-regulation is difficult to achieve due to the diverse interests of the firms and the widely diffused power which makes agreement or consensus harder to achieve. He further argues that the agriculture sector has traditionally been an industry where state involvement has been required for standards to be enacted. Bangladesh agriculture market is extremely fragmented with many players and the consumers are also not organized to create a pressure group. These conditions therefore make it harder for self regulation to emerge. The limitations to self regulation are further compounded by a dearth of information flow to both buyers and sellers due to underdeveloped communications infrastructure; the absence of mechanisms to confirm the claim made by the sellers; and finally lack of an effective redress mechanism for consumers.

For self regulation to be effective, there needs to be a certain level of awareness among the consumers about their rights so that they can create pressure on the businesses to be more accountable and responsible. Bhattacharya and Shankar (2004) argue that consumers are important stakeholder groups who are susceptible to a company’s CSR initiatives and this positive link to consumer patronage is spurring companies to be more socially responsible. As in other developing countries, consumer pressure is weak in Bangladesh and especially is weaker in the agriculture sector which is predominantly associated with small, poor and illiterate farmers. In many cases the farmers are ignorant of the redress process and even if they are aware, they find it to be complex, time consuming and expensive. Also, there is a lack of an organized forum for the farmers to take up these issues.

Market-based reforms in the agriculture sector have resulted in the emergence of non state actors i.e. the private traders and the NGOs. Mostly the private traders involved in the trading of agricultural inputs are small with no brand capital and low public visibility. Most of them have no previous experience, lack expertise and are not efficient and competent enough to take advantage of the open economy. In most cases they are not aware about the importance of building a good reputation, positive image and trusted relationship with the farmers - not only essential for the profitability but also for their survival in the long run. They seem to have a primary focus on earning profits in the short term, ignoring the issue of responsible behaviour. This is evident in the comments of a respondent in the interviews who stated that, ‘Private entrepreneurs want to make overnight profit but they need to understand that agriculture sector is different as it depends on nature and is time bound. This might be explained by the uncertain business climate and the possibility of policy reversals. They need to be trained about business ethics as well as global business situation and the government needs to play a role in this’ (Interviewee-2)5.

In this context, it is evident that there needs to be effective government regulation and if the state vacates the field to private sector entrepreneurs, the interest and rights of the consumers will be affected.

In order for self regulation to be effective there needs to be an appropriate mechanism for holding the businesses accountable through effective regulation. Bangladesh has a plethora of rules and regulations but the main problem is their lack of effective implementation. Empirical findings suggest that lack of good governance indicators i.e. regulatory quality, control of corruption and rule of law have been a major problem, that are leading to poor CSR. Sanctions which play a vital role to encourage, enforce and underpin compliance are not being effectively implemented as private entrepreneurs are able to circumvent them through irregular, illegal payments. The effective enforcement of sanctions is also being compromised by the failure of capacity building by government agencies which are inadequate to perform the random quality checking of the inputs due to lack of adequate fund, trained staff, equipment and infrastructure. In addition, the public officials are low paid, with no incentive and motivation to carry on their jobs efficiently. The problems are further compounded by the absence of a consumer

5 The interviewee was interviewed as part of the research conducted for PhD study entitled, ‘Market and Governance: Study of the market-based reforms in the input delivery sector of agriculture sector in Bangladesh’. The interview was conducted on 19th February, 2004 in Dhaka.
protection law. Also, there are inadequate institutional safeguards to promote and protect the interest of the consumers. Even in cases of institutions, their capacities are severely limited due to lack of resources, manpower, information and delegated power. In addition, lack of an integrated market, lack of market information and lack of public awareness are other factors that are not conducive for self regulation.

In the context of developing countries like Bangladesh it is also important to ensure that self regulating businesses need to be socially responsible. This is best explained by the controversial role of multinational companies in developing countries. Shell in Nigeria has failed to respond quickly to oil spills, the contract farmers working for British American Tobacco in Kenya and Brazil have been reported to have chronic ill health due to chemicals used in the cultivation of tobacco; a wholly owned subsidiary of Coca Cola in India has been accused of depleting village wells (Pendleton, 2004). More recently, the Canadian company Niko Resources involved in exploring gas blocks in Bangladesh has not accepted the liability of the two rounds of devastating blowouts in gas fields this year due to its gross negligence, and has refused to pay compensation for the loss of the country's natural resources, damage to public and private properties and incurable damage to the environment and ecology (The Daily Star b, 14-09-05). In each of these cases, these companies are not accused of breaking laws but have failed to meet their own standards, demonstrating that voluntary action alone is not sufficient to make them socially responsible.

In developing countries like Bangladesh, self regulation is constrained both by its likelihood of emergence and its effective compliance. In the absence of effective state intervention in the public interest, institutional safeguards, appropriate information flow and public awareness, private entrepreneurs are less constrained to behave in the public interest and in conformity with the objectives of self-regulation. Unless the constraints are addressed, the efficiency of self regulation in improving the rate of compliance and effectiveness remains in doubt.

Findings from Analysis and its Implication for Regulation
Empirical findings suggest that market forces, have not served the perceived public interest. This is evident from the emerging problem of poor CSR practices of the private entrepreneurs and also from lack of support for a reduced role for government (see Table-2). According to the findings, the main reason for poor CSR practices have centred on lack of good governance i.e. ineffective regulation, lack of rule of law and corruption. In addition, findings also suggest that poor market information flow, lack of competence of private entrepreneurs and weak consumer pressure are other factors that are limiting the efficient functioning of the market in this particular case.

Based on the findings, this study has analyzed the existing limits to self regulation. The effectiveness of self regulation depends to a great extent on socially responsible business practices. If the businesses are socially responsible then this includes the maintenance of standards even in the absence of regulations. This constitutes self regulation. Findings in this case have suggested that the businesses involved in the trading of agricultural inputs lack social responsibility. For example Bangladesh Fertilizer Association has failed to ensure the rules applying to its members adequately. Although there have been multiple reasons underpinning this socially irresponsible behavior, the lack of government support for self-regulation remains a major cause. This therefore suggests that there is a case for effective government intervention to improve governance, to build effective institutional capacity to ensure compliance with regulations, efficiency and social justice and also to build responsible business practices on the part of the private entrepreneurs. Effective self regulation will emerge if these conditions are addressed, otherwise it will remain a risky option.

Conclusion
In an attempt to improve the rate of compliance, to be more effective, flexible and to reduce costs, firms are increasingly engaging in self regulation in recent years. Using Bangladesh agriculture sector as an exemplar, and drawing upon the findings of an exploratory study conducted during 2003-04, this paper has argued that self regulation might be a risky option for developing countries, as they have a very different context compared to developed countries. The context in developing countries acts as a constraint for both the emergence of self regulation and its effective implementation. The emergence of self regulation is constrained due to weak legal and regulatory framework, a fragmented market structure with many players and diverse interest which makes consensus harder to achieve. The effective
enforcement of self regulation is limited by an effective regulatory framework that holds the businesses accountable in case of non compliance, a weak consumer pressure, and lack of information for both businesses and consumers. Empirical findings of the study suggest that the main reason for ineffective government regulation is lack of good governance indicators i.e. rule of law, control of corruption and regulatory quality. In addition there are also problems of lack of awareness and information flow. Unless these issues are addressed, self regulation is less likely to emerge and to be effective in a developing country context.
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