Foreword

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One of the major changes in the global intellectual climate over the past decade has been a reawakening of interest in, and appreciation for, the role of the state in development. Since the Reagan–Thatcher revolution of the late 1970s to early 1980s, much of the emphasis in public policy has been on reducing the scope of the state and getting government out of the way of private markets. This emphasis was appropriate for countries like China and India that had reasonably competent but overreaching governments. But for much of the developing world, weak state capacity is responsible for persistent poverty, disease, drug and human trafficking, terrorism, and a host of other social dysfunctions.

Free markets are not self-sustaining: they presume the existence of governments that are capable of enforcing the rule of law, adjudicating disputes, and establishing property rights as the basis of long-term investment and growth. Even the act of reducing the scope of a state through privatisation necessitates government agencies that can value and auction state-owned enterprises in a transparent and non-corrupt fashion.

Weak governance has been a problem throughout the developing world. But in some cases, governance has been missing altogether as a result of war or internal conflict, producing collapsed or failed states that abuse or neglect their own citizens and become acute problems for their neighbours and the rest of the world. While international politics of the twentieth century was characterised by clashes between large, powerful and well-organised states, the twenty-first century has seen instability springing from states that are too weak.

Recognition that 'institutions matter' and that good governance is a key part of any development strategy has become widely accepted within the development policy community in recent years. In countries with weak states and poor governance, cutting back the state through privatisation and deregulation is not enough to trigger growth. Market-friendly reforms need to be accompanied by positive acts of institutional reform and state-building.

And yet, the consensus over the importance of institutions and good governance belies several critical weaknesses with regard to implementation. The so-called first-generation reforms – getting macroeconomic policy under control, reducing tariffs, privatisation, deregulation, and so on – were relatively straightforward, because they concerned policies that were at least nominally under the control of governments. But second-generation reforms that focus on strengthening those very state institutions are much more difficult to implement. While a handful of technocrats might be able to 'fix' monetary policy or a dysfunctional central banking system, there is no comparable group of specialists who can reform a legal system or clean up a corrupt police force. Such institutions, which are critical for the functioning of a market economy, are large, complex, and deeply steeped in the local traditions and culture of the societies in which they operate. They are, moreover, at the core of the country's political system and can potentially threaten the interests of wealthy and powerful elites.

It is in this context that the work of Transparency International has been of critical importance. Transparency International was one of the first organisations to recognise the importance of governance to development, and to develop long-term strategies for combating it. Too often in the past, development agencies and multilateral lenders were willing to overlook corruption, believing either that it did not constitute a serious obstacle to development, or else that outsiders had no choice but to work through corrupt local officials. Transparency International broke the mould by putting the need for open and competent government at centre stage.

The *Global Corruption Report 2005* focuses on the construction sector. We are all painfully aware that corruption in construction contracting is not a problem unique to poor countries; industrialised nations from Japan to the United States have faced continuing problems in this sector. Construction projects are big and complex and, most important, they involve lots of money. This report, like those of previous years, presents strategies to deal with the problems it analyses. Iraq in particular serves as an example of the dilemmas faced by nation-builders when contracting in post-conflict situations. There has been great political pressure to write contracts quickly, which sometimes provides the opportunity to waive the normal acquisition rules. How to balance competing requirements for honesty and efficacy is an ongoing dilemma with, as this report indicates, no easy solutions.

Improving governance by fighting corruption has institutional, normative, and political dimensions. Countries need good institutions that minimise the incentives public officials face to take bribes. But even the most optimally designed institutions will not prevent corruption if a society's norms say it is acceptable to take bribes, or if the country's elites regard politics as an arena for self-enrichment. Finally, it is not possible to reform institutions or change norms unless there is political will to do so. While outside donors and lenders can try to influence behaviour through conditionality and advice, it is ultimately up to local elites to come to grips with the problem of corruption and make the painful choices needed to do something about it.

Transparency International contributes enormously in all of these ways: institutional, normative and political. It has laid the groundwork for concrete reform strategies on a country-by-country basis. It has also helped to change the moral and political climate both in developing and developed countries with regard to the acceptability of corruption. This year's *Global Corruption Report* extends Transparency International's record of service to the international community in laying the groundwork for better governance, and hence long-term development.

Note

1. Francis Fukuyama is professor of international political economy at the School of Advanced International Studies, Johns Hopkins University, United States, and author of *State-Building: Governance and World Order in the 21st Century*.