



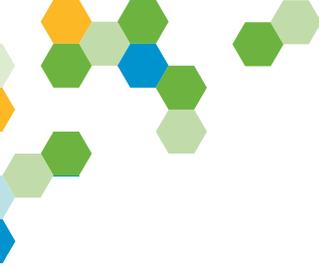
SPECIAL REPORT

Corruption: The Achilles Heel of Latin American Democracies

Madrid, September 2016

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I. INTRODUCTION

In 2015 and 2016 corruption gained notoriety and became a significant issue in Latin America due to the magnitude of the cases that have seen the light. Corruption is still very present in the region, despite the substantial changes that have taken place in recent years involving the creation of an institutional framework that, with its virtues and faults, strengths and weaknesses, helps control and prosecute corruption.

Furthermore, there is now a middle-class society that is more urban, better prepared, autonomous and able to mobilize to demand transparency and punishment for corruption, as has been the case in countries as geographically and culturally diverse as Brazil or Guatemala. At the same time, today it is harder to cover up and hide corruption or simply silence protests by resorting to political patronage. These mobilizations have accelerated change. Examples include Mexico, where in late February 2015 the Lower House approved a constitutional change to create a “national anti-corruption system,” and Guatemala, where in May protests led to the resignation of Vice President Roxana Baldetti due to her involvement in a corruption case and, four months later, to the resignation of President Otto Perez Molina.

But, what is corruption? It is a universal phenomenon that is difficult to define and quantify.

a) Firstly, it is not an exclusively Latin American phenomenon as it occurs in different parts of the world, from African dictatorships to one-party regimes, such as China, as well as consolidated European democracies.

Corruption, therefore, is a problem experienced by all countries that differs in terms of extent and scope. Behind the corruption phenomena, which delegitimizes governments—be they democratic or authoritarian—lies, in essence, flaws of an institutional nature as well as of poor human capital training. In short, corruption has little to do with cultural, ethnic or geographic issues. Singapore is a good example of a country that suffered from systemic corruption and has now become one of the least corrupt nations. It has shown that, despite having strong family ties, collectivist cultures and ethnic diversity, all elements that correlate positively with corruption, it has been able to make significant progress in anti-corruption matters.

b) Secondly, corruption is a difficult term to define: there is no consensus when it comes to describing and defining it, and several definitions of corruption exist, ranging from the one used by Transparency International to that of the World Bank.¹ However, none of them has obtained a general consensus in the academic world.

c) Thirdly, corruption is difficult to quantify. Measuring corruption is not easy since it occurs in secret: costs are difficult to measure but they are definitely very high.

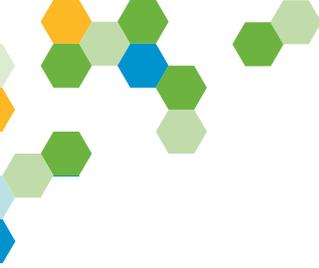
In 2013 the World Bank estimated that bribes paid in both developing and developed countries in 2001-2002 amounted to \$1 trillion, 3 percent of the world's GDP. According to the Bank of Mexico, corruption accounts for approximately 9 percent of the GDP. In 2010, the Federation of Industries of the State of São Paulo estimated that corruption had cost between 1.4 and 2.3 percent of the Brazilian GDP. In Peru, it is estimated to account for 2 percent of the GDP, according to former Prime Minister Ana Jara. In Guatemala, according to estimates by NGO Acción Ciudadana, around 12 billion quetzals of the nation's 2015 general budget were lost in corrupt practices, of which between 25 and 30 percent were aimed at public investment.

There is no doubt that countries with widespread corruption experience a loss of competitiveness. Furthermore, the economic consequences of corruption include inhibiting foreign investment as well as reducing the productivity of public expenditure and the effectiveness of public policies, since it distorts the allocation of resources, all of which lead to lower growth.

Therefore, identifying and quantifying the costs of corruption is essential to understanding the extent of the problem, but the task is not simple. As Maria Amparo Casar, professor and researcher at the Centro de Investigación y Docencia Económicas (CIDE) department of political studies notes, "some costs caused by corruption are straightforward and easier to calculate ... Other costs are not easy to document or to quantify: for example, the decline in the productivity of the capital invested by companies, investments that stop coming, the reduction in the quality of goods produced and services provided or the payments that have to be made in order to obtain authorization to open a business. Whether the costs are direct or indirect, it is known that the most damaging effects of corruption ... are economic in nature."

¹ Transparency International, for example, defines it as "the abuse of public power for private gain."

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“The region has made little progress to put an end to, or even to modestly slow down, corrupt practices over the last 20 years... corruption appears to be permanent and pervasive”

The persistence of corruption in Latin America is one of the greatest threats facing democracies in the region because it damages the democratic institutional framework and one of its main pillars, the party system. In Latin America, there are not only plenty of cases of corruption but a widespread social perception that the levels of corruption are high. This renewed perception of corruption coincides with an unfavorable scenario marked by the economic crisis or downturn that aggravates social problems.

This combination of high perception of corruption, economic crisis/slowdown, and social tension/unrest represents a fatal blow to the region’s democratic system. Peter Hakim, president of the Inter-American Dialogue, believes that “with the exception of a few countries, corruption is endemic throughout Latin America. Despite the rhetoric of political leaders of all ideological leanings, backed by regional treaties, national plans and thousands of campaigns, the region has made little progress to put an end to, or even to modestly slow down, corrupt practices over the last 20 years... corruption appears to be permanent and pervasive in almost all Latin American countries.”

The following pages examine the most significant cases of corruption that the region has experienced in recent years and systematizes the structural problems facing the region in terms of institutionalization, supervision and control, and transparency, all of which are fundamental tools when it comes to combating corruption effectively.

“The most transparent country in the region and is ranked number 21 in the world, scoring 74 points out of a maximum of 100”

2. LATIN AMERICA: CORRUPTION FROM NORTH TO SOUTH

“In the long term, the biggest challenge for Latin America is to be more competitive in the global economy and, among other things, to diversify its exports and improve its poor standards of education and innovation. But in the short term, Vargas Llosa is right: corruption is the biggest threat to the region.”

(Andres Oppenheimer)

Corruption is a hot topic in Latin America right now but, actually, it is an old acquaintance. Historically, it is considered to be one of the main problems in many countries of the region, and the recurrent idea that high levels of corruption characterize these countries persists among the population.

The 2013 “Latino-Barometer” reflected, even before the current wave of corruption cases, that this phenomenon ranked third alongside the state of the economy (6 percent of respondents) as being among the most important problems of the region only behind public safety (24 percent) and unemployment (16 percent). The problem was perceived as the most disturbing in Costa Rica (with

20 percent of opinions to that effect) followed by Honduras with 11 percent, Brazil and Colombia, with Chile being the last country on the list of Latin American countries with 1 percent.

New cases of corruption that have seen the light in 2015 and so far 2016 have caused this phenomenon to escalate as a reason for social concern in a region where distrust of others and of institutions prevails. According to the 2015 Latino-Barometer, only 17 percent of Latin Americans trust a stranger and 30 percent trust democratic institutions, data that make the region “the most distrustful on Earth.”

Furthermore, the latest *Corruption Perception Index* published by NGO Transparency International (TI) in January 2015 suggests that corruption remains “a systemic problem in Latin America.” Uruguay continues to lead as the most transparent country in the region and is ranked number 21 in the world, scoring 74 points out of a maximum of 100. Uruguay has improved by one point and thus widened its distance from Chile, which has dropped three points, taking it to 70, and is ranked 23 in the world. Only three Latin American countries “pass” the corruption test, meaning they are above average in terms of

transparency (Chile, Uruguay and Costa Rica). According to TI's report, corruption in the rest of the 16 countries of Latin America is below this level. And in general, only two regions of the world are perceived as more corrupt than Latin America: Sub-Saharan Africa, and Eastern Europe & Central Asia.

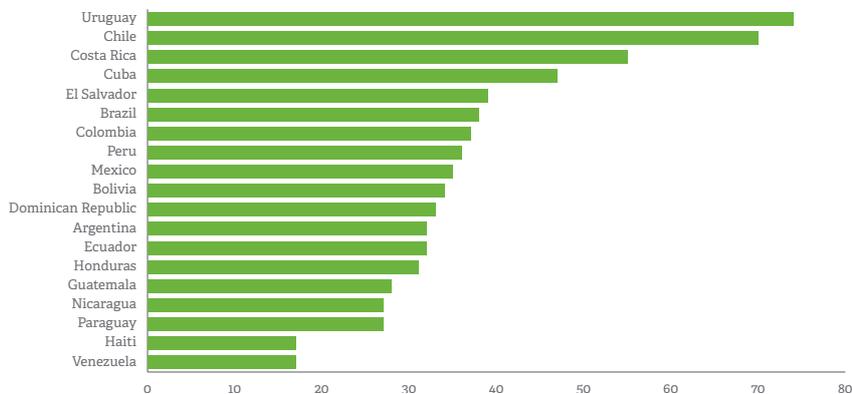
As shown in the 2015 Corruption Perception Index, the rest of the countries are ranked as follows: Venezuela ranks last at 158, with only 17 points, two less than in the previous index. It shares ranking with Haiti, which continues its negative trend and has also dropped two points. Paraguay also remains among the lowest scorers,

ranking 130, although it shows a three-point improvement from the previous report, which is attributed to the measures taken to boost the business climate in the region. Nicaragua is in the same position, and just slightly above it ranking 123, is Guatemala, with 28 points.

Honduras has fallen by two points and is ranked 112, while Ecuador, which has dropped one point, and Argentina, which dropped two, share position 107, with a score of 32. Ranked 103 is the Dominican Republic, scoring 33 points. In position 99 is Bolivia, with 34 points, and in 95 Mexico, with 35 points. Despite not showing significant changes from the previous index, the level of corruption in Mexico is similar to that of the Philippines, Armenia and Mali. Peru has dropped two points, to 36, and is ranked 88 in the index, while Colombia remains stable with 37 points, putting it in the 83rd position. Cuba, meanwhile, has achieved a higher ranking, occupying the 56 position. Uruguay and Chile, on the other hand, are at the top the list, with a CPI score of 74 70, respectively.

What conclusions can be drawn from this index? Basically, two. Firstly, the region is highly heterogeneous regarding the incidence of corruption; secondly, while there has been progress in the fight against corruption, it has clearly been

Figure 1. Corruption Perceptions Index 2015



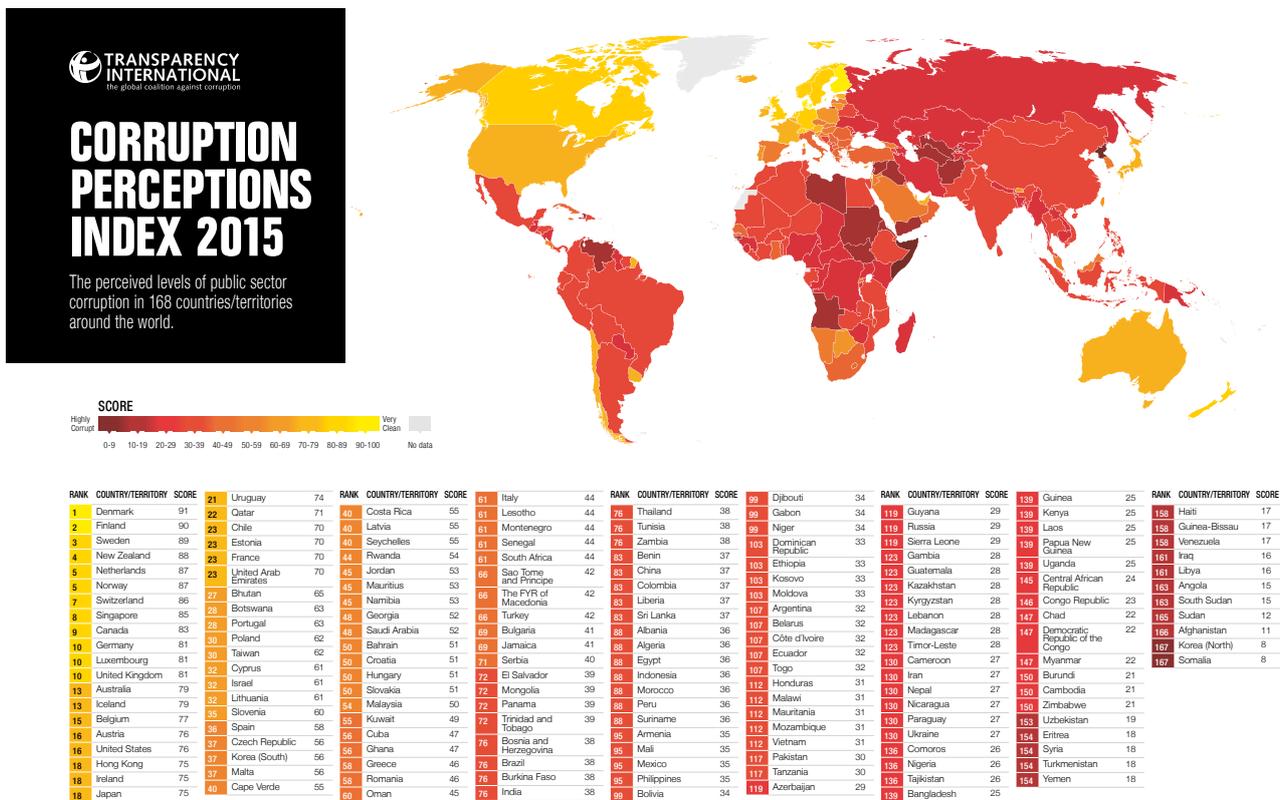
Source: *Transparency International*

insufficient at a global scale, with a few exceptions (the most striking being Uruguay):

1. The index shows **the great diversity** of a region in which only three countries are above average, and two of them have corruption levels that resemble those of the OECD countries (Chile and Uruguay) with a score higher than 7. In 2010, only Chile exceeded 7 and

Uruguay scored 6.8. Finally, a little further down is Costa Rica, with a score slightly higher than 5. Low corruption, as is the case in these three countries, indicates that there is an effective judicial system that operates autonomously with respect to the plaintiff and the possible violator, resulting in less impunity for corruption.

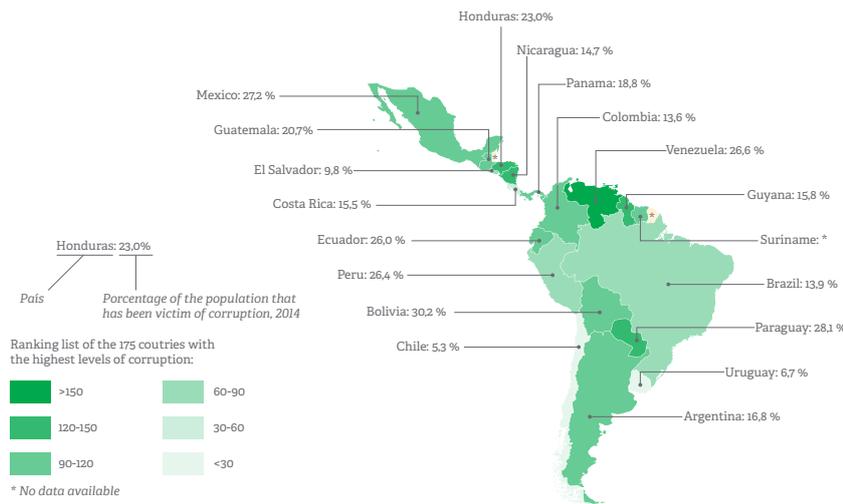
Figure 2. Corruption perceptions index 2015



#cpi2015
www.transparency.org/cpi

Source: Transparency International

Figure 3. Corruption in Latin America: Corruption Perception Index



Source: Gestión newspaper, Transparency USAID, The Economist

Figure 4. Corruption Perception Report: Comparison 2004 vs. 2015

COUNTRY	POSITION IN 2004	POSITION IN 2015
Uruguay	28	21
Chile	20	23
Costa Rica	41	40
Cuba	62	56
El Salvador	51	72
Panama	62	72
Brazil	59	76
Colombia	60	83
Peru	67	88
Mexico	64	95
Bolivia	122	99
Dominican Republic	87	103
Argentina	108	107
Ecuador	112	107
Honduras	114	112
Guatemala	122	123
Nicaragua	97	130
Paraguay	140	130
Venezuela	114	158
Haiti	145	158

Source: Prepared by us using data from Transparency International

Secondly, far from the developed countries, there is a large group of nations such as Brazil, Colombia, Cuba, Dominican Republic, El Salvador, Guatemala, Mexico, Panama, Argentina, Bolivia, Ecuador, Nicaragua and Peru, scoring between 30 and 40 (only Cuba and Brazil exceed 40).

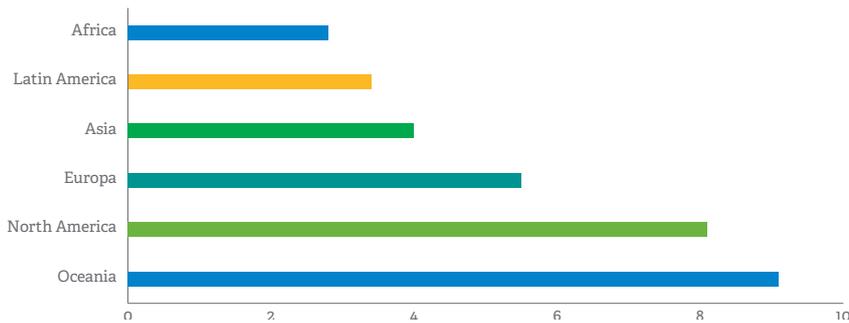
Finally, the countries that are worse off are Honduras (ranking 126 with a score of 29), Nicaragua (133rd with 28 points), Paraguay (150th with 24 points) and Venezuela (161st with 19 points), which have scores below 3.

2. Latin American countries have experienced little progress in terms of anti-corruption in recent years.

The index confirms that corruption remains endemic in the region and has become one of the outstanding issues of the democracies that were rebuilt after the 80s. Latin America consolidated its institutions and democracies 35 years ago, carried out major structural reforms between 1980 and 1990, and took a considerable part of the population out of poverty between 2003 and 2013, but in that time it has not made all the progress necessary in the fight against corruption.

According to José Antonio Alonso, professor of Applied Economics at Universidad Complutense in Madrid, there are three traits that

Figure 5. CPI by region



Source: Jesús G. Ugaz Sanchez-Moreno

Figure 6. CPI's global position in Latin America

POSITION OF COUNTRY (GLOBAL)	COUNTRY	2015 CPI SCORE
21	Uruguay	74
23	Chile	70
40	Costa Rica	55
56	Cuba	47
72	El Salvador	39
72	Panama	39
76	Brazil	38
83	Colombia	37
88	Peru	36
95	Mexico	35
99	Bolivia	34
103	Dominican Republic	33
107	Argentina	32
107	Ecuador	32
112	Honduras	31
123	Guatemala	28
130	Nicaragua	27
130	Paraguay	27
158	Haiti	17
158	Venezuela	17

Source: Transparency International

characterize the region as a whole in terms of corruption:

Some relatively average levels of corruption incidence, with better average levels than those of Africa or Asia, but significantly lower than those of Western Europe and North America.

The region is very heterogeneous: it encompasses countries with very low levels of corruption as well as others in which the phenomenon “takes on disturbing proportions.”

On average, we see a **slight progress in scores,** although this is not true of all countries, “and it is not linear throughout the period. In any case, it reflects a process that, modestly, can be deemed positive.”

Most Latin American countries have been afflicted by major corruption cases that are causing serious problems for different governments, parties and institutions in the region. From Mexico and Guatemala to Chile and Argentina, Brazil and Colombia to Peru and Bolivia, numerous haphazard scandals have surfaced, delivering a blow to both center-left and leftist governments (such as that of Dilma Rousseff, Cristina Kirchner and Michelle Bachelet) and those of the

center-right (Otto Pérez Molina, Enrique Peña Nieto or Ollanta Humala).²

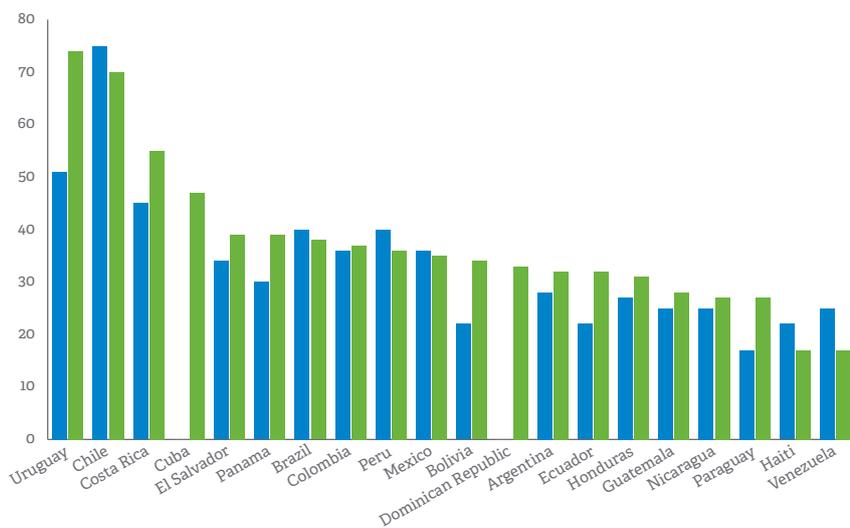
The most striking events have occurred in **Guatemala**, where a customs fraud scandal (“La Línea” corruption case) ended with the resignation and imprisonment of Vice President Roxana Baldetti in May, and President Otto Pérez Molina’s resignation in September (a few days after the first round of presidential elections). Judicial officers and a UN-endorsed body dismantled a criminal structure that received bribes from importers to avoid paying customs duties. The network was allegedly led by Baldetti’s

former private secretary, Juan Carlos Monzón, and by officials of the nation’s tax authority.

The public reacted by organizing mass demonstrations in the capital’s Central Park, calling for the resignations of Pérez Molina and Baldetti. The vice president resigned on May 8, but the situation worsened when Guatemala’s International Commission against Impunity (CICIG) and state prosecutors exposed, on May 22, the fraudulent contract between the Guatemalan Social Security Institute (IGSS) and Droguería Pisa. On July 9, the government was tarnished once again by Gustavo Martínez’ arrest, the president’s former secretary general, which led in August to a mass demonstration that brought together 100,000 people in the Guatemalan capital’s Central Park, a prelude to the fall of the head of state.

In the end, an official, two former ministers and a former congressman were

Figure 7. Corruption Perceptions Index: 2002 vs. 2015



Source: Transparency International

² This is not an unprecedented phenomenon: in the 90s several corruption cases became front-page news such as those involving Latin American presidents, including: Arnaldo Aleman (Nicaragua), Miguel Ángel Rodríguez (Costa Rica), Augusto Pinochet (Chile), Alfonso Portillo (Guatemala), Jean-Bertrand Aristide (Haiti), Luis González Macchi (Paraguay), Abdala Bucaram (Ecuador), Fernando Collor de Mello (Brazil), Carlos Andras Perez (Venezuela), Alan Garcia (Peru), Carlos Menem (Argentina), Alberto Fujimori (Peru) and Carlos Salinas de Gortari (Mexico).

“In Argentina, there have been lawsuits filed against former President Cristina Fernandez and her late husband and predecessor, Nestor Kirchner”

among the 24 arrested during the operations carried out against corruption and money laundering, which implicated the former president of Guatemala, Otto Pérez Molina.

In **Chile**, Michelle Bachelet’s approval ratings have fallen to their lowest historical records at around 22-24 percent after details of the “Caval case” scandal dubbed “*Nuera-Gate*” (nuera being the Spanish word for daughter-in-law) were disclosed (the son of the President, Sebastián Dávalos, had access to inside information and used his political influence to secure a loan for his wife Natalia Compagnon’s company). This case caused a widespread crisis of confidence in the party system.

Meanwhile, in **Brazil**, the “Petrobras case” has splashed the reputation of the Brazilian political and business class and damaged the relationship between *Partido dos Trabalhadores* (PT) and its main longstanding ally, the PMDB, who formed a coalition that sustained Dilma Rousseff’s government. As part of Operation Car Wash (*Lava Jato*), a web of bribes and money laundering in Petrobras, Brazil’s state-owned oil company, is under investigation. The company reckons it has lost more than 6.2 billion reals (some \$2 billion) due to the deviation of

money, although it is estimated that the amount could be up to three times higher than that. Suspicions of corruption have spread to other sectors.

In **Argentina**, there have been lawsuits filed against former President Cristina Fernandez and her late husband and predecessor, Nestor Kirchner, for an alleged illicit gain during their more than 12 years in power. An Argentine prosecutor opened an investigation against Cristina Fernandez de Kirchner for the crime of bribery, in connection with alleged irregularities committed by a real estate agency with connections to her family. The former president had already been charged in the same case, along with her son, Maximo Kirchner, for illicit enrichment and falsification of public documents. The file details corruption scandals in the previous government, and mentions businessman Lazaro Baez as the principal public works contractor in the south (although he has businesses in other areas as well) during the Kirchner period (2003-2015). The businessman, who was detained for alleged money laundering and tax evasion, is being investigated on the suspicion that he was the figurehead of former President Nestor Kirchner (deceased in 2010) and his wife, Cristina, fraudulently wiring some 55 million euros to offshore accounts, mostly

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in Switzerland. This case was uncovered in 2013 through a journalistic investigation and is part of the so-called ‘K Money trail’ that includes other officials. One of the most publicized cases is the one that involves former Public Works Secretary during the Kirchner period, Jose Francisco Lopez, who was arrested in a monastery carrying bags containing an undeclared \$8 million. Up until that point he was being investigated for alleged illicit enrichment.

In **Peru**, the final period of Ollanta Humala’s government has been tainted by the consequences of the “Belaunde case,” especially because the first lady Nadine Heredia was implicated and investigated by state prosecutors for the alleged offense of laundering assets. A Peru’s Congress commission included Heredia in the investigation into the alleged illegal activities of businessman Martin Belaunde Lossio. He is being investigated for the case “*La Centralita*,” an office from which he allegedly spied on political opponents of Ancash’ governor, Cesar Alvarez. He is also accused of an alleged crime of money laundering in which he managed interests of private companies in order to award

them contracts with the state in the regions and obtain personal economic benefits.

In 2014 **Colombia** was tarnished by the fact that public funds were used to “buy political support” and elections (dubbed as the distribution of “jam”). In 2015 Colombia faced another scandal that shook public confidence in a key institution such as the Constitutional Court. Its president, Jorge Pretelt, temporarily stepped down from his position in order to prove his innocence in a corruption scandal in which he was allegedly involved. The complaint against Pretelt claims that he solicited a bribe of \$200,000 from a lawyer in order for the court to rule in favor of a trust company he represented. Regarding institutional confidence in Colombia, according to 2015 LAPOP’s AmericasBarometer, available at the *Democracy Observatory* of Universidad de Los Andes, the institution that enjoys greatest public confidence is the Catholic Church, followed by the Armed Forces, the Evangelical Churches and the government. Political parties are the institutions in which people have less trust (García Montalvo and Seligson, 2015).³

³ Garcia, M., Montalvo, J. and Seligson, M. (2015). *The political culture of democracy in Colombia, 2015. Democratic attitudes in areas of territorial consolidation*. [online] Democracy Observatory.

“Transparency International included Felix Bautista in fourth place in the list of individuals, companies and states that symbolize grand corruption”

In **Panama**, former President Ricardo Martinelli faces a complicated situation for alleged corruption. The Panamanian Supreme Court admitted three cases against the former head of state between 2009 and 2014, the last of them regarding some pardons granted at the end of his mandate. In January 2015, the Court initiated a case against Martinelli for the alleged crimes committed against public administration involving irregularities in the purchase of dried food for public schools. As a consequence, Martinelli’s immunity, as a member of the Central American Parliament (PARLACEN), who fled the country hours before an investigation into the case of dried food was due to open, was removed.

In the **Dominican Republic** corruption and political patronage have occurred repeatedly throughout history. Not surprisingly, the Trujillo regime (1930-1961) has been considered, like the Somoza regime in Nicaragua, a “kleptocracy.” The long period of political hegemony of Partido de Liberación Dominicana (PLD), which has governed uninterruptedly since 1996 except for the period between 2000 and 2004, as well as the country’s institutional weaknesses, have meant that

in recent years the country has been perceived as one of the most corrupt in Latin America, according to Transparency International’s *2015 Corruption Perception Index*.⁴ The most notorious case of the decade was that of Felix Bautista. The senator from San Juan de la Maguana’s province was allegedly involved in illicit enrichment, laundering, and forgery. The Supreme Court finally dismissed the case on technical grounds in favor of Bautista and others accused of alleged corruption and money laundering against the state, which was harshly criticized by many sectors. Transparency International, as part of a public vote it conducted to look for the most notorious corrupted figure, included Felix Bautista in fourth place in the list of individuals, companies and states that symbolize grand corruption.

In **Mexico** President Enrique Peña Nieto has faced not only economic and security scandals (the massacres of Tlatlaya and Iguala, and the escape and recapture of Chapo Guzman), but also the outbreak of two potential corruption scandals: one involving his wife, Angelica Rivera, and another his Finance Minister Luis Videgaray. The president and his finance minister may have incurred conflict of interest for the subsidized purchase

⁴ Full report available at: <http://www.transparency.org/cpi2015#results-table>

of some houses that were sold to them by a construction company favored with multiple government contracts.

However, many countries in the region are beginning to see changes in this area thanks to citizen mobilization, including Mexico. Only a few years ago it would have been unthinkable to imagine a society mobilized through social networks to demand a change in legislation. Although the success achieved by society has not been absolute, there has been some progress. Today we see

how Mexico's president has adopted a self-critical stance, recently appearing before the media to apologize.

Clearly, depending on the country, different levels of corruption exist. According to the work of Francisco Nieto and his study on "Demystifying corruption in Latin America," we can differentiate between occasional, endemic, systemic or institutionalized corruption. The first (tolerable, or low intensity) "is reduced to the so-called white-collar and does not transcend the everyday reality of citizens."

In endemic corruption, we see the frequent repetition of acts of corruption that "are popularized and widespread. This is the case of countries that are implementing reforms that have, to a greater or lesser extent, successfully managed to reduce the risks of corruption, particularly in public bodies (the so-called corruption "oil" that lubricates the bureaucratic machinery), although serious limitations persist in institutions and/or corrupt political practices."

Finally, in systemic or institutionalized corruption, "corrupt practices (are) inevitable, widespread, well known and implicitly tolerated. In these societies corruption becomes common practice, its punishment may be considered arbitrary, or the result of

Figure 8. List of the most striking corruption cases in the last two years in Latin America

COUNTRY	CORRUPTION CASES
Argentina	Hotesur scandal affecting President Cristina Kirchner Cicone scandal affecting Vice President Amado Boudou Jose Lopez scandal (former minister of public works of the nation) affects the overall Kirchner administration
Bolivia	Indigenous Fund scandal affecting members of the ruling party, MAS.
Brazil	Petrobras Case
Chile	Penta, Caval and SQM cases affecting the government (SQM & Caval cases) and the opposition (Penta case)
Colombia	Pretelt Case
El Salvador	Case of former President Francisco Flores
Guatemala	La Línea case leading to Vice President Roxana Baldetti's resignation (a network of fraud dismantled in customs)
Honduras	Social Security Scandal (some \$330 million in funds from Social Security were misspent and embezzled by officials and businessmen through the overvaluation of medicine and medical equipment)
Mexico	Videgaray case The "White House" case
Panama	Investigations of possible corruption cases during Ricardo Martinelli's government
Peru	Belaunde case
Dominican Republic	Felix Bautista case
Uruguay	Pluna case affecting the minister of the Frente Amplio, Fernando Lorenzo
Venezuela	"Cartel of the Suns" case

Source: Developed by ourselves

“It is therefore increasingly necessary and urgent to effectively regulate money in politics”

political revenge.” Some countries in the region such as Guatemala and Brazil fall under this last category.

However, beyond the particularities of each country, there are some parallels and common features throughout the region as far as corruption is concerned:

- Anti-corruption legislation is often characterized by being cumbersome and difficult to enforce.
- There are serious weaknesses in terms of supervision and control, and judicial systems are inefficient and highly dependent on political power.
- Existence of outdated legislation, coupled with a weak institutional framework with poor access to public information, low public participation, and prevalence of conflicts of interest and impunity.

Political parties are key players in the democratic and political electoral system, because of the role they play in mediating and channeling citizens’ demands, as well as their efforts to support the government or auditing from the opposition. However, in the current context, they are suffering a deep crisis of

confidence and credibility as a result, among other things, of the corruption in which they have been involved.

These illicit behaviors are closely related to the issue of political parties having to fund themselves and their long and costly election campaigns. Parties have to assume the permanent upkeep of party systems as well as dealing with election campaigns that are progressively more costly, which forces them to raise large sums of money. Finally, the parties have suffered a decline in membership fees, while the bulk of contributions come, in most countries, from large corporations. All this makes them more vulnerable to illegal financing, influence peddling and even to the penetration of drug trafficking and organized crime.

The now commonplace corruption scandals and use of illicit money in Latin America have led to growing citizen dissatisfaction with parties and politicians, leading to attitudes of indifference toward institutions, democracy and the political class in general.

It is therefore increasingly necessary and urgent to effectively regulate money in politics, in order to make the allocation and administration

“To combat corruption effectively three components are required: a strong institutional apparatus, a solid legal body, and a clear and strong political will.”

of resources to political parties transparent. Such regulation would help to prevent abuse and influence-peddling in political parties by interest groups, which would help restore the confidence of citizens in the political process.

This regulation of party and election campaign funding can be achieved through boosting transparency measures: making available to the public the necessary information on the parties' financial transactions. Accountability and disclosure become two of the most effective ways of controlling the financial transactions of political parties and candidates, and of preventing—or at least reducing—excesses in campaign financing and the influence of illicit money.

3. COMPREHENSIVE SOLUTIONS: INVESTING IN INSTITUTIONAL AND HUMAN CAPITAL

This new wave of corruption scandals in Latin America occurs after 15 years of profound changes in which Latin American societies are becoming increasingly urbanized and middle-classes have grown, with their own agenda. More active and empowered, these middle classes are demanding better public services, security and transparency.

In that regard, two obstacles stand out as the main barriers to fighting such a widespread phenomenon:

Institutional weakness and the consequent need to strengthen the rule of law in order to combat corruption.

The other obstacle is related to the value system and each country's political and civic culture, an obstacle that is especially serious in developing countries. While it is true that corruption is a universal phenomenon that affects the economy, society and legitimacy of the democratic system, it occurs in a more pronounced and acute fashion... in regions such as Latin America where there is no institutional apparatus, in some cases, that is strong enough to fight it.

THE COMMITMENT TO INSTITUTIONAL STRENGTHENING

“We must take care. The fight against corruption should not depend on the good will or the courage of individuals but on the existence of institutions and rules that discourage corruption, eliminate impunity and increase transparency in government actions.”

(Moises Naim)

“Finally, corruption is no more than an economic crime: those who offer money in exchange for favors and those who accept them carry out cost-benefit calculations”

To combat corruption effectively three components are required: a strong institutional apparatus, a solid legal body, and a clear and strong political will. These three components are effective in overcoming the blight of corruption because they act as a barrier against malpractices and disincentive them. Corruption is, in the end, a rational behavior related to certain incentives. Therefore, the existence of anti-corruption laws and of institutions that ensure the enforcement and implementation of these laws are key when it comes to combating malpractices. This is not only to build stronger, more independent and effective institutions but, above all, institutions with real sanctioning power, backed by the political determination to enforce these sanctions.

Successful cases on a global scale in terms of fighting corruption have these three characteristics that are present in harmony and unison:

1. The existence of a solid institutional apparatus

Experts have developed a formula that explains the workings of corruption: $C = M + D - A$. That is, C (Corruption) equals M (Monopoly) plus D (Discretion) minus A (Accountability). If the aim

is to reduce institutional corruption through public policies and legal reforms, monopolies should be limited and competition promoted. Finally, corruption is no more than an economic crime: those who offer money in exchange for favors and those who accept them carry out cost-benefit calculations, they respond to economic incentives and punishments.

With regard to incentives, Jose Zalaquett stated that reasons must exist to “behave well” and that “to the extent that punishments are more serious or painful, and the greater the chance they will be applied, the more corruption will be discouraged... today, committing an economic crime does not seem to entail a great punishment. Neither does violating the electoral law. Increasing the cost is very important.” Zalaquett explained that “in the case of economic crimes, unlike crimes of passion, the offender or potential offender does a cost-benefit calculation. He thinks like this: “The possibility of me being caught is 50 percent; the possibility of me being released on bail, another 50 percent and, ultimately, the possibility that I am condemned to pay a higher figure than I pocketed is 0 percent.” This is because the sentence is usually for a smaller sum. So there is a disincentive.

“Public authorities have made undeniable advances in the fight against corruption in Latin America since the 90s”

In the case of a passionate offender, the problem does not have to do with incentives or disincentives, but with impulses.”

2. Clear legislation

Additionally, clear legislation limits the degree of discretion with which those who hold public office can act while clarifying the rules of play. This will also increase accountability in tendering and procurement processes.

3. Political and social leadership

Political leaders must educate as well as lead anti-corruption campaigns in which it is important, of course, to catch the ringleaders (the “big fish”). But not only that, it is also necessary to carry out a proper diagnosis of corruption with the cooperation of the people involved; viable objectives must be sought pragmatically, without trying to do everything at once.

Public authorities have made undeniable advances in the fight against corruption in Latin America since the 90s. A wide range of incentives have been created to discourage committing illegal acts: the majority of countries have developed specific legislations to stop corruption and increase

transparency; anti-corruption officials and ethics committees have been appointed; NGOs participate actively in anti-corruption campaigns; countries have signed agreements with regional and global organizations to improve the accountability and transparency of governments. Although the advances are significant, the region still has much to do in the institutional fight against corruption.

This fight must involve the private sector, which is part of the problem and should be part of the solution. In that regard, it is important to promote the drafting of ethical codes of conduct and corporate self-monitoring in order to eradicate corruption.

Additionally, as previously mentioned, together with a strong institutional apparatus, a solid legal body, and a political will to fight corruption, transparency is required in the use of public funds, especially with regards to party funding.

There is a clear consensus on what (is necessary to fight corruption) but discrepancies exist around how to ensure transparency. There are two tools that are gaining importance in terms of fighting corruption and ensuring transparency. On one hand,

“There is a new factor, the existence of a more empowered and mobilized society in which citizens’ disillusionment with and tiredness of corruption prevails.”

governments must analyze the problem more effectively, which involves improving data collection.

On the other hand, academics William J. Burns and Mike Mullen believe that “another important tool in the fight against corruption is technological innovation, which reduces opportunities to commit crimes, empowers citizens to denounce and improves government transparency.’

THE COMMITMENT TO HUMAN CAPITAL

Corruption has to do with incentives as well as with lack of proper legislation and effective institutions, but it is also related to the existence and perpetuation in time of a certain political culture that generates, in turn, authentic social and political systems based on corruption, which are rooted in the values that shape individuals’ behavior. Society and culture play a key role in the tolerance of unlawful acts. The existence of individuals with firm inculcated principles and a fear of moral and legal condemnation become an effective means of preventing corrupt practices. However, when these principles, values and beliefs relax, the possibility of committing illegal acts increases significantly.

Therefore, in order to prevent corruption we must build a new political culture alien to corruption. The current approach to tackle corruption is partial, through instruments of control and sanction (laws, regulations, comptrollers, computer systems and surveillance or judicial processes) that have proven to be necessary but are clearly insufficient to stop corrupt behavior since they do not take into account the inner attributes of the individual: their education, values, perceptions and beliefs.

Corruption is rooted in the heart of institutions as well as in the heart of society, from neighborhood organizations to the worlds of business, communication, academia and culture. While this remains true for a considerable part of society, in another part of society things are changing very patently. It is also true that, at present, there is a new factor that has seen the light following recent mobilizations: the existence of a more empowered and mobilized society in which citizens’ disillusionment with and tiredness of corruption prevails. A society that does not show previous levels of tolerance and passivity toward corruption, and which mobilizes to put pressure on the political system.

“It is vital to drive reforms that reduce the discretionary nature of certain areas of public administration”

4. CONCLUSIONS

On a global scale, Latin America is an area with a medium to high incidence of corruption. Additionally, there is a great diversity of cases in the region, as there are countries with low levels of corruption such as Uruguay or Chile and others with high rates, such as Venezuela.

Corruption is related to outdated legislation, a weak institutional framework, poor access to public information, low public participation and the existence of conflicts of interest and impunity.

1) CORRUPTION IS A PROBLEM THAT IS VERY DIFFICULT TO ROOT OUT AND THIS IS MAINLY (BUT NOT ONLY) DUE TO THE WEAKNESS OF THE INSTITUTIONAL FRAMEWORK.

The ultimate essence of the problem lies in impunity. Corruption is universal but the difference from one country to another has to do with the fact that there are places where it is punished severely and penalties are enforced, which is an inhibiting factor when it comes to committing illegal acts.

Corruption emerges, spreads and, eventually, is consolidated when the institutional framework

does not fulfill its function due to lack of effectiveness in the design of incentives and penalties. Fighting corruption requires not only fighting its most obvious and visible manifestations, but rather redesigning, or building, ex novo, an institutional framework.

Corruption has three dimensions: individual, institutional and cultural. On the institutional level, the existence of a powerful and independent justice system guarantees punishments as well as the certainty that there will be penalties. From a personal point of view, the cost-benefit choice will ultimately be determined by the high possibility that, by engaging in an act of corruption, the individual has a lot to lose and little to gain.

For that reason it is vital to drive reforms that reduce the discretionary nature of certain areas of public administration. For example, the elimination of unnecessary regulations and the reduction of paperwork. Additionally, we must make a consistent effort to promote competition, especially in the public sector, through the tendering and procurement of works and services. This strategy of increasing the risks and costs incurred by corrupt practices is to improve the

“The supervision and control of administrations must be accompanied and supported by a strong judicial system that enjoys sufficient independence”

capacity of public institutions to monitor, prosecute and impose penalties, which raises the risks and costs associated with corruption and, thus, reduces (the) incentives.

Finally, the supervision and control of administrations must be accompanied and supported by a strong judicial system that enjoys sufficient independence to enforce the rules and impose sanctions commensurate with the crime committed.

II) CORRUPTION SHOULD BE SEEN AS A MULTI-CAUSAL AND HIGHLY DIVERSE PHENOMENON.

It is multi-causal because it is caused by different factors ranging from institutions to the persistence of a certain political culture and social behavior, as well as the shortcomings of the regulatory framework itself and the justice system.

Since corruption is multifaceted, the design of public policies to combat it must, in turn, be multidimensional and comprehensive. Public policies should encompass the economic dimension – given that corruption decreases countries’ competitiveness—as well as the political dimension, with public policies in which meritocratic values take precedence over political influence and patronage, and, finally, the administrative

dimension, in which clarity and predictability must take precedence over the general regulations.

It is true that there are best practice guidelines for tackling corruption, such as those developed by the OAS, the OECD, etc., but since each country has its own legal tradition and social context, the diagnosis of and how to tackle each problem will be different.

However, the OECD has concluded that there are three generic types of successful models in the world in the fight against corruption:

- Creating a single agency that concentrates the corruption-related issues (as is the case of Hong Kong or Singapore) while maintaining the judicial function in a separate body.
- Concentrating the authority to investigate, prosecute and punish corruption in one agency (usually a specialized prosecution office) but delegating the other functions (this is a case of three European nations: Spain, Belgium, and Germany).
- Opting for multiple decentralized (but coordinated) agencies that assume various functions such as research, evaluation, training, design of ethical codes or preparation of legislation (France or U.S.).

“Long-term internal solutions that are backed by strong social support and the political will to apply and enforce them are needed”

III) THE BATTLE AGAINST CORRUPTION IS NEITHER SIMPLE NOR DEFINITIVE AS IT CAN HAPPEN AT ANY LEVEL—LOCAL, NATIONAL OR INTERNATIONAL—AND EMERGE IN NEW AREAS AND CIRCUMSTANCES AS WELL AS IN DIFFERENT SHAPES AND FORMS.

Corruption strategies must focus on prevention. Reducing incentives is the best prevention policy and entails, among other things, continued supervision and control, extensive and continuous public awareness campaigns, thorough reforms of the civil service profession, and long-term investment in human and technical capital with the goal of strengthening institutions that promote prevention, control, public participation and law enforcement. Such institutions should be independent and have functional autonomy from the executive branch, without being subordinated to it. Long-term internal solutions that are backed by strong social support and the political will to apply and enforce them are needed.

IV) THERE MUST BE POLITICAL WILL TO ERADICATE CORRUPTION AND A CLEAR SOCIAL COMMITMENT TO REMAINING VIGILANT AND MOBILIZED.

There cannot be a successful anti-corruption policy without the participation of a society that demonstrates strong

collective commitment when it comes to remaining vigilant and active against corruption.

V) IT IS NECESSARY TO MOVE TOWARD GREATER TRANSPARENCY AND THE PROFESSIONALIZATION OF POLITICS.

It is increasingly necessary and urgent to effectively regulate money in politics, in order to make the allocation and administration of resources to political parties transparent. Such regulation would help to prevent abuse and influence peddling in political parties by interest groups, which would help restore the confidence of citizens in the political process.

VI) TRANSPARENCY AND NEW TECHNOLOGIES PLAY AN IMPORTANT ROLE IN THE FIGHT AGAINST CORRUPTION.

Transparency allows citizens to have access to information and carry out public scrutiny of public policies. On the other hand, tools such as biometric identification using inexpensive devices that can easily measure and recognize with great precision fingerprints, the eye’s iris, voice frequencies and face shapes, can contribute to improving the fight against corruption. Alejandro Tarre, a Venezuelan journalist, said that the identification process reduces or eliminates “moments in which individuals are more likely to be swayed

“Citizen participation is essential in this process”

by their worst instincts.” Modifying a system can be much easier and more effective than fighting against human nature.

Finally, beyond the many shortfalls and huge challenges Latin America still faces in the fight against corruption, we can say that the battle is not lost. The war is long, but eventually, it will be possible to see positive results, although perhaps not its ultimate demise.

Again, citizen participation is essential in this process. Probably what we are seeing today in the region—especially in countries like Brazil, Mexico or Guatemala—is part of a (national and international) social movement against corruption. Society has reached a point of disillusionment that has resulted in a very

important movement across the region. This move represents a firm step forward but is perhaps still insufficient.

Countries like Georgia and Singapore have shown it is possible to have great success in significantly reducing the scope of malpractices. Even in Latin America, Uruguay and Chile are, despite their shortcomings, an example to follow. In this regard, Maria Antonia Casar notes that “as in any public policy, the success of anti-corruption policies initially depends on a correct diagnosis, clear objectives and on implementing the instruments and measures that link the problems identified with the objectives to be met.”

There is still a long way to go, although some countries are already leading the way in the process of fighting corruption.

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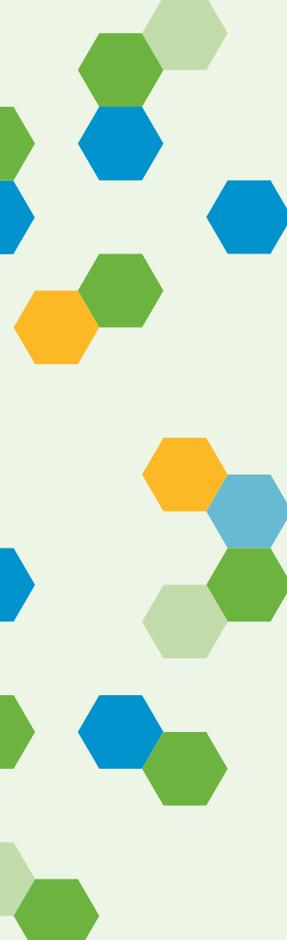
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