

Corruption in the Andean Region: Is Progress Being Made?

Carlos Basombrío Iglesias

Corruption is often defined as the practice of using or abusing power or public office for illicit private gain. This phenomenon is hardly unfamiliar to the Andean countries. What is relevant is that, even though time passes, presidents come and go, and Andean countries “re-found” themselves, corruption continues to have a major impact on political, social and economic life in the region.

Some argue that corruption is a separate issue from development, a symptom that clears up on its own once other, more fundamental political and social challenges are resolved. But corruption, especially when committed by government officials, is more than a product of poor governance; it undermines efforts at reform and exacerbates existing vulnerabilities. Government fraud wastes public funds that could otherwise be used for priorities, like much-needed infrastructure or social programs. Of course, there are less direct consequences. Demands for bribes and an unequal playing field reduce incentives for entrepreneurship, for instance, while poor scores on international corruption indexes discourage foreign investment and adversely affect the tourism industry. Kickbacks lead government officials to neglect the public good in many phases of the policymaking process.

Corruption is only one of many pressing governance issues in the Andean region, but the new and unsettling scandals that emerged in 2008 in 2009 have returned it to the forefront. In Colombia, these include the so-called “Yidis-politics” affair, congressional vote-buying, and, most recently, charges of illicit enrichment against two of President Álvaro Uribe’s sons. In Peru, allegations revolve around the “*petroaudios*” and the “*chuponeadores*” cases of official corruption caught on tape. In Bolivia, the head of the state natural gas company Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) has been charged with accepting kickbacks, while a cabinet minister stands accused of allowing contraband through a customs checkpoint. Ecuador went through both a scandal involving bond price manipulation by the finance minister and the “Border Hurricane” incident linking drug traffickers, the Revolutionary Armed Forces of Colombia (FARC), and, allegedly, senior government officials. Rather than high-profile, public cases of official corruption, experts say a series of government decisions in Venezuela have prompted a significant increase in systemic corruption.

These developments are not exceptional, nor are they new. Corruption has long been a pressing problem in the region, and

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Andean

*Working
Paper*

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Foreword

The Inter-American Dialogue is delighted to publish this paper by Carlos Basombrío Iglesias, one of Peru's leading political analysts. Basombrío, a widely recognized specialist on citizen security in Latin America who has been a columnist for *Perú21* since 2003 and formerly served as vice minister of the interior of Peru, reviews the recent spate of high-profile corruption scandals in each of the Andean countries. With these case studies, Basombrío analyzes the political implications of government fraud during an economic crisis and offers next steps for policymakers looking to address this daunting challenge.

This working paper is the eighteenth in a special series focused on the Andean countries of South America. The Dialogue's aim is to stimulate a broad and well-informed public debate on the complex issues facing key analysts and decision makers concerned with Colombia, Venezuela, Peru, Ecuador and Bolivia. We seek to offer diagnoses of the current situation as well as policy prescriptions to deal more effectively with deep-seated problems.

The series is a byproduct of a working group project launched by the Dialogue in 2001. The Andean working group is comprised of select and diverse analysts and policymakers from the Andean region, other Latin American countries, Europe, Canada and the United States. Like the working paper series itself, the group was launched with a particular focus on the Colombian conflict but then expanded to encompass all of the Andean countries.

The working group serves as a "brain trust" or core group of advisors for the Dialogue on the Andean region, a top priority for the organization. The goal of the group is not necessarily to reach agreements or produce consensus documents. Rather, it is to generate fresh interpretations of multiple Andean challenges, in order to shape thought and encourage constructive responses.

To date, the papers have dealt with the political situations in each of the Andean countries as well as a wide range of regional topics, including political polarization, civil-military relations, human security and energy. We are confident this paper will contribute to a deeper understanding of a critical situation in the hemisphere. Basombrío also wrote a working paper in April 2006 on civil-military relations in the Andean countries, "The Military and Politics in the Andean Region." His perspective does not necessarily reflect the views of the working group or the Inter-American Dialogue.

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remains so. The serious corruption cases involving high-level government officials reported in mid-2008 and early 2009 in four of these countries are not routine, however. The enactment of policies that deliberately weaken control mechanisms or allow acts of corruption to go unpunished, as in Venezuela, is also unusual.

As such, the purpose of this paper is to revisit the Andean corruption debate and its importance for political stability and democratic viability. The first section, *The Top Echelons*, reviews these cases in an effort to shed light on the nature and scope of the problem. It also briefly describes a series of measures adopted in Venezuela that seem to promote, rather than deter, systemic corruption.

The second section, *It Matters to the Public, But Not Much*, briefly reflects upon the significance of high-level corruption. There is a particular focus on the circumstances under which corruption hurts a government's image and ability to lead, especially during a global financial crisis. The third section, *A Growing Problem?*, ponders the significance of corruption, especially its impact on the potential for economic growth and how Andean countries fare in comparison to the rest of Latin America and the world.

Section four, *What is Being Done?*, makes note of some major advances in creating an environment to reduce and discourage systemic corruption. Section five, *No Need to Reinvent the Wheel*, concludes by outlining the key challenges ahead.

I. The Top Echelons

Colombia: "Yidis-politics" and Uribe's Sons

Yidis Medina is a former Conservative Party city councilmember and mayoral candidate for Barrancabermeja. As alternate to Santander congressman Iván

Díaz, a fellow Conservative, she sat in the Colombian House of Representatives for three months in 2004. The other key character in the story is Teodolindo Avendaño, alternate for congressman José Luis Arcila, elected on the 114 Coalition slate for the Cauca Valley Department.

During the same time period, a committee in the legislative assembly was debating a motion that would allow President Uribe to run for a second term. The votes of Medina and Avendaño were decisive. While both had publicly stated that they would vote "no," Avendaño did not attend the session in which the votes were cast and Medina changed her mind at the last minute.

Her suspicious change of heart made Medina the target of investigations that ended inconclusively. She then vanished from the political scene until March 30, 2008, when, in an interview with *El Espectador*, she admitted that she, along with congressmen Avendaño and Díaz, had accepted political favors to change their vote. The scandal that came to be known as the "Yidis-politics" affair was out in the open.

Medina named names, charging several Uribe associates with roles in the fraud, including former cabinet minister and ambassador to Italy Sabas Pretel de la Vega, former Secretary General to the President Alberto Velásquez, Social Services Minister Diego Palacio, former Deputy Interior Minister Hernando Angarita, former Superintendent of Notaries and Registrars José Félix Lafauriee, Social Unity Party Senator Armando Benedetti, and Iván Díaz, the congressman she had temporarily replaced. Medina also charged fellow Committee member Teodolindo Avendaño with accepting a hefty sum and a public appointment in exchange for skipping the vote.

Most importantly, Medina incriminated the President himself. As she declared in court,

“The serious corruption cases involving high-level members of government reported in mid-2008 and early 2009 in four of these countries are not routine.”

“**Opposition**
legislators from the
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“The President asked me to help. He said he needed me to vote in favor of the re-election amendment because it would be good for the country and it was the patriotic thing to do. He said to speak to Alberto Velásquez, who would be handing out certain benefits. He said that whatever was agreed, whether something for my region or anything else I wanted, was going to be honored.” Medina pleaded guilty to bribery charges and was sentenced to 43 months of house arrest.

Opposition legislators from the Democratic Pole coalition asked Congress to impeach President Uribe on charges of bribery. In a communiqué on June 9, 2008, Uribe responded as follows: “I have yet to receive a summons from the House Accusations Committee. In the meantime, I want to tell the Colombian people, under oath, that I always assumed that Ms. Medina would vote in favor of the re-election amendment, as that was the decision of her caucus, one that she shared. She never spoke to me about jobs. She said she had been criticized in Barrancabermeja over her support of my government. She commented on the need for social investment in her region, and I referred her to the same programs I often speak about in public.”

Officials named by Medina were also investigated. As a result, charges were brought against Ambassador Sabas Pretel de la Vega, cabinet minister Diego Palacio and deputy minister Hernando Angarita in January 2009.

The scope of the investigation widened in April 2009 when journalist Daniel Coronell published a report on the involvement of two of Uribe’s sons in a questionable real estate deal. According to Coronell, Tomás and Jerónimo Uribe bought a large plot of barren land in the town of Mosquera for 33 million pesos, and then resold part of it to the mayor, who swiftly rezoned it for

industrial use. The Uribes then applied to the Commerce Ministry to establish the land as a duty-free area. As a result, the value of the land skyrocketed to 3 billion pesos, earning them a 9,000 percent profit. To those who argued that the deal was distasteful but not illegal, Coronell countered that the Ministry resolution was issued to a firm that did not exist at the time the application was made.¹ In June 2009, Senator Gustavo Petro of the Democratic Pole revealed that the new highway from Bogotá to Facatativa will pass through the land in Mosquera and that this decision was made with the knowledge that it belonged to Uribe’s sons.

Peru: Petroaudios and
Chuponeadores

In 2007 and 2008, Dominican citizen Fortunato Canaán and Mexican national Mario Díaz Lugo established a complex web of corruption and influence-peddling in Peru designed to secure benefits for their business ventures. The network involved several public officials willing to help in return for bribes. Their go-betweens, individuals with ready access to high-ranking public officials, included Rómulo León Alegría, a former cabinet minister in the first administration of President Alan García.

While León’s tainted career had kept him from holding office in the second García government, he nonetheless quickly succeeded in securing access to the corridors of power. Canaán and Díaz Lugo were soon meeting with the likes of the prime minister; the ministers of health, interior, justice, housing, energy and mines; the President’s personal secretary; and other prominent members and supporters of the governing Popular Revolutionary American Alliance (APRA) coalition.

¹ “La Falsedad,” *Semana*, Gustavo Coronell, May 2, 2009. www.semana.com/noticias-opinion/falsedad/123516.aspx

The massive influence-peddling scheme was an open secret among businesspeople and journalists, but would never have been exposed and prosecuted had it not been for the existence of a widespread extralegal wiretapping enterprise. All signs indicate the *chuponeadores*, or snoops, were engaged in corporate espionage to settle a score and happened to stumble upon incriminating evidence.

In October 2008, what would come to be known as *petroaudios*, or petro-tapes, were leaked to the media and broadcast on national television. The tapes revealed that employees of the state oil company, PetroPerú, were accepting kickbacks from Norway-based Discover Petroleum in exchange for a major oil drilling concession in the jungles of Peru. Evidence shows that the Norwegians had been able to sidestep most formal procedures and had obtained “favors” from several government officials.

The airing of the *petroaudios* caused a political fiasco, beginning with the resignation of Prime Minister Jorge Del Castillo, who was soon shown to have had close relations with the leading players in the scandal. Several other cabinet ministers also resigned. An indignant Alan García demanded a thorough investigation and severe sanctions, calling the accused “rats.” After several weeks on the run, León Alegría turned himself in and is now being prosecuted along with other suspects.

Fallout from the case was widespread. Alegría’s computers are said to contain a wealth of incriminating information implicating prominent political actors. Prosecutors and police who tracked down the source of the wiretaps found, to their surprise, that the culprits were closely associated with the Peruvian Navy. The *chuponeadores* were caught in the act and their computers are now being pored over by investigators from the Ministry of Justice.

President García’s outrage eventually petered out. In fact, after the initial scare wore off, he began dismissing the incident as “a minor affair.” It is perhaps telling that the House Committee looking into the case was repeatedly boycotted by APRA members. With the support of the party sympathetic to former president Alberto Fujimori, they eventually succeeded in clearing all those under investigation.

These and numerous other related cases have been before the courts for months, with no tangible progress. In fact, León Alegría was released from prison in July 2009. Given APRA’s tight control of the judiciary, observers fear the governing party is engaging in delay tactics or even a cover-up.

Bolivia: Bribes in YPFB and Smuggling in Cobija

In January 2009, Bolivians approved a new Constitution. For President Evo Morales, the victory meant a chance to finally move from turmoil to stability, but that chance was lost when the worst corruption scandal under his watch was exposed in the same month.

On January 27, businessman Jorge O’Connor was found dead in a La Paz street, leading to the discovery of a vast web of corruption in the national gas company. YPFB was nationalized soon after Morales’ inauguration in 2006 and is a key asset for his political project.

O’Connor was head of Catler Uniservice, a firm that had recently been awarded a YPFB contract to build a gas separation plant. YPFB had just made a \$4.5 million advance payment to O’Connor, who was carrying ten percent of the amount—\$450,000 in cash—at the time of the attack. He was robbed as he entered the home of one Javier Navía, later shown to be the brother-in-law of YPFB chairman Santos Ramírez.

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“ The Bolivian opposition charged that at least part of the payment was destined for MAS coffers, adding to claims that vast sums of YPFB money are already being siphoned off to pro-government politicians. ”

After their arrest, the O'Connor assailants said the robbery had been masterminded by a Catler Uniservice lawyer. He explained that O'Connor was holding a kickback payment for the head of YPFB, which they knew they could steal because anyone reporting the crime would reveal their own illicit behavior. A shot accidentally fired in the scuffle had disrupted the whole operation.

YPFB chairman Santos Ramírez, a Quechua speaker, is a close friend and long-time political associate of President Morales. They co-founded the Movimiento al Socialismo (MAS) party, where Ramírez served as second in command. Together, they led the 2003 mass protests that toppled President Gonzalo Sánchez de Lozada, whom they branded a “traitor” for opening the oil and gas sector to foreign investment. In addition, Ramírez was once married to MAS congresswoman Jiovana Navía Doria Medina.

A press investigation later found that Catler Uniservice had no registered office or operating capital. Everything points to a shell company created for the purposes of a contract whose provisions could be changed as needed. Left with no option, Evo Morales dismissed Ramírez in early February. Now in prison and under indictment, Ramírez was “dishonorably” expelled from MAS, and YPFB has since been reorganized.

The Bolivian opposition charged that at least part of the payment was destined for MAS coffers, adding to claims that vast sums of YPFB money are already being siphoned off to pro-government politicians. Vice-president Álvaro García Linera countered: “Greed and political ambition created a toxic mix that led some public officials to create a web of corruption in YPFB, causing terrible economic damage to the state.”

President Morales later gave the case an unexpected twist by charging that the US Central Intelligence Agency had infiltrated YPFB. He alleged that Ramiro Carrasco, a former policeman, “whom the US trained for over a decade in intelligence, security, wiretapping, surveillance, communications, undercover operations, and, among other specialties, international crisis management,” had infiltrated YPFB, won the trust of Ramírez and led him astray.

Morales portrayed Carrasco as a, “dangerous character, given his skill in undercover operations, infiltration, sabotage and political control.” The case is presently before the courts.

Another high-profile case that rippled through Bolivian society involved a cabinet minister alleged to have protected smugglers. On August 23, 2008, Bolivian customs officials at the northern border town of Cobija stopped 33 trucks carrying contraband goods. General César López, the Customs Office director, said that Juan Ramón Quintana, the Minister of the Presidency and another close Morales associate, personally intervened to ask that the convoy be allowed to proceed. Morales dismissed the reports as an opposition red herring and offered the minister his full support.

Ecuador: From a Sovereign Bonds Tempest to the “Border Hurricane”

The first alarms about corruption in the Rafael Correa government in Ecuador were sounded in May 2007, just months after he took office. A video clip surfaced in which Economy Minister Ricardo Patiño is seen discussing privileged information with representatives of Venezuelan banks linked to the Chávez administration. Patiño is said to have informed the banks that Ecuador, in spite of repeated hints of a default, was in fact preparing to pay off a portion of its

foreign debt. Ecuador's sovereign bonds would soar as a result, earning anyone in possession of this information a substantial profit.² The case caused an uproar and was investigated by Congress. Patiño was asked to tender his resignation and was then shifted to another senior position. Emerging during Correa's push to re-found the country, the issue was soon forgotten in the wake of a series of other high-profile political developments.

Deserving special mention is another more recent—and, apparently, more serious—case. It refers to an Esmeraldas police investigation of an international drug ring, codenamed “Operation Border Hurricane.”

According to police sources, three brothers—Jefferson, Edison and Miguel Ostaiza—used aircraft and even makeshift submarines to ship cocaine into Mexico and the U.S. on behalf of the FARC. In September 2008, Operation Border Hurricane led to the arrest of Edison and Miguel Ostaiza. Jefferson Ostaiza, the ringleader, remains at large.

The link to the Correa government is José Chauvín, leader of the ruling Country Alliance (AP) movement and named by prosecutors as a co-conspirator in the case. A member of the Pichincha chapter of AP, in 2006 Chauvín had helped its congressional candidates with a get-out-the-vote drive. At the time the scandal broke, he was again in charge of coordinating voter support for AP hopefuls.

Chauvín is a close ally of former Government and Interior Minister Gustavo Larrea, a highly influential figure in the Correa administration. As Undersecretary for Political Coordination

in 2007, Chauvín liaised with community organizations, town mayors, local officials and municipal governments. Appointed by Larrea to the Standing Commission on Human Rights Program Evaluation and Follow-Up, Chauvín oversaw progress under the Plan Ecuador border security initiative and worked closely with communities in northern Ecuador.³ In 2008, he acted as a consultant to the Security Ministry, and Larrea, then the Security Minister, asked him to investigate the March 2008 Colombian attack on a FARC camp in Ecuadoran territory.

Chauvín's close ties to Larrea prompted President Correa to take him off the Legislative Assembly slate. He also set up a Truth and Transparency Commission to investigate the Colombian attack and determine if Larrea was involved in the deeds for which Chauvín was under investigation.

However, Correa concurrently called for an investigation of José Solórzano, the prosecutor investigating Chauvín. “I'm going to ask the Chief Prosecutor to investigate the (antinarotics) prosecutor and his media antics,” Correa said on March 12, 2009 during his weekly radio and TV address.

According to Correa, the only finding of the probe has been that Chauvín befriended a drug lord—nothing that incriminates former minister Larrea. Correa chastized Solórzano over his “media shows” and said that Larrea will be reinstated once the Commission clears him.

Venezuela: An Open Door Could Tempt a Saint

In Venezuela, a combination of bulging public coffers (oil brought in \$100 billion in net revenues in 2008 alone), lax controls, and declining institutional independence seem to have sent corruption soaring.

³ Chauvín is a long-time member of the Latin American Human Rights Association (ALDHU), which is also under investigation.

“ In Venezuela, a combination of bulging public coffers, lax controls, and declining institutional independence seem to have sent corruption soaring.”

² Taking a page from Peru's Vladimiro Montesinos, the video was recorded by the minister himself. Weeks later the Correa government responded with a decree banning disclosure of video recordings without permission from the parties concerned.

“Whether guilty or innocent, the involvement of high-level public officials in these scandals severely tainted their public image and that of their governments.”

Mercedes de Freitas, Director of the Venezuelan chapter of Transparency International, reports that the national budget for 2008 was based on oil selling for \$35 below actual prices. “While oil prices averaged \$100 a barrel, the budget was based on \$65 a barrel,” she said. “There are no reports or audits accounting for the balance, estimated in the billions of dollars.”⁴

De Freitas adds that state-owned *Petróleos de Venezuela (PDVSA)* is notorious for poor financial transparency. “There is little in the way of reliable information on oil production and revenues since 2001. PDVSA hasn’t published an annual consolidated financial statement since 2003. Its latest communication to the US Securities and Exchange Commission was in 2005.”⁵

Another matter of concern is the 2008 Government Procurement Act, criticized as flouting anti-corruption principles. “In the past, only purchases of \$10,700 or less were exempt from tendered contracting. The new legislation raised the threshold to \$86,000, according to de Freitas.”

Exchange rate controls and the resulting informal currency market are another source of illicit enrichment.⁶ Enacted in 2003, controls limited access to hard currency and established quotas for various categories of individuals, such as travelers, importers, and students. The inevitable result was a black market for currency. The significant price differences and discretionary allocation of hard currency at official prices are considered a source of large-scale public corruption.

⁴ Quotes and figures in this section are mostly from “Venezuela: Corrupción del siglo XXI,” by Paloma Casanueva. *Fundación Iberoamérica Europa*. January 2009.

⁵ This may be connected to the “suitcase-gate” affair. A Venezuelan national was caught entering Argentina with \$800,000 said to be destined for the campaign of Argentine President Cristina Fernández. The money is suspected to have come from PDVSA.

⁶ The “MUC dollar” adopted by the first García administration was also considered a leading source of corruption.

Also controversial is the Economic Development Fund (*Fonden*), created in August 2005 to spend “excess” foreign reserves held by the Central Bank. Critics argue that the measure put an end to Central Bank autonomy and forced it to act as a government funder in the absence of adequate controls.

II. It Matters to the Public, but Not Much

The corruption scandals unveiled in Colombia, Bolivia, Ecuador, and Peru have their own peculiarities, but they are all distinct from the issues facing Venezuela.

In Bolivia, the YPFB affair is a standard case of public officials taking kickbacks from private business. In Peru, there is a web of influence-peddling in the public sector. In Ecuador, “Operation Hurricane” illustrates the ease with which the drug trade can infiltrate and corrupt public servants. In Colombia, the Yidis-politics affair reflects clientelism practices and the abuse of public resources for personal or partisan gain. These cases provide a wide cross-section of the forms corruption can take and show just how serious the phenomenon remains.

What all of these cases have in common is the involvement of high-level officials, including the prime minister in Peru, a cabinet minister in Ecuador, the chairman of the state-owned oil company in Bolivia, and several ministers and legislators in Colombia. Whether guilty or innocent, their involvement in these scandals severely tainted their public image and that of their governments.

In all four cases, presidents reacted forcefully and succeeded in safely avoiding the legal and political fallout. However, once the uproar subsided, all four downplayed the

events and their scope. Furthermore, none of them seems particularly interested in getting to the bottom of the problem or in rooting out those responsible, whoever they may be.

Did these presidents and governments pay a high political price? The answer is unclear and varies from one country to the next. According to opinion polls, not one president lost popularity. Alan García even rebounded slightly, though for unrelated reasons and only from very low numbers.

Nevertheless, the issue remains potentially damaging. In Peru, it brought back memories of the widespread corruption in the first García administration, leading segments of the population to fear he may be up to his old tricks again.⁷ Evo Morales and Rafael Correa are unusual cases. Both lead governments that purport to be re-founding their countries to rid them of corrupt rulers who help themselves to the public coffers, but these events cast at least some doubt on whether things are really changing. In Colombia, Uribe did not lose popularity but the Medina affair rekindled fears about the impact of a second re-election.

Political stability did not seem to suffer as long as the president was not directly implicated. While distaste for fraud is growing in Andean countries, corruption does not in and of itself seem to significantly impact how a president fares. However, these scandals do discredit the government and can be a powerful weapon in the hands of the opposition. The disappointment it generates can accumulate and, under already unstable conditions, eventually disrupt the political system.

Throughout the Andean region, the global crisis is ending the boom years of high growth, public wealth and increased

⁷ In a survey of García's first 1,000 days in office, corruption ranks second (34%) among reasons for his low approval numbers. Ipsos Apoyo poll, April 2009.

opportunities for corruption. With this in mind, is corruption more likely during periods of economic growth or decline? There is not enough information available to venture an answer, although corruption and economic growth are most likely relatively independent variables. The example of Fujimori, whose fraud only became a major public concern once the economic downturn hit Peru, makes it relatively clear, however, that societies appear to be less tolerant of corruption during crises.

III. A Growing Problem?

He's a Crook, but He Delivers

"He's a crook, but he delivers," is a piece of folk wisdom widely heard in Peru, with local variants in most countries where corruption is widespread. The concept behind this perverse dictum is that corruption is a moral and criminal issue that has little to do with the overall well-being of the nation. Is the fight against corruption an issue related only to public ethics, and thus of relevance only to certain elites?

The impact of corruption on democracy and on the life and development of a country is enormous. First, there is the direct cost in lost money. Transparency International's Global Corruption Barometer 2008 reports that low-income countries lose \$50 billion a year—about half of the world's development aid budget—to known corruption cases.⁸ Even more important is the strong correlation between corruption (reflected in Transparency International's

⁸ Corruption in 33 public institutions cost each Ecuadorian family \$177 a year, for a total of \$533 million. This amount is 8.7 percent of annual income for poor families. For those living in extreme poverty, the per-family amount is \$569. National Corruption and Good Government Survey, Transparency Ecuador 2007.

“ Both Morales and Correa lead governments that purport to be re-founding their countries to rid them of corrupt rulers, but recent events cast doubt on whether things are really changing. ”

“As there is no evidence that growth alone reduces corruption, development plans must include specific measures to encourage transparency.”

Corruption Perceptions Index or CPI) and poverty (measured by the United Nations Development Program’s Human Development Index or HDI), as shown on the table below:

CPI/HDI in the 25 Least Corrupt Countries		
CPI Rank	Country	HDI
1	Denmark	14
1	Sweden	6
1	New Zealand	19
4	Singapore	25
5	Finland	11
5	Switzerland	7
7	Iceland	1
7	Netherlands	9
9	Australia	3
9	Canada	4
11	Luxembourg	18
12	Austria	15
12	Hong Kong	21
14	Germany	22
14	Norway	2
16	Ireland	5
16	United Kingdom	16
18	United States	12
18	Japan	8
18	Belgium	17
21	Saint Lucia	72
22	Barbados	31
23	France	10
23	Chile	40
23	Uruguay	46

Source: UNDP 2007–2008; Transparency International 2008.⁹

There are some outliers, but the correlation is remarkable: 20 of 25 countries scoring well on the Corruption

⁹The CPI measures data from 13 sources on the general scope of corruption (frequency and size of bribes) in politics and the public sector and ranks countries accordingly.

Perceptions Index are also among the 25 countries with the highest Human Development Index scores.¹⁰ Of the 25 countries with the best CPI scores, 24 are also among those with the best HDI scores.¹¹

A near-perfect correlation exists between low levels of corruption and high levels of development, a concept that includes the existence and consolidation of democratic societies and states. As there is no evidence that growth alone reduces corruption, development plans must include specific measures to encourage transparency. These indicators show why fighting corruption ought to be a top priority for poor countries, including those in the Andean region. But is it?

“Somewhat Corrupt”

In an exceptionally ill-advised choice, Transparency International chose to host an anti-corruption summit in September 1997 in Fujimori’s Peru. In her opening speech, then-Attorney General Blanca Nélida Colán¹² noted, with a certain pride, that Peru was only “somewhat corrupt.” Beyond the merely anecdotal, just how specific to Peru and the Andean region is public corruption?

The Corruption Perceptions Index, the Latinobarómetro 2008 poll and the AmericasBarometer 2008 survey¹³ may help shed some light on this issue. Note that the results do not necessarily agree, making it more difficult to grasp the extent of the issues.

¹⁰ Spain (13 in the HDI, 28 in the CPI) and Israel (23 in the HDI, 33 in the CPI) reinforce the correlation. The exceptions are Italy and Greece. Both score high (20 and 25) on the HDI but low (55 and 57) on the CPI.

¹¹ The outlier is Saint Lucia, which ranks in the upper end of middle-income countries.

¹² Colán later served time for illicit enrichment and conspiracy to interfere with public institutions.

¹³ Conducted by the Latin American Public Opinion Project at Vanderbilt University.

Corruption Perceptions Index (Americas)			
Country Rank	Regional Country Rank	Country/Territory	CPI Score 2008
9	1	Canada	8.7
18	2	USA	7.3
21	3	Santa Lucía	7.1
22	4	Barbados	7.0
23	5	Chile	6.9
23	5	Uruguay	6.9
28	7	Saint Vincent and the Grenadines	6.5
33	8	Dominica	6.0
36	9	Puerto Rico	5.8
47	10	Costa Rica	5.1
65	11	Cuba	4.3
67	12	El Salvador	3.9
70	13	Colombia	3.8
72	14	Trinidad and Tobago	3.6
72	14	Mexico	3.6
72	14	Peru	3.6
72	14	Suriname	3.6
80	18	Brazil	3.5
85	19	Panama	3.4
96	20	Guatemala	3.1
96	20	Jamaica	3.1
102	22	Dominican Republic	3.0
102	22	Bolivia	3.0
109	24	Argentina	2.9
109	24	Belize	2.9
126	26	Honduras	2.6
126	26	Guyana	2.6
164	28	Nicaragua	2.5
168	29	Paraguay	2.4
151	30	Ecuador	2.0
158	31	Venezuela	1.9
177	32	Haiti	1.4

Source: Transparency International, 2008.

“A review of the past few years shows Andean countries improving little relative to the rest of the world.”

Except for Chile, Uruguay, and perhaps Costa Rica, most Latin American countries do not score well on the CPI. With some important differences, Andean countries fare especially poorly. Of the 180 countries reviewed, Colombia ranks 70th, Peru 72nd, Bolivia 102nd, Ecuador 151st, and Venezuela 158th.

Moreover, a review of the past few years shows Andean countries improving little relative to the rest of the world. In a survey that expands each year to include more countries, Colombia and Peru remain at the midpoint and Bolivia is still in the second tier. Ecuador and Venezuela are clearly mired among the worst in the world in this area.

The Latinobarómetro 2008 survey, which polls the general public rather than specialists, helps shed more light on perceptions of corruption.

The Andean country scoring the worst for 2008 was Venezuela with 22 percent of the public having personal knowledge of an act of corruption, followed by Peru with 15 percent. Colombia scored 10 percent, Bolivia 8 percent and Ecuador 6 percent.

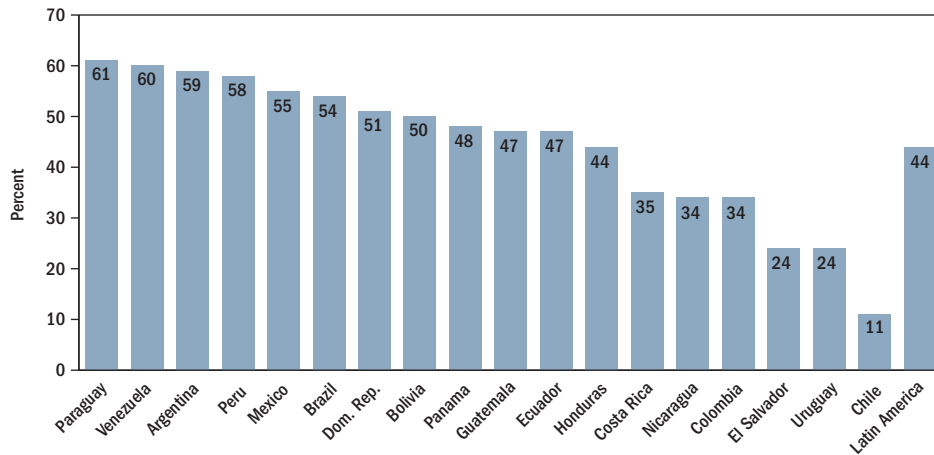
The Latinobarómetro poll also asks about the likelihood of bribing a public official, including police officers. As a member of a

	2002	2003	2004	2005	2006	2007	2008
Colombia	57	59	60	55	59	68	70
Peru	45	59	67	65	70	72	72
Bolivia	89	106	122	117	105	105	102
Ecuador	89	113	112	117	138	150	151
Venezuela	81	100	114	130	142	162	158
Countries Reviewed	102	133	145	158	163	179	180

Source: Transparency International.

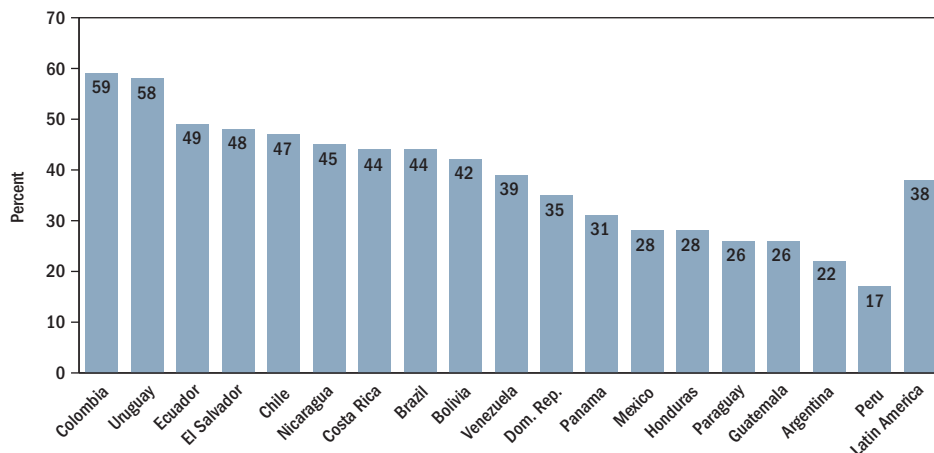


Chart 2: Likelihood of Bribing a Police Officer



Q: "Imagine that a foreign friend of yours that has never been to your country asks what are the chances of bribing a police officer in order to avoid being stopped. What would you say? Don't even try it/A very small chance/It depends/Quite a high probability/A very high probability." Answers shown are "Quite a high probability" plus "A very high probability." (Source: Latinobarómetro 2008)

Chart 3: Progress in Reducing Corruption



Q: "How much progress do you think has been made in reducing public corruption during the last two years? A Lot, Some, Little, None" Answers shown are "A Lot" and "Some." (Source: Latinobarómetro 2008)

law-enforcement institution in daily contact with the public, a corrupt police officer has a particularly significant symbolic impact.

Venezuela has the worst score in the Andean region with 60 percent, followed by Peru with 58 percent, Bolivia with 50 percent and Ecuador with 47 percent. Notably, Colombia scores only 34 percent.

The Latinobarómetro poll also asks about perceptions of the issue over time.

With 59 percent of affirmative answers, Colombia ranks highest. At 49 percent, Ecuador's encouraging score may reflect the expectations created by the new government. At 42 percent, Bolivia ranks reasonably well for similar reasons. Peru's 17 percent makes

“ Ecuador's encouraging score on the 2008 Latinobarómetro survey of public perceptions of corruption may reflect the expectations created by the new government. ”

it the Latin American country with the most pessimistic view of progress in fighting public corruption.

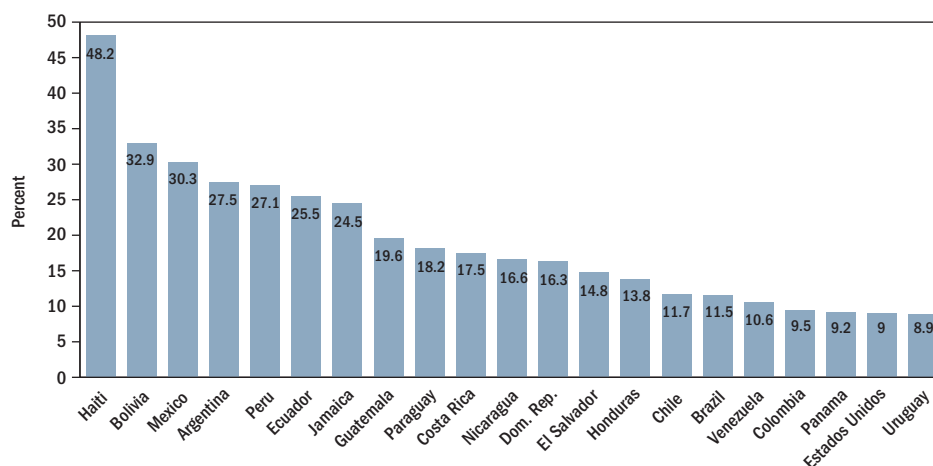
The AmericasBarometer 2008 poll compares rates of victimization and perceptions of corruption. On the first category, Bolivia fares poorly. With 32.9 percent, corruption victimization reported is second only to Haiti's. With 27.1 and 25.5 percent, Peru and Ecuador are not far behind. At 10.6

and 9.5 percent, Venezuela and Colombia fare much better.

The perception of corruption differs across countries. In Bolivia, it is high at 71.8 percent but less than in other countries with lower victimization rates, which could suggest higher adaptive tolerance to corruption. In Ecuador at 76.6 percent and Peru at 75.8 percent, corruption perceptions are higher than in Bolivia and are mostly consistent

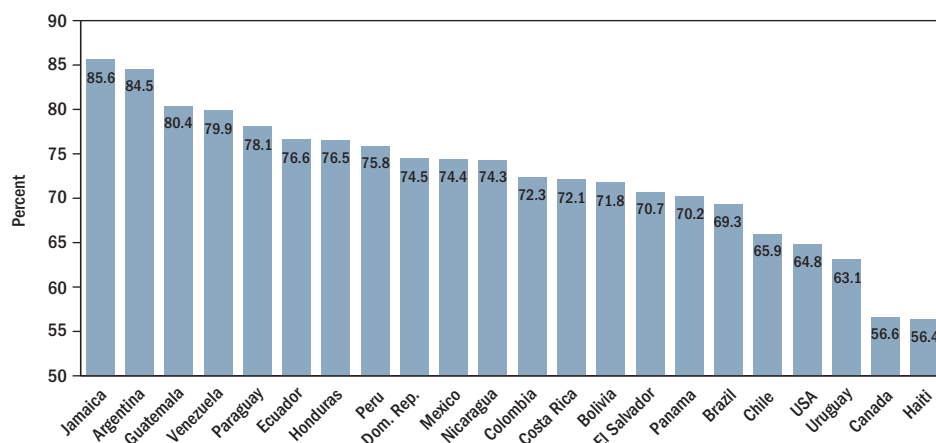
“ In Venezuela, at 79.9 percent, the perception of corruption is much higher than the victimization rate. ”

Chart 4: Percentage of the Population that has Been a Victim of Corruption



Source: LAPOP AmericasBarometer 2008

Chart 5: Percentage of the Population that has Been a Victim of Corruption



Source: LAPOP AmericasBarometer 2008. "Taking into account your experience or what you have heard mentioned, is corruption by public officials very common, somewhat common, not very common, or uncommon?" The graph reflects those that answered very common or somewhat common.

with victimization rates. In Venezuela, at 79.9 percent, the perception of corruption is much higher than the victimization rate. Colombia ranks in the middle.

These snapshots are complementary but varied, showing that the issues are hard to grasp and that different methods may yield inconsistent results.

Nonetheless, the findings are significant. All Andean countries continue to labor under a serious corruption problem. Save perhaps for Colombia, the issues facing the region seem to be more acute than elsewhere in Latin America. Peru does not report the highest corruption perception, but it is relatively less tolerant of it. Peruvians are also the least optimistic about chances for progress and public ability to confront the issue.¹⁴ In Colombia, Ecuador and Bolivia, corruption reaches extraordinary proportions, but citizens seem more positive about the government's ability to confront it.

Results for Venezuela appear somewhat contradictory. The general public does not seem to feel as strongly about corruption as the specialists, which is consistent with their higher opinion of their democracy. Moreover, the degree of personal knowledge of acts of corruption measured by Latinobarómetro does not fit with the corruption victimization levels reported by the AmericasBarometer.

IV. What Is Being Done?

Despite the seemingly minor political impact of corruption on levels of public approval and the resigned attitude of some sectors of the population, responses to corruption in the Andean Region are certainly evolving.

¹⁴ Massive corruption in the 1990s and continued corruption now, in spite of valiant efforts to punish it, must surely account for structural pessimism among Peruvians.

On the whole, public corruption is less tolerated than a decade ago. Save for Venezuela, governments are held to higher standards, with stricter international commitments and local institutions playing a greater role. In addition, significant numbers of civil society organizations are actively concerned with transparency and anti-corruption issues. These include Transparency International chapters in Colombia, Ecuador, Venezuela and Peru, as well as human rights, media, gender, environmental and other groups establishing concrete links between their specific concerns and the larger corruption issue.

Corruption has also become a primary focus of investigative reporting. A case in point is the success of the Latin America and Caribbean Corruption Investigation Prize, awarded since 2002 by the Press and Society Institute and Transparency International.

Corporations operating in the region, including but not limited to North American and European transnationals, enforce codes of ethics banning involvement in corrupt practices. Efforts are underway in Colombia and, to a lesser extent, Peru, to introduce principles and practices designed to reduce corruption and increase transparency in business transactions with the state.

Some important steps have also been taken in the direction of improving the efficiency of the legal and institutional framework. Peru, Colombia, and Bolivia have ratified the UN Convention against Corruption. In addition, all Andean region countries have signed and ratified the 1996 Inter-American Convention against Corruption.

The Inter-American Convention mandates implementation of measures to prevent, detect, prosecute, and eradicate corruption as well as mechanisms to foster interstate cooperation on this issue. Article III lists preventive measures to be adopted, including

“ In Colombia, Ecuador and Bolivia, corruption reaches extraordinary proportions, but citizens seem more positive about the government's ability to confront it. ”

“Progress in setting up state institutions specifically designed to advance the fight against corruption has been rather poor.”

standards of conduct in the public sector; enforcement of conflict-of-interest laws; requirements that government officials report acts of corruption; registration of the income and assets of public officials; fair government hiring and procurement practices; adequate revenue collection and control systems; protection for whistleblowers; and independent oversight bodies.

States party to the Convention also agree to penalize active and passive corruption, transnational corruption, illicit enrichment, improper use of confidential information or public property, improper influence over a government decision for personal gain, and diversion of public property and assets. The Convention provides for a follow-up mechanism and for mutual assistance on extradition, lifting of bank secrecy, and seizure of ill-gotten assets.

Transparency International agrees that most governments are complying with many of the commitments in the Inter-American Convention—largely because of civil society encouragement and prodding.

In the past few years, Peru has issued a number of statutes designed to prevent and penalize corruption. These include the Access to Information and Transparency Act, the Ethics in Government Act, the Public Service Interest Management Act, and the Citizen Oversight and Participation Act. An anti-corruption system set up by the judiciary is operating reasonably well.

In contrast, progress in setting up state institutions specifically designed to advance the fight against corruption has been rather poor. The National Anti-Corruption Initiative launched in the aftermath of the Fujimori regime recommended appointing an anti-corruption “czar” whose name would be proposed to Congress by the government. Then-President Alejandro Toledo made this

appointment without consulting Congress. After a few months of inaction, the czar was named to an ambassadorial post and never replaced. García, for his part, set up a National Anti-Corruption Office reporting directly to the president. Lacking a clear mandate, it laid dormant for a year before being disbanded.

In Colombia, the Transparency in Colombia Corporation agrees that an adequate legal framework exists. This includes systems ensuring equitable and transparent government procurement, a sufficient number of government institutions responsible for public resource oversight, legitimate enforcement agencies, citizen oversight guarantees entrenched in the Constitution, and a profusion of anti-corruption programs.¹⁵

In Bolivia, progress against corruption hinges on 38 anti-corruption articles in the new Constitution and a new Transparency and Anti-Corruption Ministry vested with broad powers. The Ministry’s Prevention, Promotion, Ethics and Transparency and Anti-Corruption vice-ministries in turn operate the Corruption Investigation and Asset Recovery Directorates-General.

In Ecuador, the Anti-Corruption Citizen Oversight Commission established by law in 1999 has continued to operate normally in spite of political turmoil. Commission members represent key sectors of the Ecuadorian public and have investigative powers. The Commission plays an important role and enjoys growing recognition.¹⁶

Even in Venezuela, Mercedes de Freitas, director of the local Transparency International

¹⁵ Rosa Inés Ospina: “Experiencia de implementación sistemática de Pactos de Integridad para la contratación pública en Colombia” in *Transparencia y probidad pública. Estudios de casos en América Latina*. José Zalaquett and Alex Muñoz, Eds. School of Law, University of Chile, 2008.

¹⁶ Juana Sotomayor: “Comisión de control cívico de la corrupción en Ecuador” in Zalaquett and Muñoz, op. cit.

chapter, agrees that some positive signs are emerging. These include the good track record of the Customs and Taxation Service and greater transparency in local government.

V. No Need to Reinvent the Wheel

The preceding cases and daily experience show that progress is overshadowed by the magnitude of what needs to be done to effectively reduce corruption and bring culprits, especially the financially and politically powerful, to justice.

At this point, rather than rehashing past transgressions or compiling more accounts of the issues, the region needs corruption prevention policies and a sustained effort to transform the culture on which this scourge feeds.

Ending impunity requires comprehensive reform of the criminal justice system, including the judicial administration and police institutions. Mechanisms ensuring transparency and access to information must be put in place and government secrecy reduced to a minimum. In government procurement, discretionary and merely formal controls must be replaced by effective oversight. There is consensus that businesses dealing with the state must be actively engaged in the fight against corruption. Political party and campaign financing must be made transparent and subject to oversight. Conflicts of interest and misuse of protected information must be defined and restricted. Press reports exposing corruption must be encouraged by offering whistleblowers effective protection. The list could go on and on.

But while much work is needed to improve regulations and institutions, the most important condition for real anti-corruption progress is genuine political will on the

part of the government. It also requires civil society organizations and news media with enough legitimacy, capacity and initiative to place corruption at the top of the agenda while effectively scrutinizing and holding public officials accountable for their acts.

A concrete and quantifiable goal, a true litmus test of commitment to the anti-corruption fight, is for each Andean country to consolidate the numerous facets of the issue into national action plans. The Organization of American States Secretariat for Legal Affairs provides a follow-up mechanism for the Inter-American Convention against Corruption. The mechanism's technical secretariat has proposed creating national plans of action under OAS oversight. Although Colombia, Peru and Ecuador have pledged to join the process, no Andean country is currently devising such a plan.¹⁷

A national plan of action drafted in consultation with key sectors of society and setting concrete targets monitored by civil society organizations and the OAS could be a major step forward.

The fight against corruption faces extraordinary challenges. Ardent rhetoric is often accompanied by limited progress, so it is not at all clear that Andean governments actually have the political will required to confront public corruption with the force and energy the issue requires.

The high levels of corruption prevailing in the Andean countries are both a reflection of their status as an underdeveloped region and a major roadblock to development.

¹⁷ The United States and Spain have made funding and methodological contributions. See www.oas.org/juridico/english/mesicic_cida_project_backg_en.htm.

“ While much work is needed to improve regulations and institutions, the most important condition for real anti-corruption progress is genuine political will on the part of the government. ”

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