




How Is Corruption Affecting Latin American Countries?

Latin American Advisors of Inter-American Dialogues Interview

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FEATURED Q&A

How Is Corruption Affecting Latin American Countries?

Q Mexico and Argentina lead Transparency International's list of the countries in Latin America whose citizens perceive their nations as most corrupt. Seventy-two percent of Argentines and 71 percent of Mexicans believe corruption in their countries has grown over the past year, according to the study, which ranked Venezuela a close third. Why are perceptions of corruption comparatively high in these countries? In which countries are governments undertaking real actions to root out corruption, and where are such efforts lacking? How is corruption affecting the business and investment climate in Latin American countries?

A Miguel Schloss, president of Surinvest Ltd. in Chile and former executive director of Transparency International: "While corruption in Latin America varies widely between countries, much of the region ranks poorly in international terms—far behind OECD and East Asia, and marginally better than the former Soviet Union and Sub-Saharan countries. Moreover, it's hard to see much tangible progress in the last decade, judging by all major sources of corruption perception indicators—in spite of active anti-corruption advocacy, new laws and a regional convention. This strongly suggests that fighting corruption cannot be approached piecemeal by adopting new laws, creating another commission, carrying out miscel-

laneous projects or launching another 'campaign,' as has been the practice in much of the region. A more strategic and rigorous approach is needed, addressing each country's underlying causes and weaknesses in key institutions, policies and practices. Of its many guises, legal corruption is becoming particularly pernicious—for example, when special-interest groups shape law or policies to their advantage through exchange of favors to politicians—particularly in populist regimes where corruption has led to control of entire states,

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Trinidad's Warner Wins Election to Regain Parliament Seat

Jack Warner, who resigned his seat in April and left his party over a bribery scandal, won back a seat in parliament in a special by-election on Monday. Warner, a former FIFA official, defeated Khadijah Ameen, the ruling party's favored candidate. See brief on page 2.

File Photo: The Guardian.

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NEWS BRIEFS

Warner Handily Wins By-Election in Trinidad & Tobago

Jack Warner, the controversial former FIFA official who resigned his seat in Trinidad and Tobago's parliament and left his party over a bribery scandal last April, on Monday won a special by-election for the Chaguanas West district, *The Guardian* reported. Warner defeated the ruling party's favored candidate, Khadijah Ameen, by a two-to-one margin. Warner, who will return to parliament on Friday, also made history as the first Afro-Trinidadian leader to win the seat, historically held by East Indian-based parties since the 1950s.

Mexico's Colima State to Allow Same-Sex Civil Unions

Mexico's Colima state will allow same-sex couples to enter into civil unions now that local authorities have approved a change in the state constitution, BBC News reported today. In Mexico, Coahuila state also allows same-sex civil unions, while Mexico City and Quintana Roo state allow gay marriage. Same-sex couples also can wed in Uruguay and Argentina. Brazil's Supreme Court issued a ruling in May effectively authorizing same-sex marriages.

Caixa Targets Brazilian Merchant Payments Market With Venture

Spain's **CaixaBank** said Monday it is teaming up with Atlanta-based **Global Payments** to penetrate Brazil's \$318 million merchant payments market. The deal marks Global Payments' first incursion into Latin America, the company said. The new joint venture, named **Comercia Global Payments Brazil**, is already accepting **Visa** and **MasterCard** cards. Brazil's payments market is growing at 20 percent annually, according to CaixaBank.

Political News

Twenty-Six Brazilian Police Officers go on Trial in Prison Massacre Case

Trial started Monday in the case of 26 Brazilian police officers accused of murdering dozens of inmates during a 1992 prison riot, BBC News reported. The incident at the Carandiru prison in São Paulo eventually left 111 prisoners dead within a half hour in what came to be known as the Carandiru massacre. Police arrived at

“The policemen began shooting everyone; if you looked a policeman in the eyes, you were dead.”

— Former prisoner *Jacy de Oliveira*

the prison in an effort to quell the riot and started shooting inmates at random, according to witnesses. The officers have said they acted in self-defense, but human rights groups have pointed out that the police did not suffer any casualties in the melee. "We never thought they would come in and kill people randomly, as not everyone had joined the rebellion," Jacy de Oliveira, a former prisoner, told BBC Brasil. "The policemen began shooting everyone; if you looked a policeman in the eyes, you were dead." The trials are being held in stages, with groups of officers being tried separately depending on what floor of the prison they were on. The policemen on trial this week are accused of killing 73 inmates on the second floor. In April, 23 officers were sentenced after being convicted of killings on the first floor. Dozens of additional officers are expected to go on trial in the coming months. The police official who led the operation, Col. Ubiratan Guimarães, was convicted in 2001 of using excessive force. In 2006, he was acquitted on appeal, but then soon after was found fatally shot under unclear circumstances in his São Paulo apartment. Carandiru, which was

once among Latin America's largest prisons, was closed in 2002 and eventually demolished.

Economic News

Chile Lowers Forecast for 2013 GDP Growth

Chile's government on Monday lowered its forecast for gross domestic product growth for this year to 4.6 percent from 4.8 percent amid more tepid investment and a softer economy, Reuters reported. The price of copper, of which Chile is the world's-largest producer, will drop to \$3.28 per pound from the previous estimate of \$3.40 per pound, according to Chile's budget office. Copper exports amount to more than half of the country's export revenue. The budget office added that the country's public spending level is expected to increase by 5.9 percent this year in real terms as compared to last year. Chile's domestic demand is expected to rise 5.3 percent, a lower forecast than the previously estimated 5.5 percent. Last year, the country's domestic demand increased 7.1 percent. "After three years of elevated dynamism, the economy has started a deceleration phase in 2013 ... domestic demand maintains a faster rhythm than GDP, although it has also decelerated its growth," said the budget office, Reuters reported. In 2012, Chile's economy expanded 5.6 percent, but the level of growth declined in the first quarter of this year to 4.1 percent. That marked the slowest expansion since late 2011. The government estimates that annual inflation will end this year at 2.8 percent, lower than the previous forecast of 3.0 percent. This month, the central bank, led by Rodrigo Vergara, signaled that it may cut interest rates if the country sees a further economic slowdown. Traders are expecting the bank to hold its benchmark rate steady at 5.0 percent next month, but then



Vergara

File Photo: Chilean Central Bank.

begin cutting it by 25 basis points within three months.

Company News

Explosion Likely Caused by Rebels Shuts Down Colombia Oil Pipeline

An explosion Sunday that was likely caused by leftist rebels shut down Colombia's Caño Limón-Coveñas pipeline, Reuters reported, citing military sources. The pipeline, Colombia's second-largest, carries 80,000 barrels of oil per day. Colombian state oil company **Ecopetrol** owns the pipeline and U.S.-based **Occidental Petroleum** uses it. The shutdown did not have an immediate effect on output or exports of crude, Occidental said. Two military sources told Reuters that it was likely that leftist rebels caused the explosion, but it was not clear if the rebels involved were from the FARC or ELN rebel groups. It was unclear Monday how much spilled crude resulted from the explosion or what the environmental damage might be. Crude oil from the Caño Limón fields travels through the

Despite peace talks, rebels have stepped up their attacks on Colombia's oil infrastructure.

pipeline to Colombia's Caribbean port of Coveñas from which it is exported. Despite the peace talks between Colombia's government and the FARC which began last November, rebels have stepped up their attacks on Colombia's oil infrastructure in the past year. Officials are typically able to restart pipelines within days after an attack. Last year, such attacks happened as frequently as every two or three days, according to the defense ministry.

Featured Q&A

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through the phenomenon dubbed 'state capture.' At its core, good governance starts with elections and higher levels of transparency. Elections cannot be effective unless they are free and clean, complemented by real freedom of expression and a free press. Transparency with impunity will not bring forth justice or make governments accountable. Broader governance reforms require progress in rule of law to make any real, lasting impact. In much of Latin America, progress on these counts has been mixed. Reshaping the fight against corruption into smarter strategies that tackle the absence of transparency, excessive discretionary powers in the public and private sphere, lack of controls and the rule of law will strengthen accountability with consequent improved conditions for development in the region."

A Ruben Olmos, managing partner at Global Nexus LLC in Washington: "Latin America has accomplished great things over the last decade, including lowering poverty, improving income distribution and building a more robust democratic system. Corruption, in contrast, has worsened. Corruption is hard to measure given its complexity and types. However, surveys such as the ones conducted by Transparency International suggest that though some Latin American countries are becoming more corrupt, others are improving. Regional corruption has increased over the years given excessive government regulations and big bureaucracies. The more complex the government is, the more opportunities you have to offer bribes. Organized crime is another important pillar of corruption. While some countries like Colombia and Peru have managed to destroy the power of drug cartels, in Mexico and some countries in Central and South America, organized crime has grown and become more consolidated, fueled by the incredible profits of drug trafficking and distribution. Across the region, organized crime operates with

varying degrees of impunity. Underpaid government employees who supervise immigration, policing, transportation, utilities and other functions are all vulnerable to criminals' bribes. In Argentina, corruption has also affected higher levels of government. A decade ago former President Carlos Menem was under house arrest on suspicion of involvement in an arms-trading scandal. For businessmen, Latin America represents both an opportunity and a challenge. On the one hand, ample resources, a growing middle class and connectivity present opportunities to global companies. But investors must deal with increasing corruption, and not just when trying to sell goods and services to government, but also to obtain permits or inspect new facilities. In Mexico, the Peña Nieto administration has announced a new effort to tackle corruption. The plan includes the elimination of the current comptroller's office and the creation of a new independent Anti-Corruption Commission, which will have legislative oversight. These efforts and the crusade against organized crime should be the beginning of a sustained effort to end this endemic problem."

A Juan Cruz Díaz, managing director of Cefeidas Group in Buenos Aires: "If we look at Transparency International's corruption perception map, the majority of Latin American citizens perceive their countries as corrupt. Economic problems, institutional weaknesses and social and political mobilization all influence the variation in these perceptions of corruption every year. The literature about the value of perception-based corruption measurement is vast and contentious. However, there is no doubt that TI's report and its indexes are very influential and an indication of serious institutional problems. In many cases, the results serve as a basis for institutional change. The widespread perception of corruption in Latin America has a long history of affecting the quality of business in the

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region. Companies and investors use several sources to assess the business climate, including indexes (like the TI corruption perception index), ratings, rankings and other official and non-official statistics. The challenge for companies is how to evaluate all of these sources. Reaching conclusions from non-contextual data can be highly misleading. Therefore, it is crucial for a company to have deep, first-hand local knowledge of the numerous dimensions of the social, regulatory, political and business climate and the in-country dynamics. While Mexico and

“Corruption is an evil that can doom democracies that have taken much work to build.”

— *Raúl Benítez Manaut*

Argentina have historically ranked poorly in this regard—and clearly there is a need for improvements to measures tackling corruption—they are not alone (Brazil, for example, will probably feel the impact of the recent protests in the next TI report). Latin American governments should work together to develop an anti-corruption initiative aimed at strengthening institutional quality in the region. Currently, the issue of corruption is not sufficiently addressed in existing regional organizations. The Foreign Corrupt Practices Act in the United States, the U.K. Bribery Act and other initiatives in the European Union and at the OECD level serve as good examples of measures that have achieved positive results across the globe. I believe there is an opportunity and a need for Latin America to move forward decisively with a region-wide, anti-corruption initiative that could mark a new stage in the consolidation of democracy and its institutions.”

A Raúl Benítez Manaut, researcher at the Center for Interdisciplinary Research in Science and Humanities at the National Autonomous University of Mexico (UNAM): “Corruption has more fans, players and money involved than even soccer. Across Brazil, thousands of protesters took to the streets against graft. In that country, a powerful cabinet member from the previous government, José Dirceu, was sentenced to 10 years in prison in connection with the so-called Mensalão scandal. It was just within the past 25 years that a Brazilian legislator who had been charged with corruption was convicted. According to some estimates, corruption amounts to 3 percent of the country's gross domestic product. Meanwhile in Mexico, the country's most powerful woman, Elba Esther Gordillo, leader of the hemisphere's largest union, was jailed for 'unexplainable' enrichment. Mexico's government also wants to seize a large number of luxury homes and bank accounts. Also in Mexico, former Tabasco Gov. Andrés Granier is in prison, accused of stealing the whole budget of the state's health department. These cases in Latin America's largest countries show the weaknesses of fragile democracies, which politicians, business-people and corrupt contractors are destroying. Such cases are very common in most countries, regardless of the party in power or the government's ideology. These cases also show the weakness of judicial systems, prevailing impunity and a lack of transparency in the management of resources. Corruption is an evil that can doom democracies that have taken much work to build.”

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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Erik Brand

General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Megan Cook

Reporter, Assistant Editor
mcook@thedialogue.org

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