

RESEARCH ARTICLE

# The impact of corruption in the development of Latin America

Nubia Zulma Nieto Flores

Independent Researcher, London, the United Kingdom  
continents.sky@gmail.com

Submitted: 13 February 2023  
Accepted: 14 May 2023

<https://doi.org/10.70139/rolac.2023.1.2>

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Cite this article as: Flores Nieto N. Z. The impact of corruption in the development of Latin America, *Rule of Law and Anti-Corruption Journal*, 2023:1, <https://doi.org/10.70139/rolac.2023.1.2>

## ABSTRACT

One of the most perverse effects of corruption is its impact in developing countries, specifically in Latin America, where corruption drags the region into poverty, social exclusion, political instability, inefficient governance, scarcity of public services, violation of human rights, and lack of justice for the most vulnerable people. Not to mention the impact of this phenomenon on economic growth. Every year US\$1 trillion is paid in bribes, while an estimated US\$2.6 trillion are stolen annually through corruption – a sum equivalent to more than 5 per cent of the global Gross Domestic Product (GDP). In developing countries, according to the United Nations Development Programme (UNDP), many funds are lost due to corruption; it is estimated at 10 times the amount of official development assistance (ODA).<sup>1</sup> The present article presents the consequences of corruption in developing countries, particularly in Latin America, where corruption not only affects the economic growth of the region, but also the income per capita and the social and human development of Latin American people. The article is divided into three areas with different sections. The first one shows the possibilities and resources of Latin America and the role of corruption to break the advance of the Latin American countries. The second one presents the effects of corruption in the public services mainly education and health. The third one exposes the consequences of corruption in the increase of inequality in the region. Finally, recommendations are presented, offering some key areas to be improved.

**Keywords:** Economic growth; Latin America region; corruption; governance

## 1. GROWTH AND MISERY IN LATIN AMERICA

In the 1970s and 1980s, the main concern of the Latin American countries was to fight against dictatorships that rule the region. In the 1990s, it was corruption, the subject that took the attention of international agencies. Since then, there has been the emergence of a global condemnation of the most important organizations, from the economic and political spectrum to civil society. Today among the most important international organisations engaged to fight corruption are the Organisation

<sup>1</sup> United Nations Office on Drugs and Crime (UNODC) & United Nations Development Programme (UNDP) *Corruption and development*, Austria, UNODC-UNDP (2022).

for Economic Co-operation and Development (OECD), the Organisation of American States (OAS), the World Bank, G-20 Anticorruption Group, the Group of States against Corruption (GRECO) as part of the Council of Europe (COE), the World Economic Forum, the International Monetary Fund (IMF), the United Nations (UN), U4 Anti-Corruption Resource Centre, and Transparency International and other Non Governmental Organizations that work against corruption. Since 2000s, period of government transitions, there is an increase in awareness and condemnation against corruption in civil society. Step by step, average citizens of Latin America get outraged, when their governments or high decision makers abuse their position to steal public resources. This new scenario opens the door for a hopeful future. Although currently, corruption continues being a huge source of political conflict, human rights violations, and illicit enrichment that pulls the region into underdevelopment.

In recent years, there have been several studies that coincide to underline the impact of corruption at reducing growth, limiting trade, wasting government resources, damaging the state finances, destroying creativity and business, diverting key financial resources to develop the human capital of a country.<sup>2</sup> Moreover, there are other important consequences such as squandering talent, limit meritocracy, and destroy the trust of citizens in their governments. Where corruption flourishes, the business struggles to maintain quality, originality, and competitive prices, and the final cost of corruption will be translated into the pocket of consumers.

This article is a modest contribution on the discussion about corruption and underdevelopment, mainly in Latin America and it does not pretend to be a panacea to solve it. There are many limitations in the study of corruption due to the obscure nature of this phenomenon and the difficulties to keep track it. The news provided by journalists, reports released by global institutions, and reflections by academics are the main source of information that is presented this article.

### 1.1. Corruption and Business in the Region

According to the summary the Best Countries for Entrepreneurs in 2022 that analyses 50 countries around the world, the Latin American countries with better governance, less corruption, and more transparency have better conditions to do business, than those with high levels of corruption and inefficient governance. For example, Chile is ranked in the 27th place, while Mexico takes the 33rd place, Dominican Republic 46th, and Brazil 48th. It is necessary to remind that the highest position in the rank means less favourable place to do business, while the lowest position means the best place to do business.<sup>3</sup>

In this sense, it can be observed that successful entrepreneurs are product of good governance and stable social conditions. Business integrity is a key element to guaranty fair trade and competitive business. The benefits of business integrity will be for entrepreneurs, citizens, and governments. Following the report of the Best Countries for Entrepreneurs in 2022, the rule of law, the balance of power, and the education of citizens are pillars for successful entrepreneurs.

Moreover, there is expertise agreement that the level of uncertainty and political instability affect severely economic growth, and the opposite, good governance, and respect of the rule of law facilitate the development of business, which will be translated in the well-being of citizens. According to Charts, corruption also affects the entrepreneurial governance, since the companies with high level of corruption perform poorly in comparison with those firms with good company governance. This performance is materialised in different levels: greater productivity, quality of product, labour conditions and fair wages.<sup>4</sup>

In this way, corruption has unfavourable consequences for business, both national and international. In developing countries, the effects of corruption are magnified because priorities in public policies are replaced by personal interests. Furthermore, the amount of money lost in each transaction is multiplied every time that a procedure is demanded. For Myint, corruption sets up the development of business since the beginning to the end, which means since the first negotiation, signature of the contract, administrative process, and the future of a company depend on the amount of money spent on bribes.

Thus, in countries with high levels of business corruption, the probability to make successful business is quite low since corruption takes most of the company profits. As for consumers, the quality of products and services are, in general, marked by poor quality, since companies that control the market are not competitive and innovative.<sup>5</sup>

Furthermore, corruption distorts the market competition, limits investment, reduces opportunities, and contributes to destroy political legitimacy. Following the OCDE, in corrupt countries the investment is almost 5% less than in countries that are relatively corruption-free.<sup>6</sup>

The process to set up, maintain, and make thrive a business in Latin America is a real challenge, as the corruption fees appear from different fronts from the public institutions until organised crime. The corruption is a strong force in this region that drags it into poverty, inequality, and underdevelopment.

2 THOMAS CHARTS, THE ECONOMIC AND SOCIAL CONSEQUENCES OF CORRUPTION IN TRANSITION COUNTRIES, chapter 2 (The World Bank 2020).

3 World Economic Forum (WEF), *Entrepreneurial Context Index (NECI)*, (2022), <https://worldpopulationreview.com/country-rankings/underdeveloped-countries> (last visited January 6, 2023).

4 Charts, *supra* note 2.

5 Organisation for Economic Co-operation and Development (OECD) *The rationale for fighting corruption, background brief*, Paris, France (2014).

6 *Id.*

## 1.2. Cases of Corruption in Latin America

Corruption continues being the main problem of most of the countries in Latin America. For example, there are a few cases in the region that merit to be mentioned: The “Panama papers” that involved important political, business, and decision makers of Latin America and the world in tax avoidance schemes.

Another case is the Petrobras scandal that involved one of the most important Brazilian state companies in the oil industry. Petrobras was founded in 1953 by former Brazilian president Getulio Vargas (1934-1945/1951-1954). This case involved key political and businesspeople. This corruption scandal is related to US\$2.1 billion, money redistributed in form of personal profit to finance political campaigns, money laundry, and bribes. Most of the beneficiaries were members of the Party of Workers and the Party of the Brazilian Democratic Movement (PMDB). The political figures involved were former president Ignacio Lula da Silva and members of the government of former president Dilma Rouseff, as well as important CEOs of Petrobras. On the one hand, the former director of the company, Pedro Barusco, who admitted all charges and agreed to return US\$100 million, money stolen from the company. On the other hand, Paulo Roberto Costa, operations’ director at Petrobras, confessed having received bribes and agreed to return US\$23 million, after a long judiciary process. This corruption case caused 10,000 workers to lose their jobs and the company to lose value at 50% of its assets.<sup>7</sup>

Another corruption scandal in the region was the Odebrecht case that reached many countries, not only in Brazil, but also in Mexico, Colombia, Peru, Angola, and Mozambique. The Group Odebrecht is the most important Brazilian construction company that carried out the works for the 2016 Olympics Games in Brazil and the 2014 World Cup in Caracas. The CEOs of the company admitted paying bribes to win contracts in different countries. The directors of Odebrecht confessed to incur in corruption, nepotism, cronyism, and they agreed to pay US\$2.6 billion in compensation for damages and fines.<sup>8</sup>

In Mexico, cases of corruption were released under the government of Enrique Peña Nieto (2012-2018). For example the white house/“*La casa blanca*” scandal, which showed the links between corruption and business real estate developments in the country. This mansion was registered by the Real State Engineer of the Centre/“*Ingeniería Inmoniliaria del Centro*”, owned by Grupo Higa company. The house had a value of US\$7

million in 2014. It was given to the ex-wife of Peña Nieto, Angélica Rivera, in exchange of public contracts between 2012 and 2014. Among the most important contracts were the high-speed rail link between Mexico City and the state of Queretaro. Despite the indignation of Mexican people there was not any criminal prosecutions on the grounds of corruption and conflict of interest.<sup>9</sup>

In Peru, Alan García (1985-1990/2006-2011) was accused of embezzlement of public resources, large compensations to senior officials, and irregularities in the acquisition of equipment, medicines, bidding processes, and other cases of corruption related with the company Odebrecht. According to the Peruvian police, Alan Garcia and his collaborators, Luis Nava, president secretary, received US\$4 million in exchange of a contract for the line 1 of the underground in Lima, Peru.<sup>10</sup>

In Colombia, the ex-president Alvaro Uribe Vélez (2002-2010) was accused of embezzlement, corruption, nepotism, influence peddling, human rights violations, and illegal granting of public contracts for millions of dollars that involved Alvaro Uribe’s wife and children.<sup>11</sup>

Business corruption is associated with the private sector, although this type of corruption is often linked with political corruption. It is necessary to underline that for the purpose of this article, the term corruption is taken as the abuse of a public position for private purposes.<sup>12</sup> In countries with authoritarian governments, poor infrastructure, and lack of accountability and good governance, the presence of political and private corruption is often intertwined. Unfortunately, the history of many rich families and businesspeople in underdeveloped countries is associated with corruption scandals. Sometimes it is due to direct involvement and sometimes it is due to the lack of integrity business tools, since corruption is embedded in the social and cultural values of a country, therefore it is quite difficult to disentangle corruption of the way to do business.

Corruption is one of the main barriers to create business and sustainable economies, with reliable governments and citizens living with good quality of life. In Latin America the level of corruption is still quite high. Following the report of the Global Corruption Barometer, the citizens of Latin America and the Caribbean consider that their governments do not make enough effort to fight corruption. Even worse, Latin American people consider that corruption has augmented by 53%.<sup>13</sup>

7 Nicole Lallée, *Las claves del ‘caso Petrobras’*, EL MUNDO, <https://www.elmundo.es/internacional/2016/03/04/56d97024e2704e1c758b4590.html> (last visited January 5, 2023). Also see Paulo Sotero, *Petrobras scandal*, ENCYCLOPEDIA BRITANNICA, <https://www.britannica.com/event/Petrobras-scandal> (last visited February 10, 2023).

8 Claudia Sáenz Guzmán, *Odebrecht pagó más sobornos en México por 9.2 mdd; revela investigación internacional*, CAPITAL (October 21, 27, 2021), <https://www.capital21.cdmx.gob.mx/noticias/?p=28310> (last visited January 3, 2023). Also see Daniel Gallas, *Brazil’s Odebrecht corruption scandal explained*, BBC NEWS (April 17, 2019) <https://www.bbc.co.uk/news/business-39194395> (last visited January 4, 2023).

9 Gustavo Castillo García, *El caso ‘Casa blanca’ quedó en impunidad; nunca hubo querrela*, LA JORNADA (October 10, 2022).

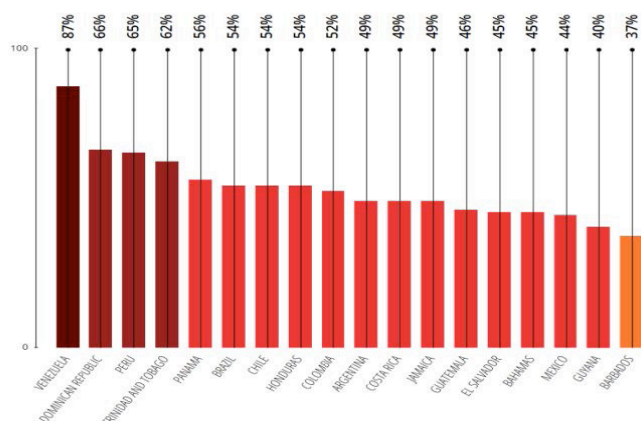
10 *¿Qué estaba pasando cuando se disparó el expresidente Alan García?*, EL TIEMPO (April 17, 2019).

11 Michell Figueroa, *Familia de Alvaro Uribe contrató con el municipio de Medellín durante la alcaldía de ‘Fico’ Gutiérrez, aseguró Daniel Quintero*, INFOBAE (February 8, 2023), <https://www.infobae.com/colombia/2023/02/08/familia-de-alvaro-uribe-contrato-con-el-municipio-de-medellin-durante-la-alcaldia-de-fico-gutierrez-aseguro-daniel-quintero/> (last visited May 19, 2023).

12 World Bank, *Corruption in Economic Development*, Policy Research Working Paper, WPS 2048 (1997).

13 Transparency International *Global corruption Barometer. Latin America & The Caribbean 2019. Citizen’s view and experiences of corruption*, Berlin, Germany, Transparency International-International Secretariat (2019).

Perception of corruption in Latin America<sup>14</sup>



On the one hand, Peru and Columbia registered the highest percentage of people, who believe that political corruption is the biggest problem in their country with 96% and 94% respectively. On the other hand, 85% of Latin American people consider that corruption is the main problem for their countries.<sup>15</sup>

**1.3. Abundance of Natural Resources and Poor Governance**

Latin America is a rich region, where national resources are abundant: precious metals: lithium, gold, silver, and copper. Energy resources: oil and gas. Daily product: sugar, rubber, grains, coffee, chocolate, avocado and so on. However, this region continues being one of the most deprived areas in the world. Unfortunately, countries with rich natural resources are the target of corrupt political elites and companies.

There is an extensive literature around countries with rich natural resources, which tend to find some common traits such as high levels of corruption, poor governance, insufficient infrastructure in accountability and transparency, weak business integrity knowledge and social culture that does not distinguish the barrier between private and public interest.<sup>16</sup>

For example, in Ecuador there is a serious conflict between oil companies and government, particularly after the oil multinational Texaco drilled 356 oil deep holes and opened more than 1000 pools in the Amazon jungle between 1964 and 1990, without any government and environment regulations to dump the oil waste such as crude oil, polluted water, and toxic sludge. The American company avoided to pay any fines due to environment damages. The conflict was inherited to Chevron in 2001, when this firm bought Texaco. The extension of damage caused was equivalent to the territory of El Salvador.<sup>17</sup>

The history of countries with rich natural resources, such as gold, silver, oil, and gas, is full of historical tragedies, since they are the target of rich countries, corrupt political elites and transnational companies that need those resources to produce their wealth.

The economic growth in Latin America is remarkable, mainly in Brazil and Mexico. Both countries are considered the largest economies in Latin America. In 2021, the Gross Domestic Product (GDP) of Brazil reached around US\$1.6 trillion,<sup>18</sup> while Mexico recorded 1.3 trillion of American dollars.<sup>19</sup> However, this wealth has not been translated into the wellbeing of their population. The corruption levels in both countries are still quite high. Brazil registers a score of 38 and Mexico 31 out of 100, considering that 0 is to qualify a country with the highest level of corruption and 100 for the cleanest one.<sup>20</sup>

The two main countries that drive growth in the region are Brazil and Mexico, and both they register high levels of corruption. For example, in Brazil, a complex corruption networking was recorded involving high ranking politicians and businesspeople in an operation of money laundering and diversion of state resources. Ex president Ignacio Lula Da Silva (2003-2011) was sent to prison from 2018 to 2019 for accepting bribes. However, he was released in 2021, and he won the presidential elections in 2022 against Jair Bolsonaro (2019-2022).<sup>21</sup> Today, Lula is the current president of Brazil. While in Mexico, the scandals of corruption do not stop either. Recently, Edgar Veytia, ex fiscal of the State of Nayarit, accused to the ex-president Felipe Calderon (2006-2012) and Genaro Garcia, ex-key member of the presidential cabinet of Calderon, to protect the Cartel de Sinaloa, during the trial that follows Garcia Luna in New York for charges of money laundering, corruption, and links with organized crime.<sup>22</sup>

According to the New York Prosecutor’s Office, the Sinaloa cartel paid directly to Genaro García Luna, former police chief of military operations against narco-trafficking in Mexico and known as “the anti-drug czar”. Genero García, who was detained in Texas US in December 2019, used part of these resources as incentives to reward the media that did not criticize Calderón administration, as well as intimidating or disappearing journalists, who opposed to Calderón’s government.<sup>23</sup>

Thus, Mexico and Brazil remain poorly governed, despite spectacular levels of GDP growth achieved in recent years. The economic growth has been aliened to the majority of Mexicans and Brazilians who continue living on less than a dollar a day.

14 *Id.*  
 15 *Id.*  
 16 Department for International Development (DFID)-UK, *Why corruption matters: understanding causes, effects and how to address them*, Evidence paper on corruption, DFID-UK government Whitehall (2015).  
 17 *Ecuador: la massacre ambiental de Chevron otra vez en el tapete*, TIEMPO ARGENTINO (May 8, 2022), <https://www.tiempoar.com.ar/mundo/ecuador-la-masacre-ambiental-de-chevron-otra-vez-en-el-tapete/>, (last visited January 10, 2023). Also see Michael Gross, *Latin America’s resources: Blessing or curse?*, 24 *Curr. Biol.*, 209-211 (2014).  
 18 Central Intelligence Agency (CIA), *The world fact book countries: Brazil*, Washington (2023), <https://www.cia.gov/the-world-factbook/countries/brazil/> (last visited January 10, 2023).  
 19 Central Intelligence Agency (CIA), *The world factbook countries: Mexico*, Washington, United States of America (2022), <https://www.cia.gov/the-world-factbook/countries/mexico/> (last visited January 10, 2023).  
 20 Transparency International (TI) *Corruption Perception Index 2022*, Berlin, Germany (2022).  
 21 Central Intelligence Agency (CIA), *supra* note 18.  
 22 Felipe Calderón Hinojosa, *Calderón niega protección al cartel de Sinaloa: “Nunca negocié ni pacté con criminales”*, PROCESO (February 7, 2023), <https://www.proceso.com.mx/nacional/2023/2/7/calderon-niega-proteccion-al-cartel-de-sinaloa-nunca-negocie-ni-pacte-con-criminales-301662.html> (last visited February 8, 2023).  
 23 Elías Camhaji, *Estados Unidos insiste en los nexos entre García Luna y el cartel de Sinaloa*, EL PAÍS (August 22, 2022), <https://elpais.com/mexico/2022-08-02/estados-unidos-insiste-en-los-nexos-entre-garcia-luna-y-el-cartel-de-sinaloa.html> (last visited November 11, 2023).

## 2. INEFFICIENT PUBLIC SERVICES

Corruption hinders the resources allocated to social programs and public services, which are key pillars for social development of a country. Inefficient public services are part of the effects of corruption on social programs, public services, and economic growth. For the OECD, corruption affects not only the national economy, but also the state expenditure in key areas of social and human development.

Corruption in the public sector also affects the State administration, since public officials do not obtain their positions due to meritocracy, but rather nepotism, clientelism, or any other corrupt channel. Therefore, the bureaucracy is attracting not the most talented people, but the most corrupt ones.<sup>24</sup> Moreover, public contracts are not given to competitive companies. On the opposite, these contracts are granted to corrupt firms that can pay bribes. Finally, the highest price is paid by citizens that will consume poor quality of products or services. In terms of public services, corruption affects the funds and resources allocated for social investment such as education and health care, key sectors for developing a country, without forgetting the performance and impact of international initiatives to mitigate poverty, equal opportunities, climate change programs, and implementation of technology. Corruption also affects the objectives of social programs, public services, and economic growth.

Corruption has also negative consequences for social programs, since social help does not reach people, who really need it. The government programs are deviated, and they end into the pocket of wealthy and corrupt people, diminishing the impact of these programs, whose final objective is reducing poverty.<sup>25</sup>

According to the Inter-American Development Bank (IDB), the great obstacle to development in the region is the inefficiency of the states, which is reflected in the performance of the GDP. The countries most affected by corruption in the region are Argentina, where 7.2% of the GDP is affected, El Salvador with 6.5%, Bolivia with 6.3%, and Colombia with 4.8% on its GDP.<sup>26</sup>

### 2.1. Impact of corruption on education and health care management

According to an estimation of UNDP, every year between US\$20 and US\$40 billion are lost due to corruption, equivalent to 20% and 40% of the budget allocated to international aid for developing countries. Furthermore, the health care sector is targeted, since it represents one of the most important sources of revenues for criminals, in this sense each year from US\$12 billion to US\$23 billion are lost.<sup>27</sup>

Paradoxically, in developing countries the expenditure in education and health care trend to be low. Moreover, the resources allocated to these sectors are often shared not only with the service provider, but also with corrupt networking that use these resources to keep alive criminal relations such as clientelism, nepotism, and control on public biddings.

There is extensive literature evidence that corruption has negative impacts on the tax systems and social expenditure, particularly in health care and education.<sup>28</sup> Furthermore, recent studies show that the higher is corruption; the lower is the expending in education and health care.

The impact of corruption in education can be translated in different forms, for example, the misuse of public funds allocated to education results in insufficient distribution of books, lack of schools and facilities for pupils to attend their school, poor payments to teachers, public resources used to pay “non-existent or ghost projects” to justify the education expenditure, illegal fees that restrict the enrolment of the poorest students, the appropriation of scholarships by principals, teachers, or political groups that affects the retention of students, the demand for bribes as a condition to pass students. All the conditions previously mentioned reduce the probability that students will remain in school and improve social mobility.

It is estimated that corruption steals millions of dollars from the system and for this reason many children do not receive the education to which they are entitled because of bad practices and serious ethical gaps in the system. According to the Inter-American Development Bank (IDB), corruption costs the Latin American region around US\$ 220,000 million a year.<sup>29</sup>

### 2.2. The Covid-19 in the region

The recent pandemic Covid-19 has showed the vulnerability of the health care public systems, particularly in countries with high levels of corruption. According to Esquivel,<sup>30</sup> countries that did not perform properly in controlling corruption trend to have high levels of human right infringement and limited democratic rights. In fact, Esquivel crossed the variables of the Corruption Index Perception 2021 released by Transparency International and the incidence score (measured per 1,000 inhabitants), mortality (percentage people death due to COVID) provided by the University of Johns Hopkins over 180 countries around the world. The relation between corruption and incidence of Covid-19 is striking, as it can be seen in the following graph:

24 OECD, *supra* note 5.

25 Sanjeev Gupta, Davoodi Hamid & Rosa Alonso-Terme, *Does Corruption Affect Income Inequality and Poverty?*, IMF Working Paper, WP/98/76 (1998), <https://www.imf.org/external/pubs/ft/wp/wp9876.pdf> (last visited December 20, 2023).

26 Johnny Giraldo López, *América Latina Pierde US\$ 220.000 millones por la corrupción de sus gobiernos*: BID, LA REPÚBLICA (March 9, 2019), <https://www.larepublica.co/globoeconomia/america-latina-pierde-us-220-000-millones-por-la-corrupcion-de-sus-gobiernos-bid-2837566> (last visited November 19, 2023).

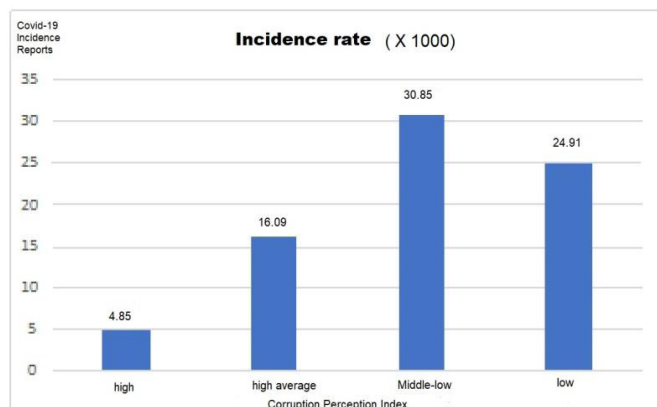
27 UNOC & UNDP, *supra* note 1.

28 Gupta et al., *supra* note 25.

29 Giraldo López, *supra* note 26.

30 Mauren Esquivel, *La corrupción y el COVID-19: la opacidad es un riesgo para la salud*, Costa Rica, INCAE Business School (2021).

### Corruption and incidence of reports<sup>31</sup>



As it can be observed countries with the high level of corruption registered low levels of reports of Covid-19 incidence per 1000 inhabitants, while countries with less average corruption recorded more reports of Covid-19 cases (30.85 points). The same trend can be seen in countries with low scores of corruption with 24.91 points.<sup>32</sup> This information suggests that countries with better accountability registered more reports of incidence of Covid than those countries with high levels of corruption. The rationale behind of this trend is that highly corrupted countries tried to hide information, since these countries have more opacity to make public the lack of medical equipment, the lack of medicines, and the lack of hospitals. Moreover, for these countries, the priority is to keep the good image of their elites and protect politicians before the well-being of citizens.

The Covid-19 pandemic also reflects that corruption absorbs the resources allocated to run hospitals, local clinics, buying medicines and medical equipment, and paying wages to health care staff. This rationale also explains the high incidence of mortality in underdeveloped countries compared to other countries with better integrity and accountability.

The Covid-19 pandemic showed not only the performance of the public health care of each country, but it has also displayed the importance of good governance and accountability of governments.

The Covid-19 pandemic, which lasted more than two years (2019-2021) until being under control, has showed that the health infrastructure in Latin America is not the best in the world. This situation is the result of years of negligence, scarce financial resources to maintain health services, and high levels of corruption.

For example, Chile and Uruguay, despite having less population than Mexico and Peru, performed more Covid-19 tests than other countries in the region, which suggests that in countries with less corruption, there were more efficient health services, and in the case of the Covid-19, Chile and Uruguay had more Covid-19 tests kits available.<sup>33</sup>

The medical staff in the region also complained about the inefficient public resources allocated to handle the public health pandemic: My name is Juan Carlos. I work as a doctor in the intensive care ward of one of the hospitals in Guayaquil, Ecuador. The virus here has been a tragedy. (...) They are going to die at home because we don't have beds in the hospital (...) Although, we have oxygen, we don't have pressure manometers to install them. Or even if we have ventilators, we also don't have nurses to handle them. This is a desperate situation (...)<sup>34</sup>

The high levels of corruption in Latin America are materialised into poor health care public services and poor performance in education, which trap these countries into more misery.

### 3. INEQUALITY IN THE REGION AND DEBATE ON ECONOMIC GROWTH

For some anti-corruption thinkers, corruption causes inequality, while for others, inequality drives corruption.<sup>35</sup> The truth is that both are intertwined.<sup>36</sup>

The relation between corruption and economic growth is still polemic. Some authors consider that corruption can impede economic growth, while for others corruption can ease the economic growth.

For Kaufmann, corruption is directly linked to the economic performance of a country, then in places with high levels of corruption, the social impact will be translated into more inequality, in this way corruption contributes hugely to reduce the opportunities for a country to overcome underdevelopment.

Kaufmann considers that corruption is related to the development of a country, meaning that countries with high levels of corruption will struggle more to keep healthy economies, therefore they will have more problems to maintain stable governments, stable business, and stable societies, which are key stones for economic growth.<sup>37</sup>

<sup>31</sup> *Id.*

<sup>32</sup> *Id.*

<sup>33</sup> Worldometer, *Worldometer's Covid-19 data-Latin America* (15 December, 2021), <https://www.worldometers.info/coronavirus/> (last visited January 10, 2023).

<sup>34</sup> Alejandro Millán Valencia, *Coronavirus, ¿Seré yo el próximo que se muere?: el dramático testimonio de los médicos que se han infectado de covid-19 en América Latina*, *BBC NEWS MUNDO* (May 6, 2020), <https://www.bbc.com/mundo/noticias-america-latina-52510294> (last visited January 9, 2023).

<sup>35</sup> Gupta et al., *supra* note 25. Also see Jong-Sung You & Khagram Sanjeev, *A Comparative Study of Inequality and Corruption*, 70 *Am. Sociol. Rev.*, 136-157 (2005).

<sup>36</sup> Nubia Nieto, *Corruption and inequality: A dangerous cocktail in Mexico*, *Interdisciplinary Mexico*, 27-65 (2021).

<sup>37</sup> Daniel Kaufmann & Cheryl Gray, *Corruption and Development*, *FINANCE & DEVELOPMENT* (March 7-10, 1998), <https://www.imf.org/external/pubs/ft/fandd/1998/03/pdf/gray.pdf> (last visited January 7, 2023).

While the economic functionalist theories consider that bribes are an effective way to speed up administrative procedures and modernise political and economic systems, Samuel Huntington indicates that corruption eases economic growth: “Corruption contributes to stimulate economic development, since it provides a way to overcome traditional laws or bureaucratic regulations, which help to expand economic growth.”<sup>38</sup>

Furthermore, Huntington gives to corruption an essential role in the process of political modernisation. According to Huntington, corruption is more frequent in periods of transition to modernity: “Corruption exists in all societies, but it is more frequent in some than in others, but in most cases it seems to be more evident in periods of intense modernization [...] The degree of corruption in a process of modernization depends on the nature of a traditional society and the nature of the modernization process [...] Corruption helps to integrate new political actors into the process of modernization.”<sup>39</sup>

Certainly, there are opposite perceptions on the role of corruption in economic growth. This contradiction may lie in the political regime. Since democratic political regimes tend to encourage open accountability, good governance, and respect of rule of law as the pillars of economic growth, while authoritarian regimes and countries in political transition use corruption as a tool to ease trade barriers, and increase their economic growth, which at long term is not sustainable. Today, most studies agree in identifying corruption as a negative phenomenon that threatens global economies and causes the growth of poverty.

### 3.1. Latin America and increase of poverty

Gyimah-Brempong indicates that corruption has negative effects on economic growth, and domestic and foreign investment. According to this author, each act of corruption has a direct impact on GDP reducing it to 0.75% and 0.9%, and in terms of income per capital the impact reaches 0.39 and 0.49%.<sup>40</sup> Then corruption is highly linked to the performance of the economy of a country, as well as to the levels of inequality.

There are many studies that suggest that corruption has a huge influence on the development of income inequality. According to the Department for International Development and UKaid, the variable of good governance has an important contribution for reducing inequality and corruption. For

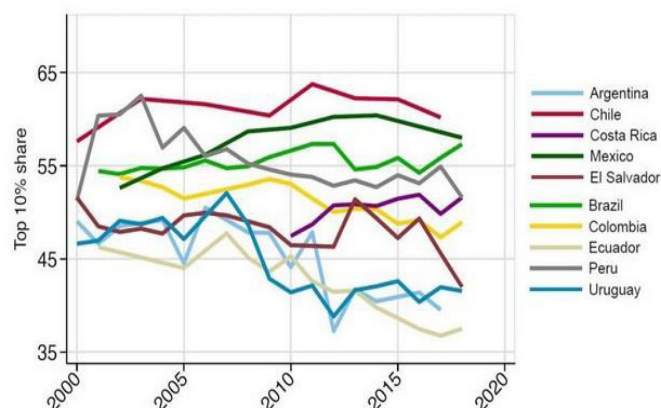
example, countries with effective mechanisms to curb corruption register better levels of equality.<sup>41</sup>

Certainly, there have been several research studies that underline that the higher is corruption, the higher is income inequality.<sup>42</sup> Latin America is a case in point, where this hypothesis is applied. For example, in 2000 the Gini index registered 0.56, and in 2017 it decreased to 0.51, which means that poverty increased by almost 10%.<sup>43</sup>

Latin America is still one of the most deprived areas in the world. According to the World Inequality Database, the elites in Latin America concentrate 54% of wealth of the region. These elites represent 10% of the population. The three most unequal countries in the region in 2019 are: Brazil, whose elites capture 57% of the wealth of the country; Mexico registered 58%, and Chile 60%, as it can be seen in the following graph.<sup>44</sup>

### Income Inequality in Latin America

This figure shows the evolution of the pretax top 10% income shares for several countries in Latin America, since 2000.



In the same token, UNDP considers that the Latin American region is immersed in high inequality. For UNDP, the high levels of inequality in this region are one of the main constraints that limit the region to achieve progress, equality, and good governance.<sup>45</sup>

According to the diagnosis of UNDP regarding the human development in Latin America, there are four key areas that limit the potential of the region, which are extreme power's concentration, intense violence and criminality, corruption, and poor social infrastructure. These factors not only limit the economic development of the region, but also the human and social development.

38 Samuel Phillips Huntington, *EL ORDEN POLÍTICO EN LAS SOCIEDADES EN CAMBIO* 68 (Paidós 1990).

39 *Id.* at 59-64.

40 Kwabena Gyimah-Brempong, *Corruption, Economic Growth, and Income Inequality in Africa*, 3 *Economic of Governance* 183, 183-209 (2002).

41 DFID-UK, *supra* note 16.

42 Gupta et al., *supra* note 25.

43 Francisco Ferreira & Marta Schoch, *Inequality and social unrest in Latin America: The Tocqueville paradox revisited*, WORLD BANK (2020), <https://blogs.worldbank.org/development-talk/inequality-and-social-unrest-latin-america-tocqueville-paradox-revisited> (last visited November 19, 2023).

44 World Inequality Database (WID), *What's new about income inequality in Latin America*, France, Paris School of Economics (2020), <https://wid.world/news-article/inequality-in-latin-america/> (last visited January 3, 2023).

45 United Nations Development Program (UNDP) *Trapped: High Inequality and Low Growth in Latin America and the Caribbean*, New York (2021).

46 *Id.*

There are many factors that contribute to corruption in the region such as inadequate institutions, lack of openness, political instability, and unclear political elections. For example, most Latin American countries have democratic political systems based on the principal that citizens can choose their political representatives, through personal vote and free elections. Some countries in to a greater or lesser extent than others can exercise their political electoral systems with elections and alternation of power between parties; however, the institutions are often fragile and subject to political manipulation to favour a certain candidate. In this context, the possibilities to exercise democratic systems on equal terms increase the incidence of corruption, and it will also affect the exercise of good governance, respect of the rule of law, and accountability of the political representatives.

### 3.2. Corruption and Latin American political elites

In this context, corruption plays a huge part in the regional inequality, since Latin American elites use corruption as a tool to maintain their wealth, power, and control over the domestic resources. These elites are not interested in most of the cases to open a gap for social mobility, civil rights, reducing income inequality and encouraging good governance and accountability, on the opposite, they are interested in keeping their countries under corrupt governments that can guarantee their privileges and advantages.<sup>47</sup>

The inequality in the region is not only confined to the income, since this inequality reaches other areas such as inequality for accessing to the rule of law, inequality of civil rights, inequality of public services, inequality of social mobility, inequality of job opportunities, in a word inequality of realising human potential. The vulnerable groups in Latin America are the indigenous, black, and poor people that historically, since the times of the colonialism continue being the target for exploitation, humiliation, violence, criminality, and social injustice.

For example, in Mexico, 10% of the wealthiest people capture 64.4% of the GDP,<sup>48</sup> while millions of people live with less than a dollar per day. Even worse the gap between rich and poor trends every year to increase in 2008: disadvantaged people reached 4.7%, ten years after (in 2018) the percentage augmented to 6.9%, which means that more Mexicans are living under poverty.<sup>49</sup>

Inequalities along with corruption are the phenomena that trap the continent into a cycle of underdevelopment, which is translated in inequality that crosses all aspects of life. This inequality also contributes to perpetuate corruption and poverty and reduces all possibilities for average citizens to release their human potential and creativity and improve quality of life.

## 4. FINAL OBSERVATIONS

Latin America is a rich region in terms of natural resources, young people ready to work hard, excellent weather conditions, and a rich history behind; however, there are many chains that drag Latin America into underdevelopment, one of the biggest brakes on development in the region is corruption.

Certainly, corruption has a negative impact on economic growth, productivity, GDP, but it triggers other related miseries, such as mismanagement of public resources, mainly public health care and education, pillars for the development of any country, as well as increases inequality, poverty and unequal access to the rule of law, reduces efficiency of public institutions, triggers political instability, undermines empowerment of vulnerable social groups, and decreases public trust and respect in public service.

## 5. INITIATIVES TO CURVE CORRUPTION

There have been many initiatives in recent times to curve corruption in the region. For example, many countries in the region have made an international commitment to work to achieve sustainable development goals included in the 2030 Global Agenda promoted by the United Nations. The objectives are focused on achieving peaceful and inclusive societies through the reduction of violence, the fight against corruption, the strengthening of institutions, and the promotion of transparency and citizen participation. All these goals require the commitment from the authorities in the fight against crime, corruption, and all form of transnational organised crime.

The Foreign Corrupt Practices Act (FCPA) implemented by the US government has a lot of resonance in the region, since its purpose is to prevent, investigate, and punish acts of corruption and bribery of US individuals, companies, and officials, as well as foreign parties, under the universal extraterritorial extension and application. In this context, many companies operating in Latin America have been sanctioned. In 2015, the BNP Paribas bank of Brazil agreed to pay an US\$8.9 billion fine to the Department of Justice of the US. Other cases of sanctions due to corruption are the Odebrecht Company, whose fine reached US\$3.6 million; the Petrobras (Lava Jato) corruption case with US\$1.8 billion fine; and the Gorrin-Cedeño company from Venezuela with a fine of US\$1 billion.<sup>50</sup>

In Mexico, in 2016 the National Anti-Corruption System/ Sistema Nacional Anti-Corruption (SNA) was founded as an initiative to curb corruption in the country. This new institution created the figures of the Independent Anti-corruption Prosecutor that can operate independently from the Mexican government, and the General Law of Administrative Liabilities also known as the law 3 per 3. This law demands to any person, who wants to work in public services, to make 3 declarations: 1) asset declaration, 2) inform of possible conflict of interest, and 3) proof of fiscal status.<sup>51</sup>

<sup>47</sup> Nieto, *supra* note 36.

<sup>48</sup> Credit Suisse Research Institute *Global Wealth Report 2022. Leading perspectives to navigate the future*, Suisse (2022).

<sup>49</sup> Consejo Nacional de Evaluación de la Política de Desarrollo Social (Coneval) *Medición de la pobreza en México*, México (2018).

<sup>50</sup> Silvana Romano and Rafael Britto Londoño, *Ley anticorrupción de Estados Unidos y lawfare en América Latina*, CENTRO ESTRATÉGICO LATINOAMERICANO DE GEOPOLÍTICA (CELAG) (January 29, 2021), <https://www.celag.org/ley-anticorrupcion-de-estados-unidos-y-lawfare-en-america-latina/> (last visited November 19, 2023).

<sup>51</sup> Secretaría Ejecutiva del Sistema Nacional Anticorrupción (SESNA) *Trabajamos junto con los otros integrantes del Sistema Nacional para combatir la corrupción*, México, SESNA (2023), <https://www.sesna.gob.mx/> (last visited November 19, 2023).



The SNA, which entered into force in 2017, provides severe sanctions due to bribery, influence peddling, collusion, and misuse of public funds. For example, individuals and legal entities, who commit corruption can face sanctions with the double indemnity of the benefits and the risk to the suspension of their activities.<sup>52</sup> The SNA has some strengths and limitations; however, it is a huge step in the history of anti-corruption initiatives in México and in the Latin American region.

Several Latin America countries have made progress in recent years at fighting corruption, but there are many challenges ahead to improve good governance and accountability, among the main points:

**1. Create check and balance of powers:** This measure helps to implement effective accountability among all powers of the state, since each institution in theory is under supervision. For example, having three representative powers in most of Latin American countries: executive, judicial and legislative, in theory these powers should balance, audit, and limit the power of their counterpart; however, these powers are not working properly to reduce mistakes or prevent improper behaviour. In other words, the checks and balances in the region should add other powers, such as civil groups and press freedom to make this measure effective.<sup>53</sup>

**2. Put in practice the rule of law:** It is well known that in Latin America the rules are not applied equally and democratically, as the richest people have easy access to the judiciary system and they always manipulate the institutions in their favour, in contrast poor people have no access at all or have limited access to the justice, as they need to have money to pay bribes in order to have access to the judiciary system.<sup>54</sup>

**3. Implement progressive taxation of the wealthiest people:** In Latin America the richest people are those who pay less taxes, using tax avoidance schemes and corrupt politicians to avoid pay taxes. Perhaps, the Latin American governments need to review the Thomas Piketty research, as he advocates for increasing public services, such as education and health care, as well as encouraging creation of jobs and reforms on the tax systems to tax better rich people. Piketty also promotes the idea to return key sectors to the hands of the states to ensure that public services are provided for the most vulnerable people, particularly in education and health care.<sup>55</sup>

**4. Empower civil society and media:** The extreme concentration of power is not a good sign for accountability, as there is a lot of gaps for too much discretion inside of political elites. In this sense, the empowerment of civil society, non-governmental organisations (NGOs), groups of citizens, and journalists exercising free press is paramount to create balance in powers with watchdog functions, since one of the pillar to reach the development of a country is to listen to and take into account the needs and opinions of citizens.

**5. Socialise citizens with integrity values:** Most of Latin American people experience corruption since childhood, and political elites exercise their political power using corruption as a tool to negotiate political deals, win social consensus, promote clientelism, and project power and masculinity.<sup>56</sup> These socialisation schemes need to be replaced by integrity values, which can show the benefits of respecting the rule of law, good governance, and transparency and accountability. It is not by chance that many Latin American politicians have been involved in corruption after a few years they are re-elected, or their relatives are elected. For example, in Peru, after the former president Alberto Fujimori left the office in 2000 in the middle of corruption acts; in 2021, his daughter Keiko Fujimori reached second place at the presidential elections.<sup>57</sup>

**6. Make accountable to all levels of the public administration:** In recent years, there have been some steps forward regarding accountability in many countries in Latin America, although the corruption involving public servants is at the top of the typologies of corruption at different levels. On the one hand, the composition of bureaucracy in the region is not following meritocracy, but rather criteria of nepotism, clientelism, and cronyism. This logic is spread in most of the Latin American countries; therefore, the political elites are socialized under corruption schemes,<sup>58</sup> where all members of the bureaucracy from the bottom to the top are accomplices, in this sense it is urgent to implement accountable mechanisms and good governance to make functional states in the region work.

Corruption continues being the major barrier to release the region from underdevelopment, since corruption not only limits economic growth, deters foreign investment, damages private businesses, weakens governance, undermines legitimacy of governments, corrodes the rule of law, limits employment opportunities, reduces expenditure in key areas, erodes public trust, threatens the development of democracy and freedom press, and contributes to human right violations, but also corruption contributes to increase income inequality and poverty and to ease the development of other phenomena such as narco-trafficking, migration, human trafficking, money-laundering, and tax evasion.

International agencies, civil society including NGOs, private companies, and domestic government should work together to encourage a political culture that promotes integrity and educates the new generations of Latin American people to work under schemes of good governance and integrity, as key stones for walking to a sustainable development, which can guarantee the well-being of citizens.

### Disclosure of interest

The author has no competing interests to declare.

<sup>52</sup> *Id.*

<sup>53</sup> Transparency International (TI) *Why fighting corruption matters in times of Covid-19*, Berlin, Transparency International Secretariat (2020), <https://www.transparency.org/en/news/cpi-2020-research-analysis-why-fighting-corruption-matters-in-times-of-covid-19> (last visited January 15, 2023).

<sup>54</sup> Nubia Nieto, *The rule of law: a challenge for the emerging markets in Mexico and Brazil*, *Revista Debates*, 9-24 (2017).

<sup>55</sup> Thomas Piketty, *BRIEF HISTORY EQUALITY* (Harvard University Press 2022).

<sup>56</sup> Nubia Nieto, *La socialización de las élites políticas mexicanas a través de la corrupción*, *ANÁLISIS POLÍTICO* (January-April, 2011) 165-181.

<sup>57</sup> Juan Diego, *Quesada, Keiko Fujimori: "Voy a aceptar el resultado del tribunal electoral"*, *EL PAÍS* (June 20, 2021).

<sup>58</sup> Nieto, *supra* note 56.