

# Grand corruption and the SDGs

*Grand corruption is a serious threat to the 2030 Agenda for Sustainable Development. This series of case studies prepared by Transparency International illustrates how corrupt schemes across the globe have repeatedly implicated high-level officials and resulted in the gross misappropriation of public funds. As a direct result, education, health and other development priorities remain underfunded; the natural environment is ravaged; and fundamental human rights are violated. Those who suffer the consequences are ordinary citizens, and particularly those most left behind.*

## Putting a country's health at risk: high-level corruption in Guatemala

**3** GOOD HEALTH AND WELL-BEING



**16** PEACE, JUSTICE AND STRONG INSTITUTIONS



Grand corruption in Guatemala poses a real threat to the health of the country's citizens and institutions. One of several recent cases, the *La Línea* customs scandal, implicated officials at the highest level and is estimated to have cost the country 1.8% of its GDP in 2015.

This is public money that Guatemala can ill-afford to squander if it is to meet its development objectives. The country's health sector in particular has suffered from under-investment and recurring corruption scandals orchestrated by senior officials. This undermines the SDG 3 targets the country has set in critical areas, including tackling high maternal mortality rates.

With the support of an independent commission, the CICIG, Guatemala has managed to reduce impunity for those implicated in grand corruption and organised crime – a closely linked problem. However, these gains are now at risk of being reversed by political elites who have chosen not to renew the CICIG's mandate.

### In numbers:

- **8.7% of GDP:** the additional annual spend the IMF has estimated Guatemala will need to meet the SDGs, including an extra 1.4% of GDP for SDG 3 on healthcare.
- **1.8% of GDP:** amount lost to the *La Línea* customs scandal, equivalent to around a quarter of all health expenditure in 2015.
- **US\$ 7m:** amount lost to bribes in the health ministry between 2012 and 2014, which represents 5.3% of the state budget allocated to maternal and child healthcare in 2016.
- **4,500:** net reduction of homicides from 2007 – 2017 attributed to the work of the CICIG.



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# Grand corruption and the SDGs: Guatemala

## Grand corruption in Guatemala

Corruption and organised crime in Guatemala are so deeply intertwined with state structures that the country has been described as a “mafia” or “narco” state<sup>1</sup>.

The three-year presidency of Otto Pérez Molina (2012 to 2015) was particularly affected by severe levels of grand corruption. Several scandals involved the gross misappropriation of public funds and implicated the country’s most senior politicians, including the president and vice-president, Roxana Baldetti. The *Comisión de Investigación de Cuerpos Ilegales y Aparatos Clandestinos de Seguridad en Guatemala* (CICIG), an independent commission established in 2007 to investigate organised crime, has described how an “illicit, political-economic network” captured the state between 2012 and 2015.<sup>2</sup> This network “took over the executive [branch], subordinated the legislative, manipulated and interfered in the election of judges to high courts and, in addition to looting the state, promoted laws and policies favouring private companies to the detriment of competition and the citizenry”<sup>3</sup>.

Perhaps the most egregious case during this period in terms of the amount of funds lost has become known as *La Línea* (“The Line”). This was a vast customs fraud perpetrated by a network of more than 60 people. Uncovered through investigations by the *Fiscal General de la República de Guatemala*, the Guatemalan attorney general and the CICIG, the scheme revolved around importers paying kickbacks to customs officials and politicians in return for paying lower tax rates. It is estimated that the *La Línea* scandal alone may have cost Guatemala 1.8% of its GDP in

## What is grand corruption?

**Transparency International** identifies three main features of grand corruption: a corruption scheme; involvement of a high level public official; and serious harm caused, which may take the form of large-scale misappropriation of public resources or gross violations of human rights.\*

2015, or around US\$1.15 billion<sup>4</sup>. The evidence indicates that Molina, Baldetti and Juan Carlos Monzón, a former private secretary to Baldetti, had central roles within the network. One witness has claimed that Baldetti and Molina both received around 21.25% of the illicit proceeds, while Monzón allegedly earned 5%<sup>5</sup>. Given the IMF’s assessment that Guatemala’s low tax-to-GDP ratio is a serious barrier to the 2030 targets<sup>6</sup>, the extent of corruption in the country’s customs service is deeply concerning.

## Corruption in healthcare

Guatemala’s health sector did not escape the corrosive effect of grand corruption under the Molina government. The CICIG and the *Fiscalía Especial contra la Impunidad* (FECI), Guatemala’s Special Prosecutor’s Office against Impunity, recently uncovered a criminal structure within the Ministry of Public Health and Social Welfare. This structure was active between 2012 and 2014 and allegedly involved over 50 people<sup>7</sup>. The former minister of health Jorge Villavicencio Alvarez (2012 to 2014), his daughter, as well as a former presidential candidate are believed to have been the ringleaders of this scheme that also implicated up to 10 members of congress. There were three main means by which at least US\$7m of funds were allegedly stolen from the ministry<sup>8</sup>:

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\* This is an abridged summary. TI’s full legal definition with explanatory notes is available upon request from [gdell@transparency.org](mailto:gdell@transparency.org)

- Kickbacks from contracts awarded to repair hospitals damaged during the 2012 earthquake as well as construct new hospitals. The FECI and CICIG have estimated there were around GTQ 26.9 million (approximately US\$4.8 million) in kickbacks on contracts valued at GTQ 499 million (approximately US\$64.8 million).
- Kickbacks on contracts for the procurement of goods and services, such as contracts to buy ambulances and install X-ray machines. In the case of a contract to supply infusion pumps, officials allegedly pocketed GTQ 500,000 (US\$64,890) while an advertising contract brought officials QTG 400,000 (US\$51,905) in kickbacks.
- A system of bribery and kickbacks around the award of 450 jobs in the ministry. Members of Congress were allegedly among the individuals who made illicit payments to secure appointments for family members and political supporters.

One further illustration of the risks high-level corruption poses, to the point that lives are lost, was a corrupt scheme centred on the *Instituto Guatemalteco de Seguridad Social* (IGSS), Guatemala's Social Security Institute. Allegedly orchestrated by Gustavo Alejos, the private secretary of former president Álvaro Colom (2008 to 2012), this was a procurement scheme whereby firms connected to Alejos paid kickbacks to win drug and equipment supply contracts. Many of the supplies, however, were sub-standard, and in one case of dialysis treatment, the drugs provided led to the deaths of 11 people<sup>9</sup>. A daughter of one of the victims blamed this on the actions of the officials involved, saying: "Corruption leads to death, sadness, hunger and pain"<sup>10</sup>.

## Consequences for those involved

For a long time in Guatemala there was little prospect of individuals involved in grand corruption facing justice. The establishment of the CICIG in 2007 with UN support changed this. Initially focused on investigating organised crime groups, from 2013 the CICIG under the direction of Colombian prosecutor Iván Velásquez worked closely with local prosecutors to take on the corrupt networks underpinning criminal activity<sup>11</sup>.

It is because of the work of the CICIG and local prosecutors that the various scandals described above have come to light. The organisation has also played an important role in bringing charges against the high-level officials involved. Former president Molina is currently imprisoned and awaiting trial. In October 2018, his former deputy Baldetti was sentenced to 15 years imprisonment in connection with a separate case and faces multiple other outstanding charges. Her conviction related to corruption around the award of an US\$18 million public contract to clean up a lake near to the country's capital, Guatemala City<sup>12</sup>. As for the corrupt network in the Ministry of Public Health and Social Welfare, in July 2019 the FECI issued arrest warrants for 26 individuals including the former minister Jorge Villavicencio Alvarez<sup>13</sup>. At this time, it is not clear when a trial might begin.

There is, however, a real risk that some of the gains made by the CICIG in reducing impunity for grand corruption will be lost. The commission has come under the attack by the outgoing government of President Jimmy Morales (2016 to 2019). In 2017, he expelled the commission's head, Velásquez, and did not renew the CICIG's mandate, which expired in September 2019. Morales' actions may have been influenced by the decision of the CICIG and the Public Prosecutor's office to investigate him for possible campaign finance violations and charge his son and brother with fraud<sup>14</sup>.

Guatemala's president-elect, Alejandro Giammattei, who takes office in January 2020, is

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reportedly “no friend” of the CICIG<sup>15</sup>. This could have negative implications for the outcome of cases described and, perhaps more dangerously, the long-term prospects for accountability and justice in Guatemala. Undermining these principles would have much broader consequences for the country’s efforts to meet the SDGs.

## Impact on the SDGs

### SDG 3: Good health and well-being

The severe harm caused by grand corruption in Guatemala is readily apparent when comparing the public funds lost to those which will need to be spent by the country on the 2030 sustainable development agenda. The International Monetary Fund (IMF) has estimated that Guatemala will need to make available additional spending equivalent to around 8.7% of its annual GDP in order to finance the SDGs<sup>16</sup>. Approximately 1.4% of the additional spend in GDP will need to be channelled to the health sector.

Guatemala’s total expenditure on health as a proportion of its GDP is low compared to its peers in Central America. In 2015, the country spent 6.8% of GDP on health against a regional average of 8.1%<sup>17</sup>. In 2017, USAID called on the government to reprioritise and create additional fiscal space for spending on health, warning that “limited public resources have inhibited the government of Guatemala’s ability to meet the health needs of the growing population and comply with its constitutional obligation to provide health services as a public good”<sup>18</sup>. The approximately US\$1.15 billion lost in the *La Línea* case, which represents just over a quarter of health expenditure in 2015, has further restricted the funds available for health spending.

The funds lost to corruption directly within the Ministry of Public Health and Social Welfare between 2012 and 2014 could also have significantly contributed to developmental

outcomes. The US\$64.8 million spent on construction and repair contracts awarded in dubious circumstances equates to just under half of the US\$133 million budget allocated by the ministry in 2016 for malnutrition; maternal, neonatal and child health; HIV; tuberculosis; and vector-borne diseases<sup>19</sup>. The estimated US\$7 million lost directly to bribes and kickbacks is equivalent to 5% of this budget. Upon assuming office in 2016, a former health minister, Lucrecia Hernández Mack, herself a trained surgeon, found that the health ministry had been systematically hollowed out by corruption and had failed to purchase vaccines for two consecutive years as the necessary funds had disappeared. Mack resigned a year later following the president’s decision to expel Velásquez<sup>20</sup>.

These numbers pale in comparison to the everyday costs of healthcare for families. The cost of a consultation with a doctor, estimated at between QTG 50 and 100 (US\$7 to US\$14), is nearly 10 times that of an appointment with a traditional midwife operating without the same access to drugs and equipment. Indigenous women are often priced out of using public health services and are more than twice as likely to die during pregnancy or childbirth as non-indigenous women<sup>21</sup>.

This is one reason why the country is not yet registering real gains on maternal, infant and neonatal mortality rates. The maternal mortality rate, for example, declined by three points from 108 per 100,000 live births in 2015 to 105 in 2018 whereas the short-term target is to reduce this to 93 by the end of 2019<sup>22</sup>. As shown above, however, by diverting public funds into private pockets, rampant corruption contributes to substantial budget shortages in the health sector. In turn, this obstructs progress towards the government’s stated objective of reducing maternal mortality to 70 per 100,000 births and neonatal mortality from 17 per 1,000 births by 2030 in line with SDG targets 3.1 and 3.2<sup>23</sup>.

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## SDG 16: Peace, justice and strong institutions

A second threat posed by grand corruption to the wellbeing of the country and its citizens comes in the manner in which it has eroded institutions in Guatemala. This is most starkly apparent in the recent actions taken by some political elites to undermine and potentially permanently eject the CICIG in response to the commission's work to tackle high-level corruption. Despite the commission enjoying 71% approval ratings among Guatemalan citizens, the government recently permitted its mandate to expire<sup>24</sup>.

Since 2007, the CICIG is reported to have taken down around 70 organised crime groups and prosecuted more than 400 people. In doing so in partnership with local prosecutors, it has also strengthened the capacity and upheld the independence of Guatemala's domestic judiciary<sup>25</sup>. The effect of this work on the country's homicide rate is the clearest demonstration and what this means for the SDG agenda. The country's murder rate nearly doubled from 1999 to 2006 and was on a strong upward curve<sup>26</sup>.

The International Crisis Group has estimated the introduction of the CICIG contributed to a net reduction of more than 4,500 homicides between 2007 and 2017<sup>27</sup>. The decision to expel the CICIG, arguably a response to its successes in countering grand corruption, consequently risks undermining the government's stated target of reducing homicides to 10 per 100,000 citizens in line with SDG 16.1<sup>28</sup>. As summarised by *The New York Times*, "Guatemalans are bracing for what's being deemed as 'the restoration': a return to impunity for corrupt economic and political elites, the release from prison of those charged with crimes by CICIG and the repression of journalists, human rights and judicial activists"<sup>29</sup>. Sadly, corruption and impunity once again threaten sustainable development efforts in Guatemala.

## Recommendations

### National level

The government of Guatemala should:

1. Establish a multi-stakeholder technical roundtable to track SDG implementation in the country, as foreseen in Guatemala's last Voluntary National Review.
2. Foster greater civil society engagement in national processes aligned to SDG implementation, notably the *Plan Nacional de Desarrollo K'atun: Nuestra Guatemala 2032*.
3. Act on Acción Ciudadana's forthcoming recommendations for a national transparency policy to reduce opportunities for grand corruption due to opacity. Further, establish a technical task force to promote transparency in the Ministry of Public Health and Social Assistance and monitor progress towards relevant SDG indicators.

### Global level

To help support the accomplishment of the SDGs, States parties to the United Nations Convention against Corruption (UNCAC) should:

1. Explicitly recognise grand corruption as a threat to the achievement of the 2030 Sustainable Development Agenda.
2. Prioritise the prevention of and responses to grand corruption (as prescribed in the Oslo statement) due to its developmental consequences.
3. Initiate discussions about a definition of grand corruption and an Optional Protocol to the UNCAC on Grand Corruption.

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4. Commit to further research on the impact of grand corruption on sustainable development to identify effective strategies to counter this problem, and convene an Expert Group Meeting on this subject.



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*Transparency International  
International Secretariat  
Alt-Moabit 96  
10559 Berlin  
Germany*

*Phone: +49 - 30 - 34 38 200  
Fax: +49 - 30 - 34 70 39 12*

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**Author: Thomas Shipley**

Reviewers: Matthew Jenkins, Transparency International

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