

By Claudia Lagos Lira

The Chilean National Railway Company (EFE — Empresa de Ferrocarriles del Estado) rented two floors, equivalent to 3,000 square meters, of a building located at 115 Morandé Street in downtown Santiago, almost directly across from the presidential palace, La Moneda. Just one of these offices, where EFE installed its operations in 2003, is assessed at a value of more than 1 billion pesos (US\$1.4 million). The property is located in the heart of the civic center in Chile's capital.

This would not be surprising if EFE weren't a public company with losses totaling almost 38 billion pesos (US\$67 million) in 2007. That's not all: According to Ramiro Mendoza, Chile's comptroller general of the republic (Contraloría General de la República), EFE paid more than 320 million pesos (US\$590,324) more than it should have for rental of the offices from 2003 to 2004. EFE also paid millions of pesos to contractors to remodel the offices — services which were never actually provided.

Mendoza has stated that one of the recurring problems at EFE is the predominance of direct contracting rather than the use of public bidding processes for purchasing goods and services, which violates public procurement law. In addition, some of EFE's former executives now face accusations of government fraud and improper business dealings. A past-president of the company's board of directors, Luis Ajenjo — an active member of the Christian Democratic party (Democracia Cristiana) since the age of 17 and brother-in-law of that party's current president Soledad Alvear — was questioned about EFE's payments of more than \$100,000 for advertisements on the radio station Radio Cooperativa and in the newspaper Diario Siete, since Ajenjo also held executive positions at both media outlets.

A Sweet Deal

By June 2008, the heat was on. The EFE was under investigation by the Financial Crimes Unit (Brigada de Delitos Económicos) of the Investigative Police (Policía de Investigaciones), the Chilean Securities and Insurance Supervisor (SVS — Superintendencia de Valores y Seguros), the EFE Investigative Committee in the Chamber of Deputies, and the Internal Revenue Service.

The initial budget for EFE's three-year plan for 2003-2005 was sharply increased by the legislature. A large part of this budget was earmarked for the modernization and improvement of railways, railway facilities and train cars,

among other priorities. Critics, however, point out that many of the contracts and projects were seriously deficient as a result of being expedited for electoral reasons. By way of circumstantial evidence, these critics point out that all of the inaugurations of new railway stations were presided over by then-President Ricardo Lagos in the month prior to the presidential elections of December 2005.

Tightening Standards, Limited Success

The EFE case is not unique. Historically, Chile has been the highest-ranked Latin American country in Transparency International's Corruption Perceptions Index, coming in 22nd of 180 countries. In recent years, though, the opinion polls that this index is based on have shown the public mood has turned substantially worse.

The country has an electronic public procurement system, but it can be circumvented by agreeing on contract conditions before requests for proposals are published.

Chile is taking some measures to reign in its corruption problem. For example, in August 2008, the Chilean government enacted Law No. 20,285, substantially improving standards for disclosure and transparency of public information and establishing a new Transparency Commission. Nevertheless, the new law did not establish any specific requirements for commission members, and many of the members only serve part time.

The requirement that all members of Congress, mayors, judges and government officials provide a declaration of all private interests was established by Law 19,653 of 1999, but property declarations have only been regulated since the passage of Law 20,088 of 2005.

At the same time, the central administrative agencies of the state have been subjected to strict regulations regarding "active transparency," which includes the requirement that all information concerning contracts, compensation and acquisition of goods and services, among other things, be published on each government agency's website. Thus far, however, even the Office of the President has not yet fully complied with these regulations.

Compounding the inadequate implementation of the recent tighter regulations, there are also increasing incidents of irregularities, conflicts-of-interest and negligence in the management of public funds within agencies at all levels of the administration, from the national executive power down

to the local level. In the case of municipalities, the abuses of the public trust are not limited to the party in power in Santiago.

Poor Sportsmen

For example, in 2007, Chiledeportes, the Chilean government agency responsible for promoting sports, was headed by four different sub-secretaries. Two of the more scandalous resignations were those of Catalina Depassier, who was accused of lying about her university education, and Ricardo Vorpahl, who, prior to assuming the leadership, had been involved with Chiledeportes-financed sports projects marked by irregularities in their financial statements. While a significant number of the irregularities at Chiledeportes resulted from administrative error, many cases became the subject of legal proceedings related to fraud and the misuse of government funds. In the Santiago Metropolitan Region alone, 129 projects financed by Chiledeportes came under investigation by the Public Prosecutor's office, while 325 projects were investigated in the region of Valparaíso, one of the largest regions in the country.

Meanwhile, a case at the Civil Registry (Registro Civil) ended with the removal of top management after it was found that one of its chiefs was unduly influenced to award a US\$80 million contract to the employer of one of the advisors he depended on to design the project.

Public officials are not necessarily aware of their conflicts-of-interest. This was reflected in the case of Jorge Insunza, a member of the Chamber of Deputies, who presided over the committee investigating the Chilean state copper company Codelco despite the fact that he had previously provided consultancy services to them.

The use of public office for personal benefit has also been evident in the judicial branch: In March 2007, Guillermo Cádiz, a judge in the First Family Court of Santiago, was suspended by the full Appeals Court of Santiago for four months at half pay for processing his divorce from his wife in just eight days, when such proceedings typically take up to one year.

All Politics is Local

Corruption and malfeasance has not been isolated to public enterprises or agencies of the central government. To wit:

In 2006, the Christian Democrat mayor of Coquimbo, Pedro Velásquez, was found guilty of fraud after he authorized the purchase of land for a price that was higher than the appraised value.

In March 2007, the mayor of Punitaqui, Blas Araya, a member of Party for Democracy (Partido Por la Democracia) of Punitaqui, was declared guilty of authorizing salary payments to three city council members who did not attend the sessions for which they were paid.

In Pichilemu, three consecutive mayors have been removed from office: Jorge Vargas González (Christian Democrat), for bearing false witness in a bribery trial that ended with his conviction; Francisco Vidal (Christian Democrat), accused of irregularities in a parking meter concession; and Víctor Rojas (Christian Democrat), for charges in 2007 of bribery, fraud and conspiracy in relation to another parking meter concession.

The former mayor of Iquique, Jorge Soria Quiroga (Independent), was removed from office by a decision of the Regional Electoral Tribunal (Tribunal Electoral Regional) after being charged with government fraud, incompatible business dealings and bribery.

Some of the most notorious cases of irregularities at the municipal level occurred in the first half of 2008 and affected popular mayors such as Pedro Sabat of Ñuñoa from the National Renovation Party (Renovación Nacional); Carolina Plaza of Huechuraba and Gonzalo Cornejo of Recoleta, both from the Independent Democratic Union (Unión Democrática Independiente).

In Sabat's case, the Comptroller's Office determined that he hired a former business associate to be Ñuñoa's vice president for social development. In addition, Sabat failed to disclose his involvement in the business when he declared his assets.

The mayor of Huechuraba, meanwhile, was accused of hiring GMA S.A. to provide information technology services that never materialized. The same company was questioned because of its contracts with the municipality of Recoleta, where more questions were raised about Mayor Cornejo's links to a private company he had formed with one of his coworkers at the municipality (who was also a partner in GMA). In other words, the mayor and another municipal official were part of a company that provided technology consulting services to the municipality.

In all, 21 mayors have been removed from office and 11 more mayors have been investigated for irregularities and management abuses since 2004.

Despite these cases, corruption has yet to become one of Chileans' top three concerns. Perhaps this is because these practices have become embedded in the culture, but it speaks to a society that tolerates taking shortcuts to success while being shocked by the scandal of the day.