



4th International Conference on
Public Policy (ICPP4)
June 26-28, 2019 – Montréal

Panel T02P10

Session 1

*Bad Governance and Public Management Problems in the Developing
World: Frameworks, Evidence and Cases*

Title of the paper

*The institutionalization of corruption in Peru: Diagnosing its causes
and effects*

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Date of presentation

June 26, 27 or 28, 2019



The institutionalization of corruption in Peru: Diagnosing its causes and effects

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Abstract—Diagnosing the causes and effects of the institutionalization of corruption in Peru requires an analysis of anti-corruption public policies applied in this country in comparison to new policies implemented by countries that have high levels of governance and democracy worldwide. Identifying the origin of Peruvian corruption using the main underlying variables and their subsequent effects requires a study of unexplored anti-corruption mechanisms, such as citizen participation based on data collected by Transparency International on the corruption perception index. The scarce operability of anti-corruption legal framework contributes to the stagnation of Peru, affects the economy by depressing entrepreneurship, discourages investment and weakens the state, as well as fomenting poverty, instability and citizen insecurity.

Keywords—Corruption, Corruption Perception Index, Public Opinion, Public Policy.

I. INTRODUCTION

The corruption is defined as the absence of integrity in someone who holds a position of trust (Berumen & Hegemann, 2011, p. 564). Others classify in two groups “in the first group, one can find authors who delve into the causes and motivations underlying corruption – e.g. Treisman (2000) or Fisman and Miguel (2006), who use a micro-level natural experiment to determine the influence of cultural norms on corruption. In the second group, one can find works that explore the effects and consequences of corruption” (Pedauga, Pedauga, & Delgado-Márquez, 2017, p. 2). Other defined it “as the abuse of power of public authority for private benefit. It is therefore a narrower concept than governance, which encompasses all aspects of

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² We thank “Universidad Catolica de Santa Maria” (Santa Maria Catholic University, Arequipa, Peru) for the economic funds granted (Resolucion N° 014-2018-VRINV) for this research.



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the way the public sector is governed” (Arvate, Curi, Rocha, & Miessi Sanches, 2010, p. 1016). Nonetheless, one true factor is corruption “occurs when a civil servant or another public official, abusing their position of power, misuses their powers in the pursuit of personal interests, generally of a patrimonial nature, to the detriment of the public administration” (Calderón Navarro, 2006, p. 490). As such, it harms society and the economy negatively impacting the institution of the state and compliance with legal regulations (Dickel & Graeff, 2018). In Latin America and especially in Peru, this scourge has plagued all governments and economic activities of scale. Corrupt actors involved in various scandals have desolated the hopes of a country that continues to seek to develop through work and trust in its representatives. People have understood the message and are resigning themselves to scandals, without understanding the terrible consequences for future generations. Using manipulation, legal devices and repression, corruption has been making its way through the country for many years, leaving aside the great difficulties we face such as poverty, instability, scarcity of opportunities and weakness of institutions and neutralizing the efforts of those who fight for a better Peru. Despite the efforts being made with programs and policies, those at the margins of economic progress feel that they are not part of the development of society.

But this is not only talking about state corruption as administrative corruption wherein officials obtain benefits under the protection of the law itself and state regulation but also large-scale corruption (Tomaszewski, 2018). In Latin America as in many parts of the world, corruption affects transition economies as well as emerging democracies, since the economic raised has had a significant impact on people's lives, highlighting the responsibility of private corporations in tackling the fight against corruption (Hodgson & Jiang, 2008; Tonoyan, Strohmeier, Habib, & Perlitz, 2010). On the other hand, the corruption is developed by unscrupulous public officials who benefit at the expense of state revenues, but there is a symbiotic relationship between the public and private sectors, and it is essential to understand the other side of the coin: the participation of the business sector in acts of corruption.

On this regard, Pozsgai-Alvarez (2018) points out that the anti-corruption movements developed at different stages upon assumption of power have served to legitimize the image of the candidate and not to confront the problem. Politicians have rarely implemented such anti-



corruption policies; instead they have used them as campaign platforms they have failed to enact once they come into power. One example is the creation of the National Anti-Corruption Council (Consejo Nacional Anticorrupción, or CNA) in 2001 under the government of Alejandro Toledo. The Council was attached to the Ministry of Justice, whose practical use was limited. Toledo used the Council to promote his own popularity during the election cycles. No concrete measure was undertaken to confront corruption; rather, it served as a theorization of recommended anti-corruption measures for the country.

There is one key factor that must be defended: democracy. A weakly institutionalized democracy that is underpinned by poor economic conditions and high levels of corruption will encourage the population to choose the outsider candidate as a response to the discontent generated by the deficient administration of traditional governments (Carreras, 2017). Corruption does not distinguish between a dictatorship or a democracy. Consequently, defense of Human Rights must be guaranteed for the entire society. Such corruption not only occurs in the public/state sphere by officials who easily allow themselves to be corrupted but is a set of channels of interactions between public servants and third parties (private, public and society in general) who operate illegally and extralegally in violation of an efficient institutional system.

II. TRANSPARENCY INTERNATIONAL AND WORLD BANK DATA

Transparency International is a well-known database “because of its broad availability and the fact that it captures corruption in the public sector rather than in private or politically” (Khyareh, 2017, p. 11). The Corruption Perception Index, or CPI, “which is an average of multiple surveys of country and business experts” (Habib & Zurawicki, 2002, p. 296) shows the scores of different countries such as the United States with a CPI of 75, ranked 16th out of 180 countries, China with a CPI of 33, ranked 112th, or Nigeria with a CPI of 41, ranked 77th. Peru was ranked 96th out of 180 with a CPI of 37 in 2017 and 105th with a CPI of 35 in 2018.

Turning to the “Perception of Corruption” analysis, the most common actions related to corruption have been generated through nepotism, theft of public income, patronage, bribes,



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and embezzlement, among others. For example, granting a bribe is motivated by five factors, two of which feed directly on corruption: dissatisfaction with service and possession of high income, and pointing that studies on the subject do not take into account the behavior of individuals in real situations (Pozsgai Alvarez, 2015). For example, in Latin America and the Caribbean, regulations to start a business, obtain credit, pay taxes or protect investors have been affected (Fernandez-Torres, Gutierrez-Fernandez, & Ramajo-Hernandez, 2018). Many databases such as the World Bank Group Entrepreneurship Snapshots (WBGES) have published data about this issue in Latin America and the Caribbean for many years, and the Global Entrepreneurship Monitor (GEM), which is "a research program that started in 1998 and that annually collects cross-national harmonized data on entrepreneurship" (Khyareh, 2017, p. 10) maintains the files related to Peru.

In terms of severity, corruption has greater effects when the quality of government institutions is deficient, thus favoring the "grease the wheels" hypothesis (Berumen & Hegemann, 2011; Bologna & Ross, 2015; Boudreaux, Nikolaev, & Holcombe, 2018; Dutta & Sobel, 2016; Fernandez-Torres et al., 2018), which helps to promote business in a developed country. Furthermore, getting rid of corruption it is not an easy task because "efforts to stamp out corruption across the globe could be very dangerous to growth and prosperity, particularly in the poorest and least developed countries, whose end lies in the favoring of business activity (Dutta & Sobel, 2016, p. 193). However, if the aforementioned is not the case (i.e., the marginal effect of corruption being rather reduced), having high quality institutions would prevent corruption from being a tempting possibility for entrepreneurial growth, wherefore the hypothesis might find another explanation in "that the sand-the-wheels and grease-the-wheels theories are not mutually exclusive but complementary" (Tomaszewski, 2018, p. 261).

Another transcendent concept is corruption tolerance [...] "to our understanding of corruption tolerance for cases of petty (or low-level) corruption is provided by a study on corruption and good government [...] which found that as much as 18 percent of heads of household did not relate bribery to corruption" (Pozsgai Alvarez, 2015, p. 103), it means we can not measure corruption by only taking into account the tolerance of people instead the behavior in corruption activities. Because "[...] a citizen's evaluation of low level corruption may be negative, but



other factors beyond a citizen's sentiments also come into play when confronted with a real situation. The theory of planned behavior (TPB) suggests that this occurs because other elements influence individuals' decisions besides their attitudes toward bribery". (Pozsgai Alvarez, 2015, p. 122)

III. PUBLIC POLICIES AGAINST CORUPTION APPLIED BY OTHER COUNTRIES

The Economist Intelligence Unit published a list with its Democracy Index covering "almost the entire population of the world and the vast majority of the world's states (microstates are excluded). The Democracy Index is based on five categories: electoral process and pluralism, civil liberties, the functioning of government, political participation and political culture" (EIU, 2017, p. 2). According to this list, one can deduce how well the most democratic countries are doing throughout the years. The analysis has been taken from countries whose governments are categorized as "full democracy" using data from the EIU, such as Norway, Iceland, Sweden, New Zealand, and Denmark. This data explains the decay of a democracy, the weaknesses of a government, the decrease of representative parties, and public trust in unelected institutions.

Norway: Ranked number 1 with a Democracy Index score of 9.87. This country has developed a scenario of fighting against corruption in different levels and taking into account many indicators (Gjessing & Syse, 2007). This advanced country has taken on new challenges such as the regulation of electronic voting and its protocols (Cortier & Wiedling, 2012), among others.

Iceland: For the first decade of the 21st century it was at the top of the Human Development Index and in the Corruption Perception Index, so the economic crisis generated in 2008 has showed some inner problems about corruption inside the institutions (Bernburg, 2015; Erlingsson, Linde, & Ohrvall, 2016). As the CPI score is measured through the opinion of international business executives and experts and setting aside the opinion of a large sector of the population, the researchers have said the perception process need to be more democratic using different measurements and incorporating new options (Bergh, Fink, & Ohrvall, 2017).

Sweden: A country with a high development of democracy, long-established institutions,



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women in power or positions of trust and respect for human rights faced a market dropped with almost 60 percent in 2008 because of the crisis triggered all over the world (Erlingsson et al., 2016). One solution might be having less seats for councils inside their municipalities in order to drop the corruption rate (Bergh et al., 2017). “Given the theoretical assumptions made here, one would expect a pattern of corruption in this type of case where conflicts of interest are important. However, as the exploration of the Swedish case indicates, this is difficult to capture using the standard measurements and legal data.” (Andersson, 2017, p. 3). Regarding the position of Sweden’s standard low-corruption position, the citizens still perceive corruption despite the high score this country has because of scandals in the media and the blame of public officials for poor service in public sectors. The common mistake in Sweden is the legal definition of corruption being itself a definition of bribery. In this country the measures of corruption levels might be different because there are different types of grafts being developed.

New Zealand: This country is ranked in CPI as number 1 even though there are still remains of illegal action in public affairs but not measured by CPI. Nevertheless, we can not only define corruption in terms of bribery but in assuming that “one way forward is to increase the available data for various corruption types” (Andersson, 2017, p. 3) and New Zealand is certainly tackling problems related to petty corruption.

Denmark: Likewise, this country is facing new challenges against corruption “[...] despite the recent increase in trust in Denmark” (Andersen, 2018, p. 23). But international image of the country itself as one of the less corrupt in the world is different among the citizens inside Denmark because they thought in the other way around (Erlingsson et al., 2016).

“Unidimensional definitions and measures of corruption are of limited help in understanding corruption in a particular country, as they fail to recognize that corruption varies in form, across sectors, and across levels of government. This can lead to misinterpretation of the prevalence and nature of corruption in the given setting, and to a focus on corruption types/problems that are not the most pressing. This might also have policy implications if measures that overlook important vulnerabilities and the corruption that currently exists are adopted” (Andersson, 2017, p. 13). The gender ideology also justifies the institutionalization of corruption since the



dominance of men is maintained without allowing women to enter institutions (J. E. Johnson, Einarsdottir, & Petursdottir, 2013). Frequently, the concept “corruption tolerance” [(Low-level corruption tolerance) LCT] has been used in the literature over the past 10 years, but without any implications in the scientific approach to corruption. As it is mentioned “the literature on corruption tolerance can also be divided in two main groups: (a) tolerance as citizens’ support for corrupt politicians and (b) tolerance as citizens’ willingness to engage in corruption” (Pozsgai Alvarez, 2015, p. 102).

IV. LATIN AMERICAN OVERVIEW

To understand the Latin American experiences in overall, we should overview the concept of democracy and its interaction with politics:

“Although democracy offers regular opportunities for citizens to hold their public officials accountable, it is clear that political corruption – the misuse of governmental power for personal or political profit – can persist in democratic systems. By themselves, elections are weak controls on corruption because politicians seek to keep their corruption out of public view and because electoral defeats due to (exposed) corruption are neither certain enough nor costly enough to serve as a strong deterrent. Nevertheless, elections often generate considerable enthusiasm about corruption control, especially when they result in a partisan transfer of presidential power. Sometimes this is because the outgoing administration was notably corrupt and its removal provides some relief. Other times, buoyant perceptions of corruption control may stem from the public’s enthusiasm for the new president or the relative lack of high level corruption scandals in the early stages of new governments. In any case, however, the enthusiasm seldom lasts: presidential honeymoons end, governments once untainted become implicated in scandals both small and large, and beliefs that new officials are less corrupt than their predecessors are often abandoned” (J. W. Johnson, 2015, p. 112).

That being said, the Latin American presidents especially in countries like Peru or Brazil were involved in outrageous corruption. On this regard, the biggest problem in Latin America



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was:

“[...] Odebrecht. Allegations and concerns about Odebrecht surfaced throughout the year with regard to delays and expenses related to the construction of the Southern Gas Pipeline. In 2014, Odebrecht and several partners won a 34-year, multi-billion dollar concession to construct and manage the pipeline. When Odebrecht’s president was arrested in Brazil because of his links to what is called the Lava Jato (Carwash) investigation, several international investigations followed. The Lava Jato investigation exploded on 21 December, when Odebrecht and a subsidiary, Braskem, entered a guilty plea in the United States for violating the Foreign Corrupt Practices Act. This plea opened the door to a series of corruption scandals that have implicated government officials at the highest levels in countries that include Brazil, Colombia, Peru, and Venezuela. As part of the case, Odebrecht admitted to paying \$29 million in bribes in Peru between 2005 and 2014.

How harmful is corruption to a country? Considering this idea it is said “[...] that corruption has a positive relationship with income inequality and that improving the mechanisms and policies to control the extent of corruption in a society would yield good results in term of reducing income inequality” (Enrique Pedauga, David Pedauga, & Delgado-Marquez, 2017, p. 13). Corruption is not equally to every country, although it is toxic to a democracy, it produce different mid-term results in economic field. “[...] However, we found that even though the informal sector does have a positive impact in income inequality, the relationship between inequality and corruption is not diminished by the size of the informal sector [...] support a public-sector performance hypothesis in which a large informal sector increases inequality by possibly reducing tax revenues that finance government transfer programmes” (Enrique Pedauga et al., 2017, p. 13).

One strong opinion about how corruption can boost and harm the economy at the same time is:

“[...] that corruption and inequality are inversely related: corruption contributes to reducing inequality and may be perceived as a means of pro-poor redistribution. The finding of an



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inverse relationship between corruption and inequality, while at odds with results from other empirical studies, makes sense in Latin America for a number of reasons. First, there is a large informal sector in many Latin American countries. The informal sector provides jobs and a source of income for people who are among the poorest in society. Many of these people lack the personal characteristics required to find work in the formal economy, while discrimination and institutional barriers also inhibit work opportunities. As corruption is reduced business becomes more formal: operational costs rise, profits are reduced and jobs are lost. Second, corruption may be seen as a price worth paying for lower inequality. The provision of certain government projects, while fostering corruption, serves to improve the welfare of the very poor. Well intentioned policy-makers are hesitant to reduce or eliminate corrupt programmes because this is often the only way to improve the condition of the poor. A third reason, and one which merits additional research, is the possibility that as corruption becomes more organised the provision of some government goods may improve, thus contributing to improving the wellbeing of the poor”. (Andres & Ramlogan-Dobson, 2011, p. 972)

Latin America is a different continent, but not in terms of corruption. “A safer way of tackling inequality in Latin America is to encourage countries to fight corruption and at the same time adopt policies that directly promote the productivity of the poorest groups.” (Andres & Ramlogan-Dobson, 2011, p. 972). Remembering that we are together in the fight because “governance and corruption issues have become widespread in international community, not only for international development sector but also for private business sector. Numerous investigations have been done only in a last decade and various organizations have started to undertake this issue as a prioritized strategy.” (Arbeláez & Tanaka, 2012, p. 339).

Across Latin America, there many cases of governance and corruption such as Peru’s neighboring countries Argentina and Chile:

“Since Argentine institutional framework provides presidents with higher level of autonomy, monopoly, discretion, and less transparency, the Argentine president tends to exercise the executive power for his/her own gain. However, in Chile, because there are



more balance of power and judiciary independence, the Chilean president has less incentive and opportunity to be engaged in acts of corruption. In addition, Chile's geographical isolation and dependence on trade force Chile's government to keep more stability and transparency than Argentina to ensure its reputation intact." (Arbeláez & Tanaka, 2012, p. 373).

In our Latin American history "Since the early 1990s, nine Latin American presidents or former presidents have faced judicial proceedings or have been dismissed on corruption charges" (Canache & Michael, 2005, p. 94). So, this scourge lasted for so long and now it becomes stronger, then:

"[...] to understand perceptions of corruption in Latin American countries one must attend to the presidential election cycle and particularly the changes that follow turnover elections. However, the results and theory have other implications. For example, the temporary boost in perceived corruption control that follows partisan turnover in the executive branch will tend to strengthen public support for democratic institutions [...] as well as soften the demand for political reforms to counter corruption. The timing of the latter is important because it occurs when governments typically have the most political capital to spend on a reform effort" (J. W. Johnson, 2015, p. 137).

V. PERUVIAN FRAMEWORK OF CORRUPTION AND POLITICAL SPHERE

In recent years, Peru has been the site of large-scale corruption scandals. "It has been almost 16 years since Peru transitioned from the authoritarian period of the Fujimori period." (Avilés & Rosas, 2017, p. 15). But some emblematic cases are: Vladivideos (Vladimiro Montesinos' tapes), Petro audios (recordings), Narcoindultos (Pardon for drug dealers granted by Alan García), Comunicore (involved Mayor of Lima Castañeda Lossio), Ecoteva Case (Former President Alejandro Toledo), Red Orellana (embezzlement, bribery, extortion and others), Panama Papers, Odebrecht Case, CNM Audios, and the list goes on. Legal reforms have been weak due to poor implementation of anti-corruption policies within state institutions. This has led to a diminishing citizen confidence in national politics. On the other hand, the corruption



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perception index not only affects public opinion, but also has social, economic, demographic, and cultural consequences. Additionally, it reinforces the main problems of Peru such as poverty, instability, violence, and inequity. In this regard, *Nugent (2018)* points out that corruption has generated concern in the private/economic sphere, since elites have created legal and ethical dilemmas that allow them to operate in the public-private sphere with great power attributions. Regarding this public-private relationship, *Takano (2017)* points out that, although private entities contribute capital and public entities contribute with experience, there could still exist imperfections in the process. This situation is reflected in the bribes that businessmen of transnational entities make to officials of a developing country in exchange for guaranteeing an investment (*Villoria Mendieta, 2006*). The scandal with the greatest impact on bribes is the Odebrecht case in Peru-Brazil and the Car Wash investigation that followed in Brazil in 2014. The Brazilian construction giant admitted to having paid millions in bribes to government officials in Peru, in order to secure public-works contracts. As a result, Odebrecht benefited from over US\$143 million between 2005 and 2014 in Peru, according to the U.S. Justice Department. This investigation revealed that several authorities, among them presidents, ministers, congress, and public officials, were involved. In Peru, four former presidents are involved in criminal investigations: Alejandro Toledo (for allegedly receiving \$20 million in the construction of the Peru-Brazil Interoceanic Highway), Alan García (most of whose government officials were detained for illegal activities during the construction of the Lima Metro), Ollanta Humala (detained for 18 months with his wife under the authorization of Judge Richard Concepción and charged with money laundering and conspiracy for the suspicious \$3 million contribution to his election campaign) and Pedro Pablo Kuczynski (who was Minister of Economy in the Toledo government 2001-2005 and who maintained suspicious commercial ties with Odebrecht through his company Westfield Capital). Kuczynski is also the last president to undergo an impeachment process initiated in Congress, which resulted in his resignation from the Presidency of Peru. (The last presidential impeachment trial was for Alberto Fujimori in 2000, who later received a humanitarian pardon from Kuczynski, although this has changed because in October 3 the Peruvian Preparatory Investigation Court annulled the humanitarian pardon). One point to take into account is that “corruption continues to plague the judiciary, as it was evidenced in a series of high-profile cases during the Toledo and the García administrations. As a result, Peruvians lack confidence in their judicial system to address



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their claims to justice.” (Balasco, 2016, p. 1189). Besides, it is known that “nationwide corruption scandals persist, a phenomenon that is closely tied to Peru’s history of weak political institutions. One noteworthy case involved the wife of Ollanta Humala, former First Lady Nadine Heredia, who faced allegations of money laundering for which she continues to be investigated” (McNulty, 2017, p. 567). The problem is some of these corrupt politicians could be reelected and without any doubt that will be a step back in Peruvian democracy.

One renowned case is from the former Peruvian Dictator’s daughter Keiko Fujimori who was accused to be engaged in corruption with Odebrecht receiving money for her campaign. Surprisingly, the support for Keiko has increased among Peruvian citizens. Even though, “the appeal of Keiko Fujimori, daughter and political heir of the authoritarian regime that ruled Peru in the 1990s, who offers iron-fist policies to defeat crime” (Balasco, 2016, p. 1177), will never become a reality. So, this paragraph asks the same question “How come millions of Peruvians, who had been widely exposed to the crimes and corruption of Keiko’s father, came to support a candidate who had acted as first lady during the second half of the regime?” (Balasco, 2016, p. 1178).

“According to historian Alfonso Quiroz, the Fujimori regime was likely the most corrupt in Peruvian history, with \$1.5 to \$4 billion lost due to corruption” (Burt, 2009, p. 387). But there has significantly been efforts led by high profile politicians to change the status quo. One of them was the transitional president Valentin Paniagua. He “created a special prosecutorial unit, the Procuraduría Pública Ad Hoc, tasked with working with the Public Ministry and the judiciary to prosecute corruption (but not human rights) cases” (Burt, 2009, p. 388). Therefore, how is Peruvian politics doing to tackle this issue? One answer lays out in:

“[...] continuity in Peruvian politics are the deep-rooted problems of corruption, social exclusion, and institutional weaknesses that continue to prevent more robust strengthening of democratic governance. In 2016, corruption scandals plagued elected officials at the highest levels. Moreover, citizens continued to report high levels of skepticism about political institutions, including Congress and the judicial branch. Many social groups, including indigenous communities and Afro-Peruvians, continue to face ongoing



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discrimination and exclusion” (McNulty, 2017, p. 564).

The recent events in the Andean Country were involved in a turmoil. One of them was the case of Susana Villaran, former Lima Mayor during 2011 to 2014, who was allegedly accused of receiving money from OAS and Odebrecht. While, her case is slightly different from the other corruption cases engulfing Peruvian politician, she allegedly received the money to finance the anti-recall campaign against her administration. There are substantial evidence of passive bribery, money laundering and illicit association. Initially, Public Ministry requested appearance with restriction and then changed to 18-month preventative detention to her. As is known, this kind of measures is common as the inner risk of leakage. Villaran’s case is advanced in comparison to other similar detention. The prosecutors mentioned that about 10 million of US dollars were given to Villaran’s team. The former mayor of Lima accepted the allegation and highlighted how the money was invested during the anti-recall campaign.

Another case was of the former Peruvian attorney general Pedro Chavarry – an alleged member of Port’s white collar criminal organization – stepped down from his post amid protest in many cities in the country. During his short tenure, he constantly hindered many efforts made by prosecutors and even trying to remove them from their post and therefore halting the investigation in transcendent corruption cases. For a while, Chavarry did remove Rafael Vela and Jose Domingo Perez and later came back both in their job again. If the public were not actively involved in the political scenery, those prosecutors would never be reinstated as it actually happened.

Another important case is the disgraceful Supreme Judge Cesar Hinostroza. Since it was found an audio recording of conversation between different public officers, Hinostroza’s comments caused outrage among Peruvian media and the society altogether. Since this audio tapes were released as a part of an investigation led by Prosecutor Sandra Castro’s report, independent journalist IDL-Reporteros were given those recordings and selected the most relevant to release them in TV and showed the unethical conversations among National Council of the Magistracy members, judges, politicians and entrepreneurs. A couple of actions were taken by Peruvian congress. They dismissed and banned Hinostroza from holding public office



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for 10 years. Although, He was forbidden to leave the country, Hinostrroza fled to Spain asking for international Asylum and swiftly detained by Spanish authorities. Peruvian Public Ministry issued an extradition request. Nevertheless, the Spanish National High Court admitted the request but only for minor crimes and not for Criminal Organization. They stated that there is no sufficient proof to sustain Hinostrroza's participation in any Organization. This means Peruvian prosecutors cannot stress the 18-month preventative detention because it is not contained in the National High Court's resolution. This will entail drawbacks to process the defendant and therefore halting the disclosure of the entire organization since Hinostrroza is allegedly the head of the organization, according to many experts.

Since the Odebrecht scandal displayed a series of incrimination to high rank official across Latin America, Peru has been one of the worst damaged countries ever since the scandal upraised. It has smeared politicians and parties. Peruvian prosecutors by themselves did not have a good performance in unraveling corruption cases. All of the information come from Brazil and their prosecutors. In this sense:

“The implications of the Odebrecht scandal in Peru were still just beginning to emerge at the end of 2016. Every sitting president since 2001, including PPK, may be implicated. The scandal has varied consequences for democratic governance in Peru. On one hand, the information revealed in the case has led to serious efforts to investigate and charge high-level officials involved in receiving potential kickbacks and exerting their influence over the bidding process, suggesting that Peruvians are serious about attacking this problem. On the other hand, the fact remains that the scandal erupted due to an investigative process that took place outside of Peru, not within, which highlights the overall ineffectiveness of combating corruption from within Peru's institutions. Looking forward, as Peruvians continue to investigate the Brazilian firm's business dealings in the country, 2017 promises to be an important test of how PPK's government can attack corruption in Peru.” (McNulty, 2017, pp. 567-568)



VI. CORRUPTION AND ITS RELATION WITH ECONOMY, ENTREPRENEURSHIP AND RULE OF LAW

When we talk about corruption, we talk about that “Institutionalized corruption represents an illicit criminal framework that is uneasily encompassed by a single and specific form of bribery. Consequently, instances of institutionalized corruption highlighted the limitations of the existing anticorruption criminal legislation in Peru.” (Calderón Navarro, 2006, p. 490). Furthermore, corruption exists in every country around the world:

“[...] but some societies are more successful than others in curtailing improbity. Constant vigilance is required. Corruption has negative socioeconomic consequences that affect economic development. Peruvian corruption has its roots in the patrimonial colonial society and is closely linked to the patron-client system (patronazgo). Under patronazgo, a group benefits itself via the patron. In Peru and Latin America, patronazgo and corruption are linked to the executive branch of the government: viceroys, caudillos, presidents, and dictators” (Horna, 2016, p. 569).

The problem of corruption within public institutions, added to the growing political crisis that Peru is experiencing, has highlighted the need to reformulate Peruvian public policies in order to confront the problem. Peru requires intense citizen participation to find solutions and take action against the problem. Corruption not only discourages the creation of formal ventures and businesses in Peru despite the economic stability in recent years, but also slows growth and chases away investments. When we talk about labor informality, it is key to mention that "informal institutions are more important than formal institutions in Latin American and Caribbean economies" (Fernandez-Torres et al., 2018, pp. 14, 16). This means that though its effects are not directly sought by the market, corruption promotes entrepreneurship and the creation of businesses in the informal sphere since entrepreneurs who wish to create and maintain businesses decide to avoid legality because it entails bribes and improper payments. They prefer to go to the informal sector where they do not commit acts of corruption by paying a high price for their business. It is worth mentioning that "corruption certainly hurts less when a country has a bad business climate, but it never has a positive impact on entrepreneurship in total once both the direct and indirect effects are considered" (Dutta & Sobel, 2016, p. 195).



However, in both the short and long term, corruption does weaken the economy and the quality of Peruvian government institutions. Additionally, "the negative effect of corruption on FDI [...] suggests that firms, as a whole, do not support corruption" (Habib & Zurawicki, 2002, p. 303). In some countries where corruption is massive and evident, in addition to reducing the ranks of entrepreneurship, there are examples of entrepreneurship that manage to prosper despite the circumstances. It can be said that corruption allows the emergence of some enterprises, wherein the government receives gifts from these businesses to allow them to prosper entrepreneur can circumvent the regulation and get advantages from the system (Jiménez & Alon, 2018). But "if we find that corruption and the level of business activity are negatively related, we then want to consider whether this effect varies over time" (Bologna & Ross, 2015, p. 65). Considering that social and economic changes could distort the initial findings, our hypothesis is that "higher corruption is never positive and statistically significant. The total impact of corruption is clearly negative for the countries with the better business climates" (Dutta & Sobel, 2016, p. 195). Furthermore, we cannot only tackle corruption using legal tools and public policy decisions, but "hard innovative activity [might be very useful, because] corruption had a negative impact on the financial aspects of investment and R&D [Research & Development], whereas soft innovative activity it impacts the implementation of quality certification" (Tomaszewski, 2018, p. 261).

The Peruvian state has diverse mechanisms of transparency and citizen participation. Among them are the High-Level Anti-Corruption Commission (CAN in Spanish), Proetica (NGO), Transparency among others. However, in practice these are not enough to have a positive impact on public opinion. Therefore, different mechanisms are needed to eradicate corruption. This begins with a change in legal regulation, with the understanding that "corruption also reduces incentive for promoting a sound regulatory framework if weak regulation lets politicians and bureaucrats receive bribes in return for fast-tracking requests and resolving issues" (Fernandez-Torres et al., 2018, p. 6).

Despite the regulation that often constitutes a straitjacket, political discretion could be an incentive that inhibits the attitude of entrepreneurs not to fall into corruption (Jiménez & Alon, 2018). One way to allow economic development to flourish is to strengthen the levels of quality



in the institutions of the state, so that the population will know the rules of the game and will also have the assurance that the law is respected (Khyareh, 2017). But the commitment must also come from private activity since "foreign investors earn high returns on corrupt acts, meaning that FDI firms currently receive a substantial amount of the rents from corruption" (Berumen & Hegemann, 2011, p. 58) causing a chain of favors. To counteract this illicit relationship between the public and private sectors it should be noted that "introducing regular staff rotation in the public administration could be another precautionary measure against corruption since it would undermine building the particularized trust between the bureaucrat and the businessperson" (Tonoyan et al., 2010, p. 824).

It is key to mention that some measures have been taking into account for many companies to tackle corruption such as Questionnaire of Anticorruption Model (QAM) and many other innovative proposals, which are being displayed in the code of conduct and interactive training. (Saenz & Brown, 2018). Nevertheless, all the efforts that have been gaining popularity during these years do not resolve the problem yet, but they are still going on in different fields.

VII. CAUSE- EFFECTS OF CORRUPTION

Beyond perceiving the existence of Corruption, ensuring and verifying the malfunctioning of institutions lead to think about grand corruption and its effects in all democracies (Rafaty, 2018). José Ugaz the former chairman of Transparency International and former Ad-hoc Attorney for the highest profile criminal case mentions that corruption not only affects the state as an institution, but the whole community. It manifests itself in deaths, poverty or informality. Corruption is not only bribery. It has been linked to a plethora of public policy failings; for example, the experience in Latin America gives descriptive evidence about the political correlates of informal workers who are less involved in politics and in this sense, a large part of the population remains unaware of the mechanisms they have at their disposal to fight corruption (Baker & Velasco-Guachalla, 2018).

Thus, we can state categorically that in Peru the cause-effect of the institutionalization of corruption comes from the following factors:



- Disarticulation between government and democratic institutions, NGOs and the media in the fight against corruption.
- Low level of ethical formation of the political authorities that are holding power during their academic period.
- Non-implementation of anti-corruption public policies.
- Lack of experience of staff implementing the state's anti-corruption action plans.
- Lack of a comprehensive diagnosis of the origin of corruption in the Peruvian system.
- Politics for power.
- Absence of direct political will.
- Ignorance of mechanisms for citizen participation as a response to widespread corruption.

Considering this idea about anti-corruption:

“To conclude, the strengthening of the Anti-corruption System must encompass the following three dimensions: (1) promoting transparency in the exercise of public functions; (2) invigorating democratic institutions and the separation of powers and (3) establishing an Anti-corruption System which is really independent, in which the Procuraduría constitutes an institution effectively autonomous from the political power. At present, however, the ad hoc Procuraduría is an organ linked to the Ministry of Justice and, consequently, dependent upon the Executive Power” (Calderón Navarro, 2006, p. 509).

VIII. CONCLUSION

The institutionalization of corruption in Peru has been reflected in recent years by publicizing the circumstances, the actors, and the amount of money illicitly lost. On the one hand this has become a daily situation for the Peruvian population, while corruption is reflected in the registry of the CPI with an indicator of 35 points, placing Peru in the 105 ranking of 180 countries.



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In Peru, there is a strong private illegal interference in public affairs, where favoritism, bribes and illicit acts have been perpetrated. “Peruvians face are often connected to judicial problems and corruption that transitional justice mechanisms sought to remedy but failed to accomplish” (Balasco, 2016, p. 1179). A worrying factor is the lack of supervision of private entities, which have played an important role in the Odebrecht and Car Wash cases. The results of the investigations have revealed that important political authorities of Peru are involved in acts of corruption, generating an attitude of skepticism and weak confidence in politicians.

According to the Democracy Index of the Economist Intelligence Unit, countries with high democracy rates reflect a lack of Corruption’s Perception among their citizens in an inversely proportional way of the scores. However, the knowledge of the population is opposed to the image that the international community has of the country. These countries still go through complex legal processes to stop corruption. This international experience will allow Peru to understand the new challenges in the fight against corruption.

The economic stagnation and investment disincentive in Peru is latent because there is a political risk that trust in institutions has been affected. On the other hand, in terms of entrepreneurship, the generation of new informal businesses has increased, unlike formal businesses that are affected because the authority impedes the growth of the business, i.e. "developing effective anti-corruption reforms requires paying attention to the country-specific formal and informal institutions" (Tonoyan et al., 2010, p. 824).

The causes and effects of Peruvian Corruption roots need to be studied by an interdisciplinary research. Therefore, the present study recommends that successive investigations approach the problem from different perspectives and disciplines, such as sociology, philosophy, anthropology and political science.

IX. APPENDIX

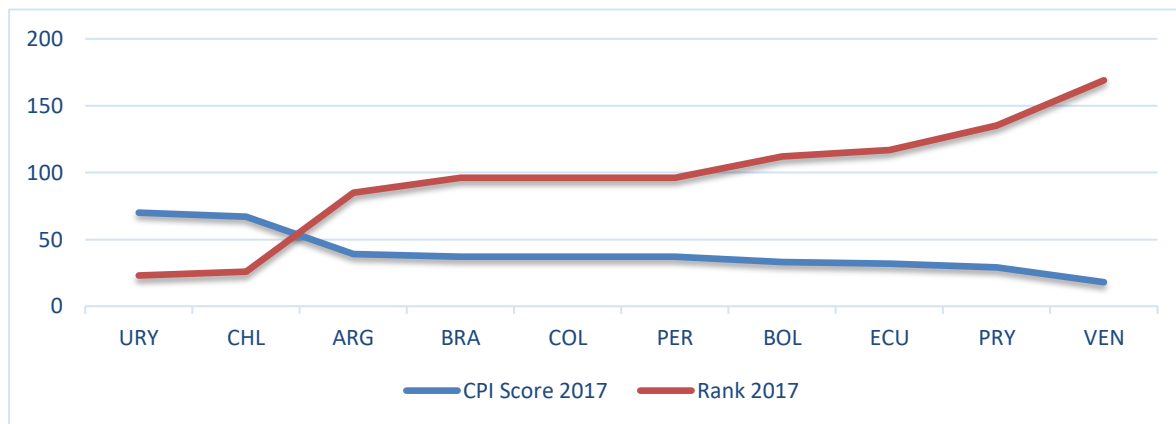


Fig. 1 Corruption Perception Index in South America (2017)

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