



# THE CORRUPTION OF DEMOCRACY IN VENEZUELA

BY GUSTAVO CORONEL

*Under Pres. Hugo Chavez's regime the last nine years, corruption has reached heights undreamed of by even the greediest of despots, as the people of Venezuela have been fleeced out of billions of dollars.*

**H**UGO CHAVEZ was elected president of Venezuela in December 1998 on the strength of three main promises: convening a Constituent Assembly to write a new constitution and improve the state, fighting poverty and social exclusion, and eliminating corruption. Nine years later, it has become evident that the Constituent Assembly primarily was a vehicle to destroy all existing political institutions and replace them with a bureaucracy beholden to his wishes. Poverty and social exclusion remain as prominent as before, while the levels of government corruption are higher than ever.

Today, the nation is locked in an intense struggle between the defenders of democracy and a president intent on becoming a dictator for life. Chavez's latest attempt to push a constitutional reform that would have allowed him unlimited opportunities for reelection was defeated by a margin that official figures put at two points, but independent analysts place at five to 10 points. In negotiating the narrower margin with a National Electoral Council largely under his control, Chavez managed to appear magnanimous in defeat, but he is not a democrat, and he will keep trying to become president for life in any way he can.

Venezuela has been characterized by the persistent presence of political and financial corruption in public administration. In 1813 and, later, in 1824, national hero Simon Bolivar felt it necessary to issue decrees defining corruption as "the violation of the public interest." He established the death penalty for "all public officers guilty of stealing 10 pesos or more," including "those judges who disobey these decrees." In 1875, the finance minister at that time confessed, "Venezuela does not know to whom it owes money and how much. Our books are 20 years behind." One hundred years later, the General Comptroller under Pres. Luis Herrera would describe the state of the country's finances in almost identical

terms, as "a system totally out of control."

In the early 20th century, the long dictatorship of Juan Vicente Gomez was plagued by high corruption, but it was limited to the dictator's immediate collaborators. A similar situation prevailed during the military dictatorship of Marcos Perez Jimenez, from 1948-58. This situation of administrative disarray was replaced during the 1960s by a period of high transparency in the management of public wealth at the hands of democratic presidents Rómulo Betancourt, Raúl Leoni and Rafael Caldera. During these years, Venezuelan democracy became the political model to be imitated in Latin America, comparing favorably with the dictatorships of the left and right that prevailed in those years, and becoming a haven for thousands of Latin American political exiles looking for freedom.

In the mid 1970s, the management of national assets deteriorated significantly, as the country experienced a sudden oil windfall that tripled fiscal income. The ordinary men in charge of the government were exposed to extraordinary temptations. Faced with such riches, Pres. Carlos Perez established a program called "The Great Venezuela," a tropical version of Mao Tse-Tung's "Great Leap Forward" in China that ended in financial and social disaster. The government poured close to \$2,000,000,000 into industrial projects designed to convert southern Venezuela into another Ruhr. At one point, the country was home to more than 300 state-owned companies, none of which was profitable. As a result of the significant government expenditure and insufficient enforcement of regulations, corruption spun out of control. Up until then, graft had been restricted to the ruling elites, but now many Venezuelans started to participate in the abuse and misuse of public funds. By 1980, the country had fallen into debt to the international banks, victim of the so-called "Dutch disease" that affects Third World petrostates that depend

almost solely on hydrocarbon exports for national income.

From 1980 onwards, Venezuelan corruption has remained high. Particularly grave was the administration of Pres. Jaime Lusinchi from 1984-94, which saw some \$36,000,000,000 pilfered or stolen mainly through a corrupt exchange control program, according to an estimate by Venezuelan sociologist Ruth Capriles at the Caracas Andres Bello Catholic University. Soaring corruption during the Lusinchi period resulted from several factors, including weak political institutions, lack of administrative controls, too much money circulating in the financial system of the government, and, above all, populist leaders promoting a welfare state in which hard work and social discipline were not encouraged. In 1997, the Caracas-based nongovernment organization Pro Calidad de Vida estimated that some \$100,000,000,000 in oil income had been wasted or stolen during the last 25 years.

As the 20th century came to an end, Venezuela was ripe for significant political change. The main contenders in the 1998 presidential election—paratrooper Hugo Chavez and former Governor of the State of Carabobo, Henrique Salas—promised radical political change. Venezuelans perceived Chavez as someone who looked and spoke like them and could, therefore, represent them better. His electoral promises were crucial in winning the votes of the majority.

In his inaugural speech, in January 1999, Chavez called for a "political revolution" before tackling social or economic issues. Taking advantage of the popular euphoria following his victory—and in violation of the existing constitution—he convoked a Constituent Assembly possessing absolute power to write a new constitution and to "redefine the state." This Assembly, made up of his followers, went on to dissolve the democratically elected Congress and dismiss all the members of the

Supreme Court, as well as the Attorney General, the General Comptroller, and most of the judges in the country, only to replace them with bureaucrats loyal to the president. In a letter to the Supreme Court, Chavez stated that “the president had exclusive authority on the management of state affairs,” thus appearing to place himself above the law.

In November 1999, the new Minister of Foreign Affairs, Jose Vicente Rangel, gave a speech in which he put forward the position of the government regarding corruption. He said that, from then on, public office would follow ethical norms, that corruption had already cost Venezuela too much in economic, social, and spiritual terms, and that the new judicial system and the new Civic Power, incorporated in the new constitution, would combine to combat corruption. That is not what has occurred, however.

In the nine years since Chavez came to power, an estimated \$300,000,000,000 of oil income has entered the national treasury. The exact number is uncertain due to the poor transparency of the government accounts, and because the national petroleum company no longer presents financial results to the U.S. Securities Exchange Commission or to the Venezuelan people. In parallel, during Chavez’s tenure, national debt has increased from \$22,000,000,000 to about \$70,000,000,000. Together with income tax revenues, the total income of Venezuela during Chavez’s presidency has been approximately \$700,000,000,000. This formidable amount of money is nowhere to be seen in terms of public works or effective health and education programs.

Three parallel budgets existed—totaling more than \$80,000,000,000—in 2007: the formal one, for some \$55,000,000,000 (including additional amounts), approved without discussion by the submissive National Assembly; a second one, amounting to \$10,000,000,000, derived from the international monetary reserves taken from the Venezuelan Central Bank, in violation of the laws of the country; and a third, in the amount of \$15,000,000,000, built from the funds siphoned out of *Petroleos de Venezuela*, monies which were required for investment and maintenance of the petroleum industry. None of these budgets are discussed publicly or subject to accountability.

Irregularities abound in the management of public funds: more than \$22,500,000,000 in dollar transfers have been made to foreign accounts, maintains the Venezuelan Central Bank, and at least half of that money remains unaccounted for. Jose Guerra, a former Central Bank executive, indicates that some of this money has been used by Chavez “to buy political loyalties in the region . . . and some has been donated to Cuba and Bolivia, among other countries.”

According to a Jan. 31, 2006, story in the *Financial Times*, a select group of Venezuelan bankers, including those at Banco Occidental de Descuento and Fondo Comun, has profited from the acquisition of Argentinean bonds by

the Venezuelan government, at the expense of the national treasury. The bonds are bought at the official rate of exchange and sold at black market rates, at considerable profit. Venezuelan journalist Carlos Ball estimates that bankers loyal to the government could have profited by up to \$600,000,000 as a result of the differential between the official and the black market rates. Former Chavez Minister of Finance Jose Rojas has predicted that “the loss of autonomy of the Venezuelan Central Bank and the disorder in the management of the financial resources on the part of the government will lead to a significant financial crisis.”

The nine years of Chavez’s presidency have led to the highest levels of government corruption ever experienced in Venezuela. The main reasons have been: the record oil income obtained by the nation, money going directly into Chavez’s pockets; a mediocre management team working without transparency or accountability; the ideological predilections of Chavez, which have led him to try to play a messianic role in Latin America, and even world affairs; and the policies of handouts put in place by Chavez to keep the Venezuelan masses politically loyal.

## Corruption, Inc.

Three major areas of corruption have emerged during the Chavez presidency: grand corruption, derived from major policy decisions made by Pres. Chavez; bureaucratic corruption, at the level of the government bureaucracy; and systemic corruption, taking place at the interface between the government and the private sector.

Examples of grand corruption include:

**The acceptance by Chavez of foreign contributions for his presidential campaign and even after his election.** In 1998 and 1999, the Spanish bank BBVA (Banco Bilbao Vizcaya Argentaria) allegedly contributed substantial amounts of money to Chavez’s presidential campaign and, later, after he already had been inaugurated as president. The former president of the bank, Emilio Ibarra, admitted authorizing two deposits, one for \$525,000 in 1998 and another for \$1,000,000 in 1999, to finance Chavez’s political activities. In 2006, the government of Spain tried Ibarra for these and other irregularities.

**Expenditures and promises made to political leaders and countries of the Western Hemisphere, in order to buy their political loyalties.** The Chavez government has disbursed or promised an estimated \$70,000,000,000 to foreign leaders and their countries. These expenditures include some \$2,000,000,000 per year in oil subsidies to Cuba; about \$4,000,000,000 in the acquisition of Argentinean commercial papers; an estimated \$300,000,000 in cash donations to Evo Morales in Bolivia; the promise of building up to \$20,000,000,000 worth of refineries in Jamaica, Paraguay, Nicaragua, Brazil, Ecuador, and nine other countries and a \$25,000,000,000

gas duct from Venezuela to Argentina; and acquisitions of about \$6,000,000,000 worth of sophisticated weaponry from Russia, China, Belarus, and other countries. Many of the promises never will be fulfilled, but the fact remains that these expenditures and promises have been made directly by Chavez, without consulting the people of Venezuela or following normal administrative procedures.

**Social programs run by the military in 2000-02.** Soon after becoming president, Chavez established programs called Bolivar 2000 and Central Social Fund run by the armed forces and designed to do social work. Journalist Agustin Beroes reports, however, that the execution of this program left much to be desired. It became a vehicle for the personal benefit of its managers—officers such as Victor Cruz Weffer and William Farinas. Some \$700,000,000 was put into these programs and, at least half of it remains unaccounted for. The Central Social Fund, for instance, gave a \$500,000 grant to an organization run by the wife of Horacio Perez, Commander Farina’s personal driver.

**Acquisition of the \$65,000,000 presidential airplane.** After visiting the Middle East and traveling in an Airbus owned by the royal family of Qatar, Chavez decided he wanted one just like it. In violation of article 314 of the Venezuelan constitution and the laws regulating government expenditures, he bought an *A319-133X* without budgetary provisions to acquire it and after saying in numerous public speeches that he would get rid of all government aircraft because there already were too many of them.

**Corruption at the State of Barinas Sugar Mill.** This Chavez pet project is run by the military and Cuban advisors. A group of about 17 officers and their advisors have been charged with pilfering or pocketing some \$1,300,000 from the accounts of this project. Worse, the 62nd Army Engineers Unit has been charged with squandering \$1,500,000,000 of the \$2,600,000,000 appropriated for the project. The Minister of Agriculture admitted to malfeasance for not revealing these facts when he became aware of them. His explanation? “We were in the midst of parliamentary elections and did not want to create a scandal damaging to our government.”

Bureaucratic corruption has the government involved in bribery, extortion, stealing of public funds, abuse of political power, nepotism, and other varieties of illegal or unethical use of public assets. Examples include:

**Government contracting is done mostly without bidding.** Although the law stipulates that all government contracting should follow bidding procedures, except in cases of national emergency properly defined as such, the Venezuelan chapter of Transparency International estimates that 95% of all known public contracts during the last decade have been awarded without bidding. This is a major source of personal enrichment for corrupt government officers. An example of this is what

has taken place in the State of Carabobo, where Gov. Acosta Carlez publicly has stated that he has given some 800 no-bid contracts involving tens of millions of dollars. His argument? "We are always in an emergency here."

**Corruption at the Supreme Tribunal of Justice.** In early 2006, a major scandal erupted when the Minister of the Interior accused one of the magistrates, Luis Velazquez Alvaray, of stealing public funds in the acquisition of a building for the Court. Alvaray counterattacked and accused Vice Pres. Rangel, as well as Interior Minister Jesse Chacón and National Assembly Pres. Nicolas Maduro, of running a gang of corrupt judges called "The Dwarves," specialized in protecting drug traffickers. All of these allegations came to naught. Alvaray left the country, and the bureaucrats he accused remained in their jobs.

**Corruption at the National Electoral Council.** The performance of the NEC under the political control of Chavez has led to widespread distrust among Venezuelans. The decisions of this body always have been biased in favor of the government, even during the recent referendum which the government lost by a margin of more than six points. Negotiations by Chavez with the president of the NEC led to official figures that showed a much narrower margin. Reports by international observers from the Organization of American States (OAS), European Union (EU), and Spanish Parliament during the electoral events of 2004 and 2005 state that the Council lacks transparency and that its members should be selected properly for impartiality.

Particularly grave is the situation of the electoral registry. It has grown by more than 2,000,000 voters in the last three years, a statistically improbable figure. Still worse, these voters have no proper addresses or reliable identities, making them "virtual" voters that could be used by the government to swing any election unless there is very rigid monitoring by the opposition. Uruguayan analyst Adolfo Fabregat found 39,000 voters that were shown to be older than 100 years of age, and one was listed as being 175. A man called Jose Gregorio Gonzalez Rodriguez, born Aug. 4, 1962, is listed 62 times under different identity card numbers, and therefore is able to vote that many times. Examples like this number in the thousands and have been documented properly and presented to the OAS for analysis, so far without result.

**High levels of mismanagement at the state-owned petroleum company, Petroleos de Venezuela.** Corruption here takes many shapes. It includes the naming of six presidents and boards in seven years, in an effort to control the company politically. This finally was accomplished by naming the Minister of Energy and Petroleum president of the company, in violation of good management practice, since he now supervises himself. As a result, oil production has declined by some 800,000 barrels per day during the last decade. In a recent public hearing, Luis Vierma, the firm's Vice President for Exploration and Production, admitted

giving an oil well drilling contract for some \$20,000,000 to a company with only three employees and no rigs.

Systemic corruption, meanwhile, takes place when government bureaucrats and the private sector interact in a permissive environment where money flows abundantly and without controls. Examples include:

**The emergence of a new, rich, "revolutionary bourgeoisie" that drives Hummers, sports Cartier and Rolex watches, and wears Ermenegildo Zegna suits.** They buy luxury apartments in the U.S. and Europe, fly in private jets, and, salesmen say, always pay in cash. Wilmer Rupert was a minor associate of an international company a few years ago; today, he is quite rich, thanks to obtaining a large share of contracts from the state-owned oil company. Rupert has bought a television station and, as a present to the government, recently spent \$1,600,000 to acquire two pistols that belonged to Simon Bolivar at auction at Christie's.

**Private corporations that deal with the government are owned by government officers.** Government officers own companies that do business with the government, but conceal this fact by working through private intermediaries. Kenneth Rijock, a financial analyst, notes that these types of corporations have sprouted under Chavez. He mentions major agribusiness organizations such as ProArepa, the main supplier of food for government handout programs. Rijock also points to a large grain transport group "rumored to be owned by Chavez's brother, Adan." Officers of record of ProArepa include Ricardo Fernandez Berruecos, whose private jet recently was detained by the U.S. government at a Florida airport for not having the proper documentation of ownership. Journalist Patricia Poleo mentions the case of the brother of Chacón, who made a \$10,000,000 offer to buy INDULAC, a large milk producer, without the source of the funds being known.

**Drug trafficking.** Venezuela has become a haven for Colombian guerrillas who move drugs across the country with impunity due to the absence of border controls. A report by Andy Webb-Vidal for *Jane's Intelligence Review* in May 2006 reveals that cocaine operations are shifting to Venezuela; he notes that drug volumes going through the country have skyrocketed during the last 10 years. Prominent drug traffickers of Colombian origin live without fear of prosecution in Venezuela.

Chavez obviously has failed to live up to his electoral promises to end corruption. The record is clear. The Corruption Perception Index, published by Transparency International, has shown a progressive deterioration of the ranking of Venezuela, both in Latin America and the world. The latest index shows Venezuela in position 138 among 163 countries. This is the worst ranking of all Latin American nations with the exception of Haiti. Vice Pres. Jorge Rodríguez, expressing the official position of the government, claims that Transparency International "was a discredited institution since it charges a tariff for position-

ing countries favorably in the rankings." Transparency International is headquartered in Berlin, Germany, and has chapters in more than 100 countries, including Venezuela. It is a highly respected organization and its corruption rankings are accepted by the international community as the best source of information on this global problem.

Meanwhile, the Venezuelan ranking in the Economic Freedom of the World Index is 126 out of 130 nations, above only the Republic of Congo, Zimbabwe, and the Democratic Republic of Congo. This ranking has been declining steadily since Chavez came to power. It has been established that countries with little economic freedom, characterized by exchange controls, military influence in government, and predominance of state-owned enterprises display the highest levels of corruption. Moreover, the Human Development Index produced yearly by the United Nations also charts Venezuela in free-fall. The country has lost 30 places in this index in the last six years.

## Promises vs. reality

Chavez's record shows a significant gap between his promises to end corruption and the current reality. Immense amounts of money belonging to the Venezuelan people have been misused in furthering an anti-U.S. alliance in the Western Hemisphere and beyond. Five countries of the region—Mexico, Peru, Argentina, Paraguay, and Chile—have expelled Chavez's ambassadors for interfering in the internal political processes of their countries. Chavez's policies have promoted corruption rather than combating it. The concentration of power in his hands and the lack of institutional checks and balances have led to a total absence of accountability and transparency in the government. Although corrupt bureaucrats have been identified, none have been punished. Not one single person is in prison in Venezuela for corruption. At most, some have lost their jobs, while retaining their bounties.

It seems clear that no meaningful victory against corruption can be won in Venezuela while the Chavez government is in power. Only a democratic government, fully accountable to the people, and fully transparent, will be able to minimize this malady. This is why the Venezuelan lovers of freedom and democracy are in for the fight of their lives and, thankfully, seem to be making real progress. Chavez's pretensions of becoming dictator for life came to an end on Dec. 2, 2007, when a constitutional reform that would have made him president for life was defeated. He still is president, but is starting to look more and more like a paper tiger. ★

*Gustavo Coronel, as president of Agrupacion Pro Calidad de Vida, was the Venezuelan representative to Transparency International from 1996-2000. He was a member of the board of directors of Petroleos de Venezuela from 1976-79. This article is adapted from a policy paper written for the Cato Institute, Washington, D.C.*