

The Story of Paraguayan Dams Channels, Causes, and Consequences of Wrongdoings in Procurement

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Introduction

- This presentation illustrates the channels, causes, and consequences of Wrongdoings in Procurement through the story of hydroelectric dams in Paraguay.
- Itaipú and Yacyretá, massive infrastructure projects started in the 1980s.
- Most of the ingredients of interest: widespread corruption and abuses of public money, facilitated by weak or inexistent legal and political institutions, and long term adverse effects on the development trajectory of the Paraguayan society (lock-in effect of important infrastructure choices).

Framework

- Channels:
 - Cartels / bid rigging / Tailored specification / Exception, etc.
 - Collusion / corruption
- Causes: despite most countries having imported “best practices” rules, not always translate in good practices
 - Bad enforcement, inefficiency or corruption of the judicial power
 - Weakness of auditing institutions
 - Constraints on contracting forms
 - Constraints on information availability (on providers, quality of products) and transmission
 - Commitment problems, because of institutional weaknesses, political instability and opportunism, etc.

Framework

- Consequences:
 - Static costs: Over cost / underprovision of public goods, bad quality of goods and services procured, accidents, etc. (ex: Olken, 2007)



- Bias in type of goods and services procured (intensive and extensive margin: some things are not procured at all)
- Dynamic costs: distortions in set of firms providing the goods. Misallocation of talents, both on intensive (size of firms) and extensive margins (existence, choice of sectors)

Paraguayan Dams

- In 1970s, Paraguay decided to build two major hydroelectric power plants:
 - **Itaipú**, on part of Parana River bordering with Brazil, which would for a long time be the largest one in the world, and
 - **Yacyretá**, about $\frac{1}{4}$ of production potential of Itaipú, downstream water on same river, jointly owned with Argentina.
- During Stroessner's dictatorship. Works planned to strengthen regime by:
 - Using these large scale public works to allocate procurement contracts to supporters or to buy allegiance from others
 - embarking on a large centralized project which would validate and reinforce the regime's terror apparatus (Floch, 2013).

The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.



Paraguayan Dams

- Construction costs were estimated to reach \$20 (Itaipú) and 15 bn (Yacyretá) (5 times 1989 GDP).
- Carlos Menem (Argentine President 1989-1999) famously said Yacyretá was a “monument to corruption”.
- A World Bank report later estimated cost overruns of around US\$ 8 bn., and initially planned top height of 83 meters above sea level was only reached in 2011, 28 years after the start of construction.
- Combination of costs higher than initially envisioned, and benefits reduced by inability to operate at full capacity has first order impact on net cost of project mismanagement.

Building and Operating the Dams: Channels of Wrongdoings

- Multiple channels, covering almost all known forms.
- In construction phase:
 - Outright favoritism through the direct allocation of contracts, and overpricing (a few entrepreneurs became very rich: Wasmosy, president 1993-1998)
 - Direct siphoning of resources without counterpart (estimated wealth of Stroessner family: estimated at US\$ 5 billions (twice stock of 2010 public debt and 27% of GDP).)
 - Under compliance in contracts requirements: ignoring mandated environmental studies of impacts (established in 2004 by two independent panels, WB and IADB, following complaints of Paraguayan Federación de Afectados por Yacyretá de Itapúa y Misiones).
 - ignoring security requirements for workers (official: 149 deaths in Itaipú)

Building and Operating the Dams: Channels of Wrongdoings

- Second aspect of wrongdoings (common in large scale projects implying long-lasting operational phase): mismanagement and abuse of institution's resources for objectives that differ from its main purpose.
 - Both companies used by politicians as reservoir of complaisance employment for friends, political supporters, and activists in time of political campaigns. Nov 2013: 1861 employees on Paraguayan side (1441 on Brazilian side).
 - Internal procurement lacks transparency (in 2012 Itaipú had 18bn assets, 4bn operating revenues, 2bn net operating cash flow, compared to 25bn GDP for Paraguay). When regime changed in 2008, numerous Itaipú providers went bankrupt.

Building and Operating the Dams: Channels of Wrongdoings

- Mismanagement and abuse of institution's resources for objectives that differ from its main purpose.
 - Embezzlement through donations and “foundations” (Tesai Foundation, created to distribute Itaipú wealth to address social needs; elected officials dip into Tesai for “medical expenditures” on average once every 4 days). In 2008, no trace of a US\$2.4million lump sum transfer from Itaipú.



Carlos Mateo's seal "Pague de su bolsillo": 30 binders full of requests for national and international travel and hotels, donations of freezers and outboard engines, cash, patrols, paving neighborhoods, building plazas, sports and religious travel, travel for beauty queens, and scholarships to study in Europe

Asunción, 11 de Diciembre de 2008

ITAIPU
MESA DE ANTECEDENTES ASU

SEÑOR
Director General
ITAIPU BINACIONAL
DR. CARLOS MATEO BALMELLI
E. S. D.

RECIBIDO POR: [Handwritten Signature]
FECHA: 22/12/08
HORA: 15:10
EXD.Nº: [Handwritten]

Tenemos a bien dirigimos a Usted con el objeto de conocimiento que el 14º Festival Nacional y el 9º Festival Interno de la ciudad Itacurubi del Rosario, mediante la ardua gestión de su COMISIÓN CENTRAL ORGANIZADORA, DEPENDIENTE DE LA FUNDACIÓN POR EL ARTE, LA CULTURA Y EL DEPORTE, DECRETO 386 DEL AÑO 2008, está en plena etapa preparatoria, con vista a su próxima edición a cumplirse los días 24, 25, 26, 27, 28, 29, 30 y 31 de Enero del 2009, en nuestra comunidad Itacurubi del Rosario, Departamento de San Pedro, declarado de interés Cultural y Turístico hace 13 años.

Queremos destacar que, además de rescatar, defender y difundir las genuinas manifestaciones Folkloricas de nuestra Patria, el Festival Ykuá Salus, anualmente, dedice su mejor objetivo a la solidaridad ayuda a Instituciones Educativas, de Salud y Socio-Deportivas de la zona.

Sin embargo, es imperativo reconocer que la organización y realización global del evento demanda inversiones cuyas cifras están ajenas al modesto alcance y capacidad de nuestra comunidad.

Solicitamos respetuosamente a esta Identidad para cubrir parte de los gastos, que demanda la Organización, que incluye entre otros, pasajes, estadías, comida, transporte y arriendos (nacionales y extranjeros), elaboración de afiches, triplicos, publicidad, equipos de sonido e iluminación, maestros de ceremonia entre otros, la suma de Gs. 30.000.000 (treinta millones de guaraníes). Ajuntamos presupuesto General del Festival.

Atendiendo a los nobles objetivos culturales y sociales de nuestro Festival, respetuosamente nos permitimos solicitar a la ITAIPU BINACIONAL, su apoyo económico, a fin de facilitar el cumplimiento del Cronograma de Actividades previsto por la comisión.


Sabemos que la ITAIPU BINACIONAL, está cumpliendo una labor ejemplar, después de tanto tiempo en nuestro país, para devolver al pueblo las expresiones más puras de su paraguayidad, y permitirle un permanente encuentro con sus raíces y la esencia misma de su ser y sentir nacionales.

Señor Director, nuestro festival es una fiesta popular, cumple una misión cultural, es un atractivo turístico en el Segundo Departamento San Pedro y se convierte en puente coadyuvante para asistir a los necesitados que preserva orgullosamente las tradiciones más vivas de la Patria.

Por todo lo expuesto, rogamos a la ITAIPU BINACIONAL a su dignísimo cargo, tenga a bien conceder este pedido, de todo el pueblo de Itacurubi del Rosario, que año tras año, redobla esfuerzos a pesar de las precariedades, para mantener encendida la llama emotiva de las más sentidas tradiciones Paraguayas.

Con el eslogan TRABAJO Y CULTURA, busquemos la reactivación económica para Itacurubi del Rosario, con el apoyo de Usted Señor Director.

Atestamos
Sra. Ignacia Martens
Coordinadora General



Dra. Estela Mary Mareco
Directora y Organizadora General

Visto: [Handwritten Signature]
Nuestro País Siempre Viva
nuestro Pueblo

Wilma de Escalante
Tesorera

Dr. Carlos Mateo Balmelli
Director General Paraguayo

Causes: Paraguay Institutional Framework

- Paraguay exhibits most of problems in slide 2.
- Projects initially built by dictatorships. 1970s Military regimes in Argentina, Brazil, and Paraguay did not allow for independent judiciary, public audit or comptroller units.
- In Paraguay, Stroessner's Colorado party stayed in power after the 1989 coup until 2008.
- Public sector inefficiency, corruption, and lack of transparency in the operation of public companies if anything became worse (Shleifer and Vishny, 95).
- Paraguayan Govt always took pretext of binational legal status of dams to refuse to allow independent auditing of internal practices, or to answer any request of information (ex: Nov 2013).

Consequences

- Itaipú 20 turbines produce close to 100 TWh yearly. 1 covers country's energy need. In practice, constrained by inadequate transmission and distribution capacity.
- Paraguay gives most of its production (9 turbines) away to its partner Brazil, in exchange for yearly royalties, following an agreement included in initial treaty signed in 1973.
- Treaty terms historically very unfavorable to Paraguay, and have been criticized by many internal and external observers (e.g., Earth Institute, 2013).
- Raises the question of whether procurement choices were distorted towards projects more open to manipulation but not priority for the country.

Consequences

- Today Paraguay has one of the highest per capita generation of electricity, yet resources from this are small.
- Distortions had profound consequences for long term development prospect of Paraguayan economy.
- Electricity has not reach the firms: 21% of firms expected to give gifts to get an electrical connection (WBES), compared with 4% in LAC.
- Outages are frequent and 38% of firms identify electricity as a major constraint.
- Alby, Dethier and Straub (2013) show that electricity-intensive sectors in high-outage countries are characterized by a significantly lower share of small firms.

Consequences

- Auriol, Straub and Flochel (2012) show that procurement was politically oriented until 2008.
- Misallocation of talents: prospective entrepreneurs enter mostly rent-seeking sectors (import) to do business with Govt., where profits are higher. Export and innovation not rewarded, with long term growth consequences.
- Straub (2014): this also constrained new Govt after 2008 democratization. Decade-long monopolization of power by Colorados had left few alternative providers.
- Some efficiency gains (public institutions did less "political contracts", used bigger contracts, and more competitive mechanisms), but binding constraints, related to time needed for efficient class of entrepreneurs to emerge.

Conclusion

- Corruption is a system rather than a collection of acts, especially in developing countries.
- It's often locked-in in the past by important societal choices, such as large infrastructure investments.
- As such, it may be resistant to a lot of anti-corruption measures aimed at specific wrongdoings.
- It also has long-term adverse effect even after major political transitions.