6-19-2003

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LADB Article Id: 52698
ISSN: 1089-1560

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by LADB Staff
Category/Department: Guatemala
Published: 2003-06-19

Guatemala's state-run pension and health-care fund, which provides coverage for mostly middle-class subscribers, has been robbed of its assets and has been used to manipulate the government's financial dealings, according to revelations that have come to light during the past month. The Instituto Guatemalteco de Seguridad Social (IGSS) ministers not only to retired and sick citizens but also to the ailing financial sector. With retirement funds amounting to US$800 million, IGSS is the largest single investor in the country. It had, in the past, been generally regarded as a conservative investor boasting respectable returns (12% annual return on domestic bank investments).

More recently, however, IGSS has had its holdings utilized for political ends. When the government issued a controversial bond (see NotiCen, 2003-04-10), private investors boycotted the initial domestic offering because of dubious destinations for the proceeds, placing the international sale of the instruments in jeopardy. IGSS bought up a substantial portion of the issue. That transaction was just one of several questionable deals, some of which have crossed the line into criminality, and all of which have occurred since the government of Alfonso Portillo and the Frente Republicano Guatemalteco (FRG) came to power.

Portillo now acknowledges that IGSS is the largest corruption scandal to emerge during his administration. Portillo told a news conference, "I have not hidden that IGSS is the most terrible and most criminal scandal that has happened to me as president and that has happened to this government." Not the only IGSS shady deal IGSS has been implicated in political maneuvers before, and has been, according to analysts, "always involved in politics," but the current wave of far more egregious activities appears to have begun with the FRG's taking power in 1999, when the ruling party named Carlos Wohlers, a member of the party's executive committee, as IGSS president.

In October 2002, the fund invested in two trust funds, one (US$44 million) administered by Banco Uno, the other (US$ 19 million) by Banrural, both domestic banks. In early May, investigators discovered that US$30 million of the Banco Uno funds had gone to buy land worth, according to the Superintendencia de Bancos, only about US$800,000. It was further discovered that the sellers of the land transferred part of the money they received to the GTC Bank, a Panamanian affiliate of the Guatemalan Granai & Townson Continental Bank. The sellers then used US$7.3 million to buy bonds from the same offering that IGSS had bought and that the government had had no luck in selling. The Ministerio Publico (MP) initiated an investigation with an eye toward invalidating the transactions. The sellers are offshore companies, Galente Trading LTD, Escabel Management Group, Gateville Holdings Corp, and Helensburg Inc.

Attorney General Carlos de Leon Argueta says that Escabel Management Group is a front for Gustavo Adolfo Herrera Castillo, who is close to the FRG, and who is also behind a company designated by IGSS to manage land trusts. Another company so endowed, ASODEGUA, was

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founded by the attorney general's brothers, said an investigative piece in a local paper. Investigators also discovered that IGSS director Cesar Sandoval had been convicted of issuing counterfeit US visas in 1990 and served two years in prison. Later on in his career, as director of IGSS, his fortunes improved dramatically, and he amassed a fortune, the most visible evidence of which is a collection of 20 luxury cars and 10 condominiums.

Sandoval was stripped of his directorship following an indictment on May 21, and on June 4, after a six-hour court appearance, went to prison, accused of embezzling US$62.5 million. He soon accused Wohlers and Herrera of setting up the land deal. Also indicted were representatives of the offshore companies, Banco Uno director Alvaro Stein Barillas, and Jose Leonel Giron Migoya, IGSS director of finance.

On May 22, President Portillo ordered that the operations of IGSS be placed under the authority of an intervener, but the Corte de Constitucionalidad nullified the order. Business organizations had asked for the move because the government was involved in the scandal and had intervened in an autonomous institution not under the jurisdiction of the executive branch. Portillo had named his own former executive secretary to the job, raising an immediate and generalized outcry from civil society organizations.

Meanwhile, officials following the money trail turned up US$3 million in a Miami bank, and another US$70 million in a Merrill Lynch account in the US. De Leon has expressed optimism that the money will eventually be returned to the pension fund, but others cautioned that lengthy and expensive legal proceedings will precede any such recovery. How all this happened, without oversight, became the subject of a legislative commission's investigation.

A member of the commission, Alvaro Hugo Rodas, in an interview with Inforpress Centroamericana, explained that the problem was that IGSS had become "the government's money launderer." Lacking functional autonomy, "the institute was always the fiefdom of Vice President Francisco Reyes Lopez, and in this sense, it is reasonable to think about giving autonomy to the institution." Rodas said that the manipulations would not compromise IGSS's ability to meet its obligations to its 130,000 beneficiaries. Besides its assets, the institution takes in about US$127 million in payments. But his commission is, nevertheless, concerned that its maternity and disease divisions are near collapse and that beneficiaries with chronic ailments have been complaining that IGSS has stopped providing medications.

Model of institution questioned

The scandal has provoked some to question the appropriateness of the IGSS model. Analyst Anahi Herrera of the Asociacion de Investigacion y Estudios Sociales (ASIES) said, "We have to sit down and think about social security and define whether the current system will be maintained or whether a new system with individual accounts will be established. The problem is that how the IGSS manages its investments had not been discussed until now. With the corruption accusations that have surrounded the current administration, allowing more discretion in the management of the resources becomes a delicate topic." The use of IGSS funds for political ends is also of concern to Herrera. Examples go beyond the controversial bond purchase to include investments of US$4

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million in Banco Metropolitano/Promotor and US$13 million in Banco Empresarial in 2000. Both banks were collapsing at the time of the IGSS infusions. When they finally failed, IGSS was bailed out by Banco de Guatemala, the central bank, which assumed the obligations of the banks.

In 2003, IGSS poured US$2 million into the failing Banco de Nororiente (BANORO) and was rescued when BANORO merged with Credito Hipotecario Nacional, a state enterprise. It is not only think-tankers like Herrera of ASIES who are proposing alternatives. Victoriano Zaccarias Mendez, director of the Central General de Trabajadores de Guatemala (CGTG), said, "IGSS has always been a politicized institution. Therefore, we propose that the institution be given autonomy, that workers and their employers be given more power. The board would be made up of two private sector representatives, two from among the workers, and two from the government, with a rotating presidency. But now, we are waiting for those responsible to be punished." IGSS, however, is not waiting for punishment.

Representatives of the institution filed a motion in court to become plaintiff against its own officials. The Juzgado Decimo de Instancia Penal accepted the motion, in which IGSS accuses its former director, Cesar Augusto Sandoval, and the entire executive committee including its former president, FRG Deputy Carlos Wohlers.

Independent legal analyst Claudia Samayoa said the move was important because the institution has the greatest interest, among potential complainants, in seeing any recovered money returned. Samayoa also noted that there will need to be other complainants, like the Procuraduria de Derechos Humanos, to have impartial oversight of the legal proceedings, and there needs to be a determination of the legality of the present IGSS executive board because of doubts about the way it was constituted following the firing of the Wohlers regime.

This is a timeline of the complicated case:

13 December, 2002 - Prensa Libre reported that the Junta Directiva of IGSS was involved in a secret negotiation with funds of the institution.

12 and 16 May, 2003 - Blanca Alfara de Najera, IGSS manager, and the Superintendencia de Bancos allege to the MP that fraud has been committed within IGSS.

May 22 - MP freezes bank accounts in Guatemala, Panama, and the US, alleging that the funds were taken from IGSS.

23 May - Sandoval and members of the executive board are named as linked to the fraud.

27 May - Gustavo Adolfo Herrera Castillo is indicted as owner of the offshore companies that sold the overvalued property to IGSS.

27 May - Edna Martinez de Sandoval, wife of Cesar Sandoval, is arrested for hiding and destroying documents. She remains free on bail.

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31 May - Cesar Sandoval turns himself in. Public Minister Carlos de Leon appears to have made a deal under which Sandoval will be treated as a witness, but three days later, he is imprisoned as an indicted suspect.

2 June - Fiscalia contra la Corrupcion asks Corte Suprema de Justicia to lift the immunity of FRG Deputy Carlos Wohlers so that he can be prosecuted for the fraud.

11 June - Judge orders Rolando Castaneda, second vice president of the executive board, and Rigoberto Duenas, workers' representative on the board, to prison as co-actors in the crimes.

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