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LADB Staff

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## **Corruption Impedes Flow of Aid to Poor in Costa Rica**

*by LADB Staff*

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After struggling for much of his presidency to extricate his country's reputation from the muck of scandal (see NotiCen, 2004-11-04), Costa Rica's President Oscar Arias finds the government once again tarnished by allegations of corruption. In July, Housing Minister Fernando Zumbado's office was raided, and agents of the fraud unit of the Organismo de Investigaciones Judiciales (OIJ) confiscated copies of contracts paid with Taiwanese funds diverted from their intended use of building houses for some 600 poor families.

Taiwan had donated the money before Arias broke diplomatic ties with the island nation in favor of full relations with China (see NotiCen, 2007-06-14). Originally, US\$2.5 million was to go to help the poor of Rincon Grande de Pavas in San Jose. At the time of the diplomatic split, US\$1.5 million had already been delivered into a trust account for the project. Zumbado admitted spending the money on other things, including consulting with an organization he had formed, the Centro Internacional para el Desarrollo Humano (CIDH). This organization received US\$315,000, according to records. Despite the admission, no charges were lodged.

Although the Treasury and Public Administration Criminal Court of the Judicial Circuit of San Jose issued the search warrant, Zumbado has constitutional immunity because he is a minister. Attorney General Francisco Dall'Anese, who personally worked the case, explained, "The cases of persons with immunity require a preliminary investigation. If there is merit, it goes to pretrial to lift the immunity. We are only in the preliminary phase."

The next shoe dropped a couple of weeks later when Ana Isabel Garcia, vice minister of social development, was forced to quit her job after having criticized the Arias administration for its management of social policy. She called upon Arias in her resignation letter to make a "general and definitive clarification" of what really happened in the diversion of the Taiwanese donation. In an interview with AFP, Garcia had charged that the government was ignoring more than 700,000 people living in poverty despite an elaborate bureaucracy involving 22 institutions administering 50 programs targeting the poor. The programs overlap and duplicate each other.

As for the forgotten people, "These are numbers," Garcia told AFP. "What is needed is to know who they are, where they are, and to design a strategy to attend to them. That is called focused policy." Lacking this information meant the programs lacked any objective assessment of need, an overall design, and the means for follow-up and evaluation. Garcia was also the person who accused Zumbado publicly. After the July raid, in early August she told a legislative committee investigating the case that he "was the only one who had the institutional competence to decide about the project" and to coordinate with the Banco Centroamericano de Integracion Economica (BCIE) for the release of the funds.

The money went first from Taiwan to the BCIE and never passed through to the state treasury. She also accused the minister to his face, she told the committee, of conflict of interest in paying money to his own organization. She testified that he responded that it was a nonprofit, and, besides, he had ceased to be a member of it.

An editorial in *La Nacion*, the national daily, echoed Garcia. The paper called the "great social policy that doesn't reach the flesh-and-blood poor" an "institutionalized deception," hammering home the point that it is not possible to help a person with education, health care, or work if you don't know who or where that person is, and ending in calling for an end to playing games with the poor every four years.

Despite all this, the country pours 20% of its public spending down this well, making it among the top social-spending countries in Latin America. And, despite the criticism, the economic boom of the past couple of years Arias years has reduced poverty by almost 4%. That figure, say analysts, will rapidly revert as ascending food and energy costs together with high inflation more than eat up the increases in available money. These factors will drag about 12% of those on the edge of poverty into it.

The committee before which Garcia testified was looking more widely into diversion of funds, at least US\$3.5 million that the Arias government has used to pay for consultancies, allegedly outside budgetary rules and control. Administration beleaguered These events come at a bad time for Arias, who is locked in combat with the legislature and the Corte Suprema de Justicia (CSJ) regarding Central America Free Trade Agreement (CAFTA)-enabling legislation, the linchpin in fulfilling the president's other major campaign promise (see other story this edition of *NotiCen*).

Garcia's resignation and charges have caused the administration to turn from what has been the business at hand for most of its tenure and reassert its commitment to what was to be one of the primary concerns of the presidency. Arias was forced to return the social agenda to a front burner and to announce, "This administration's economic policy from the outset was to focus on economic development. Therefore, we clearly understand that individuals are not just numbers for statistics; the individual must be safeguarded." He went on to admit that the government had fulfilled, by his estimate, just half its commitments and had not attended to thousands of the slum-dwelling poor.

After consultations with ministers and social-organization officials, Arias announced a major restructuring for the remainder of his term. The major components of the revamp are an increase of the social budget from 41.1% to 45.2% for 2009; an increase in the *Avancemos* program that seeks to prevent secondary school dropouts from US\$65 million to US\$100 million; a 127% increase in the budget for education infrastructure; and legislation to tax owners of houses worth more than US\$200,000 to raise money to build low-income housing. Though it may salvage his electoral commitments, it is not clear if the revamp has altered the downward course of Arias' popularity.

Since March, his approval rating has gone from 50% to a most recent 29%. The Unimer Research International poll queried 1,239 Costa Ricans from Aug. 28 to Sept. 4. Analysts are doubtful about any turnaround for the president, since his slide is greased by other factors besides this one. A secret sale of US\$300 million in government bonds to China was a big one. *La Nacion* had to go to court

to gain access to the public record and discovered that the deal figured heavily in Arias' decision to break the 63-year diplomatic relationship with Taiwan June 6 last year.

Contributing to doubt that Arias' numbers will pick up, he appears to have been caught in a lie regarding the shift to China when he denied the change was imminent. Denying lying about the bond sale, he told the media, "Here there has been no lie. The only lie is when they asked me, 'Is it true that you are going to break with Taiwan?' and I said no." He admitted that both Costa Rica and China intended to keep the switch secret and announce it jointly, but they were found out and exposed by Taiwan. "Taipei intelligence caught us in the lie," he admitted. Even after Taipei exposed them, Arias and his Foreign Minister Bruno Stagno continued to call the revelations media speculation.

The Taiwanese reported that Stagno and his Chinese counterpart had already signed a memorandum of understanding. Arias said the Chinese requested secrecy on the bonds. Now the government is reportedly worried that the bond-sale scandal threatens to morph into a separate problem of major magnitude. The revelation of the first sale jeopardizes a second US\$150 million sale of Costa Rican debt to China. Treasury Minister Guillermo Zuniga called a press conference to say that he is "really" worried that the upcoming sale could founder. "I hope the government of the People's Republic of China understands how this country is," he said, and that they don't scuttle the sale "that represents a great benefit for Costa Rica." China's Ambassador in Costa Rica Wang Xiaoyuan said separately that his government would evaluate the "impacts" that could result from divulgence of the details.

Also hanging in the balance, according to reports, is a US\$130 million donation that includes US \$72 million for a new national stadium. The sale would have gone off at a 2% interest rate for 12 years without commissions or intermediaries. Zuniga said the only other terms out there these days would be higher than 6.5%. He was adamant that the court found wrongly in forcing disclosure of the transactions, arguing that investors have a right to keep the terms of their deals confidential. The point that the transactions would take place without commissions spoke directly to allegations that these payments would constitute insider payoffs for someone or some group.

Minister of the Presidency and brother of the president Rodrigo Arias told the media that allegations appearing in *La Nacion* "have no basis and rather express the frustration of this medium at not having found in this transaction the presumed big intermediaries and presumed voluminous commissions that supposedly existed, as they insinuated." The minister reiterated the only reason for the secrecy was the Chinese request. "The real lie has been constructed step by step by some politicians from the Asamblea Legislativa (AL), wrapped in immunity and criminal impunity, and their sounding board *La Nacion*, trying to convert into a sin and a suspicious act one of the best negotiations of public debt that Costa Rica has achieved in decades."

Still, the ground is not clear of at least the seeds of yet another scandal. Costa Rica's Ambassador in Beijing Antonio Burgues is also a founder and stockholder in Banco BCT, which will profit from custodial obligations on the bonds along with Bank of New York. Burgues said he didn't know about his bank's involvement, and the Bank of New York said that BCT is the only Costa Rican bank accredited for this particular function.

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