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## Guatemalan Corruption Scandal Erupts

by LADB Staff

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In July, the local press began reporting on how the Guatemalan government contracted for the purchase of 1.5 million sets of automobile license plates. The daily newspapers Prensa Grafica and Siglo Veintiuno published details about the purchase, including the vastly inflated costs, phantom bidders, and intermediaries with questionable pasts. President Alfonso Portillo was soon forced to cancel the contract. In the aftermath, political fights are breaking out because of the government's apparent reluctance to prosecute.

In December 2000, the Portillo administration, through the tax authority (Superintendencia de Administracion Tributaria, SAT), purchased license plates for US\$10.78 million that normally would cost half that amount and did so without fully complying with government contracting procedures. The decision to take contracting shortcuts was made after Portillo and Vice President Juan Francisco Reyes determined the purchase was a national emergency. The administration claimed the plates in use were nearing their expiration date and that, because of an increase in registered cars, the government had to institute the use of new, alphanumeric plates.

However, since the decree authorizing the emergency purchase allowed six months to complete the acquisition, press commentators asked why the Portillo administration could not have put the purchase out to bid in the normal manner. Full delivery of the plates is not expected until September. Purchase is made through intermediary, raising cost The SAT contracted with Paul Herbert Kittay of the Panamanian firm Intrinsic Values to act as the purchasing agent. Intrinsic Values bought the plates from the German firm Erich Utsch.

On Aug. 16, Siglo Veintiuno said that, if SAT had bought directly from Utsch, the cost of the plates would have been closer to US\$5 million. Utsch had won a similar contract in 1997 that the government later voided in a dispute over the size of the plates. Utsch representative Holger Lang would not comment on why the purchase was made through Intrinsic Values, but Siglo Veintiuno speculated that it was done to avoid the Guatemalan government's bidding procedures. Kittay, a US citizen, has a checkered business background, according to the newspaper.

In a 1987 deal with the Costa Rican government, Kittay won a contract to provide instant-lottery tickets to the government's Junta de Proteccion Social. Kittay bought the tickets from the supplier, Scientific Games, for US\$118,000. But the Junta de Proteccion Social paid him US\$294,300. As in the license-plate contract, the Costa Rican government bypassed normal bidding procedures, dealt with an intermediary instead of the supplier, and ended up overpaying for the merchandise.

### *Phantom companies may have competed for contracts*

Furthermore, Intrinsic Values probably conspired with SAT to compete against phantom companies in the bidding. The local press said SAT accepted bids from two other companies, both of

which were well above the maximum price SAT established. Under the law, SAT should have automatically invalidated their bids. In late August, the comptroller's office (Contraloria General de Cuentas de la Nacion, CGCN) produced an audit that revealed nine irregularities in the license-plate acquisition. Besides the phantom bidders, there were various contract violations such as late delivery of the plates and SAT's authorized payment of an extra US\$266,500 over the US\$10.78 million for the plates.

A Siglo Veintiuno editorial called for a full-scale congressional investigation. "This is...an excellent opportunity for President Alfonso Portillo and [Congress president] Gen. Efraim Rios Montt to send a clear signal that they really favor transparency and support the struggle against corruption among their subordinates." Nearly a month after Siglo Veintiuno and Prensa Grafica began reporting on the operation, and amid calls from opposition parties for an investigation, Portillo canceled the contract with Intrinsic Values. He also ordered that he be informed of any new contracts. "It is of vital importance for the government...[that] transparency and clarity in public contracting be fundamental," said the president.

Presidential spokesman Jorge Perez said one anomaly the president objected to was the use of an intermediary. He said the contracting process would have to begin again. In an interview Aug. 20 with Prensa Grafica, Portillo admitted there was corruption in the government but said he had inherited it. "That is no justification, but now I am working to reform the laws to avoid corruption and make things transparent. Why did I cancel the contract for the plates? Because there were signs." However, Congress has not followed up with an investigation of the executive branch's mishandling of the bidding. Opposition party leaders are demanding legal action against the government officials involved.

Mario Flores, leader of the Unidad Nacional de la Esperanza (UNE), said he would file a complaint with the attorney general against Finance Minister Eduardo Weyman and Rene Perez, interim head of SAT. The charges, he said, should be abuse of authority and mishandling of funds.

Jorge Rosales, president of the Comision de Probidad and a member of the Partido de Avanzada Nacional (PAN), said the government could not simply cancel the contract and think the matter was forgotten. "On other occasions, [the government] only asked corrupt officials to resign, and everything ended with impunity." The majority party in Congress, the governing Frente Republicano Guatemalteco (FRG), broke a quorum to avoid a vote on resolutions to hold inquiries and to order the attorney general to investigate.

However, on Aug. 21, Congress voted to question Weyman in early September. Meanwhile, the two businesses that lost out to Intrinsic Values have been incommunicado and their local representatives have claimed ignorance of the matter. Business negotiator Fausto Vicente Giron Lopez, who acted on behalf of Intrinsic Values, has reportedly left the country.

On Aug. 23, Perez fired five midlevel SAT officials cited in the CGCN report as culpable. The firings were announced only after Siglo Veintiuno obtained a copy of the report and told Perez it had the names. The license-plate scandal is only one of several ongoing corruption cases plaguing the Portillo administration. And it comes during a national tax revolt against the recent increase

in the value-added tax impuesto al valor agregado, IVA (see NotiCen, 200108-09). Guatemalans are wondering if they should be paying taxes "to feed the insatiable appetite of a monstrous bureaucracy," said a Siglo Veintiuno editorial.

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