

The Americas

The corruption scandal started in Brazil. Now it's wreaking havoc in Peru.

By **Anthony Faiola** January 23

LIMA, Peru — From the Andes to congested Lima, it is as if someone hung a sign on the biggest construction projects in this South American nation reading “Suspended Until Further Notice.”

“The entire country has come to a halt,” said Hugo Alache, whose cement materials firm is near bankruptcy due to the vast array of frozen state projects. “Peru is paralyzed.”

Blame it on the Odebrecht scandal.

The largest corruption investigation in Latin America's history — revolving partly around bribes paid by the Brazilian construction giant Odebrecht to secure government contracts — has spread to 14 countries, implicating a [Colombian senator](#), a former [vice president of Ecuador](#), even Venezuelan President Nicolás Maduro. Former president Luiz Inácio Lula da Silva of Brazil was convicted of bribery in a related case and faces a [crucial decision](#) on his appeal this week.

After Brazil, no place is feeling the stinging impact of the scandal more than this country of 31.5 million residents.

For Latin America, the scandal has laid bare the sins of the political and business elite, and challenged the independence of judiciaries charged with prosecuting crimes. But it has also slammed economies still struggling to emerge from the effects of the 2008 global financial crisis.

Peru, experts say, is now a case study in the ability of corruption to damage a developing nation. Billions of dollars' worth of major construction projects have been stopped as the nation grapples with how to respond to a scandal engulfing the highest ranks of its political class.

So far, three former presidents of Peru stand accused of taking Odebrecht cash. Sitting President Pedro Pablo Kuczynski survived one impeachment attempt in December but may face another following revelations that a firm he set up in the 1990s, Westfield Capital, received \$782,000 from the Brazilian giant.

Odebrecht has admitted to paying \$29 million in bribes to public officials in Peru between 2005 and 2014 in exchange for \$12.5 billion in contracts. But it has denied that all of its Peruvian projects were tainted by corruption.

Once seen as a “Pacific Puma” whose fast economic growth was easing deeply entrenched poverty, Peru has seen a slowdown as the Odebrecht scandal has grown. Economists estimate that halted projects and frozen contracts shaved as much as 1.5 percentage points off Peru’s gross domestic product last year. This year, economists say, the investigations will cost Peru at least another point.

“And we’ve probably only seen one-fifth of the impact so far,” said Mauricio Mulder, a member of a parliamentary committee probing Odebrecht. “Every new revelation, every new detail, keeps telling us that this is bigger than we ever thought.”

Thanks in large part to strong mineral prices, Peru’s economy is still poised for growth in 2018. But because of the Odebrecht scandal, it is not expected to approach the 5 percent hike in annual GDP that economists say is needed to reduce poverty here. At the same time, because of the scandal, roughly 150,000 jobs have been lost over the past 12 months. Dozens of companies stand on the brink of bankruptcy.

One of them is Alache’s firm, Integrated Logistical Solutions.

An engineer who in 2002 launched a business selling rocks from a Lima quarry to make high-quality cement, Alache started modestly. He grew his firm from 30 employees to more than 180, with the blue granite from his quarry being used in the cement that became the building block of Lima’s modernization over the past two decades.

“There is probably not one major new road in Lima made without my rocks,” he said.

His business was fueled by his biggest customer: Odebrecht, which over the years secured a vast number of major public contracts in Peru. The company did it, prosecutors say, by greasing palms.

Last July, former president Ollanta Humala, who stepped down in 2016, was detained along with his wife as prosecutors dug into allegations that he took \$3 million from Odebrecht for his 2011 campaign. His predecessor, Alan García, is under investigation for a number of Odebrecht projects, including the construction of Lima’s subway. Several of García’s close associates are already behind bars.

An arrest warrant has been issued for García’s predecessor, Alejandro Toledo, for allegedly taking \$20 million in kickbacks to help Odebrecht secure a major contract for a highway linking Brazil and Peru. Toledo, formerly a visiting professor at Stanford University and still living near the swanky campus, is fighting extradition. All three former presidents have declared that they did not take bribes from the Brazilian company.

Kuczynski, who initially denied receiving any money from Odebrecht, conceded last month that his Westfield Capital accepted the \$782,000 between 2004 and 2007, while he was serving as a government minister. Another company whose board he served on, First Capital, received \$4 million between 2006 and 2013. But Kuczynski claimed to lack direct knowledge of the payments because he had turned over management of both companies to a Chilean partner, Gerardo Sepúlveda.

Kuczynski's admissions, however, came only after a senior Odebrecht executive, when queried by a Peruvian congressional committee, disclosed the payments. Shortly afterward, the president's critics sought to impeach him for "repeatedly lying" to the Peruvian people. Kuczynski beat back the impeachment by eight votes after appearing to cut a deal with a block of legislators angling for the release of jailed former president Alberto Fujimori. Fujimori was granted a pardon on Christmas Eve, three days after the vote. (Odebrecht has said its business relations with Kuczynski were legitimate.)

Kuczynski's administration has appeared paralyzed on how to handle the Odebrecht scandal. In February 2017, facing public and judicial pressure, it froze the company's assets and halted its projects, including an \$800 million irrigation project on the northern coast. It previously voided a contract for a gas pipeline in the south of the country.

For now, the public-sector construction business has virtually ground to a halt, in part because many projects unrelated to Odebrecht have also stopped. Analysts blame financiers leery about further corruption allegations and politicians reluctant to award bids in the current climate.

The shutdown has crippled Alache's firm, forcing him to fire all but two employees. To survive, he has sold one of his company's trucks as well as the two Suzuki pickups he and his wife once drove. He is taking out higher-interest loans to pay off older debts. He said he was close to filing for bankruptcy.

As he stood in front of a rusting rock crusher at his quarry in eastern Lima, he began to cry.

"What can I say?" he said, taking out a handkerchief to dry his tears. "You spend your whole life building something, and then it crumbles. These corrupt leaders. They've broken us."

The Odebrecht scandal is part of a sweeping corruption probe, known as "Operation Car Wash," launched by crusading Brazilian prosecutors in 2014. In Brazil, almost 30 percent of members of Congress remain under investigation. The scandal has become transnational, with some of the most prominent politicians in Latin America battling allegations of corruption. In Venezuela, for example, a former Odebrecht manager last year alleged that he gave \$35 million to a representative of Maduro in 2013 when he was running for president. Senior Venezuelan officials have rejected the accusations.

In late 2016, following an investigation into Odebrecht by law enforcement officials in the United States, Brazil and Switzerland, the company pleaded guilty to global bribery charges and agreed to pay up to \$2.6 billion in fines. U.S. officials said the company ran a "Department of Bribery" that used the U.S. and other financial systems to funnel vast sums of cash to public officials.

In Peru, the scandal is still unfolding. In the coming weeks, prosecutors are poised to interview Jorge Barata, the former head of Odebrecht in Peru, who is now under house arrest in Brazil. His revelations are expected to be perhaps the most damaging to date about how the company operated here.

Lucien Chauvin contributed to this report.

 **9 Comments**

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