

Grand corruption and the SDGs

Grand corruption is a serious threat to the 2030 Agenda for Sustainable Development. This series of case studies prepared by Transparency International illustrates how corrupt schemes across the globe have repeatedly implicated high-level officials and resulted in the gross misappropriation of public funds. As a direct result, education, health and other development priorities remain underfunded; the natural environment is ravaged; and fundamental human rights are violated. Those who suffer the consequences are ordinary citizens, and particularly those most left behind.

Belo Monte and the devastating impact of corruption in the Amazon

7 AFFORDABLE AND
CLEAN ENERGY



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ON LAND



The Amazon provides abundant natural resources that are critical for achievement of SDGs in the region. However, corruption remains a threat to the sustainable use and management of resources in the tropical rainforest. A case in point is the grand corruption scheme that engulfed Belo Monte, one of the world's largest hydroelectric plants, which was uncovered as part of the Operation Carwash investigation.

Evidence shows that corruption influenced the decision to construct and award contracts for an unsustainable and controversial project. There was no due consideration to the project's real contribution to sustainable development, as well as its deleterious impact on the environment and indigenous communities.

As such, it has negatively affected several SDGs, particularly on ensuring access to affordable, reliable, sustainable and modern energy for all.

In numbers:

- **Around US\$8 billion (40 billion reais):** the exorbitant costs of the Belo Monte plant, which dented state coffers and aggravated the country's fiscal crisis.
- **Over US\$24 million (120 million reais):** bribes paid to politicians and political parties in relation to Belo Monte.
- **4:** number of months per year during which Belo Monte will be able to operate at full capacity.
- **45,385:** hectares of deforested land in the Xingu basin in the months of July and August 2019 alone.



Grand corruption and the SDGs: Brazil

Grand corruption in Brazil¹

Overview

Over the past few years, the full extent of grand corruption in Brazil has come to light, notably as part of the Operation Car Wash (Operação Lava Jato) investigation. This is an investigation by Brazilian authorities into corruption schemes inside Petrobras (Brazil's state-owned oil and gas company) involving the company's executives and main political parties in the country.² While the investigation initially focused on Petrobras, it has unearthed evidence of corruption at the highest levels of government and that aspects of the scheme were replicated elsewhere within the federal government.³

The frequency of high-level corruption cases such as those uncovered by Operation Carwash investigations has been pointed out as an area of concern, which has eroded public confidence in Brazil's institutions.⁴ In addition, corruption in Brazil remains one of the biggest impediments to the country's economic development.⁵ It threatens recent strides made towards equality and social justice, and, as such, it is one of the main obstacles to the achievement of the SDGs.

The Belo Monte scandal

Belo Monte is a hydroelectric project born during Brazil's military regime in the 1970s. Projects for building the Belo Monte hydroelectric plant have been mired in controversy since its inception, due to its wide-ranging impacts on the environment and local communities.⁶ It was only in 2011 that construction effectively began and its last turbine – the eighteenth in the plant – was inaugurated by President Jair Bolsonaro in November 2019.⁷

What is grand corruption?

Transparency International identifies three main features of grand corruption: a corruption scheme; involvement of a high level public official; and serious harm caused, which may take the form of large-scale misappropriation of public resources or gross violations of human rights.*

From the outset, the project was plagued by corruption. Recent investigations have painted such a dire picture of the level of corruption and undue influence that questions have arisen as to whether the decision to build Belo Monte was itself taken by officials mainly so that it served as a cash cow to illicitly channel public funds to themselves and their cronies than for any public good.⁸ It has been argued that the Belo Monte project was pushed due to a "promiscuous relationship" between political and commercial actors without due regard to the devastating effects of the project on the environment and local communities.⁹

Soon after the Belo Monte project was approved, there were immediate difficulties in attracting companies to build and operate the plant,¹⁰ not least because the amount offered by the government was economically unviable. The lack of interested parties has been found to be the result of a series of issues, including a lack of proper studies, short deadlines and insufficient transparency. This plethora of irregularities also favoured the formation of cartels.¹¹

Before the bidding began, key construction companies in Brazil signalled their lack of interest in participating in the procedure, leaving only one accredited bidder. To avoid a failed bidding process, a second bidder was necessary.

* This is an abridged summary. TI's full legal definition with explanatory notes is available upon request from gdell@transparency.org

According to investigations, Delfim Netto, a former economy minister (1967 to 1974), was responsible for securing that second bid for the Belo Monte contract and, thus, avoided the failure of the procurement procedure. He orchestrated a conglomerate of smaller companies to present an unrealistic proposal, which, nonetheless, went on to win the bid. Delfim Netto is said to have received a kick-back of US\$2.4 million (12 million reais) from the companies involved.¹²

While this conglomerate – Norte Energia – was the official winner of the contract, it soon became clear that the companies did not have the technical skills to proceed with the construction. The alternative was to subcontract other companies, including the ones that had previously removed themselves from bidding process, to build the Belo Monte plant. They would, then, be awarded the construction contracts without the risks of operating the plant. Hence, a consortium of big construction companies (Odebrecht, Andrade Gutierrez and Camargo Corrêa) was put in charge of building Belo Monte.¹³

As uncovered by Operation Carwash, the construction companies developed a habit of forming cartels to decide among themselves who would win a given public contract and, in exchange, this company would pay bribes (a percentage of the contract awarded) to public officials directly involved as well as to high-ranking politicians. In fact, the three companies involved in the Belo Monte case have a track record of murky dealings in public procurement projects.¹⁴

Companies involved in the Belo Monte project also benefitted from government support in multiple forms. Much of the initial capital outlay for the project came from subsidised loans from the government-owned Brazilian Development Bank (BNDES). The companies also enjoyed partnerships with state-owned enterprises, some of which suffered heavy losses – Eletrobras's losses may account for US\$4 billion (20 billion reais) in the Belo Monte project alone.¹⁵ The project was a public-

private partnership in which losses were shared with the public coffers and the profits were kept by the companies and public officials bribed by them.

In much the same way as politicians across the political spectre have sought to claim credit for Belo Monte,¹⁶ the corruption scheme involving the dam has not been bound by party lines. Investigators have linked a series of bribes paid by construction companies to politicians – including former presidents, ministers, senators and congress members – in exchange for their support of these companies' interests in the Belo Monte plant. These bribes were paid either through regular campaign donations (at a time when companies could still contribute to political parties and candidates), through unregistered campaign donations (known as *caixa 2*) or through direct payments. In return, politicians defended these companies' interests against any opposition from local communities, environmentalists, public defenders and prosecutors.

For example, the government has defended the Belo Monte project as it has been the target of several civil actions and injunctions that have raised objections related to:

- (i) the exclusion of indigenous and local communities from the decision-making process
- (ii) disregard for the obvious environmental risks and impacts
- (iii) the lack of enforcement of conditions imposed to reduce the social and environmental impacts of the plant.¹⁷

The total bribe paid by these construction companies to Delfim Netto, politicians and political parties amounted to 1 per cent of the US\$3 billion (15 billion reais) which was initially anticipated as the construction cost of Belo Monte. According to investigators, bribes totalling over US\$24 million (120 million reais) were paid to Brazil's leading parties such as the Workers' Party (PT) and the Democratic Movement Party (PMDB).¹⁸

In its 2017 report on progress towards the SDGs, the Brazilian government recognised the lack of financial resources as a significant obstacle to the advancement of the SDGs in the country.¹⁹ In this context of scarce funds, the exorbitant overall costs of constructing Belo Monte (2011-2019, US\$8 billion, equivalent to 40 billion reais), partly a result of inefficient management and corruption, can be seen to have contributed to the finance gap between the investment needed and resources available.

Consequences of the scandal

The Operation Car Wash investigation team has been particularly focused on the Belo Monte scandal due to its large-scale nature.²⁰ In 2018, search warrants were issued targeting Delfim Netto and Norte Energia SA.²¹ In 2019, Brazilian authorities arrested the son of a former energy minister Edison Lobao for allegedly receiving 50 million reais in bribes (approximately US\$10 million) working with his father, in relation to the construction of the Belo Monte project.²²

According to the public prosecutor's office, after six years of Operation Car Wash, investigations had led to more than 150 convictionsⁱ for crimes including corruption, abuse of the international financial system, drug trafficking and money laundering. Almost 20 corporations and multiple foreign leaders have also allegedly been implicated, including former Colombian president Juan Manuel Santos, Venezuelan president Nicolas Maduro, and former Peruvian president Pedro Pablo Kuczynski.²³

Worryingly, in recent years there have been documented cases of political interference in Brazil's institutional and legislative anti-corruption frameworks.²⁴ In October 2020, Brazilian President Jair Bolsonaro stated that he had ended Operation

Car Wash, saying that there was "no more corruption in the government".²⁵ The announcement came a few weeks after the prosecutor general had decided to extend the investigation only until 31 January 2021.²⁶ Earlier in the year, the president had been accused by Sérgio Moro, the former judge in the Car Wash investigations, of multiple misconducts related to interference with ongoing federal criminal investigations.²⁷

Impact on the SDGs

Highlighted below are some of the many SDGs which have been negatively affected by the corruption scheme surrounding the approval and operation of the Belo Monte dam. Tracking the impact of such megaprojects on sustainable development outcomes has been hampered by the government's decision to largely disengage from the SDG monitoring framework. Most notably, the current administration has indefinitely postponed the production of a follow-up national voluntary review.²⁸

Direct cost

The goal of ensuring access to affordable, reliable, sustainable and modern energy for all (SDG 7).

The Belo Monte corruption scandal affected the achievement of SDG 7 as huge payoffs to politicians were behind the approval and construction of the hydroelectric plant, which was unaffordable, unreliable and unsustainable. According to reports, the Belo Monte project "was ill-conceived from the outset" as it made no sense in terms of energy production, as well as in terms of environmental and social wellbeing.²⁹ Prior to its construction, many concerns were raised regarding the unreliability and unsustainability of the project as a long-term source of energy,³⁰ but the government persisted in going ahead with the project.

ⁱ Ministério Público Federal, Lava Jato's main results. Available at: <http://www.mpf.mp.br/grandes-casos/lava-jato/resultados>

According to Irigaray and Millikan, the Operation Car Wash investigations revealed that corruption was the main reason behind the federal government's obsession with the Belo Monte project.³¹ The project was justified in the minds of government officials and politicians "by the fact that vast quantities of public funds would fall into their coffers"³² and not as a reliable and sustainable energy project.

Under Belo Monte's current design, the plant only works at full capacity a few months of the year.³³ Considering available data, which indicates that the global climate crisis will impact the Amazon region and further reduce rain seasons, there is a sense that Belo Monte will produce even less energy in the future. Increased deforestation would also significantly affect energy production in the plant.³⁴ According to the 2017 Spotlight Report on the 2030 Agenda in Brazil, despite being a "renewable" hydroelectric power station, Belo Monte is an example of a bad project that has a huge socio-environmental impact without necessarily producing the promised amounts of energy.³⁵

Hydroelectric plants also generate greenhouse gas emissions – Belo Monte's yearly emissions are equivalent to that of São Paulo, Brazil's biggest city.³⁶ The alternatives (wind and solar power plants, several smaller hydroelectric plants, repowering older hydroelectric plants) to building a large hydroelectric plant were also disregarded, even though they might have been better investments when considering Belo Monte's total cost to public coffers: US\$6.4 billion (32 billion reais).³⁷ These alternatives might also have had a more positive impact towards SDG 7. As noted by Brazilian journalist Claudio Angelo, the Belo Monte project is an example of a project that was "assembled to generate money (for corruption) before generating energy",³⁸ and therefore failed to contribute to the goal of ensuring access to affordable, reliable, sustainable and modern energy for all.

Indirect cost

The goal of implementing sustainable management of forests and halting deforestation (SDG 15.2)

As grand corruption spearheaded the Belo Monte project, there was a disregard to the project's impact on the environment. Prior to the licensing, a major concern raised was the risk of increased deforestation as a result of the project.³⁹ For instance, it had been estimated that building the Belo Monte hydroelectric plant would lead to deforestation of more than 5,000 square kilometres of the Amazon rainforest.⁴⁰ Nonetheless, all these were not considered as the interests of politicians and businesspersons were prioritised over public interest.

Evidence shows that the project has led to unsustainable deforestation⁴¹ in the vicinity of the hydroelectric plant.⁴² Had grand corruption not influenced the decision to build the plant, and/or more emphasis had been placed on assessing the environmental impact of the project, such large-scale deforestation could have been avoided or mitigated sufficiently. Hence, grand corruption in the Belo Monte scandal indirectly had a negative impact on the goal of implementing the sustainable management of forests and halting deforestation.

The goal to integrate ecosystems and biodiversity values into national and local planning, development processes and poverty reduction strategies, and accounts (SDG 15.9)

Since the Belo Monte dam was proposed in 1975, indigenous Amazon tribes have protested and taken actions from time to time in a bid to stop the project.⁴³ From the outset, they argued that it would disrupt river water systems, increase the loss of biodiversity and displace indigenous people, whose livelihoods depended on the forests and rivers affected by the project. For instance, the closure of the Xingu dam for hydroelectric turbines was seen

as destroying fisheries and threatening the livelihoods of indigenous people who had always relied on the river for food security.⁴⁴ Previous studies had also shown that, unless extreme care was taken, the Belo Monte project could seriously harm the region's rich biodiversity and the livelihoods and culture of local communities, particularly indigenous groups.⁴⁵

Despite these early concerns and studies on damages to the ecosystem and indigenous communities, the corrupt interests of political actors and businesspeople irrationally prevailed as the project was pushed forward.⁴⁶ Over the years, the federal government employed all possible legal tactics and instruments to protect the interests of the corrupt cartels and allow construction to continue, as well as resorting to the dismissal of public officials critical of the project or process.⁴⁷

In 2018, the Inter-American Commission on Human Rights heard testimonies from indigenous people and fishermen on damages suffered as a result of the project, such as the death of thousands of fish, the pollution of the Xingu river and the forced displacement from their lands without adequate relocation.⁴⁸ Recent research also found that the construction of the Belo Monte plant increased the vulnerability of indigenous and local people as it dried up the Xingu river, flooded islands and lagoons, and killed tons of fish, all of which sustained the livelihoods of the people.⁴⁹ Hence, grand corruption in the Belo Monte scandal indirectly affected the integration of ecosystems and biodiversity values into national and local planning, as well as poverty reduction strategies for indigenous people.

Recommendations

1. Continue investigations and criminal proceedings into the corruption cases involving the bidding process, besides the construction and operation of the Belo Monte plant.
2. Prosecute and hold to account public officials, political parties, business executives and companies involved in the Belo Monte corruption scheme.
3. Develop a wider framework of transparency, public participation and deliberation before, during and after the implementation of large infrastructure projects such as Belo Monte, and ensure mandatory provisions which require decision makers to take into account comprehensive environmental impact assessments as well as human rights concerns from affected populations.
4. Ensure transparent and participatory environmental licensing processes to safeguard it from undue influence and conflicts of interest.
5. Implement anti-corruption legislation, such as whistleblower protection and lobbying regulation included in the [New Measures against Corruption](#) reform package.
6. Finalise the passing of the new public procurement legislation and enact it.

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