POLICY BRIEFS ON LAVA JATO


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Karla Y. Ganley

Edited by
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ABOUT THE PROJECT

Lava Jato or Operation Car Wash refers to Latin America’s largest known corruption scheme in living memory. Related events began unfolding in Brazil in March of 2014. Construction companies were colluding with employees of Brazil’s state-owned oil company to win public works contracts. The oil company’s employees took bribes, while politicians obtained kickbacks as personal gifts or campaign donations.

The relevant scholarship had warned that corruption could result in public works being constructed at inflated costs. However, such warnings were ignored, and so the people involved in the scheme managed to steal billions in state funds. Prosecutors further revealed that bribes paid by the region’s largest construction group extended to eleven other countries besides Brazil.

In spite of the continued interest among policy practitioners and academics, there are key questions about Lava Jato that remain unanswered. For instance, how did the construction company that led the corruption scheme choose the countries in which to do business? According to the international press, the scheme played a role in the 2014 World Cup, but was corruption also at work in the planning and execution of the 2016 Rio Olympics? Also, what is motivating some of the key actors fighting corruption in Brazil, and what can be done to avoid similar corruption scandals in the future?

To answer these and related questions, the Center on Global Economic Governance (CGEG) at Columbia University’s School of International & Public Affairs has collected a series of policy briefs on Lava Jato-related themes. This project is proudly cosponsored by the Center for Development Economics and Policy (CDEP), Columbia Global Center in Rio, and the Latin America Initiative at Rice University’s Baker Institute for Public Policy with the goal of shedding light on a complex problem that has affected the lives of millions.

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Sanzovo has prior experience in management consulting in Latin America and in the Brazilian nonprofit sector, where she led a nationwide project to support municipal education offices improve their workflow. She graduated from the University of Campinas (Universidade Estadual de Campinas) with a B.S. in Chemical Engineering.

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Abstract

Major international exhibitions, cultural festivals, sports competitions, and similar “mega-events” present opportunities for much-needed urban development. They also present opportunities for corruption. In preparation for the 2016 Rio Olympic Games, Brazil spent $7.5 billion USD ($24.8 billion BRL) on development projects. These projects led to improvements in public transportation, sewage systems, and water quality. However, many of these projects went over budget, and many remain incomplete. Some of the blame goes to corruption: official investigations into the matter revealed kickbacks, vote-buying, and bribery related to Brazil’s Olympic Games and associated public infrastructure projects. This policy brief explores how certain aspects of mega-events can foster corruption, and suggests measures governments and citizens can take to minimize future corruption.
2016 Olympic Games and Corruption Scandals: Why They Matter

Mega-events such as cultural festivals and sports competitions present a country with opportunities to boost its economy, raise its global profile, and revitalize its urban spaces. They offer the impetus to fast-track implementation of initiatives that might otherwise take many years.

The Olympic Games are a notable example. The huge investment and high level of coordination between the International Olympic Committee (IOC) and federal and local governments present enormous challenges along with attractive potential benefits. However, they may also present tempting opportunities for corruption, as the investigation known as Lava Jato revealed following the 2016 Olympics in Brazil. How can a country ensure accountability in the implementation of large-scale and fast-paced urban improvement projects?

When Rio de Janeiro was chosen in 2009 as the host city for the 2016 Olympic Games, it was facing critical urban issues, including unsafe and inefficient public transportation, a limited sewage system, and high levels of water pollution.1 Hosting the 2016 Olympic Games presented a huge challenge, but also offered a potential turning point in Rio’s urban development. As Brazil was preparing for the Games, it experienced unprecedented political turmoil. Its president, Dilma Rousseff, was impeached on charges that she manipulated the federal budget.2 Widespread public

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discontent with the government led to 490 protests in 150 different cities.\(^3\) Starting in 2014, powerful politicians and businessmen were investigated as part of Lava Jato (or, as it is known in English, Operation Car Wash), one of the most extensive corruption crackdowns in history.\(^4\) As of October 2018, prominent officials implicated as part of investigations include four former Brazilian presidents, current Venezuelan President Nicolas Maduro, former Colombian President Juan Manuel Santos, and former Peruvian President Pedro Kuczynski.\(^5\) Additionally, Lava Jato has resulted in over 200 convictions and hefty jail sentences for executives at Odebrecht, one of the largest construction companies in Latin America, and Petrobras, Brazil’s state-owned oil company.\(^6\)

This policy brief begins by detailing 24 of the 27 urban development projects outlined by the Brazilian government in preparation for the Rio Olympic Games in the 2014 Public Policies Plan.\(^7\) This brief relies on the review of both English and Portuguese newspaper articles and government documents as a means to understand the Games’ connection to corruption. The brief further examines linkages among mega-events, rapid development, and corruption. It concludes by suggesting approaches to curbing such corruption.


\(^6\) Ibid.

The 2016 Olympic Games: Victories and Defeats for Rio’s Urban Planning

The complex joint efforts of Brazil’s federal, state, and municipal governments to revitalize Rio for the Olympic Games were consolidated in the Public Policies Plan, launched in April 2014. It comprised 27 initiatives at an estimated cost of $7.5 billion USD ($24.8 billion BRL), to be accelerated to accommodate the 2016 Rio Olympics.8

Nine of the 27 total projects in the Public Policies Plan were related to public transportation, with an estimated total cost of $4.1 billion USD ($13.5 billion BRL) (see Table 1).9 A Light Rail Vehicle system (LRV), the “Transolímpica” Bus Rapid Transit system, and a new subway line, “Subway Line 4,” were the core of the transportation projects. The plan also included improvements to existing infrastructure such as streets, tunnels, and subway stations.

As of 2016, even though some of these projects remained incomplete, 63% of Rio’s population had access to high-quality transportation, compared to only 18% in 2009.10 The Rio transit office reports that average transit speed on Rio’s twenty main routes had increased 10.6%, from 30.3 km per hour in 2009 to 33.5 km per hour in 2016.11 However, only six of the nine

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proposed transportation projects have been completed due to lack of capacity, technical problems, and running over budget, due in part to overbilling. Although evidence is incomplete, the State Court of Auditors has reported overbilling on some of the transportation projects estimated at $700 million USD ($2.3 billion BRL), pushing up the cost by more than 12%.\footnote{Ibid.}

<table>
<thead>
<tr>
<th>Project No.</th>
<th>Project and Completion Status</th>
<th>Responsibility for Financing &amp; Execution</th>
<th>Initial Budget (USD and BRL, in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 &amp; 3</td>
<td>Transolimpica Bus Rapid Transit: Land expropriation for public transportation infrastructure and creation of express line; creation of new connection line between Magalhães Bastos and Deodoro neighborhoods. COMPLETE.</td>
<td>Financing: Rio Municipal Government and Private Sector Execution: Rio Municipal Government</td>
<td>$691 USD $2,280 BRL</td>
</tr>
<tr>
<td>4</td>
<td>Transoeste Bus Rapid Transit: Creation of Path 0, a line connecting Alvorada / Cittá América Mall and Botanical Gardens. COMPLETE.</td>
<td>Financing and Execution: Rio Municipal Government</td>
<td>$34 USD $114 BRL</td>
</tr>
<tr>
<td>5</td>
<td>Duplication of Joá's Elevated Highway: Construction of second elevated highway with tunnels and bridges. COMPLETE.</td>
<td>Financing and Execution: Rio Municipal Government</td>
<td>$139 USD $458 BRL</td>
</tr>
</tbody>
</table>
Six other projects in the Public Policies Plan were devoted to infrastructure and urban revitalization (see Table 2). They involved paving streets, building four new tunnels, and renovating numerous buildings and facilities for sporting events. The biggest of these projects was Porto Maravilha, the revitalization of Rio’s historical downtown waterfront, a region of 5 million square meters in area. The initial budget for these projects was estimated at $2.7 billion USD ($8.9 billion BRL). Three out of six were completed.\(^{14}\)

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\(^{14}\) Ibid.
### Table 2. Public Policies Plan — Infrastructure and Urban Revitalization Projects

<table>
<thead>
<tr>
<th>Project No.</th>
<th>Project and Completion Status</th>
<th>Responsibility for Financing and Execution</th>
<th>Initial Budget (USD and BRL, in millions)¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>Official Olympic Training Locations: Construction and renovation of official training sites. COMPLETE.⁵</td>
<td>Financing and Execution: Federal Government</td>
<td>$23 USD $76 BRL</td>
</tr>
</tbody>
</table>

¹ Final budget status unknown: official information not made public.

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Environmental initiatives comprised nine out of the 27 projects in the Public Policies Plan (see Table 3). A total of $523 million USD ($1.7 billion BRL) was initially budgeted for projects such as the containment of pollution in Guanabara Bay, the restoration of Lake Barra and Lake Jacarepaguá, and the improvement of drainage and sewage systems. Unfortunately, only one out of the nine planned environmental initiatives — installation of eco-barriers for containment of pollution in Guanabara Bay — was fully executed. As of mid-2017, the date of the latest available data, public authorities were still awaiting new contract approvals to finish the remaining projects and have not provided revised project deadlines.

Table 3. Public Policies Plan — Main Public Transportation Projects

<table>
<thead>
<tr>
<th>Project No.</th>
<th>Project and Completion Status</th>
<th>Responsibility for Financing and Execution</th>
<th>Initial Budget (USD and BRL, in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Environmental Rehabilitation of the Jacarepaguá Basin: Macro-drainage of Jacarepaguá Basin, Phase 1, Lots 1a, 1b and 1c. INCOMPLETE.</td>
<td>Financing: Federal Government and Rio Municipal Government Execution: Rio Municipal Government</td>
<td>$111 USD $369 BRL</td>
</tr>
<tr>
<td>2</td>
<td>West Zone Sanitation: Installation of sewage system in Marangá Basin region. INCOMPLETE.</td>
<td>Financing: Private Sector Execution: Rio Municipal Government</td>
<td>$131 USD $431 BRL</td>
</tr>
<tr>
<td>3</td>
<td>Guanabara Bay Cleanup Program: Installation of trash collector booms in Guanabara Bay near the Cidade Nova neighborhood. INCOMPLETE.</td>
<td>Financing and Execution: Rio State Government</td>
<td>$25 USD $81 BRL</td>
</tr>
<tr>
<td>4</td>
<td>Live Bay Program: Installation of eco-barriers (for waste clean-up) in Guanabara Bay. COMPLETE.</td>
<td>Financing and Execution: Rio State Government</td>
<td>$9 USD $31 BRL</td>
</tr>
</tbody>
</table>

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16 Ibid.

Although the implementation of the Public Policies Plan has resulted in extensive improvements to Rio’s environment, the number of projects that remain incomplete and the scarcity of information on these projects give cause for concern.\textsuperscript{18} The lack of follow-through and transparency signal an accountability problem. This issue is at the center of the next section, which explores the connections between the Rio Games and the corruption uncovered by Lava Jato.


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<table>
<thead>
<tr>
<th>Project No.</th>
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<th>Responsibility for Financing and Execution</th>
<th>Initial Budget (USD and BRL, in millions)\textsuperscript{3}</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Live Bay Program: Installation of eco-boats (for waste clean-up) in Guanabara Bay. INCOMPLETE.</td>
<td>Financing and Execution: Rio State Government</td>
<td>$4 USD $12 BRL</td>
</tr>
<tr>
<td>6</td>
<td>Lagunar Complex of the Jacarepaguá Lowlands: Environmental recovery of the lagoons in the lowlands of the Jacarepaguá region. INCOMPLETE.</td>
<td>Financing and Execution: Rio State Government</td>
<td>$204 USD $673 BRL</td>
</tr>
</tbody>
</table>

\textsuperscript{3} Final budget status unknown: official information not made public.
**Lava Jato and the Rio 2016 Olympic Games**

Lava Jato was a corruption investigation that began in 2014. It has resulted in a crackdown on a $12.2 billion USD ($40.4 billion BRL) money-laundering scheme involving Brazil’s state-owned oil company, Petrobras, the construction giant Odebrecht, and numerous business people and politicians. The investigation has revealed, among numerous other crimes, extensive kickbacks, illegal ticket-selling, vote-buying, and bribery related to the Rio Olympics and associated construction projects.¹⁹

Carlos Nuzman, the head of the Brazilian Olympic Committee, is charged with facilitating a scheme to pay $2 million USD ($6 million BRL) to Lamine Diack, then a member of the International Olympic Committee, so Diack would vote for Rio in the 2016 Games bid.²⁰ According to investigations, the money came from Arthur César de Menezes Soares Filho, a Brazilian businessman.²¹ His company secured high-value public construction contracts associated with the Olympics and, according to Brazilian prosecutors, Soares got these contracts by paying kickbacks to Sergio Cabral, who was then Rio de Janeiro’s governor.²² Nuzman, Soares, and Cabral are currently being investigated by Brazilian and French authorities, with support from the IOC.

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²⁰ Ibid.


Eduardo Paes, Rio’s former mayor, is accused of receiving a bribe of $3.1 million USD ($10.2 million BRL) from Odebrecht in exchange for contracts for the infrastructure projects associated with the Games. The scheme was confirmed by three of Odebrecht’s senior executives who agreed to provide evidence. A federal court in Rio de Janeiro is in charge of this investigation.

According to the Odebrecht’s whistleblowers, bribes were also paid to agents connected to the Accountability Tribunal of Rio, the government agency in charge of auditing public funds. The stadium restoration for the Olympic Games, initially estimated at $181 million USD ($597 million BRL), ended up costing Brazil’s taxpayers $318 million USD ($1.1 billion BRL), an increase of over 75%. However, this kind of information is difficult to find for most of the 27 infrastructure projects because data on actual costs has not been publicly released.

All of the five companies with responsibilities for stadiums and infrastructure projects in the Public Policies Plan — Odebrecht, OAS, Andrade Gutierrez, Queiroz Galvão, and Carioca Christiani Nielsen Engenharia — have been implicated in Lava Jato. In 2016, federal prosecutors began investigating urban improvement projects related to the Games after Odebrecht executives

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26 Ibid.
confirmed kickbacks of $303 million USD ($999 million BRL) to public officials in relation to construction of Porto Maravilha and the new Subway Line 4.\textsuperscript{28} Investigations into the allegations involving these five companies are being conducted by the Supreme Court.

\textbf{Mega-Events and Corruption Scandals: A Pattern}

Corruption’s reach was not limited to the Rio Olympic Games. The FIFA World Cup held in Brazil in 2014 was similarly plagued with corruption relating to stadium construction. Senior executives at Odebrecht mentioned illegal payments and irregularities in six of the twelve 2014 World Cup stadiums, including Maracanã, which also hosted soccer matches during the 2016 Olympic Games.\textsuperscript{29} Collusion and bribery in the construction of other World Cup stadiums are also currently being investigated by federal courts.

Similarly, whistleblowers have asserted that the 2014 Winter Games in Sochi, Russia, involved corruption. An intricate corruption network, allegedly coordinated by President Vladimir Putin and his cronies, illegally manipulated the choice of the host city and public contracts for the Sochi Olympics.\textsuperscript{30} Sochi 2014, with an initial budget of $12 billion USD, became the most

\begin{tabular}{l}
\textsuperscript{28} Ibid. \\
\end{tabular}
expensive Olympics in history. It ended up costing over $50 billion. The costs associated with the stadiums for Sochi far surpassed those of previous Games at $19,000 USD per spectator, more than two and one-half times the average of $7,440 USD per spectator in prior Games. Additionally, when comparing initial estimated costs to the total final costs for each of the previous Olympic Games since 1988, Sochi is clearly an outlier: it cost 4.2 times the initial budget estimate, compared to an average of 2.3 times the initial budget estimate for all other Games since 1988.

Lessons for Accountability and Transparency

These three cases — the Rio 2016 Olympic Games, the Rio 2014 FIFA World Cup, and the 2014 Sochi Winter Games — illustrate the risks of corruption associated with mega-events and associated urban development. These risks suggest two key questions: first, what is it about mega-events and rapid urban development that cultivates corruption? Second, what structures and mechanisms can governments and citizens implement to prevent corruption?

The Rio Olympics show how mega-events can add value for host cities through revitalization and development of urban spaces. However, the infrastructure projects required for

33 Ibid.
34 Ibid.
mega-events are often complex, require extensive coordination, and must be completed under tight deadlines. These conditions, coupled with sudden mobilization of vast amounts of public money, create optimal conditions for graft. Fisman and Golden (2017) note that, “public construction is both necessary — on an epic scale that makes it even easier to bury graft in the balance sheet — and out of the public eye, two conditions that make it perennially vulnerable to corruption.”

Many such mega-events are overseen by transitory governance structures; this may decrease incentives for accountability and thus increase potential opportunities for graft. Gaffney (2010) points out that:

organizing committees have access to tens of billions of dollars of public money, keep their own books, and award contracts for everything.... After the mega-event has passed, the committee dissolves, leaving behind political, economic, and socio-spatial legacies.... The massive debt is assumed by the city and with time the corruption scandals fade.

Although transitory governance structures for mega-events may be efficient in the short term, the associated reduction in accountability can have serious implications in the long run. Governments would be well advised to make use of preexistent permanent governance structures for ensuring accountability.

Opportunities for corruption related to mega-events are extensive in countries such as Brazil that often have lax anti-corruption policies, weak anti-corruption agencies, and corruption-monitoring civil society organizations that lack enforcement power. A recent study conducted by Lagunes (2017) highlights the importance of civil society organizations and anti-corruption agencies in curbing infrastructure-related corruption.38

A number of studies have also shown the importance of public access to government information as an essential step toward curbing corruption.39 A factor facilitating corruption in the Rio Olympics, revealed through Lava Jato, is the lack of government transparency. Publicly available information on project budget and timeline updates in Rio were often severely lagging or lacking altogether. In fact, the government consortium overseeing Rio’s ongoing urban improvement projects announced in 2017 that they would not be publishing updates on the Public Policies Plan. As a result, final project costs and timelines, and the total cost of the Rio Olympics, remain unknown.40

Moving forward, to ensure mega-events are leveraged for positive purposes only, and to prevent future corruption scandals, accountability must be strengthened. This will undoubtedly be

38 As part of the study, Lagunes randomized 200 infrastructure projects in Peru to control treatment groups. Treatment group projects received formal letters from a CSO and anti-corruption agency that warned them that their project was being monitored. The study found that collaboration between the CSO and the anti-corruption agency in warning infrastructure project teams that they were being monitored led to a 17.86% decrease in average cost of the public works projects. Paul Lagunes, “Guardians of Accountability: A Field Experiment on Corruption and Inefficiency in Local Public Works” (International Growth Centre, November 7, 2017), https://www.theigc.org/wp-content/uploads/2017/11/Lagunes-2017-Working-paper.pdf.


a difficult process, requiring collaborative efforts between governments and their citizens to create governing systems that are more directly responsive to public will. Part of creating these more accountable systems should include enhanced public access to timely and accurate government data, greater empowerment of civil society organizations, especially those focusing on prevention and monitoring of corruption, and heightened commitment to support of independent media.