# Five Ways that Concentration of Wealth and Power Affects Corruption Risk in Latin America (http://fcpamericas.com/english/due-diligence/ways-concentration-wealth-power-affects-corruption-risk-latin-america/)

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*(http://fcpamericas.com/wp-content/uploads/2014/06/Inequality.jpg) The following post is a modified excerpt from TRACE's recently published 2014 How To Pay a Bribe book, available **here (https://www.createspace.com/4560192)** for purchase.*

Latin America is known as one of the most economically unequal regions of the world. By 2010, according to United Nations Development Program data, the region had 18 of the 25 countries in the world with the highest rich-poor ratios. Throughout Latin America, it is common to find government and business dominated by a relatively small number of elite families. Their members move in and out of government and business, creating complex financial and political relationships. This elevates corruption risks in several ways.

1. **Unforeseen Government Interaction**: The likelihood that foreign companies will wind up interacting with government officials in ways they might not expect is increased. This means that companies' expenditures can create bribery risks in ways unforeseen. For example, I worked with an international company using a local law firm in Central America only to discover that one of its partners concurrently served in the government in a way that raised bribery concerns. Another U.S. company planned to partner with a Mexican firm only to discover that the owner's brother served a key position in government *vis a vis* the same industry. Where a local company's business stops and the government starts might not always be clearly demarcated.

2. **Monopolies**: When power is in the hands of a few, it is common for one single company to dominate an entire industry in a small country. In larger countries, one company might dominate a regional segment of a national market. Questions might be raised about how the company got in the position of dominance in the first place. Risks also arise when a foreign investor is forced to rely on the monopoly for its business. To manage such risks, companies are expected to conduct anti-corruption due diligence on their partners. Obtaining compliance certifications, audit rights, and the like is difficult when the partner is the only option in the market. Foreign companies will often lack the leverage to demand compliance assurances.

3. **Petty Corruption**: Divisions in wealth have the effect of facilitating petty corruption. When low-level government officials are not paid enough, they sometimes are forced to seek rent by other means. Bribe requests might be baked into the economic order. Statistics highlight the common nature of petty corruption in Latin America. The 2012 Americas Barometer Study, conducted by the Latin American Public Opinion Project, polled over 40,000 people in 26 countries throughout the region. Each country involved a minimum of 1,500 polling interviews. Many of the questions were designed to measure corruption victimization by low-level officials, like police officers, municipal permitting officials, and hospitals and clinics. These are the types of everyday bribe requests that affect the average citizen. Overall, a startling 57% of respondents throughout the entire region say they had experienced one instance of low-level corruption in the prior year. Forty-three percent (43%) were repeat victims.

4. **Family Owned Businesses**: Concentration of wealth and power often flows from, and works to support, family ownership of companies, which is common in Latin America. One study from the University of São Paulo concluded that half of Brazil's 200 largest companies are owned by families. This can be explained in part by structural factors, like the relative weakness of local laws designed to protect minority shareholder rights, which makes it difficult for family companies to attract outside investors. This means that foreigners investing in the region will often find themselves partnering with companies that lack common accounting standards, corporate governance transparency, or basic internal controls. It can be common for a family to push back on due diligence, even if it has nothing to hide.

The relative prominence of family-owned companies can have direct effects on corruption risk. For one, foreign companies making investments in the region will often find themselves partnering with companies that lack common accounting standards, corporate governance transparency, or basic internal controls. This can complicate the ability of outsiders to perform the type of anti-corruption due diligence necessary to manage corruption risks in mergers and acquisitions. Moreover, a family might feel offended at the prospect of having to be vetted for corruption issues, even if it has nothing to hide. It might be reluctant to open up its books and operations to outside lawyers and accountants. As a result, those negotiating the deal might need to factor in time to explain why anti-corruption due diligence is necessary as an evolving business requirement of international work.

5. **Collusion**: The risk of the related offense of collusion within a particular sector or industry is increased. There is a good chance that the leaders of primary market participants will be connected to each other in some way. This can facilitate arrangements such as price-fixing and manipulation of public procurements accomplished through clustered bid quotes, coordinated unit cost schedules, and rotating contract awards.



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