THE CONSOLIDATION OF CORRUPTION IN LOCAL GOVERNMENTS: LESSONS FROM OPERATION "BAD PATHS" IN MANAUS, BRAZIL

LA CONSOLIDACIÓN DE LA CORRUPCIÓN EN LOS GOBIERNOS LOCALES: LECCIONES DE LA OPERACIÓN "MALOS CAMINOS" EN MANAUS, BRASIL

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ABSTRACT: This study investigates the consolidation of corruption in local governments, using the case of Operation "Bad Paths" in Manaus, capital of the most prominent state of the Amazon Region of Brazil, as a primary example. Corruption poses a threat to democracy, and its complexity at the local level requires special attention that current anti-corruption policies may not address. This research asks how and why corruption consolidates in local governments, including the role of "pork-barrel" politics in promoting it. The research method employs an extensive analysis of prosecutors' findings. The study's original contribution lies in its in-depth analysis of Operation "Bad Paths," the factors that led to corruption consolidation in local levels, and the gap between local and federal anti-corruption initiatives. Findings shows that corruption at the local level is a product of institutional weaknesses, political instability, lack of accountability, and pork-barrel politics, as exemplified by the Operation "Bad Paths" case, the largest corruption investigation in the Amazon region, with over 100 million Brazilian Reais in public funds in the health sector deviated. This study contributes to the literature on corruption and its impact on public health and democracy, highlighting the need for anti-corruption policies that consider the unique complexities of local contexts.

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RESUMEN: Este estudio investiga la consolidación de la corrupción en los gobiernos locales, utilizando como ejemplo principal el caso de la Operación "Malos Caminos" en Manaus, capital del estado más importante de la Amazonia brasileña. La corrupción plantea una amenaza a la democracia y su complejidad a nivel local requiere una atención especial que las políticas anticorrupción actuales pueden no abordar. Esta investigación se pregunta cómo y por qué la corrupción se consolida en los gobiernos locales, incluido el papel de la política de "caridad" en su promoción. El método de investigación emplea un análisis extenso de los hallazgos de los fiscales. La contribución original del estudio radica en su análisis profundo de la Operación "Malos Caminos", los factores que llevaron a la consolidación de la corrupción en los niveles locales y la brecha entre las iniciativas anticorrupción locales y federales. Los resultados muestran que la corrupción a nivel local es producto de debilidades institucionales, inestabilidad política, falta de rendición de cuentas y políticas clientelistas, como lo ejemplifica el caso de la Operación "Malos Caminos", la mayor investigación de corrupción en la región amazónica, en la que se desviaron más de 100 millones de reales brasileños de fondos públicos al sector de la salud. Este estudio contribuye a la literatura sobre la corrupción y su impacto en la salud pública y la democracia, destacando la necesidad de políticas anticorrupción que consideren las complejidades únicas de los contextos locales.

INTRODUCTION

Operation Bad Path" (OBP), also known as "Operação Maus Caminhos" in Portuguese, was a large-scale corruption investigation that unfolded in the state of Amazonas, Brazil, from 2016 to 2020. The operation exposed a widespread embezzlement scheme in the healthcare sector, with the "Instituto Novos Caminhos" (INC) at its core. Led by Dr. Mouhamad Moustafa, the criminal network exploited inflated contracts, overpriced costs, and money laundering,

resulting in an estimated misappropriation of over R$ 100 million. This extensive corruption case implicated numerous high-ranking public officials, including the former governor of Amazonas, Osmar Aziz, and revealed the presence of an armed faction comprising civilian and military police officers operating under the criminal leaders' command. The operation led to the execution of 58 arrest warrants and legal proceedings against 80 individuals and 7 companies, highlighting the far-reaching consequences of corruption at both the local and state levels.

The OBP investigation shed light on the deep-rooted nature of corruption within the local context of Amazonas, permeating various sectors and involving entities from local healthcare officials to influential figures within the state. With over 76 criminal actions and 40 administrative misconduct lawsuits filed, the case exposed the magnitude of the corruption network's activities. The embezzlement scheme compromised the integrity of the healthcare sector, diverting funds intended for essential services and infrastructure projects. The operation's findings underscored the urgent need for strengthened accountability mechanisms, transparency measures, and enforcement of anti-corruption measures in local governance.

Research problems, objectives, and significance of the study

This study aims to understand the mechanisms and reasons behind the consolidation of corruption within local governments and the dissonance with federal initiatives, focusing on the case of Operation "Bad Paths." A mixed-methods approach will be employed, combining qualitative and quantitative analysis of prosecutors' and police findings. Through this analysis, the study seeks to uncover specific instances of corruption, identify key actors involved, and reveal patterns within the case.

The consequences of corruption in the health sector have had a profound impact on the provision of essential equipment, exacerbating the humanitarian crisis in Brazil in the State of Amazonas. The significance of this study lies in its implications for policymaking and the development of anti-corruption strategies. By examining Operation "Bad Paths" and understanding the factors contributing to corruption consolidation in local governments, policymakers can formulate targeted interventions that address the root causes of corruption and disrupt its consolidation. Furthermore, this research explores the complex interplay between corruption consolidation and the involvement of regional actors. The insights gained from this study can equip stakeholders with evidence-based knowledge to develop effective anti-corruption strategies tailored to specific local contexts.

While this study provides valuable insights, it is essential to acknowledge certain limitations. Data availability and accessibility may be restricted due to the sensitivity of corruption investigations, potentially limiting the depth of analysis. The reliance on qualitative analysis may introduce biases and limitations in capturing the full scope of the phenomenon. Considering the historical context, Operation Bad Paths occurred amid the significant impact of the Operation Car Wash scandal on the Brazilian population and political-economic elite. This context may have influenced the due process of law, including the cross-inquiry of witnesses and the use of plea bargains (delações premiadas) in the judicial process. The study also acknowledges the role of judicial activism and its interaction with mainstream media, which is a critical aspect the author is specifically aware of (Forattini 2023). Additionally, the study's focus on the specific case of Operation "Bad Paths" in Amazonas, Brazil, may limit the generalizability of findings to other contexts. Despite these limitations, the study aims to provide a comprehensive understanding of corruption dynamics and generate insights that inform anti-corruption strategies and governance practices.

LITERATURE REVIEW

Corruption is universally defined as the abuse of power, position, or authority to gain personal, group, or corporate financial, material, or non-material benefits. It permeates societies at different levels, with a particular prevalence in middle- and low-income countries characterized by poor human development indexes (Akçay, 2006). At the municipal level, corruption undermines the quantity and quality of public services, including education, health, security, environmental protection, infrastructure, and social policies (Reinikka and Svensson, 2011; Ferraz, Finan, and Moreira, 2012). This has a disproportionate impact on the poor population, which heavily relies on social services that are often plagued by resource diversion, preventing funds from reaching the intended beneficiaries (Reinikka and Svensson, 2011). Additionally, the lack of accountability and active social participation in the planning and provision of public services especially in smaller municipalities creates higher opportunities for corruption (Lewis, 2006).

Regarding the health sector, corruption finds fertile ground for its proliferation. The complexity of the system, substantial public spending, market uncertainty, interaction among various actors (such as regulators, officials, professional unions, consumers, and suppliers), asymmetric information, and officials' discretion all contribute to its vulnerability (Vian, 2008; Avelino, Barberia, & Biderman, 2014; Mackey, Kohler, Lewis, & Vian, 2017;

Medeiros-Costa, 2022). The challenge of curbing corruption in the health sector is exacerbated by an aging population with complex and chronic diseases, increasing healthcare expenditures, the acquisition of high-tech and expensive equipment, and the influence of powerful transnational suppliers (García, 2019). Without adequate controls, transparency, regular audits, and social oversight, corruption in the health sector is likely to thrive (Lewis, 2006; Campos, Castelar, & Soares, 2018).

Corruption in the health sector encompasses various forms, ranging from petty corruption such as informal payments to grand corruption involving overpriced equipment purchases and kickbacks to high-level actors in the system (García, 2019; Lewis, 2006). Over-invoicing for goods or services not provided and false claims for treatment, including the creation of "ghost" patients, are common types of corruption observed in high-income countries as well as middle-income countries in Latin America and Asia (Savedoff et al., 2006). Additionally, patients often purchase drugs from private pharmacies that should be provided by government-financed healthcare services (García, 2019; Lewis, 2006). Regardless of its form, corruption in the health sector drains financial resources, jeopardizing access, equity, and health outcomes (Vian, 2008; Reinikka and Svensson, 2011; García, 2019). Its effects can be observed through longer wait times and, in extreme cases, loss of lives (National Academies of Sciences, Engineering, and Medicine, 2018). Estimates suggest that corruption could cost approximately 140,000 children lives annually worldwide (Hanf et al., 2011).

Corruption Networks

Large-scale corruption encompasses not only national governments but also extends its reach into local governments. This form of corruption differs from small-scale corruption in terms of its economic impact and the number of individuals involved in a single corruption case. While small-scale corruption typically involves individuals or a limited group seeking additional income, large-scale corruption generates substantial resources that enable growth and facilitate the acquisition of protection. In the context of large-scale corruption, powerful networks emerge, exploiting programs, laws, and organizations to generate revenue for their own benefit. These networks consist of interconnected groups of corrupt individuals who provide mutual support to one another (Carvajal, 1999).

Operation "Bad Paths" serves as an illustrative example of a powerful corruption network. Such networks rely on a continuous flow of resources to operate, expand, and maintain their status. They establish connections with influential groups in both the public and private sectors, as well as

individuals who simultaneously play multiple roles over extended periods. These networks depend on resources to secure protection, form alliances with politically influential figures, manipulate bribes, subvert regulations, safeguard their territories, exert influence over governmental and legal entities, promote their allies to key political positions, and neutralize threats to their operations (Luna-Pla & Nicolás-Carlock, 2020; Carvajal, 1999).

The growing size and organization of corruption networks pose significant challenges to their dismantling, fostering a sense of impunity among those involved (Carvajal, 1999). Despite their detrimental impact on development, research on corruption networks remains limited but crucial (Martins et al., 2022; Luna-Pla & Nicolás-Carlock, 2020). Coordinated efforts among criminal agents are pivotal to the success of these networks, hindering development, perpetuating inequalities, and causing economic instability. Implementing measures to detect and neutralize corrupt networks, as well as addressing corruption recidivism, can substantially reduce such activities and contribute to overall developmental enhancement (Martins et al., 2022; Carvajal, 1999).

Corruption in Public Health at Local Governments in Brazil

Since the decentralization of the Brazilian National Health System (SUS) in 1998, local governments in Brazil have assumed greater responsibilities in managing resources and delivering public health services, becoming the primary interface between the population and the state (Walker & Andrews, 2015; Avelino, Barberia, & Biderman, 2014). This shift was intended to improve efficiency and reduce large-scale corruption. However, the limited supervision from the federal government in decentralized systems calls for the presence of qualified personnel, responsiveness to local needs, and strong accountability mechanisms at the local government level to achieve improved public health outcomes. It is important to consider the local political culture and encourage active citizen participation for effective decentralization processes (Avelino, Barberia, & Biderman, 2014; Atkinson & Haran, 2004).

In contrast, empirical research based on audit reports from the Office of the Comptroller General (CGU) reveals that corruption is prevalent in municipalities with weak social engagement, low human development indexes, high demographic density, substantial public fund inflows, and proximity to historically corrupt areas (Campos, Castelar, & Soares, 2018). This is particularly evident within the Brazilian local public health system, where three significant studies have utilized data from CGU's audit reports to investigate corruption (see Table 1).

TABLE 1. EMPIRICAL STUDIES ON CORRUPTION IN THE BRAZILIAN LOCAL PUBLIC HEALTH SYSTEM VIA CGU AUDITS

Author(s)	Relationship between corruption and	Audits undertaken by period	Local governments involved
Avelino Barberia & Biderman (2014)	Governance institutions (age of health council, mayors in second term and % of inter-governmental grants)	2004-2010	980
Medeiros-Costa (2022)	Health indicators (population assisted by2 the Family Health Program, infant mortality, death rate in hospitals and prenatal care)	2005-2010	896
Laurinho, Dias & Mattos (2017)	Local Human Development Index (HDI)	2010-2012	281

Source: The Author.

Analysis of audit reports reveals that a significant proportion of audited local governments in Brazil's public health sectors have experienced instances of corruption, including purchasing fraud, undocumented expenses, overpricing, and lack of competitive bidding processes (Avelino, Barberia, & Biderman, 2014; Medeiros-Costa, 2022). This diversion of federal and state grants intended for local health policies has negative implications for health outcomes and service quality. Municipalities with high dependence on inter-governmental grants and low human development indexes are more likely to experience resource diversion (Avelino, Barberia, & Biderman, 2014; Laurinho, Dias, & Mattos, 2017). Moreover, favoritism, manifested through preferential treatment based on social connections, contributes to corruption in the public health sector (Bruckner, 2019; Laurinho, Dias, & Mattos, 2017).

The impact of corruption on health outcomes is evident, with higher levels of corruption associated with increased infant mortality rates and decreased coverage of programs targeting vulnerable populations (Medeiros-Costa, 2022). Civic engagement in the public health sector is encouraged through the establishment of local health boards mandated by federal law, although the ability of board members to address corrupt practices may be limited, particularly for those in lower positions (Hutchinson, Balabanova, & McKee, 2019). However, longer-standing local health boards have shown potential in reducing corruption levels, emphasizing the importance of institutional experience (Avelino, Barberia, & Biderman, 2014).

In conclusion, the reviewed literature underscores the importance of studying corruption in the public health sector at the local government level in Brazil. Decentralization and effective governance structures are crucial

for improving public health outcomes. The empirical research presented highlights the prevalence and types of corruption in the Brazilian local public health system, emphasizing the need for accountability mechanisms, civic engagement, and the role of local health boards in combating corruption and enhancing health outcomes.

METHODOLOGY

The case study approach was chosen as the research design to investigate the consolidation of corruption in local governments, focusing on Operation "Bad Paths" in Manaus. The case study approach allows for a comprehensive and in-depth analysis of the specific context, dynamics, and complexities of corruption within the local government setting.

The selection of Manaus and Operation "Bad Paths" as the primary case for analysis was based on several criteria. Firstly, Manaus, as the capital of the Amazonas state in Brazil, represents a significant local government with a distinct socio-political and economic context. The prevalence and impact of corruption in this region make it a compelling case to study. Secondly, Operation "Bad Paths" gained significant attention due to its magnitude, involvement of high-ranking public officials, and the extensive number of phases conducted by oversight and control agencies. The case offers valuable insights into corruption consolidation within local governments.

To collect relevant data pertaining to Operation "Bad Paths," prosecutors' findings were gathered through the examination of legal documents, reports, and official statements. These sources were obtained from the Federal Public Ministry (MPF), the initiating body of the investigation, as well as other relevant investigative entities and court proceedings. The collected data underwent a meticulous examination and analysis to identify patterns, key actors, corruption schemes, and other crucial information related to the consolidation of corruption within the local government.

By utilizing this methodology, the study aims to provide a comprehensive understanding of the consolidation of corruption in local governments, specifically within the context of Operation "Bad Paths" in Manaus. The examination of legal documents and reports ensures a robust analysis of the corruption schemes, and the actors involved, contributing to a deeper understanding of this phenomenon.

DISCUSSION: CASE ANALYSIS AND KEY-FINDINGS

Case Analysis and Corruption Network Connections in the Local Government of Manaus, Rio Preta da Eva and Tabatinga

The corruption case in Manaus was fueled by various factors at the local level in the public health sector. Institutional weaknesses, such as inadequate accountability mechanisms and weak internal controls, provided fertile ground for corruption to flourish. Political dynamics, including political instability and patronage networks, facilitated corrupt practices through nepotism and favoritism. The practice of "pork-barrel" politics, diverting public funds for personal gain, further consolidated corruption in Manaus. A lack of civic engagement and weak community oversight allowed corrupt actors to operate with relative impunity. The culture of impunity, combined with economic factors such as poverty and income inequality, created an environment where corruption thrived as a means of personal enrichment and influence. These factors are interconnected and mutually reinforcing, perpetuating corruption in local governments, not just in Manaus but also globally.

This corruption scheme involved the utilization of a private "social organization"[1], known as the Instituto Novos Caminhos (INC), to manage a significant portion of the health budget allocated to three cities in the State of Amazonas: Rio Preta da Eva, Tabatinga, and, most notably, the state capital, Manaus. Established as a non-profit social organization in 2014, the INC received an astonishing sum of over 250 million Brazilian Reais with the purported purpose of supporting health management activities, as outlined in its founding documentation and the contractual agreement with the government of Amazonas (MPC-CASA, 2016).

As previously stated, the decentralization of health management in Brazil, in our case through the creation of Social Organizations' (OS) via Law N. 9,637 of 1998, coupled with collaboration with the private sector, has created an environment susceptible to corruption, where private entities can easily infiltrate. In a country that recently transitioned to democracy and has weak institutions, an incipient civil society, and an extensive network of corruption involving actors from the public and private sectors, the decentralization of public services has provided opportunities for entities like the INC to emerge and thrive, particularly in economically disadvantaged states such as Amazonas.

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[1] Social Entity, or "Organização Social" in Portuguese, is a legal qualification given by the State to a non-profit private legal entity established by individuals, which receives delegation from the Public Administration through a management contract to perform social public services.

The corruption scheme involved a group of four companies2 that issued invoices for services rendered, encompassing both legitimate and fraudulent transactions, including inflated prices. These invoices were then submitted to government agencies responsible for verifying the completion of the services. The INC, led by Dr. Mouhamad Moustafa, managed these steps, utilizing direct hiring without public tender processes to involve criminal organization members posing as legitimate suppliers to the state. As a result, a portion of the embezzled funds was redirected back to the INC and distributed among the network's participants, which included politicians securing the contracts, members of the judiciary, public officials responsible for approving service invoices, and individuals associated with the four implicated companies. The criminal organization also maintained an armed division comprising civilian and military police officers who received monthly illicit payments and operated under the network's command, performing various roles including security, surveillance, coercion, debt collection, and even torture.

FIGURE 1. EXEMPLARY FRAMEWORK OF THE STAGES
OF A CRIMINAL ORGANIZATION
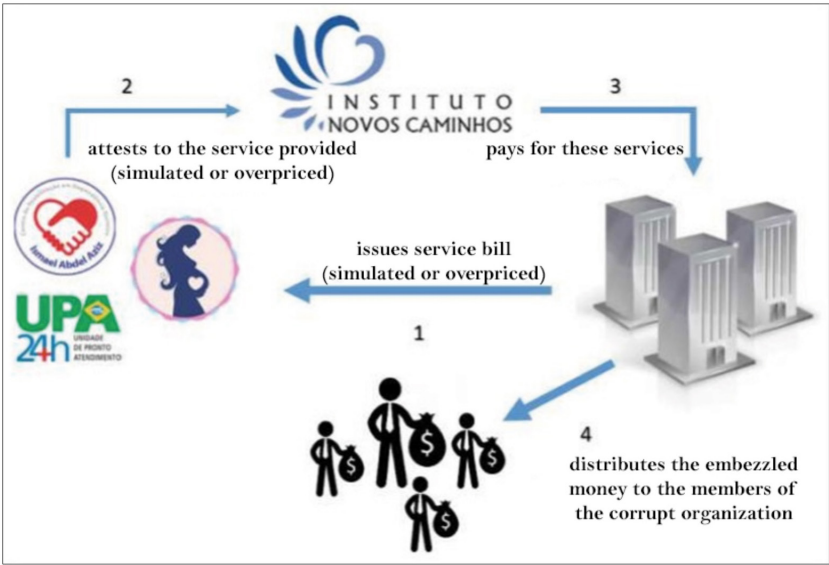
Source: Adapted from Federal Public Ministry (MPF) case files.

Out of the total amount of 900 million Brazilian Reais received from public funds, specifically from the National Health Fund (Fundo Nacional de Saúde, FNS) and the State Health Fund (Fundo Estadual de Saúde, FES), more than

2 Amazônia Serviços e Comércio (Alessandro Viriato Pacheco – EPP), Ita Serviços (Erhard Lange – ME), Medimagem (Gilberto de Almeida Aguiar – EPP) and D'Flores (D. de Azevedo Flores – ME)

250 million Brazilian Reais were directed to INC, from which approximately half of this sum was unlawfully diverted through the corruption scheme. A significant instance of fraud occurred during the procurement process of the hospital management system, where the INC made a payment of over 1 million Brazilian Reais to one of the companies affiliated with the criminal group. Notably, the legitimate system developer company quoted the actual cost of approximately 318,000 Brazilian Reais, highlighting an excessive overcharge of nearly 400%.

The actors: political, business, and legal core of the corruption scheme

Operation "Bad Paths" exposed an intricate network consisting of three interrelated cores. The political core featured explicit evidence of systematic bribery and exchange of favors orchestrated by the organization's leader, Mouhamad Moustafa, benefiting influential officials including state se-cretaries and the governor of Amazonas, José Melo de Oliveira. Intercepted communications revealed monthly bribes totaling up to R$ 133,000 over an extended period. These officials also enjoyed additional privileges such as travel expenses, luxury accommodations, vehicles, and perks extended to third parties. In return, these officials ensured preferential treatment in the procurement process, including the allocation of overpriced contracts through illicit exemptions from competitive bidding and manipulation of payment prioritization. Key figures within the political core included Evandro Melo, former Secretary of Administration and Management; Afonso Lobo, former Secretary of Finance; Raul Zaidan, former Chief of the Civil House; Pedro Elias and Wilson Alecrim, former Secretaries of Health; José Duarte dos Santos Filho, former Executive Secretary of Health; as well as Ana Cláudia da Silveira Gomes and Keytiane Evangelista de Almeida from the State Health Secretariat (Susam), with the latter holding the position of Deputy Executive Secretary of the State Health Fund (FES).

The investigation revealed a relevant business core of the corruption scheme. Despite the legality of contracting companies for services and materials, the INC primarily relied on specific companies for managing healthcare units. Control mechanisms conducted by the Office of the Comptroller General of Brazil (CGU) and the Federal Revenue of Brazil exposed the confounding intermingling of assets and operations among these entities, suggesting that the social organization served as a mere facade for Mouhamad Moustafa's companies to engage in direct business transactions with the State of Amazonas without undergoing the necessary competitive bidding processes.

The investigation also exposed a judicial core, revealing the involvement of lawyers Josenir Teixeira and Lino Chíxaro in illicit lobbying and obstructing

justice. Additionally, Murad Aziz, the brother of former Governor Omar Aziz, received monthly payments from Mouhamad Moustafa. These actors, among others, are facing charges of influence peddling and leveraging political connections to secure contracts and expedite payments, exposing the depth of the corruption network and the misuse of public funds.

Uncovering Accountability: Criminal and Administrative Actions, Judicial Sentences, and Outcomes of Operation "Bad Paths"

Of the 40 proceedings related to administrative misconduct, targeting public officials, 13 cases focused on bribery payments, 1 case on torture, 8 cases on contract overbilling, and the remaining cases involved illicit contracts with the aforementioned companies.

TABLE 2. PROCEEDINGS ON ADMINISTRATIVE MISCONDUCT

Administrative Action	Typification	Damage to Treasury
Bribe Payments	Illicit enrichment - Law n. 8429/92 Article 9	R$ 19,846,826.00
Contract overbilling	Injury to the Treasury - Law n. 8429/92 Article 10	R$ 21,297,056.00
Torture	Law 8.429/92 Article 11	R$ 500,000.00
Illicit payment to the companies	Injury to the Treasury - Law n. 8429/92 Article 10	R$ 30,527,679.00
Total		R$ 72,171,561.00

Source: The Author.

These proceedings provided valuable insights into the investigations conducted by the Public Ministry (MPF) and the Office of the Comptroller General (CGU), shedding light on the modus operandi of the corruption network. The MPF successfully identified the healthcare units affected by the criminal acts and highlighted the significant influence and connections wielded by Mouhamad Moustafa and INC employees within the state public administration. Through their influence, the social entity managed to obtain the coveted qualification and subsequently secure management contracts, effectively assuming control over the targeted healthcare units. The joint administrative investigations conducted by the MPF and CGU uncovered a cohesive network, referred to as an "economic group," comprising the INC

and the four implicated companies. This network operated in a coordinated manner, engaging in various illicit activities such as bribery, overbilling, police misconduct, including acts of torture within public premises, and clandestine payments. It is worth noting that the social entity served as a deceptive facade, allowing Mouhamad's companies to provide services and supply materials to the State of Amazonas without adhering to the necessary competitive bidding processes.

The case files of these proceedings contain conversations revealing how the corruption network recruited individuals necessary for their actions or coordinated among themselves. Routine and straightforward messages regarding bribe payments. For example, the same case No. 1000399-20.2018.4.01.3200 (MPF 2018a) shows various recurring conversations regarding bribes, with a simplicity that denounced bribe payment as a routine, such as on July 10, 2015, when the brother of the former state governor asked his assistant, "Did you already deliver Marinete's [bribe]?; - Yes, boss; - Thanks." (ibid., p. 30).

The conversations demonstrates that lower-level employees were complicit in corruption and willing to take risks as long as the "contract" was fulfilled periodically. When failed, demands were made promptly, and warnings emerged: "Sorry to bother you, did you manage to help your friend here? Bradesco [Brazilian bank] hasn't done anything so far, and next week the employees 'will complicate our situation.'"

Moustafa himself complained to his subordinates about these failures, stating that such trivial matters could "ruin everything." In a complete inversion of values, he claimed that the embezzled public funds should not experience delays since "the money belongs to them", referring to the corrupt public officials. It is also interesting to note that the corruptor operates within a system of "honor and commitment," which must be respected, as Moustafa stated when attributing his career "growth" to it. The following conversation occurred on November 3, 2015:

> - This is difficult, regardless of what happens to us, we can't do this anymore. Once we receive, we have to pass it on, period. I only grew because of this, and now I am failing... These failures will eventually ruin everything. I am already too delayed with them.
> - Then we will have to prioritize them and stop paying other things.
> - It's not about prioritizing. The money belongs to them, not us. I will eventually get screwed because of this." (*ibid.*)

Furthermore, the delays also disrupted the normal functioning of healthcare units. In this regard, the payment of corrupt acts and regular healthcare

management became intertwined, with the former causing problems for the latter. In this case, a notable moment occurred when Banco Bradesco definitively denied the transfer. "... I need your help again, the payments are very delayed..., employees are already going on strike." This request was responded with the assurance that payments would be made by the end of the week.

It is noteworthy to observe the power dynamics with the lower echelons of the corruption scheme, where individuals received relatively low-value monthly bribes, and the higher echelons, that aimed to maximize their profits from the embezzled funds as much as they could, even at the risk of jeopardizing the entire scheme. This is evident in conversations amongst the higher-ranking individuals, where they account for all the "costs," particularly the "political cost," in order to determine the pricing for the "overpricing" of services. We can also observe them discussing the need for a semblance of a feasible service, contrasting with the inclusion of non-existent sterilization services in the cities:

> MOUHAMAD: About the overpricing we do, on top of the provider to raise the POLITICAL COST and pass it on, I think our business is much more natural than telling me...
>
> JOSENIR: But, the wrong things have to be done properly, we have things where money goes out without any corresponding service. For example, sterilization, I don't even do a little bit just to say that little bit has an overprice... I don't do anything... [especially] for 167 thousand per month?
>
> MOUHAMAD: … I need to have a clear conversation with everyone, as I said, is it possible to work 100% correctly? Yes! But when we work 100% correctly, the same notice that I am sending today for sterilization, they will send to me saying that they are terminating a contract, that if I work 100% correctly, sir, I won't be able to give POLITICAL COST to anyone. And for this to continue we depends on POLITICAL COST. It's obvious, clear, it's absurd, so, damn, is this the way of the country? Yes. Abreu e Lima [construction site] received 80% of the work and didn't execute 30%. (MPF 2018b, p. 15)

Here we can also observe Mouhamad seeking to justify his acts of corruption by claiming that it is impossible to be honest in the country, citing the example of the construction of the Abreu e Lima refinery.

The "Political Cost," mentioned is a quantifiable aspect, involving a amount of money that should be passed on to local and state governments for the operation to continue. As explained by the group's lead attorney, Josenir, the existence of the criminal organization was based on overbilling or the non-

provision of services by the suppliers of the INC, in order to generate sufficient profit for personal enrichment and the payment of bribes to public officials, the "political cost."

> MOUHAMAD: It's an "X" cost that we spend, from which I have to deduct "Y" that I have to pass on to them. So, if I were to pass it all to the side of being 100% honest, you know?! Let's quote it against... And quote it at the lowest price, the surplus comes in millions, what will happen? They'll remove us, you know... I'm not obliged to be in this… I am here by choice, but not solely by choice, I'm here because I live off of it. It's a matter of survival, remove all our public contacts, where we have political quotas involved and such, the company won't survive… So anyway, we live in a country where illegality is the foundation of everything we do. (MPF 2018a, p. 38)

In this narrative, several key aspects come to light. Firstly, it becomes evident that the political landscape, characterized by power dynamics and commitments at various levels, played a significant role. Despite recognizing the vital role of the lower echelons in sustaining the system and ensuring its functionality, priority was given to the "political cost" above any other obligations. Also, these conversations shed light on their remarkable self-awareness regarding their involvement in corrupt activities, accompanied by a paradoxical sense of moral guilt that drives their search for justification. This inner conflict is often expressed through a generalized perception that corruption permeates all aspects of society and is impossible to escape. They rationalize their actions by arguing that if they abstain from participating, others will inevitably take their place: "So in the end, we live in a country whose foundation is illegality in everything we do".

While these conversations provide intriguing insights into the operational dynamics of the corruption network, it is also important for this article to examine the local perception of nationwide measures as ineffective by the perpetrators, which served as a catalyst and rationale for the perpetrators to continue their illicit activities. Furthermore, it is crucial to highlight the functioning of the corruption scheme at various levels and its intricate dynamics, particularly emphasizing the limitations imposed by employees responsible for the operation of healthcare networks. These individuals engaged in practices such as fabricating services and overlooking other criminal activities, specifically in relation to fulfilling their bribery obligations.

The disdain for federal anti-corruption initiatives and the perception of them as opportunities for corruption

The recorded telephone conversations between Mouhamad and others involved in the corruption scheme revealed a clear discrepancy between what federal laws require for a state or city to be considered "clean" and "transparent" and the reality on the ground. Despite Amazonas being hailed as a "best practice" state that complies with the Transparency Law (Complementary Law No. 131 of 2009), very little fiscalization was taking place. As stated in the MPF's petition, "It becomes clear that the State of Amazonas never adequately supervised the provision of services by the INC or the submitted accounts, demonstrating the leniency of the local executive control agencies" (MPF, 2018b, p. 36).

> MOUHAMAD: Well... Perhaps we are currently the largest healthcare contract in the state, solely speaking of one thing. … From SALVARE, so the state, the state provides almost seven (million) in counterpart, so it doesn't appear that it actually costs seven, you understand?! This is an administrative deficiency of the government, so, personally, those who should be much more concerned with the criminal aspect are the government, which is the executor and overseer, and they didn't... Criminally...
>
> JOSENIR: It will affect them, they didn't activate the commission, they haven't had a meeting, they haven't approved or disapproved our accounts until today.
>
> JOSENIR: It's a shared responsibility, it's not like they will be punished, and we won't be in some way.
>
> MOUHAMAD: Doctor, just so you have an idea, the State of Amazonas has achieved 70% transparency on the Transparency Portal, but 60% of that is related to payroll, meaning they have only declared 10% of what is in the contracts, the rest is "off the books." Plainly speaking, you understand? (ibid., pp. 36-37)

In the same conversation, Mouhamad confirms that he was the mastermind behind the corruption scheme because he saw an opportunity in this loophole. In the following statement, he tells Priscila and Josenir that upon recognizing the healthcare problem in the state of Amazonas and seeing an opportunity with the public-private partnership (PPP) through the establishment of a social organization (OS), facilitated by loopholes created by federal law, he approached a politician with the intention of "taking money from you [the public entity]."

MOUHAMAD: ... does the problem exist? Yes, it does. There were things that happened in the past that are not... That are not correct, and they are not correct for an obvious reason, we needed to take advantage... I said, "Doctor, let me ask you, I'm getting into an OS business, how do you guys take money from yourselves?" (ibid., p. 37)

Some things become clear. Firstly, the lack of oversight combined with the pursuit of compliance with the Transparency Law is seen not only as an opportunity to fill the gap between administrative practice and what is reported, but it is also understood that the state and municipalities, compelled to adhere to transparency procedures to which they are historically unaccustomed, present figures that they do not possess, primarily due to the lack of oversight. In the view of the corrupt actors, this makes the state complicit in acts of corruption because, by publishing these figures and failing to monitor their contracts and obligations, they not only circumvent the law but also effectively hinder any future investigations. If any deviations or other issues were to be uncovered, it would contradict the numbers declared by them. As Moustafa stated, they are "co-responsible." Or, more explicitly, as stated by his lawyer, the government should be more concerned "from a criminal standpoint" because "It will come back to haunt them, they didn't activate the committee, they didn't hold the meeting, they haven't approved or disapproved our accounts to this day."

It is worth noting that the Transparency Law of 2009 was enacted to promote transparency and public participation in government expenditures by mandating real-time disclosure of financial information and the implementation of an integrated financial management system. It aimed to enhance accountability and align with individuals' right to access public information. The law is overseen by Audit Courts, responsible for monitoring the financial aspects of public entities. While the law represented an institutional advancement, it also created opportunities for corruption. The reported numbers can be manipulated, and the perception of transparency can provide a cover for corrupt acts, as evidenced in the conversations between Moustafa, Priscila, and Josenir.

CONCLUSION

This article aims to shed light on a local corruption network that operated in three cities in the State of Amazonas. While this case study has its specificities, it serves as a prime example of the type of corruption that plagues local governments in Brazil and other countries, highlighting its modus operandi. The consolidation of corruption in local governments is influenced by various factors, including institutional weaknesses, political dynamics, pork-barrel politics, lack of civic engagement, a culture of impunity, and socioeconomic factors such as poverty

and income inequality in vulnerable communities. As demonstrated in our case study, all of these factors were present. Also, corruption in the health sector thrives due to the complex nature of the system, substantial public spending, market uncertainties, and the involvement of multiple actors. It encompasses various forms, including petty corruption such as informal payments and grand corruption involving overpricing and kickbacks. Fraudulent practices such as over-invoicing, false claims for treatment, and the creation of "ghost" patients are common occurrences. The lack of effective controls, transparency, regular audits, and social oversight further exacerbate the problem.

The culture of impunity is manifested in a corrupt political dynamic, where bribes and illicit payments are considered a fixed cost under the label of "political cost" by those engaging in corrupt practices. These higher echelon groups are essential for the functioning of the corrupt scheme, as major contracts and decisions depend on their involvement, often through the practice of pork-barrel politics, which was crucial in our case, as it allowed an exorbitant amount of money to be channeled to four newly formed companies and a recently established social organization like INC. It is through these political figures and their intermediaries, such as secretaries, that the lack of oversight and a façade of legitimacy become possible.

However, the lower echelon of individuals responsible for maintaining the secrecy of unprovided services and overseeing grossly overbilled products and services is vital for the functioning of the corruption scheme. Managing their expectations and maximizing profits while minimizing their share of the embezzled funds was one of the challenges faced by the criminal group. Their conversations reveal that these employees remained silent as long as their obligations were fulfilled, and any delays were met with suspicion and threats, as expressed by one of the supervisors who already sensed a lack of autonomy and legitimacy in relation to the group of employees. Yet, it is evident that a corruption scheme of this magnitude could not solely rely on the compliance of this lower echelon. Hence, brute force, including torture, was employed to silence those who resisted.

One of the key findings of this case study is the stark contrast between the legal norms established at the federal level and the realities of corruption on the ground. While Brazil has implemented legislation, such as the Transparency Law, aimed at promoting transparency, accountability, and integrity in public administration, these measures alone have not been sufficient to eradicate corruption at the local government level. The case of Manaus demonstrates the significant gaps and deficiencies in the implementation and enforcement of these legal norms, which allowed corruption to thrive.

The decentralization of public services, in our case with the creation of the OS, coupled with weak institutions and a nascent civil society, has created an environment susceptible to corruption at the local level. The lack of effective oversight mechanisms, inadequate internal controls, and the presence of patronage networks have facilitated the consolidation of corruption in local governments. It is vital for Brazil to strengthen institutional mechanisms to prevent and detect corruption, including robust accountability frameworks, enhanced transparency measures, and effective internal controls, while strengthening and engaging civil society to actively participate in the supervision of the services provided.

Diversion of public health funds are indicative of governance failures, inadequate implementation of audit recommendations, disengaged staff, poor management practices, and criminal activities. Merely increasing funding is insufficient without ensuring effective allocation and utilization at the frontline of healthcare delivery. To achieve this, tighter accountability measures, internal controls, civic engagement, and staff training are necessary. A strong governance system plays a crucial role in improving health outcomes, combating corruption, and monitoring rent-seeking behavior.

This article analysis highlighted the disparity between legal norms established at the federal level and the realities of corruption on the ground. To effectively address corruption at the local government level, a comprehensive and multi-dimensional approach is required. It is important to recognize that corruption predominantly occurs at the local government level, an aspect often neglected by international organizations, financial institutions, and national policies that focus more on higher levels of government. Addressing corruption effectively requires understanding and addressing the specific challenges and dynamics at the local level, which are often overlooked in prevailing anti-corruption frameworks and rankings.

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