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Achieving Growth and Security in the Northern Triangle of Central America

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Daniel F. Runde

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Christina Perkins

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ISBN: 978-1-4422-7980-3 (pb); 978-1-4422-7981-0 (eBook)

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Acknowledgments

The authors are grateful to the Smith Richardson Foundation for making this research possible. We would also like to thank Ambassador James Michel, Mark Lopes, Juan Jose Daboub, Alfonso Quinonez, and Debbie Kennedy for reviewing various drafts of this paper and providing valuable insights, feedback, and additional input.

We are grateful for our interns and staff, Waka Itagaki, Catarina Santos, Chris Metzger, Neha Rauf, and Aaron Milner, for their research support throughout this process. Conor Savoy, deputy director of the Project on Prosperity and Development, also provided invaluable support throughout the project.

We would also like to extend a sincere thanks to the 60+ participants of our working groups and private briefings in Tegucigalpa, San Salvador, Guatemala City, Medellin, Bogota, and Washington. Each individual added new insight and complexity to these issues, and we are grateful for their time and expertise.

Finally, we extend a special thanks to James Dunton, head of publications at CSIS, for his constant patience and diligence.

Executive Summary

The Northern Triangle of Central America, consisting of El Salvador, Honduras, and Guatemala, faces overwhelming challenges to economic growth and security. The region is one of the most dangerous on the planet, excluding active war zones. In 2015 alone, violence killed 17,422 people in Guatemala, Honduras, and El Salvador.¹ All three countries face a significant criminal gang problem that magnifies a lack of economic opportunity, as gangs find recruits among the region's unemployed or underemployed. Moreover, these gangs have become an accomplice facilitating the flow of drugs from South American producers to consumers in North America and elsewhere. Violence has exacerbated existing weaknesses in the Northern Triangle, particularly as these countries continue to grapple with political instability, recovery from decades-long civil wars, and low economic growth. This cycle of violence, weak governance, and lack of economic opportunity creates further barriers to the type of private-sector development that the Northern Triangle needs in order to create growth and stability. This crisis gained international attention in 2014, as an unprecedented number of unaccompanied child migrants (UACs) attempted to cross the U.S. border to escape violence and insecurity. While the United States has justifiably focused much of its development, security, and humanitarian resources elsewhere in the world throughout the last decade, the time has come to refocus on the Central American region, and in particular, the Northern Triangle countries.

In order to break the current cycle of violence and limited economic opportunity, the Northern Triangle requires sustained attention from the United States to promote improved governance that can lead to sustained economic growth in the formal sector. While the issues leading to today's crisis are complex and unique to each country's political and social contexts, donors and regional governments can draw lessons from other countries in the region. In particular, the economic and social landscape of Colombia in 1990s exhibited similar insecurity and violence comparable to the Northern Triangle today. In response to this situation, the United States launched Plan Colombia—a multiyear security and economic assistance package—to support Colombian efforts to end the civil war, tackle spiraling violence, and create greater economic growth. For this reason, many observers, including Vice President Joe Biden, have suggested the implementation of “a Plan Colombia for the Northern Triangle.” This is an imperfect metaphor, as Colombia's issues stemmed from a long-running civil war, in addition to violence resulting from organized crime. Additionally, Colombia benefited from impressive political leadership and a cohesive commitment among all levels of society to end the violence. It remains unclear if the governments of the Northern Triangle can exhibit this level of commitment to reform.

¹ “Northern Triangle Violence: 17,422 Homicides in 2015,” *Tico Times*, January 5, 2016, <http://www.ticotimes.net/2016/01/05/central-americas-violent-northern-triangle-registers-17422-homicides-in-2015>.

In late 2014, with the support of the Inter-American Development Bank, El Salvador, Guatemala, and Honduras produced the “Plan for the Alliance for Prosperity,” a comprehensive strategy to promote economic growth and security throughout the region. While the plan sets forth an appropriate vision for transformation in the three countries, its implementation will require high levels of domestic political will and strategic intervention and partnership on the part of the United States and other donors in key priority areas, including:

- Tax reform that promotes transparency and accountability throughout the resource mobilization process. Growing the tax base, rather than further taxing existing payers, should be the aim of all reforms.
- Commitment to anticorruption efforts throughout all levels of government, including advocating for the importance of international anticorruption bodies in Honduras and Guatemala.
- Fostering open dialogue among private-sector actors and civil society to build a consensus agenda for private-sector growth. This is a prerequisite for increased cooperation among stakeholders and will pave the way for broader support of pro-business reforms.

The Alliance for Prosperity (AFP) is an excellent vehicle to focus efforts, jumpstart political will, and encourage work toward common objectives. In 2016, both parties in Congress supported a commitment of \$750 million to AFP, and continued bipartisan support is necessary for AFP’s continued success.²

That said, only the Northern Triangle governments can create the conditions necessary for formal economic growth and job creation. This will involve creating incentives for private investment, broadening the tax base, reviewing regulations and distorted subsidies, and incentivizing business creation and formalization. All of which will enable the private sector to generate the jobs needed for the growing youth population. Many young people in the Northern Triangle face an unfortunate choice if they cannot find licit employment: joining the informal workforce, joining or cooperating with criminal groups, or attempting to immigrate to the United States or other countries in the region. Each of these options comes with obvious hazards, and the United States should invest in changing this reality for Central American youth.

The United States will need to make a decade-long commitment, at minimum, to support security efforts, policy reform, and a strengthening of the social contract between governments and citizens. Progress may be slow, but thoughtful U.S. partnership, with a focus on governance and private-sector growth, has the potential to create lasting change in

² White House, “FACT SHEET: The United States and Central America: Honoring Our Commitments,” January 14, 2016, <https://www.whitehouse.gov/the-press-office/2016/01/15/fact-sheet-united-states-and-central-america-honoring-our-commitments>.

the Northern Triangle. There has been economic and political progress over the last several decades and the United States played a role in making that happen. Ignoring the Northern Triangle is not an option because the population in the region is growing and the region's problems will continue to end up at our doorstep. Helping resolve these issues will require at least a decade-long commitment.

01

Introduction

In the summer of 2014, 70,000 unaccompanied minors (UACs)—mostly from the Northern Triangle countries of Central America¹—crossed the U.S.-Mexico border, prompting renewed American interest in Central America and fears of a domestic humanitarian and security crisis on the southern border. While overall apprehensions of undocumented immigrants at the U.S. Southwest Border have declined steeply since their peak in the early 2000s, the proportion of non-Mexican migration, particularly from the Northern Triangle countries, has increased dramatically.² The number of Salvadorans, Guatemalans, and Hondurans seeking asylum in the United States has increased 410 percent from about 8,000 in 2010 to more than 41,000 in 2014. While family unification continues to drive migration from the Northern Triangle, many attribute the recent spikes to deteriorating personal safety and quality of life for individuals in the Northern Triangle. Overall growth remains steady in the region, but rates are lower than neighboring countries in Central America. In 2015, Guatemala grew at only 4.1 percent, El Salvador grew at 2.4 percent, and Honduras grew at 3.6 percent, compared to Panama at 5.7 percent or, even, Nicaragua at 4.9 percent. These countries need significantly higher formal economic growth rates to absorb the young people entering the workforce.

These statistics fail to capture the extreme inequality experienced in the region, with Honduras serving as the most unequal country in Latin America.³ The three Northern Triangle countries also suffer from high levels of informality and place poorly on the World Bank's Doing Business indicators, suggesting that significant reforms are needed in order to spur further domestic or foreign investment.⁴ A lack of economic opportunity and access to services such as healthcare and education further exacerbates the harsh climate in these countries.

The link between increased security dangers and lack of economic opportunity in the Northern Triangle becomes clear through interviews and surveys with UACs and their families. Families were willing to put their children through incredible hardship and personal danger by sending them alone to the United States to escape conditions in their home

¹ Karise Curtis et al., *Crime and Violence in Central America's Northern Triangle: How U.S. Policy Responses Are Helping, Hurting, and Can Be Improved* (Washington, DC: Wilson Center, 2015), 1, https://www.wilsoncenter.org/sites/default/files/FINAL%20PDF_CARS%20REPORT_0.pdf.

² U.S. Customs and Border Protection, "Southwest Border Unaccompanied Alien Children Statistics FY 2015," November 24, 2015, <https://www.cbp.gov/newsroom/stats/southwest-border-unaccompanied-children/fy-2015>.

³ World Bank, "Honduras: Overview," September 19, 2016, <http://www.worldbank.org/en/country/honduras/overview>.

⁴ World Bank, "GDP Growth (annual %)," 2015, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2015&locations=HN-GT-SV-NI-PA-CR&start=2010>; World Bank, *Guatemala Investment Climate Assessment*, Vol. I (Washington, DC: World Bank, June 2008), <http://documents.worldbank.org/curated/en/614181468036361140/pdf/471930ESW0v10G10Box338854B01PUBLIC1.pdf>.

countries. Among almost all young migrants from the region, the top three reasons for migration were violence, lack of economic opportunity, and family unification.⁵

The region did not always face low growth nor was it always plagued by violence and gang activity. In the late 1990s and early 2000s, Guatemala and El Salvador made progress in recovering from brutal civil wars and Honduras worked to balance the power of the military with that of elected offices.⁶ During this period of relative peace and prosperity, the region experienced great economic progress, especially in El Salvador where reform-minded government made great strides in encouraging private-sector-led growth.

This progress ended beginning in the early 2000s when the United States began to deport over 129,000 gang members back to the region.⁷ The Northern Triangle was unprepared for the influx of so many violent criminals, and economic growth was not robust enough to offer these deportees formal, licit jobs. Criminal gangs, many with their roots in U.S. urban centers, found fertile ground in the Northern Triangle, leading to the crisis the region faces today. The illegal drug trade worsened this crisis; gang networks in the Northern Triangle connect drug consumers—especially in the United States—with cocaine and opiate producers in South America. Because of the gang epidemic, the cost of hiring security forces for individuals and businesses creates a significant tax on the economy of these three countries. For example, Honduras loses 4 percent of its private-sector profits annually to violence, and causes a total loss of 8 to 10 percent in GDP.⁸ In order to break the current cycle of violence and limited economic opportunity, the Northern Triangle requires sustained attention from the United States and most importantly, sustained economic growth in its formal sector.

While the United States has always played a dominant role in the region, U.S. attention to these three countries has tended to be episodic, often reacting to political or humanitarian crises, rather than engaging in a continuous, long-term partnership. The UAC crisis of 2014 generated calls for a renewed partnership between the United States and the region. Some seeking to emulate the success of the U.S. Plan Colombia called for a “Plan Colombia for the Northern Triangle,” including U.S. Vice President Joseph Biden.⁹

This concept of a Plan Colombia for the Northern Triangle serves as easy shorthand in Washington and among policymakers to describe a sustained, multifaceted approach to confront the security and economic situation in the Northern Triangle. Plan Colombia, a partnership between Colombia and the United States that began in the late 1990s, combined

⁵ Elizabeth Kennedy, *No Childhood Here: Why Central American Children Are Fleeing Their Homes* (Washington, DC: American Immigration Council, July 2014), https://www.americanimmigrationcouncil.org/sites/default/files/research/no_childhood_here_why_central_american_children_are_fleeing_their_homes.pdf.

⁶ Daniel Renwick, “Central America’s Violent Northern Triangle,” Council on Foreign Relations, January 19, 2016, <http://www.cfr.org/transnational-crime/central-americas-violent-northern-triangle/p37286>.

⁷ Michael Daly, “The Deported L.A. Gangs behind This Border Kid Crisis,” *Daily Beast*, July 11, 2014, <http://www.thedailybeast.com/articles/2014/07/11/the-deported-l-a-gangs-behind-this-border-kid-crisis.html>.

⁸ Emory University Global Health Institute, “Alto a la Violencia? Reducing Gun Violence in Honduras,” 2015, http://globalhealth.emory.edu/images/2015_internationalcc_case.pdf.

⁹ Joseph R. Biden, “Joe Biden: A Plan for Central America,” *New York Times*, January 29, 2015, http://www.nytimes.com/2015/01/30/opinion/joe-biden-a-plan-for-central-america.html?_r=0.

security, governance, social, and economic interventions to improve security and create lasting change in the country.

Certainly, this is an imperfect policy comparison, but it is an effective way to describe the type of relationship the United States should pursue with the Northern Triangle. To be sure, though, there are more differences than similarities among these countries. First, Colombia in the 1990s and 2000s benefited from strong executive political leadership through the successive administrations of Andres Pastrana, Alvaro Uribe, and Juan Manuel Santos. There are few signs of this type of strong leadership in El Salvador, Guatemala, and Honduras. Second, the countries of the Northern Triangle have higher rates of poverty, inequality, and significantly fewer domestic financial resources than Colombia at the height of its crisis. As seen in the table below, rates of investment are lower, and the Northern Triangle has some of the lowest tax-to-GDP ratios in the Western Hemisphere. Third, Colombia had a strong security sector and stronger legal and political institutions than the Northern Triangle countries. Finally, while Colombia is a larger country with diverse municipalities and high inequality, the complication of building a comprehensive plan among three nations, rather than one, cannot be overstated. Each country has a unique history and context that makes the political and social realities much more complex today. There are benefits to a regional approach that holistically addresses cross-border challenges, but each country must overcome distinct factors that led to the lack of governance demonstrated today.

In addition to security challenges, the three Northern Triangle countries experience significant income inequality, with some areas suffering the same levels of malnutrition, poverty, and infant mortality as low-income countries in sub-Saharan Africa.¹⁰ And, as noted above, due to the illicit activities of criminal gangs financed by drugs and extortion, these three countries are among the most deadly outside of active warzones.¹¹

This paper provides context for the current situation in the Northern Triangle, updates on key social and economic indicators, and recommendations for how both U.S. foreign assistance and Latin American governments can promote improved governance and the opportunity for long-term economic growth. The private sector in the Northern Triangle is critical to creating the necessary growth, opportunity, and jobs to break the cycle of violence in the region. For sustained growth in the formal economy, the Northern Triangle needs improvements in governance, security-sector reform, stronger and more capable institutions, and more effective tax policy. With greater economic opportunity in these countries, citizens are more likely to seek domestic opportunities rather than attempt the dangerous journey to the United States.

¹⁰ Central Intelligence Agency (CIA), *The World Factbook*, "Country Comparison: Infant Mortality Rate," <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2091rank.html>; UN Children's Fund (UNICEF), "Nutrition: Malnutrition," <http://data.unicef.org/nutrition/malnutrition.html>.

¹¹ David Gagne, "2015 Latin America Homicide Round-up," *Insight Crime*, January 14, 2016, <http://www.insightcrime.org/news-analysis/insight-crime-homicide-round-up-2015-latin-america-caribbean>.

Table 1. Comparison to Central America

	El Salvador	Honduras	Guatemala	Costa Rica	Nicaragua	Colombia
Population (thousands, 2016)	6,141	8,746	14,918	4,814	5,966	46,736
Fertility rate (children born per woman, 2016)	1.91	2.78	2.9	1.9	1.92	2.04
Unemployment rate (% , 2015)	6.1	4.1	2.9	8.7	6.1	8.9
GDP (billions, USD, official exchange rate, 2015)	25.8	20.3	63.9	52.9	12.22	293.2
GDP per capita (2015)	\$8,300	\$4,900	\$7,700	\$15,500	\$5,000	\$13,800
GDP growth rate (% , 2015) ^a	2.4	3.6	4.1	3.7	4.5	3.1
Employment in the informal sector (% , 2013) ^b	65.6	72.8	73.6	30.7	65.7 ^c (2012)	54.5
ODA (in millions, 2014) ^d	\$98.0	\$604.0	\$277.0	\$54.0	\$430.4	\$1,221.0
ODA (% GNI, 2014) ^e	0.41	3.34	0.49	0.11	3.75	0.33

a. CIA, *The World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/>.

b. Elizabeth Gonzalez, "Weekly Chart: Latin America's Informal Economy," Americas Society and Council of the Americas, April 2, 2015, <http://www.as-coa.org/articles/weekly-chart-latin-americas-informal-economy>.

c. International Labor Organization (ILO), *Statistical update on employment in the informal economy* (Geneva: ILO, June 2012), http://laborsta.ilo.org/applv8/data/INFORMAL_ECONOMY/2012-06-Statistical%20update%20-%20v2.pdf.

d. World Bank, "Net official development assistance received (current US\$)," <http://data.worldbank.org/indicator/DT.ODA.ODAT.CD>.

e. World Bank, "Net ODA received (% of GNI)," <http://data.worldbank.org/indicator/DT.ODA.ODAT.GN.ZS?end=2014&locations=NI-CR-GT-HN-SV-CO&start=2008>.

02

Origins of the Current Crisis

Map 1. The Northern Triangle¹²



Political and Economic Reform

The region made significant economic and political progress in the 1990s. Following the resolution of civil wars in Guatemala and El Salvador, a series of reforms in the region created broad economic growth that ultimately resulted in the signing of the Dominican Republic and Central American Free Trade Agreement (CAFTA) with the United States in 2005. CAFTA-

¹² Wikimedia Commons, "Map of Central America," https://upload.wikimedia.org/wikipedia/commons/9/94/CIA_map_of_Central_America.png.

DR helped to strengthen trade and investment between the region and the United States, and the value of trade with the region increased 37 percent from 2005 to 2010.¹³

For example, under a Nationalist Republican Alliance (ARENA) government from 1989 to 2004, El Salvador demonstrated great economic progress. The government's National Reconstruction Plan (NRP) of 1992 to 1997 culminated in El Salvador achieving investment-grade bond status in 1998.¹⁴ By the early 2000s, El Salvador outperformed Chile, Argentina, South Korea, and Germany on the Index of Economic Freedom, which measures 10 indicators including rule of law, government spending, and market openness.¹⁵ As a result, immigration from El Salvador to the United States was low, and the economy was strong and growing.¹⁶ Job creation drove growth, decreased emigration, and poverty fell from 40 percent of the population in 1996 to 20 percent in 2000.¹⁷ Regrettably, the ARENA party was voted out of power in 2009 in El Salvador because of cases of corruption. Add to that the financial crisis in 2008 and the election of two Farabundo Martí National Liberation Front (FMLN) governments, El Salvador's economic growth has diminished, investment rating has fallen, and poverty rates and immigration to the United States have increased. The FMLN governments have gravitated toward Venezuela receiving subsidized oil until recently. The FMLN has been perceived as ineffectual on confronting the security situation.

Guatemala and Honduras also both made progress in the 1990s, but later backslid into economic stagnation. After a peace agreement in 1996 that ended the 36-year-long civil war, Guatemala saw improvements in human rights and corruption, but also saw a decline in the standard of living for most citizens despite economic reforms.¹⁸ Honduras also struggled with human rights abuses during the 1990s, and was devastated by Hurricane Mitch in 1998.¹⁹ The Honduran government struggled to rebuild both infrastructure and citizens' trust during the early 2000s.

In 2005, President George Bush signed CAFTA, thereby creating a free-trade area among the United States, Costa Rica, El Salvador, Honduras, Guatemala, and Nicaragua. The Dominican Republic joined CAFTA negotiations in 2004, and the resulting agreement became known as CAFTA-DR. The goal of CAFTA-DR was to encourage trade and investment, with a focus on creating economic security for Central America. The CAFTA-DR countries combined represent the United States' 16th-largest trade partner, and in 2015, exports totaled \$29

¹³ Office of the U.S. Trade Representative, "U.S. Trade with the CAFTA-DR Countries," 2011, <https://ustr.gov/about-us/policy-offices/press-office/fact-sheets/2011/may/us-trade-cafta-dr-countries>.

¹⁴ Michael Klein, *Ways Out of Poverty: Diffusing Best Practices and Creating Capabilities—Perspectives on Policies for Poverty Reduction* (Washington, DC: World Bank, March 2003), <http://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-2990>.

¹⁵ Heritage Foundation, *2016 Index of Economic Freedom*, "El Salvador," <http://www.heritage.org/index/country/elsalvador>.

¹⁶ Graciana del Castillo, *Rebuilding War-Torn States: The Challenge of Post-Conflict Economic Reconstruction* (New York: Oxford University Press, 2008).

¹⁷ World Bank, "Poverty headcount ratio at \$3.10 a day (2011 PPP) (% of population)," <http://data.worldbank.org/indicator/SI.POV.2DAY?locations=SV>.

¹⁸ CountriesQuest, "History, Guatemala in the 1990s," http://www.countriesquest.com/central_america/guatemala/history/guatemala_in_the_1990s.htm.

¹⁹ "Honduras Profile—Timeline," BBC, April 7, 2016, <http://www.bbc.com/news/world-latin-america-18974519>.

billion while imports totaled \$24 billion. The agreement supported an estimated 134,000 jobs in 2014.²⁰

Origins of Violence and Instability

The three Northern Triangle countries all face high rates of homicide and violence, though the nature of organized crime in each country differs.

Many Salvadorans fled to the United States during the Salvadoran Civil War, and beginning in the 1990s, marginalized Salvadoran youth living in the United States formed street gangs, most notably in Los Angeles. These gangs evolved into the Mara Salvatrucha (MS-13) and 18th Street Gangs, two of the most extensive criminal networks in the region. Many of these gang members and others associated with their crimes were deported during the early 2000s, when the United States deported over 129,000 convicted criminals to Central America.²¹ In 2012 alone, the United States deported over 14,000 people to Honduras and to Guatemala on criminal grounds and 9,000 to El Salvador.²² The initial influx of criminals gave the gangs a foothold in all three countries. In Honduras, MS-13 and the 18th Street Gang recruit young people—even those under the age of 15.²³ With Honduras' low levels of formal-sector employment, some young people have no incentive to stay in school, making illicit activity an attractive option.

There is less overall gang violence in Guatemala. The main reason given for leaving Guatemala is extreme poverty especially among its very large indigenous community. The urban areas have significant murder rates, but the poorest, rural areas have far lower rates of murder and violent crime. What gang activity there is linked more to individual acts of extortion and trafficking, rather than gangs like MS-13 and 18th Street active in Honduras and El Salvador.²⁴

The prevention of violence should be a priority for donors, particularly as reintegrating former gang members into licit society has proven difficult; Chapter 5 explores the issue of reintegration. Currently, Northern Triangle police and military forces rely on imprisonment for those charged with gang-related crimes, but overcrowding has caused prison riots and further outbreaks of retaliatory gang violence.²⁵ Prisons in Guatemala face serious

²⁰ Office of the U.S. Trade Representative, "CAFTA-DR (Dominican Republic-Central America FTA)," <https://ustr.gov/trade-agreements/free-trade-agreements/cafta-dr-dominican-republic-central-america-fta>.

²¹ Daly, "The Deported L.A. Gangs Behind This Border Kid Crisis."

²² Clare Seelke, "Gangs in Central America," Congressional Research Service, August 29, 2016, <https://www.fas.org/sgp/crs/row/RL34112.pdf>.

²³ Alberto Arce, "In Honduras, Gangs Control the Schools and What Children Learn Is That Crime Pays," *Albuquerque Journal*, December 14, 2014, <http://www.abqjournal.com/512185/and-what-children-learn-is-that-crime-pays.html>.

²⁴ "Guatemala," *InSight Crime*, February 28, 2016, <http://www.insightcrime.org/guatemala-organized-crime-news/guatemala#CriminalGroups>.

²⁵ Renwick, "Central America's Violent Northern Triangle."

overcrowding, and in 2014, were filled 280 percent over capacity, largely due to poor management and lack of investment in prison infrastructure.²⁶

Past U.S. Engagement in the Region

While the United States plays a significant role in Central America, in recent decades, the relationship has been sporadic, with the level of its support dictated by political conflicts or urgent crises. In 1977, the Carter administration set forth a new vision for improved democracy, governance, and human rights in the region, but the administration sidelined these efforts as violence in Nicaragua worsened and civil war broke out in El Salvador, where the United States backed the ruling government.²⁷ Between 1979 and 1992, when El Salvador signed its peace treaty, the United States provided around \$1.4 billion in economic and military aid to the region annually. This number fell almost immediately to around \$514 million in the wake of the 1992 treaty.²⁸

Following significant support to Central America during the Cold War and civil conflicts of the 1980s and 1990s, most subsequent U.S. efforts in Latin America focused on counter-narcotics in drug-producing countries like Colombia.²⁹

In 2008, the United States launched the Central America Regional Security Initiative (CARSI) as an attempt to rectify some of the region's gang and drug problems. CARSI is an integrated, collaborative regional security and rule-of-law program that strives to create a more stable, safe, and cooperative Central America in order to reduce threats to the region and the United States.³⁰ CARSI focuses on preventing gang violence, reducing narcotic and arms trafficking, and border security, and seeks to build capacity within the law enforcement and justice sectors.³¹ From FY2008 to FY2015, the United States provided nearly \$1.2 billion in total for CARSI. A majority of the funding between FY2008 and FY2012 allocated to the Northern Triangle; with 22.5 percent allocated to Guatemala, 17.3 percent to Honduras, and 16.3 percent to El Salvador.³²

While CARSI has resulted in incremental successes, violence and insecurity continue to drive citizens from the region. Further U.S. involvement in the Northern Triangle must address CARSI's shortcomings, starting with a holistic reevaluation of the countries' efforts at reducing corruption, sustaining economic growth, and creating formal sector jobs. Only eight years after CARSI's creation, the limited progress in the region demonstrates the need for a long-term, broader commitment by the United States in order to achieve measurable

²⁶ Camilo Mejia, "Guatemala Prisons at 280% Capacity: Study," *InSight Crime*, August 8, 2014, <http://www.insightcrime.org/news-briefs/guatemala-prisons-at-280-capacity-study>.

²⁷ "Central America, 1977–1980," Office of the Historian, U.S. State Department, <https://history.state.gov/milestones/1977-1980/central-america-carter>.

²⁸ Peter Meyer, "Central America Regional Security Initiative: Background and Policy Issues for Congress," Congressional Research Service, December 17, 2015, <https://www.fas.org/sgp/crs/row/R41731.pdf>.

²⁹ Ibid.

³⁰ U.S. Department of State, "The Central America Regional Security Initiative: A Shared Partnership," fact sheet, August 5, 2010, <http://www.state.gov/r/pa/scp/fs/2010/145747.htm>.

³¹ U.S. Department of State, "Central America Regional Security Initiative," fact sheet, August 5, 2016, <http://www.state.gov/j/inl/rls/fs/2016/260869.htm>.

³² Ibid.

results. Recent progress in El Salvador underscores the promise of sustained investments in the CARSI program. El Salvador has shown important collaboration with USAID and the State Department on crime and violence prevention. Through the government of El Salvador's Plan El Salvador Seguro, which is supported by CARSI activities, El Salvador has reduced homicides by 30 percent on average in the 10 initial target municipalities since 2015. Similarly, homicides have been cut in half in some of the most dangerous neighborhoods in San Pedro Sula, Honduras when the government and CARSI programs coordinate activities of enforcement, training on community policing, youth employment, and investment in community leadership. These sporadic successes need to be scaled up as evidence continues to trickle in on what works and what does not on the difficult challenge of citizen security.³³

³³ "Homicide Rate Comparison El Salvador 2015-2016: Plan El Salvador Seguro" (presentation at the U.S. Department of State, 2016).

03

International Response to Crisis in the Northern Triangle

With nearly 9 percent of the population of the three countries immigrating to the United States in recent years, improving conditions in the Northern Triangle must be a priority for the region as well as the United States.³⁴ The primary response to the 2014 surge in UAC migration is the Plan for the Alliance for Prosperity, presented by the three presidents from the Northern Triangle in November 2014. The plan provides a comprehensive strategy to counter the underlying causes of violence, economic stagnation, and weak governance in the Northern Triangle. The plan created a unique opportunity to build consensus among the country governments, official donors, and private actors in order to treat the root causes driving migrants to the United States. The Inter-American Development Bank (IDB) serves as the technical secretariat for the plan, and has a dedicated staff working to improve coordination among country governments and donors, particularly the United States. The IDB is the region's largest external source of financing, providing over \$3 billion in lending to the three countries from 2009 to 2014, and is well suited to play this role.³⁵

The plan commits the governments of the Northern Triangle to a series of specific reforms that aim to reduce violence, corruption, insecurity, inefficiencies in trade, and barriers to private investment. Other commitments include strengthening their tax bases, providing avenues for women's economic empowerment, and increased investment in education at all levels, including vocational-technical training.³⁶

The plan includes the following pillars:

- Enabling economic opportunities
- Developing opportunities to build human capital and link labor supply to business demand
- Improving public safety and access to justice

³⁴ Inter-American Development Bank (IDB), *Plan of the Alliance for Prosperity in the Northern Triangle: A Road Map* (Washington, DC: IDB, September 2014), <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=39224238>.

³⁵ IDB, "Presidents of El Salvador, Guatemala and Honduras Outline Plan to Promote Peace and Prosperity in Their Region," press release, November 14, 2014, <http://www.iadb.org/en/news/news-releases/2014-11-14/northern-triangle-presidents-present-development-plan,10987.html>.

³⁶ White House, "FACT SHEET: Support for the Alliance for Prosperity in the Northern Triangle," March 3, 2015, <https://www.whitehouse.gov/the-press-office/2015/03/03/fact-sheet-support-alliance-prosperity-northern-triangle>.

- Strengthening institutions to increase trust in the state³⁷

Specific commitments include

- The creation of job centers in high-risk neighborhoods;
- The creation of independent government auditing mechanisms to minimize corruption;
- Police reform and an additional 6,000 police officers in Honduras;
- The criminalization of bulk cash smuggling in El Salvador;
- The transition from an inquisitorial to accusatorial judicial system in Guatemala;
- A commitment to diversifying the energy market in the region by both completing a gas pipeline as well as changing electricity regulations;
- The implementation of the Guatemala-Honduras Customs Union and a “single window” for foreign investment;
- The establishment of an education investment plan with a focus on primary, secondary, and vocational schools; and
- A commitment to broadening and strengthening the tax base in the region.³⁸

While both the language of the AFP and early signals of political will are encouraging, it is unclear if political and economic leaders in El Salvador, Guatemala, and Honduras will be willing to sustain these sacrifices in order to curb violence and promote broad-based growth—particularly in the absence of strong institutions.³⁹

With that said, it is important to acknowledge the early signals of political will visible in all three countries. This year, the government of Honduras evaluated 272 high-ranking police officers through the “Purification Commission” and dismissed 106 officers; increased the prerequisites for police recruits; extended basic training from 3 months to 11 months; and increased the salary of new officers by 78 percent between 2014 and 2015.⁴⁰ The government of Honduras also collected \$128 million from the Security Tax and increased the Ministry of Security budget from \$175 million to \$263 million.

In Guatemala, President Morales has struggled with Congress to implement fiscal reform but is continuing to pursue changes, garnering further support from the private

³⁷ IDB, *Plan of the Alliance for Prosperity in the Northern Triangle*.

³⁸ U.S. Department of States, “Joint Statement by the Presidents of El Salvador, Guatemala, and Honduras, and the Vice President of the United States of America Regarding: The Plan for the Alliance for Prosperity of the Northern Triangle,” March 3, 2015, <http://www.state.gov/r/pa/prs/ps/2015/03/238138.htm>.

³⁹ Based on conversations with members of the private sector in San Salvador, November 2015.

⁴⁰ “Honduras: Policías depurados ahora bajo el ojo ciudadano,” *Tiempo Digital*, June 7, 2016, <http://tiempo.hn/honduras-policias-depurados/>.

sector. The president has also granted an extension of the CICIG mandate, which is central to demonstrating political will.

Each of the region's attorney generals have shown remarkable independence to defraud the justice system, including in El Salvador, where the previous attorney general was recently charged with fraud.⁴¹ All the three governments have respected and supported this independence and commitment to fighting corruption.

In El Salvador, the government dealt a significant blow to the MS-13 gang in Operation Jaque, an asset forfeiture operation coordinated across multiple government agencies, which led to 78 arrests and the seizure of vehicles.⁴² Investigators froze over 600 bank accounts and seized cash. This is the first major operation targeting MS-13 financial networks in El Salvador, demonstrating a significant transition from *Mano Dura* ("iron fist") policies to evidence and intelligence-based policing techniques.

Foreign assistance alone will not transform these countries; the solutions in the Northern Triangle will come from the countries themselves. While U.S. support can and should be essential in catalyzing reform, the amount of assistance from the United States to each country in FY2016 will account for less than 1 percent of their respective gross national products.

U.S. Support for the Alliance for Prosperity

Since the migrant surge in 2014, support for creating and implementing solutions in the Northern Triangle has benefited from strong bipartisan consensus in the United States. In FY2016, Congress allocated \$750 million to Central America, a 34 percent increase from the \$560 million in FY2015.⁴³ In FY2016, \$65 million will go to El Salvador, \$89 million to Honduras, and \$112 million to Guatemala, with the rest of the money going to other countries in the region and toward regional security issues that complement CARSI efforts. Recognizing the need for local political will in order to promote change, up to 75 percent of the funding is contingent upon the countries showing signs of progress, including tax reform, anticorruption measures, and improved security, although specific metrics of progress remain vague.⁴⁴

Initially both the House and Senate considered a lower amount for FY2016, but the final sum of \$750 million is a direct result of an emerging bipartisan consensus that the status quo in the Northern Triangle is no longer acceptable, particularly as individuals continue to put

⁴¹ "Ex-attorney general of El Salvador arrested on corruption charges," Fox News Latino, August 23, 2016, <http://latino.foxnews.com/latino/news/2016/08/23/ex-attorney-general-el-salvador-arrested-on-corruption-charges/>.

⁴² Nathaniel Janowitz, "El Salvador rounds up top MS-13 leaders and goes after gang's money," Vice, July 29, 2016, <https://news.vice.com/article/el-salvadors-police-say-dozens-of-arrests-are-hitting-gangs-in-a-new-and-vital-way>.

⁴³ White House, "FACT SHEET: The United States and Central America: Honoring Our Commitments."

⁴⁴ House Rules Committee, Text of House Amendment #1 to the Senate Amendment to H.R. 2029, "Military Construction and Veterans Affairs and Related Agencies Appropriations Act," U.S. House of Representatives, December 15, 2015, 1372, <http://docs.house.gov/billsthisweek/20151214/CPRT-114-HPRT-RU00-SAGR2029-AMNT1final.pdf>.

themselves at risk by migrating to the United States. This bipartisan commitment has not gone unnoticed by the Northern Triangle governments, and is appreciated by leaders on both sides of the political spectrum. Consensus among Republicans and Democrats demonstrates to these diverse governments that the United States is invested in improving conditions in the region. Motivations for support for the region vary—though most would cite national security and humanitarian concerns as universal with the 2014 crisis creating an understanding that security and prosperity in the Northern Triangle directly affects the security of the United States. Additionally, if the Northern Triangle governments succeed in eradicating violent gangs, there are concerns that violence will spill over into neighboring countries, including Costa Rica and Belize; other countries in the region must not be ignored as the United States engages with the Northern Triangle.

In October 2016, State Department and White House representatives met with Northern Triangle and IDB leadership to discuss next steps for AFP—including the disbursement of the \$560 million from FY2015 and \$750 million from FY2016. The FY2015 commitment will focus on regional prosperity, security, and governance programs, while the U.S. government has yet to allocate 2016 funding to a specific project or goal.⁴⁵

The spending timeline for AFP will remain slow and therefore many of the impacts of these monies will not be felt for years, especially as the United States has attached conditions on continued financial support. Twenty-five percent will be made available only when Northern Triangle governments adopt policies that discourage migration to the United States and assist with reintegration of deportees, and another 50 percent will be obligated based on a series of conditions related to accountability, anticorruption, and tax and business reforms.⁴⁶ Congress wants the funds to prioritize programming that prevents the migration of unaccompanied, undocumented children to the United States, and “funds shall be made available to the maximum extent practicable on a cost-matching basis.”⁴⁷ These restrictions are broad and open to multiple interpretations, and the bill leaves exact metrics of success, beyond the number of migrants crossing the U.S. border, up to the U.S. Agency for International Development (USAID) and the State Department to determine. As of this writing, the administration is working with the Congress to secure release of the FY2016 funding.⁴⁸

⁴⁵ Amy Pope, “Working Together toward a Stable and Prosperous Northern Triangle,” White House (blog), October 20, 2016, <https://www.whitehouse.gov/blog/2016/10/20/working-together-toward-stable-and-prosperous-central-america>.

⁴⁶ House Rules Committee, Military Construction and Veterans Affairs and Related Agencies Appropriations Act.

⁴⁷ Ibid.

⁴⁸ Reuters, “Central American countries still awaiting US\$750M in US aid,” *Buenos Aires Herald*, August 12, 2016, [http://buenosairesherald.com/article/219718/central-american-countries-still-awaiting-us\\$750m-in-us-aid](http://buenosairesherald.com/article/219718/central-american-countries-still-awaiting-us$750m-in-us-aid).

04

Enabling Private-sector Growth

The Alliance for Prosperity correctly identifies increased private-sector opportunity as the key to long-term improvement in quality of life in the Northern Triangle, but many obstacles currently prevent formal-sector job growth. The Northern Triangle countries rank in the middle range of the 189 countries measured by the World Bank's Doing Business indicators, with Guatemala at 81, El Salvador at 86, and Honduras at 110. As a point of comparison, Colombia ranks 54 and Costa Rica ranks 58.⁴⁹ The countries each rank far worse on Transparency International's Corruption Perception Index (CPI)—further discouraging private investment—Guatemala ranks 123, Honduras ranks 112, and El Salvador ranks 72 out of 168 countries.⁵⁰ Increased participation in the formal sector is a key catalyst of long-term growth through job creation. At present, the region faces barriers to formalization and increased investment, including insecurity, anticompetitive trade policies, a lack of transparency, and poor infrastructure.

In the Northern Triangle, nearly 50 percent of all jobs are in the informal sector, with few incentives for companies to operate in the formal sector.⁵¹ When businesses fail to join the formal sector, they are unlikely to pay taxes, guarantee fair contracts for their laborers, or ensure a safe workplace. While informality can help to reduce costs for individual firms, it creates a strain on government resources, as businesses fail to pay into the tax system that should provide police and security, public education, and other essential services.

The reasons for informality vary, but excessive or poorly implemented regulation is consistently associated with lower levels of formal business creation throughout Latin America.⁵²

The region's insecurity serves as a significant tax on businesses, as companies must employ private security teams when police coverage is inadequate, take extensive measures to protect workers, and pay extortive fees to gangs for protection. Among the three countries in the Northern Triangle, violence is the most severe in El Salvador, imposing extreme costs for businesses in the realm of security and by one estimate draining 3 percent of the country's

⁴⁹ World Bank, *Doing Business 2016: Measuring Regulatory Quality and Efficiency* (Washington, DC: World Bank, 2016), <http://www.doingbusiness.org/~media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB16-Full-Report.pdf>.

⁵⁰ Transparency International, "Corruptions Perceptions Index 2015," <http://www.transparency.org/cpi2015>. It is worth noting that while Guatemala experiences the lowest rank among the three, this is likely due to the substantial increase in the awareness and disapproval of corruption over the past two years. Incidents of corruption may not be increasing, but particularly after the high-level arrests of CICIG (International Commission against Impunity in Guatemala), citizens are now far more aware of government corruption.

⁵¹ Gonzalez, "Weekly Chart: Latin America's Informal Economy."

⁵² World Bank, "Intentional homicides (per 100,000 people)," <http://databank.worldbank.org/data/reports.aspx?source=2&series=VC.IHR.PSRC.P5&country=COL,CRI,GTM,SLV,HND#>.

GDP per year.⁵³ In Honduras, violence leads to an 8 to 10 percent loss in GDP annually.⁵⁴ Private security costs in the Northern Triangle amount to between 10 to 24 percent of the countries' GDP annually.⁵⁵ From interrupting trade routes to extortion and kidnapping of employees, businesses face enormous threats from gangs and organized crime.

Each country has significant gaps in infrastructure that hinder both regional and international trade. Despite the Northern Triangle's central location and over \$659 million in trade-related support from the U.S. government at the outset of CAFTA-DR, the region is far from a trade hub.⁵⁶ High rates of violence as well as high tariffs, poorly managed customs, and inefficient or nonexistent infrastructure and border control all disrupt intraregional trade.⁵⁷ Monopolies and state-owned enterprises that resist liberalization and competition in Honduras, for example, block improvements to roads or ports.⁵⁸ Without dramatically improved road, rail, sea, and air infrastructure, the Northern Triangle remains an unattractive trading waypoint. El Salvador's primary trading partners are the United States, Guatemala, Honduras, Costa Rica, and Nicaragua, but with a combination of infrastructure and policy changes to create a more open and accessible trade environment, El Salvador's products could be shipped further afield and compete more fully in international markets.⁵⁹

As a small economy, El Salvador would benefit from greater specialization in areas of comparative advantage, including services and logistics. Specialization in levels of education, and the broader implementation of a dual system focusing on apprenticeship or workforce training models could change the country's trajectory. Some programs of this nature exist and should be expanded with support from donors and private businesses that would benefit from a new generation of skilled workers. Areas of growth potential include the services sector, communications, logistics, and transportation. El Salvador is strategically located to serve as a hub for air and sea; it already serves as a main hub for Avianca, a Colombian airline serving over 24 million passengers per year.⁶⁰ There is also an opportunity to become a hub for ship repair, with significant improvements to existing port infrastructure.⁶¹ El Salvador has many English speakers and therefore serves as an attractive target for call centers of multinational companies.

⁵³ "The gangs that cost 16% of GDP," *The Economist*, May 21, 2016, <http://www.economist.com/news/americas/21699175-countrys-gangs-specialise-extortion-they-may-be-branching-out-gangs-cost>.

⁵⁴ Emory University Global Health Institute, "'Alto a la Violencia?'"

⁵⁵ Rory Jipp, "Corruption & Violence in the Northern Triangle," *Observatory Media*, June 13, 2016, <http://www.observatorymedia.org/corruption-violence-northern-triangle/>.

⁵⁶ Scott Miller and Daniel F. Runde, *Opportunities in Strengthening Trade Assistance* (Washington, DC: CSIS, February 2015), https://csis-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/publication/150224_Miller_StrengtheningTradeAssistance_Web.pdf.

⁵⁷ White House, "FACT SHEET: U.S. Cooperation with Central America; Meeting with Members of the Central America Integration System (SICA)," April 10, 2015, <https://www.whitehouse.gov/the-press-office/2015/04/10/fact-sheet-us-cooperation-central-america-meeting-members-central-america>.

⁵⁸ International Trade Centre, "Honduras," <http://www.intracen.org/country/Honduras/Infrastructure/>.

⁵⁹ Observatory of Economic Complexity, "El Salvador," http://atlas.media.mit.edu/en/profile/country/slv/#Economic_Complexity_Ranking.

⁶⁰ Avianca Holdings S.A., "Avianca Holdings Reports Traffic Statistics for Its Airlines," press release, January 21, 2014, <http://www.avianca.com/en/Documents/press-releases/avianca-holdings-reports-traffic-statistics-for-its-airlines.pdf>.

⁶¹ International Trade Centre, "El Salvador," http://www.intracen.org/country/EL_Salvador/Infrastructure/.

Guatemala's Doing Business rankings are not strong, though growth remains steady at 3 to 4 percent.⁶² For example, Guatemala lags behind in many state modernization efforts; in Chile, an entrepreneur can start a business from a home computer in a very short timeframe using a government-sponsored website, but no such web platform exists in Guatemala.⁶³ Over 65 percent of the Guatemalan economy is in the informal sector.

Key constraints to growth for Guatemala include malnutrition, insecurity, and corruption.⁶⁴ Guatemala and Honduras are the only countries in Central America that receive assistance from the Feed the Future presidential initiative, a sign of severe food insecurity.⁶⁵ For example, USAID focuses its resources in Guatemala in the Western Highlands, where levels of poverty are highest (from where most of Guatemala's immigrants to the United States come). While the Western Highlands desperately needs infrastructure and access to social services, including basic education and healthcare, most private companies are likely to continue investing in Guatemala City and the surrounding areas. New employment opportunities throughout Central America, when they arise, are more often found in manufacturing; it is unlikely that these industries will reach the Western Highlands in the near term. At the same time, there are niche opportunities in regions such as the Western Highlands, for example, the region's unique climate allows for year round production of high-value goods for agricultural exports, including many varieties of berries.⁶⁶

While USAID continues to focus its resources in this marginalized region, the Guatemalan government and non-U.S. donors, including the IDB, should work to promote reforms that will spur investment throughout the country. While rural to urban migration is steady, fostering increased opportunities in urban areas would allow for a beneficial increase in urban migration and a shift away from low-skilled, often informal, job opportunities.⁶⁷

Guatemala requires a renewed investment in technology, infrastructure, and agriculture productivity in order to attain and sustain sufficient levels of economic growth. Currently, around 30,000 individuals work in call centers, and projections show that the demand for these workers will increase.⁶⁸ If this sector is to grow, Guatemalan schools must improve English training programs. Guatemala ranks 46 out of 70 on the English Proficiency Index

⁶² World Bank, *Doing Business 2016: Measuring Regulatory Quality and Efficiency*.

⁶³ World Bank, "Doing Business: Chile," <http://www.doingbusiness.org/data/exploreeconomies/chile/starting-a-business/>.

⁶⁴ Manuel Agosin, Eduardo Fernandez-Arias, Fidel Jaramillo, eds., *Growing Pains: Binding Constraints to Productive Investment in Latin America* (Washington, DC: IDB, 2009), <http://www.iadb.org/res/publications/pubfiles/pubB-634.pdf>.

⁶⁵ Feed the Future, "Feed the Future Progress in Latin America and the Caribbean Fact Sheet," fact sheet, November 5, 2015, <https://feedthefuture.gov/resource/feed-future-progress-latin-america-and-caribbean-fact-sheet>.

⁶⁶ Steven Maxwell, "British berry appeal drives varietal development in Guatemala," *Produce Business UK*, April 25, 2016, <http://www.producebusinessuk.com/supply/stories/2016/04/25/british-berry-appeal-drives-varietal-development-in-guatemala>.

⁶⁷ Edwin Castellanos, "Urban sustainability should look outside the cities," SciDevNet, November 19, 2014, <http://www.scidev.net/global/cities/opinion/urban-sustainability-cities-planning-rural-development.html>.

⁶⁸ CentralAmericaData.com, "Guatemala: Call Center to Create 5,000 New Jobs," October 12, 2011, http://regionca.com/en/article/home/Guatemala_Call_Center_to_Create_5000_jobs.

with a score of 49.67 points out of 100 on an English language proficiency test for adults.⁶⁹ Higher-income countries tend to rank higher; Argentina, Peru, Mexico, and Brazil all scored above 50 points, while El Salvador scored behind Guatemala with only 45.52 points.⁷⁰

Tourism is an underutilized asset. While Guatemala is home to popular tourist attractions—namely the ancient ruins of Tikal, Lake Atitlan, and the colonial city of Antigua—it lacks the infrastructure to become a more frequent destination for the average traveler. The Guatemala City airport is badly out of date, prevents greater tourism, and hinders Guatemala’s potential as a future logistics hub. Tourism remains just under 10 percent of Guatemala’s economy, compared to 12.6 percent in Costa Rica, 29.3 percent in Jamaica, and 15.1 percent in Mexico.⁷¹

The relationship between business and government is less polarized in Honduras than Guatemala and El Salvador, but the Honduran government still pursues policies that discourage investment and private enterprise. Honduras’s relatively high minimum wage discourages firms from legally hiring workers, and creates a two-tier labor market, in which the majority of individuals are informally employed at low wages with no safety or contract guarantees. In many cases, a rise in the minimum wage has been associated with a decrease in formal-sector employment.⁷²

Taxation: Broadening the Base

The governments of the Northern Triangle have some of the lowest tax-to-GDP ratios in the Western Hemisphere. As a result, they are constrained in their ability to respond to threats from gangs, train and hire police and judges, build roads, provide public services such as power and water, ensure adequate social safety nets, and create a network of accessible and high-quality public schools.⁷³ Technical solutions to collect tax revenue will not fix the Northern Triangle’s convoluted, corrupt tax systems, as successful taxation requires political will, competent administration, effective collection, efficient spending, and transparency and accountability throughout the budgeting process. Broadening the tax base in Northern Triangle countries should remain a donor priority.

USAID has been working on tax systems in El Salvador for many years, and its efforts on tax-reform issues has been correlated with an increase from 6 to 14.9 percent of GDP from 2004 to 2014.⁷⁴ USAID’s program set out to increase tax revenue in El Salvador to 16 percent of

⁶⁹ Education First (EF), “EF English Proficiency Index 2015: Guatemala,” <http://www.ef.edu/epi/regions/latin-america/guatemala/>.

⁷⁰ EF, “EF English Proficiency Index 2015: A Comprehensive Ranking of Countries by English Skills,” <http://www.ef.edu/epi/>.

⁷¹ Knoema, “World Data Atlas: Guatemala—Travel & Tourism Total Contribution to GDP,” 2015, <https://knoema.com/atlas/Guatemala/topics/Tourism/Travel-and-Tourism-Total-Contribution-to-GDP/Total-Contribution-to-GDP-percent-share>.

⁷² World Bank, *Better Jobs in Central America: The Role of Human Capital* (Washington, DC: World Bank, May 2012), <http://www.worldbank.org/content/dam/Worldbank/document/Better%20Jobs%20in%20Central%20America.pdf>.

⁷³ Ibid.

⁷⁴ U.S. Agency for International Development (USAID), “El Salvador: History,” <https://www.usaid.gov/el-salvador/history>.

GDP by the end of 2015. USAID's investment of \$3.6 million in fiscal management has yielded approximately \$230 million in additional tax revenues, which means that every dollar USAID invested in tax reform since 2011 generated an additional \$63 dollars of domestic revenue. However, government spending has exceeded revenues over the past several years, and the government of El Salvador has been facing a recurrent cash flow crisis.⁷⁵ Guatemala has one of the lowest tax-to-GDP ratios in the world at just 10 percent, and the economy suffers from 65 percent informality. Informal markets throughout the country do not pay value added tax (VAT), and consequently, Guatemala has the lowest VAT collections in the region at 12 percent, compared to Honduras at 15 and El Salvador at 13 percent.⁷⁶ Those in the service sector also generally fail to pay taxes, opting for informality instead due to a high minimum wage and limits on hourly contracting. Guatemala's corporate tax rate is also on par with many Organization for Economic Cooperation and Development (OECD) countries, which further discourages enterprise formalization and prevents potential broadening of the tax base.⁷⁷

Guatemala's tax-collection levels have also *decreased* in recent years, down from 12 percent to 10.8 percent; though some believe actual levels collected are closer to 8 percent of GDP. The Guatemalan tax base is small, and the budget remains unfunded. In August 2001, plans for tax increases prompted widespread, and often violent, protests in Guatemala.⁷⁸ President Jimmy Morales is expected to confront tax system reforms during his presidency.⁷⁹

While Honduras has a relatively high GDP ratio for the region at 15 percent, public financial management remains weak and requires reform. Honduras implemented a security tax in 2012 that has raised over \$260 million.⁸⁰ The tax relies largely upon bank and other financial transactions, and the Honduran government used it to fund two new security organizations. While the funds are designated for the prevention of violence, citizens have complained that the spending has not been transparent or effective. According to the government's official website monitoring spending of the personal security tax dollars, 69 percent of the funds have gone to defense forces, with only 6 percent aimed at prevention programs.⁸¹

The metric for successful tax reform in the Northern Triangle should not only focus on increased tax dollars for public use. While broadening the tax base is a crucial first step toward improved quality and availability of public goods and services, the key to sustainability

⁷⁵ Giraldo, Enrique, "Domestic Resource Mobilization Takes Root in El Salvador...and Beyond?," DAI, 2016, <http://dai-global-developments.com/articles/long-term-fiscal-reform-takes-root-in-el-salvador-and-elsewhere/>.

⁷⁶ Trading Economics, "El Salvador Sales Tax Rate, VAT: 2014–2016," <http://www.tradingeconomics.com/el-salvador/sales-tax-rate>.

⁷⁷ Deloitte, "Guatemala: Highlights 2016," <http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-guatemalahighlights-2016.pdf>.

⁷⁸ U.S. Department of State, "Guatemala," background note, October 2006, <http://www.state.gov/outofdate/bgn/guatemala/74157.htm>.

⁷⁹ Euler Hermes, "Country Report: Guatemala: Fiscal and Institutional Challenges for the New Government," December 21, 2015, <http://www.eulerhermes.com/economic-research/country-reports/Pages/Guatemala.aspx>.

⁸⁰ Hannah Stone, "Honduras Uses Security Tax to Send Army to City Streets," *InsightCrime*, February 12, 2013, <http://www.insightcrime.org/news-briefs/honduras-security-tax-army-capital>.

⁸¹ Tasa De Seguridad, "Tasa de Seguridad Poblacional: Honduras," August 31, 2016, <http://www.tasadesseguridad.hn/>.

and success lies with more transparency in government spending, better projects, and more fiscally responsible government practices, including restructuring inefficient subsidies.

Fuel, gas, and electricity providers all encounter subsidies or suspended excise taxes in the Northern Triangle, which costs regional governments much-needed revenue. On average, these inefficient subsidies account for 1.8 percent of GDP.⁸² Energy subsidies in particular, found in lower-income countries, stunt an economy's long-term growth by discouraging investment in the energy sector. However, the cost of these subsidies is not always immediately apparent, and countries in Latin America are reluctant to change these policies.⁸³

Corruption

When considering U.S. assistance to the Northern Triangle, the U.S. government must prioritize good governance and capacity building. Two of the three Northern Triangle countries have international anticorruption bodies, one very new and one that has demonstrated results, but these initiatives must go beyond high-profile prosecutions for corruption. Removing corrupt figures at the top of government institutions is important, but citizens also want to see evidence of this change in their daily lives.

Guatemala and Honduras have each created an anticorruption body in order to create institutions that are more robust and to reinvigorate citizens' faith in their government. In April 2015, international prosecutors working with the United Nations through the International Commission against Impunity in Guatemala (CICIG) released evidence of a corruption ring that touched the highest levels of Guatemala's government. These corrupt officials, in exchange for bribes, discounted tariffs for importers. The following month, Vice President Roxana Baldetti resigned and was later arrested for her involvement. That same day, prosecutors shared evidence of President Otto Pérez Molina's involvement based on wiretaps and financial documents. Congress then stripped Pérez Molina of his immunity, and he resigned the following day.⁸⁴ A newcomer, Jimmy Morales, won the presidential runoff in October 2015 on an anticorruption platform, and took office in January.⁸⁵

Following the social security scandal that brought Hondurans to the street to protest in 2015 and the success of CICIG, Honduran President Juan Orlando Hernandez asked that the OAS help the country to build a new anticorruption body. Modeled after CICIG, the OAS-sponsored MACCIH (*Misión de Apoyo contra la Corrupción y la Impunidad en Honduras*) hopes to reduce corruption and strengthen the investment climate in Honduras. The IMF and U.S. State Department have both publicly praised MACCIH and articulated high hopes for

⁸² Gabriel Di Bella et al., *Energy Subsidies in Latin America*, Working Paper 15/30 (Washington, DC: IMF, February 2015), <https://www.imf.org/external/pubs/ft/wp/2015/wp1530.pdf>.

⁸³ Ibid.

⁸⁴ Rafael Romo and Greg Botelho, "Otto Pérez Molina out as Guatemala's President, ordered to jail," CNN, September 3, 2015, <http://www.cnn.com/2015/09/03/americas/guatemala-president-arrest-warrant/>.

⁸⁵ "Guatemala election: Jimmy Morales elected president," BBC News, October 26, 2015, <http://www.bbc.com/news/world-latin-america-34632485>.

both the organization as well as its leader, Juan Jimenez, former prime minister of Peru.⁸⁶ MACCIH is looking for similar levels of funding to CICIG, drawing from the OAS, and North American and European donors. However, MACCIH does not have the same independent powers of investigation that allowed CICIG to bring high-level politicians to justice. If MACCIH remains closely tied to Honduras's executive branch to investigate charges, it will likely lack the "teeth" required to bring to light serious corruption charges.

El Salvador's government has released statements against adopting a CICIG-like institution, as they would prefer to handle corruption issues internally rather than inviting an international body to take control.⁸⁷ Inviting the UN or OAS into El Salvador to deal with its issues of corruptions would be to admit that Salvadoran institutions themselves are insufficient and irreparable. El Salvador should consider the creation of a CICIG for El Salvador; the United States should consider whether it wants to condition assistance on the creation of such a body.

⁸⁶ "MACCIH Atraerá Inversión Extranjera a Honduras, Según FMI," *Diario La Tribuna Honduras*, January 20, 2016, <http://www.latribuna.hn/2016/01/20/maccih-atraera-inversion-extranjera-a-honduras-segun-fmi/>; Oliverios Teran, "OEA crea misión contra la corrupción en Honduras," *La Radio del Domingo*, January 24, 2016, <http://laradiodeldomingo.com/2016/01/24/oea-crea-misi-n-contra-la-corrupci-n-en-honduras/>.

⁸⁷ David Gagne, "El Salvador Refuses UN Anti-Corruption Body," *InsightCrime*, October 23, 2015, <http://www.insightcrime.org/news-briefs/el-salvador-refuses-un-anti-corruption-body>.

05

Reducing Gang Involvement through Workforce Opportunities

Each of these countries has a growing youth population, seen in the charts in Appendix V. If governments and the private sector do not take steps to ensure that these young people find jobs in the formal economy, the situation in the Northern Triangle is going to get much worse.⁸⁸

For young people in the Northern Triangle, planning is a three-part challenge. First, both institutional and practical challenges limit opportunities for education in Guatemala, Honduras, and El Salvador. In some areas, going to school is too dangerous, logistically complicated, or expensive, while in others, secondary schools simply do not exist. Teachers and schoolchildren alike face death threats and extortion by gangs; gang-related violence is cited as a leading factor behind El Salvador's increasing school dropout rate, although the Ministry of Education adds that poverty, migration, and teenage pregnancy are also contributing factors.⁸⁹ In interviews conducted with 322 Salvadorian minors in 2014, nearly half of children note that at least one gang is present in their neighborhoods, and over half live in an area where more than one gang regularly fights for territory.⁹⁰ A third of respondents reported gang activity inside school walls.

Refusal to engage with gangs often results in violence, even among children. One hundred nine young people reported that gang members pressured them to join a gang, and 22 of them were physically attacked after refusing to participate.⁹¹ Beyond the pressure to join a gang, a second challenge for Northern Triangle youth is the lack of job opportunities in the legal, formal sector. More than 1 million young people in the region are neither employed nor in school; these people are known as "*NiNis*," neither studying nor working (*ni estudian, ni trabajan*).⁹²

The final challenge is one of personal safety. The high murder rate in Northern Triangle countries disproportionately affect young people, and more than half of the region's

⁸⁸ Index Mundi, "Honduras Age Structure," June 30, 2015, http://www.indexmundi.com/honduras/age_structure.html.

⁸⁹ Anastasia Moloney, "Schoolchildren, Teachers at Mercy of Gangs in Violent El Salvador," Reuters, September 17, 2015, <http://www.reuters.com/article/us-el-salvador-education-violence-idUSKCN0RH14M20150917>.

⁹⁰ Kennedy, *No Childhood Here*.

⁹¹ Ibid.

⁹² "Ninis' ya Son Más de 2 Millones en Centroamérica," *Estrategia y Negocios*, April 12, 2016, <http://www.estrategiaynegocios.net/lasclavesdeldia/949287-330/ninis-ya-son-m%E1s-de-2-millones-en-centroam%E9rica>.

homicide victims are under 25 years old.⁹³ Seventy of the 322 young Salvadorans interviewed have quit school out of fear, and more than 30 report that they hide in their homes to avoid gang violence, choosing to stay inside rather than attend church, school, or family activities.⁹⁴

There are thought to be 70,000 active gang members in El Salvador with 30,000 in San Salvador alone, compared to approximately 32,000 active duty armed forces and National Civil Police (PNC) officers combined.⁹⁵ That said, estimates of active gang members vary widely, and a lack of accurate data hinders potential responses. Many donors and aid providers are unable to work in communities with an active gang presence, as it is too dangerous to send employees or volunteers, and religious groups lack the resources to become more involved.

Those at risk of joining gangs often have low levels of education and lack incentives to enter the formal sector. At the same time, the Salvadoran private sector should be more involved in creating opportunities for at-risk youth in communities near their operations. Companies stand to benefit if they seek to engage with low-income and at-risk individuals and provide training opportunities that align closely with their operational needs. English language training, in particular, could help promising industries, such as call centers, to thrive. Government, private-sector, and nonprofit activities should align in order to invest in human capital that will allow for both economic growth and improved security in the region.

One innovative model of job creation, led by Father Greg Boyle in Los Angeles, demonstrates how work opportunities can help to curb violence, even among those who have already engaged in criminal activity. Homeboy Industries was founded in 1998 to provide formal-sector jobs for those willing to leave gangs, beginning with a proprietary bakery and tortilla factory in the early 1990s.⁹⁶ Over 100,000 individuals, many of whom were actively involved in gangs, have come to the organization seeking work opportunities, and a study of 300 Homeboy clients showed promising results in terms of maintaining jobs and staying out of prison.⁹⁷ Boyle and his organization focus not only on providing job opportunities in the formal sector, but also reconnecting criminals to their families and healing posttraumatic stress disorder often experienced by gang members. Despite encouraging results, the organization struggles to maintain funding, as some individuals are reluctant to support a group that helps potentially violent criminals.

Programs in the Northern Triangle face similar challenges. Successful prevention programs occur on a small scale. Scaling these programs up must be a priority, but organizations struggle to gain support for prevention or rehabilitation programs. Given the levels of

⁹³ Arron Daugherty, "How Gang Violence Affects Northern Triangle's Youth," *InSight Crime*, November 3, 2015, <http://www.insightcrime.org/news-briefs/gang-violence-impact-northern-triangle-youth>.

⁹⁴ Kennedy, *No Childhood Here*.

⁹⁵ Andrew Buncombe, "El Salvador: Inside the world's deadliest peacetime country," *Independent*, June 3, 2016, <http://www.independent.co.uk/news/world/americas/el-salvador-inside-the-worlds-deadliest-peacetime-country-a7062426.html>; "El Salvador," *InSight Crime*, July 14, 2016, <http://www.insightcrime.org/el-salvador-organized-crime-news/el-salvador>.

⁹⁶ Steve Lopez, "Homeboy Industries is a struggling success story," *Los Angeles Times*, January 26, 2014, <http://articles.latimes.com/2014/jan/26/local/la-me-0126-lopez-homeboy-20140126>.

⁹⁷ Ibid.

violence perpetrated by gangs, many employers will never be interested in hiring former gang members. Programs like Homeboy Industries would be most effective if geared toward at-risk populations or gang affiliates, rather than those entrenched in gang violence and culture.⁹⁸

Padre Pepe

Padre Pepe, a Salesian priest, began working with Salvadorian children and young adults in 1985. While working in the Don Bosco School in Soyapango, El Salvador, Padre Pepe saw children becoming involved in dangerous street gangs, and realized that underprivileged young people needed an alternate path that was not currently available.^a

In 1992, Padre Pepe created the EDYTRA Foundation ("Fundación EDucación Y TRAbajo," Foundation for Education and Work), a nonprofit that facilitates opportunities for young people to learn skills for the workplace. EDYTRA focuses on children and young adults who are at the greatest risk of joining gangs, have already participated in criminal activity, or are already gang members—particularly those in rural areas with limited access to financial resources. The informal, technical education that EDYTRA instills in these young people gives them the opportunity to find decent work outside gang networks.^b EDYTRA seeks to expand the production of high-value agricultural products, like the achiote, also known as the "lipstick plant," in order to allow their beneficiaries to earn stable incomes. Today, over 2,000 children and young adults have been educated through workshops and programs at EDYTRA, and as a result, these students have gone on to create over 200 small businesses in El Salvador. Padre Pepe believes that gang violence will not cease until young people have viable opportunities in the formal sector, and that it is very difficult to get people to leave gangs once they become involved. He suggests that individuals can only leave gangs when fully isolated from gang culture; this involves significant family involvement, and is quite difficult in practice.

a. Fundación Salvadoreña Educación Y Trabajo, "Biography," <http://www.fundacionedytra.org/en/somos/biografia/>.

b. Fundación Salvadoreña Educación Y Trabajo, "Mision y vision," <http://www.fundacionedytra.org/en/somos/mision-y-vision/>.

In the Western Highlands of Guatemala, young people have little to no access to school or work opportunities, as the state presence in the region remains minimal. Access to education is difficult throughout the country, and many NiNis see migration as the only option.⁹⁹ Even for those with opportunities, public transit is deeply unsafe and many struggle to get to work or school. According to the Guatemalan education ministry, over 40,000 students are dropping out each year, and many students consider themselves to have finished school

⁹⁸ Chemonics, "Preventing Crime and Violence in Latin America by Reducing Youth Gang Activity," <http://www.chemonics.com/OurWork/OurProjects/Pages/Youth-Crime-and-Violence-Prevention-Technical-Support-Services-.aspx>.

⁹⁹ "Ninis' ya Son Más de 2 Millones en Centroamérica," *Estrategia y Negocios*.

before they turn 16.¹⁰⁰ High teenage pregnancy rates, particularly among those aged 14 to 16, also contribute to dropout rates. Due to their lack of education and the lack of jobs in the traditional formal sector, young Guatemalans are getting help from donors like the IDB to gain access to microcredit and gain the skills necessary to be successful entrepreneurs.¹⁰¹

Basic education is improving in Honduras, but coverage is lacking at the secondary level. Progress has been made thanks to continuity in the Ministry of Education, with the same minister serving throughout multiple governments. The education ministry has worked particularly hard to combat Honduras's "no-show" teachers, and progress has been made in this area. As with other countries in the region, access to quality education, particularly beyond the primary level, is poor.¹⁰²

¹⁰⁰ Guatemalan Ministry of Education, "Open Data," http://www.mineduc.gob.gt/DATOS_ABIERTOS/.

¹⁰¹ IDB, "Microfinance in Latin America and the Caribbean," <http://www.iadb.org/en/topics/microfinance/microfinance-in-latin-america-and-the-caribbean,1655.html>.

¹⁰² Lorenza Cotza, "Improving education standards in Honduras: A long road ahead," *The Guardian*, June 10, 2013, <https://www.theguardian.com/global-development-professionals-network/2013/jun/06/education-standards-honduras>.

06

Lessons from Colombia

Colombia, considered by some to be a near-failed state in the 1980s and 1990s, has emerged as an anchor economy in South America. The country once faced similar issues to those experienced by the Northern Triangle, including widespread violence, drug trafficking, organized crime, corruption, and displacement.¹⁰³ While Colombia still must take measures to ensure long-term peace and prosperity, particularly with continued levels of drug production and the failed October 2016 referendum for peace, the Colombian story highlights factors that are central to promoting reform in the Northern Triangle countries.

Since 2000, nationwide poverty rates dropped from 50 percent to 34 percent and foreign direct investment (FDI) grew to \$12 billion by 2015.¹⁰⁴ Much of this progress is attributed to the success of Plan Colombia, launched by Colombian President Andrés Pastrana and U.S. President Bill Clinton in 1998. Plan Colombia aggressively fought drug production and sought an end to the civil war with the guerilla group the Revolutionary Armed Forces of Colombia, or FARC.¹⁰⁵ Between 2000 and 2015, the United States allocated almost \$10 billion to Plan Colombia with 71 percent of that aid going to Colombia's security forces.¹⁰⁶ While the support of the United States catalyzed action in Colombia and helped to urge reform, the transformational change came from within. The Colombian government sponsored the majority of the reforms dictated by Plan Colombia, and more importantly, directed significant financial resources toward the effort.¹⁰⁷ Though building domestic political will took time, Colombians reached a point in which they were no longer willing to cope with the violence associated with the war and organized crime. Economic and political elites came together and decided to spend their political and economic capital to change the status quo.¹⁰⁸

Colombia's challenges stemmed from a long-running civil conflict among armed guerilla groups and paramilitaries, in addition to violence related to criminal gangs engaged in narco-trafficking. For 40 years, the FARC controlled rural portions of Colombia where they

¹⁰³ Luis Alberto, Moreno, "Plan Colombia Worked: Why Not Try Something Similar in Central America," *Miami Herald*, August 11, 2014, <http://www.miamiherald.com/opinion/op-ed/article1979415.html>.

¹⁰⁴ June S. Beittel, "Colombia: Background, US Relations, and Congressional Interest," Congressional Research Service, November 28, 2012, 7, <https://www.fas.org/sgp/crs/row/RL32250.pdf>; Santander Trade Portal, "Colombia: Foreign Investment," September 2016, <https://en.portal.santandertrade.com/establish-overseas/colombia/investing>.

¹⁰⁵ Connie Veillette, "Plan Colombia: A Progress Report," Congressional Research Service, June 22, 2005, 2, <https://www.fas.org/sgp/crs/row/RL32774.pdf>.

¹⁰⁶ June S. Beittel, "Peace Talks in Colombia," Congressional Research Service, March 31, 2015, 2, <https://www.fas.org/sgp/crs/row/R42982.pdf>; Washington Office on Latin America, "A Key Lesson: A Mostly Military Approach Cannot Solve Complex Social Problems," February 1, 2016, http://www.wola.org/files/1602_plancol/.

¹⁰⁷ U.S. Department of State, "Plan Colombia," fact sheet, Council on Foreign Relations, March 28, 2000, <http://www.cfr.org/colombia/plan-colombia/p28004>.

¹⁰⁸ Based on conversations in Washington, DC, and Bogota, March and April 2016.

maintained an extensive trafficking and extortion network. The guerilla group undermined the Colombian government's authority and gradually expanded their activities from rural areas to attacks in Colombia's major cities. Colombia demonstrated impressive cohesion among civil society, government, and the private sector as they built a coalition to defeat the FARC and improve security. Unfortunately, this strong social compact is not apparent in the Northern Triangle countries, particularly as they struggle with ongoing corruption and polarization in both the public and private spheres.¹⁰⁹

Colombia financed much of its security efforts through a negotiated wealth tax instated by President Alvaro Uribe in 2002. The tax allowed for a 1.2 percent tax on the wealthiest individuals in the country, with an understanding that the money the government would spend it on strengthening the Colombian state and fighting the insurgency. The government extended the tax and it is still in effect in 2016.¹¹⁰ The Northern Triangle countries would struggle to levy a tax like Uribe's wealth tax, due to high rates of corruption, an overly complex tax code, a high tax burden on a small base of contributors, and low tax compliance.¹¹¹

A combination of negative international attention and, ultimately, the increasing inability to live their daily lives due to the conflict forced Colombian leaders to invest in ending the war. In the past, many Colombians separated themselves from the conflict by hiring private security or taking greater precautions in travel, but eventually these coping mechanisms failed. Attacks in major Colombian cities and increasing danger in the countryside, where many Colombians had homes, made the situation unbearable. These factors led to an increased willingness for Colombia to confront issues of violence and finance a Colombian military that could defeat the FARC and drug cartels or force them to the negotiating table. While this was not a quick process, Colombian citizens could see progress and were willing to endure these steps in order to defeat the FARC and ensure safety throughout Colombia.

Medellin: Municipal Growth and Leadership

While national leadership is vital to long-term progress in the Northern Triangle, cities and other sub-national governments will also need to manage difficult reforms in order to take steps toward long-term progress. This was particularly true in Colombia, as the national government realized that they could not implement change throughout the country without significant support from municipal leadership.¹¹² In 1991, the city of Medellin was overrun by violence and crime, suffering the world's highest homicide rate—380 per 100,000 individuals.¹¹³

By the early 1990s, Medellin's political leadership, along with business and civil society, came together to strengthen governance and bring stability to the region. This coincided with the

¹⁰⁹ Based on conversations in San Salvador, Tegucigalpa, and Guatemala City in 2015 and 2016.

¹¹⁰ Shannon O'Neil, "How Mexico Can Win the Drug War, Colombia's Way," Council on Foreign Relations, June 17, 2011, <http://www.cfr.org/mexico/mexico-can-win-drug-war-colombias-way/p25298>.

¹¹¹ Juan Jose Daboub, presentation to Asociacion Nacional de la Empresa Privada, 2015.

¹¹² Based on conversations in Medellin and Bogota, May 2016.

¹¹³ Abraham Lowenthal, Pablo Mejia, "Medellin: Front Line of Colombia's Challenges," *Americas Quarterly* (Winter 2010), <http://americasquarterly.org/node/1310>.

Colombian national government giving more power to cities in order to improve the security situation throughout the country.¹¹⁴ As the country remained in crisis, the national government needed more support at the sub-national level.

During this period, Medellín built its world-class metro and began efforts to integrate the city's poor periphery into the formal, licit economy. Mayor Sergio Fajardo, a mathematician who took office in 2004, is credited with much of Medellín's success in this realm. He worked closely with business leaders to mobilize resources and with local community leaders on Integral Urban Projects, also known as PUIs. PUIs allowed Medellín to deliver high-impact, visible projects, like innovative libraries and other public spaces, in the city's most dangerous communities, while simultaneously increasing police presence. Medellín also demonstrated the importance of public transit infrastructure, like the Metro system and Metrocable (or gondola) system, that connects residents of poor, inaccessible communities outside of Medellín to the city's economic opportunities.

It is clear that two factors, which are largely not present in the Northern Triangle countries, made these changes possible. First, the city government financed Medellín's transformation through the steady income earned from *Empresas Públicas de Medellín* (EPM), Medellín's public utility company that donates 30 percent of its annual profits toward social development in the city.¹¹⁵ Over the past decade, this has accounted for around 25 percent of Medellín's municipal budget.¹¹⁶ The utility allows Medellín to continue to support infrastructure in the city and finance adequate security, while engaging diverse stakeholders and ensuring an open dialogue. The second factor in Medellín's success is the city's extraordinary culture of collaboration, particularly among business, the public sector, and community leaders.¹¹⁷ This sense of ownership is so entrenched in Medellín's politics that even some known gang members participated in discussions regarding Medellín's development.

While El Salvador, Guatemala, and Honduras clearly lack the public resources that benefit Medellín, the lack of collaboration and open dialogue among diverse stakeholders is equally troubling. Without this partnership, particularly in the private sector, the Northern Triangle governments will struggle to mobilize resources or the political will that is necessary to promote growth and stability.

¹¹⁴ Jennifer Eveland, "Medellín Transformed: From Murder Capital to Model City," Lee Kuan Yew World City Prize, n.d., http://www.leekuanYWworldcityprize.com.sg/features_Medellin_transformed.htm.

¹¹⁵ Ibid.

¹¹⁶ "The trouble with miracles," *The Economist*, June 27, 2014, <http://www.economist.com/news/americas/21603432-transformation-colombias-second-city-will-be-hard-copy-trouble-miracles>.

¹¹⁷ Ibid.

07

Conclusion

The United States and its regional partners cannot solve the root causes of insecurity in the Northern Triangle, but they can and should continue to play a supporting role. U.S. assistance alone will not change the facts on the ground in El Salvador, Guatemala, and Honduras, but can serve as a catalyst to promote reforms leading to greater transparency, increased investment, and improved quality of life. It remains unclear if the political and economic leadership in these three countries will continue to employ coping mechanisms, or if these leaders have reached a point where they are willing to confront structural issues leading to today's violence, corruption, inequality, and lack of opportunity. The case of Colombia demonstrates that a country's political and economic elite must be aligned, and willing to sacrifice personal wealth or power in order to promote reforms that will benefit society. At the same time, Colombia shows that progress is slow, and transformation takes decades, even when conditions are favorable. The United States' extended engagement supported Colombia's transformation, and partnership with the Northern Triangle can help prevent further crisis spilling far beyond the borders of El Salvador, Guatemala, and Honduras.

Since the 1980s, the Northern Triangle countries have become freer, wealthier, and have made significant improvements on indicators of human development. El Salvador experienced rapid economic growth in the 1990s—growth that is replicable and scalable with appropriate economic reforms and strong political leadership. At the same time, these countries currently suffer from slow economic growth, poor governance, the daily growth of criminal gangs, and a weak security sector. The three countries do not have the same political leadership, strong institutions, or ability to mobilize resources that existed in Colombia 20 years ago, and so one cannot expect identical results through U.S. engagement. That said, it is clear that if the United States is serious about reducing the irregular migration of unaccompanied minors, the United States and its partners should commit to a 10- to 15-year commitment to promote improved governance and private-sector growth in the Northern Triangle. Vice President Biden set forth an effective precedent by focusing on the Northern Triangle's proximity to and relationship with the United States, and future administrations should not lose sight of its importance to U.S. security and prosperity.

To that end, the next U.S. administration should continue to invest political capital and resources on the Northern Triangle in order to further U.S. domestic security and economic interests. Immigration reform is a separate issue, and should not be confused with the need to support would-be migrants in their home countries. The root causes of immigration are tied closely to security in the Northern Triangle, and both American parties should have clear reasons to provide support to the region. The United States and regional partners can break the cycle of poverty and violence through a comprehensive assistance and security strategy

that targets the “push” factors for migration and creates domestic opportunities that encourage Central Americans to build a future in Central America. This strategy will only succeed with comprehensive political leadership, both in the United States and in each Northern Triangle country. Comprehensive development cooperation can support long-term security and prosperity for Central America and the United States but it cannot bring about long-term security and prosperity.¹¹⁸

There is little consensus among stakeholders in the Northern Triangle, particularly civil society and the private sector, in terms of the how the countries will move ahead and how to finance a series of public goods, including security efforts, though some security taxes in El Salvador and Honduras show promise. Given this lack of clear direction, and the overall weak institutions in the Northern Triangle, the United States and other donors should seek to partner with reformers in national cabinets, constructive voices in the private sector, innovative municipal leaders, and reformers in the region’s strong civil society, including religious communities. Building capacity at all levels of government, including municipal and local, will be essential in terms of implementing reforms.

Throughout this process, the United States and other donors must listen to and account for the views of the local private sectors and chambers of commerce, as these actors are essential to driving formal economic growth. The governments of the Northern Triangle must reestablish a partnership with the local, formal private sector, and reaffirm the social compact between citizens and government through transparency and effective financial management. Sustained, high growth in the formal sector can create tangible change for the Northern Triangle, but governments must commit to policies that encourage entry into the formal, licit economy.

Recommendations

For Northern Triangle governments:

- Foster open dialogue among private-sector actors and civil society to build a consensus agenda for private-sector growth. This is a prerequisite for increased cooperation among stakeholders and will pave the way for broader support of pro-business reforms.
- Promote improved fiscal management and reforms that prioritize the ease of paying taxes and other activities in order to broaden the tax base. Tax administration fixes must be dealt with in conjunction with business environment reforms in order to push more actors into the formal sector. Countries should avoid implementing additional special sales or transaction (bank) taxes or inordinate tax raises on the small, formal private sector.

¹¹⁸ Daniel F. Runde, “Addressing the U.S. Border Emergency: Building a ‘Plan Colombia’ for Central America,” *CSIS Commentary*, August 8, 2014, <https://www.csis.org/analysis/addressing-us-border-emergency-building-%E2%80%9Cplan-colombia%E2%80%9D-central-america>.

- Demonstrate transparency in tax collection and expenditures between taxpayers and their government. Governments need to prove that tax dollars are appropriately allocated to productive projects with social and economic benefits.
- Ensure that cooperation and dialogue with donors—especially the United States—are priorities for Northern Triangle governments; learning to effectively share priorities and coordinate efforts is crucial to success and long-term capacity building at the domestic level
- Demonstrate that corruption will not be tolerated at any level of government. The creation of an anticorruption body to match CICIG and MACCIH should be a priority for El Salvador. External review of government transparency will lend much-needed legitimacy to government institutions, and help to decrease polarization and mistrust among citizens.

For the U.S. government:

- The United States should leave behind its pattern of inconsistent support and make a 15-year commitment to the Northern Triangle and broader Central American region. Changes that affect the “push factors” driving unaccompanied minors to leave Central America will require sustained partnership.
 - This commitment will require the attention of U.S. vice presidents or other senior administration officials throughout this period, for whom the Northern Triangle should remain a foreign policy priority. As a senior member of the administration and with the ability to invest time in long-term, important projects, the vice president can serve as an effective interlocutor, as he or she can convene relevant individuals throughout the administration and government agencies without perceived bias.
- The United States should leverage its positions in the IDB and World Bank to ensure that lending resources, time, and personnel are aligned with the Alliance for Prosperity and, first and foremost, support broad-based economic growth and new employment opportunities.
- While the U.S. Congress will understandably continue to measure success in the Northern Triangle based on the number of migrants from Central America entering the United States, there should be a consensus on additional metrics for success. Immigration numbers can spike seasonally or without warning, so it makes sense to have additional indicators in order to paint a complete picture of progress. Conditional aid, though controversial, can help to hold Northern Triangle governments accountable, particularly in dealing with issues of governance or corruption, but the metrics upon which aid is conditioned should be clear.
 - The U.S. government should build consensus with the governments of the Northern Triangle countries along with other donors regarding progress metrics that other donors—including the Inter-American Development Bank,

host country governments, the local and international private sector, and domestic civil society actors—will use to measure progress in the region. Examples include:

- GDP growth and job creation
 - Reduction in the percentage of informality in each country
 - Reduction in homicides and extortion
 - Increased taxes collected as a percentage of GDP and responsible spending
 - Pronounced improvements on international indices, particularly the Doing Business Indicators, The Heritage Foundation's Index of Economic Freedom, and Transparency International's Perceptions of Corruptions Index.
- The United States, however, must avoid the spikes and rapid declines in funding and attention that have characterized U.S. engagement in Central America in recent decades.
 - USAID needs to continue to add capacity in the region to counteract many years of cuts, particularly among contracting and project design officers, in order to avoid pipeline delays.
 - Levels of support to Honduras should be maintained, despite allegations and ongoing investigation of human rights abuses. U.S. officials should continue to demand transparency and vigorously denounce human rights violations, but cutting off support will only exacerbate issues of governance and corruption. Instead, the U.S. government should continue to support both security and governance reforms in Honduras, along with the Organization of American States and the Inter-American Commission on Human Rights (IACHR).
 - Donors and their partners should focus time, attention, and resources at the municipal level, where programming can be better suited to community needs and handled with greater transparency.
 - Work through civil society to create a space for dialogue and collaborative action. The private sector, government, and community actors all have a role, but conflict among these groups limits potential collaboration. To combat these limitations, donors should create new spaces for dialogue and strengthen existing ones.

Appendix: Data on the Northern Triangle

Table A1. Data on El Salvador

El Salvador	2000	2005	2010	2014	2015
GDP (billion)	\$13.1	\$17	\$21.4	\$25.2	\$25.2 (2014)
GDP per capita ^a	\$2,259.9	\$2,874.3	\$3,547.1	\$4,102.1	\$4,219.4
GDP growth rate (%)	2.2	3.6	1.4	2.0	2.4
Inflation (% annual CP)	2.3	4.7	0.9	1.1	-0.7
Tax revenue (% GDP)	10.7	12.5	13.6	14.5 (2012)	15.4 (2013)
Government debt (% GDP)	-	48.3	49.5	54.9	55.9 (2013)
Net FDI inflows (% GDP)	1.3	3	-0.5	2	2
Population (million people)	5.9	6	6.2	6.3	6.1
Urban population (% of total)	-	-	-	-	66.7
Youth population (% of total population under 24) ^b	-	-	-	-	48.02
Birth rate (per 1,000 people) ^c	24	20	18	17	17 (2014)
Child malnutrition (% of total population under the age of 5)	-	-	-	-	5 (2014)
Life expectancy	70	71	72	72	73
Unemployment (% ILO standards)	-	7.2	7.0	6.3 (2013)	6.1
Informal sector employment (% of total) ^d	-	66 (2007)	66	65 (2013)	65.6
GINI coefficient (measure of inequality)	0.52	0.47	0.44	0.41 (2012)	0.44 (2013)
Percentage of population living in poverty (less than \$3.10/day, 2011 PPP)	22.7	20.9	18.6	11.5 (2013)	11.5 (2013)
Percentage of population living in extreme poverty (less than \$1.90/day, 2011 PPP)	11.8	9.6	7.2	3.3 (2013)	3.3 (2013)

- World Bank, "GDP per Capita (current US\$)," <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=SV>.
- CIA, *The World Factbook*, "El Salvador," <https://www.cia.gov/library/publications/the-world-factbook/geos/es.html>.
- World Bank, "Birth Rate, Crude (per 1,000 people)," <http://data.worldbank.org/indicator/SP.DYN.CBRT.IN?locations=SV>.
- Gonzalez, "Weekly Chart: Latin America's Informal Economy," April 2, 2015; World Bank, "Informal Employment (% of total non-agricultural employment)," <http://data.worldbank.org/indicator/SL.ISV.IFRM.ZS?locations=SV>.

Table A2. Data on Guatemala

Guatemala	2000	2005	2010	2014	2015
GDP (billion)	\$19	\$27.2	\$41.3	\$58.7	\$63.9
GDP per capita ^a	\$1,650.4	\$2,064	\$2,806	\$3,666.6	\$3,903.5
GDP growth rate (%)	3.6	3.3	2.9	4.2	4.1
Inflation (% annual CP)	6	9.1	3.9	3.4	2.4
Tax revenue (% GDP)	10.1	11.2	10.4	10.8 (2012)	10.8 (2012)
Government debt (% GDP)	-	21.3	24.4	24.3	24.2
FDI net inflows (% GDP) ^b	-4.1	2	2	2	1.8
Population (million people)	11.2	12.6	14.3	15.8	16.3 (2014)
Urban population (% of total population) ^c	45	47	49	51	52
Youth population (% of total population under 24) ^d	-	-	-	-	57.56
Birth rate (per 1,000 people) ^e	35	31	29	27	27 (2014)
Child malnutrition (% of total population under the age of 5)	-	-	-	-	12.6
Life expectancy	70	70	71	72	72
Unemployment (% ILO standards)	1.4	2.5	3.7	2.8	2.9 (2014)
Informal sector employment (% of total) ^f	-	-	75	77 (2012)	73.6
GINI coefficient (measures inequality)	0.54	0.549	-	0.524	0.53 (2014)
Percentage of population living in poverty (less than \$3.10/day, 2011 PPP)	-	28.5 (2004)	23.7 (2006)	26.5 (2011)	26.5 (2011)
Percentage of population living in poverty (less than \$1.90/day, 2011 PPP)	-	14.4 (2014)	11.5 (2006)	11.5 (2011)	11.5 (2011)

a. World Bank, "GDP per Capita (current US\$)."

b. World Bank, "Foreign Direct Investment, Net Inflows (% of GDP)," <http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=GT>.

c. World Bank, "Urban Population (% of total)," <http://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS?locations=GT>.

d. CIA, *The World Factbook*, "Guatemala," <https://www.cia.gov/library/publications/the-world-factbook/geos/gt.html>.

e. World Bank, "Birth Rate, Crude (per 1,000 people)."

f. Gonzalez, "Weekly Chart: Latin America's Informal Economy"; World Bank, "Informal employment (% of total non-agricultural employment)."

Table A3. Data on Honduras

Honduras	2000	2005	2010	2014	2015
GDP (billion)	\$7	\$9.67	\$15.8	\$19.3	\$20.3
GDP per capita ^a	\$1,138.1	\$1,405.8	\$2,110.8	\$2,434.3	\$2,495.6
GDP Growth Rate (%)	5.7	6.1	3.7	3.5	3.6
Inflation (% annual CP)	11	9.1	3.9	6.1	3.2
Tax revenue (% GDP)	13.7	14.5	14.4	14.7 (2012)	15.1 (2013)
Government debt (% GDP)	-	-	-	40.2	47.4
FDI net inflows (% GDP) ^b	4.9	6.2	3.1	6.7	6.5
Population (million people)	6.2	6.8	7.6	8.1	8.7
Urban population (% of total population)	-	-	-	-	54.7
Youth population (% of total under age 24) ^c	-	-	-	-	55.32
Birth rate (per 1,000 people) ^d	32	27	23	21	21 (2014)
Child malnutrition (% of total population under the age of 5)	-	-	-	-	7.1 (2012)
Life expectancy	70	71	73	74	73.3
Unemployment (ILO)	3.9	4.2	4.8	4.2	4.1
Informal sector employment (% of total) ^e	51 (1997)	55 (2003)	76	73 (2013)	72.8
GINI coefficient (measures inequality)	0.54	0.595	0.534	0.574	0.537 (2013)
Percentage of population living in poverty (less than \$3.10/day, 2011 PPP)	31.9 (2001)	42.6	29.1	34.5 (2013)	34.5 (2013)
Percentage of population living in poverty (less than \$1.90/day, 2011 PPP)	-	27.8	15.5	18.9 (2013)	18.9 (2013)

a. World Bank, "GDP per Capita (current US\$)."

b. World Bank, "Foreign Direct Investment, Net Inflows (% of GDP)."

c. CIA, *The World Factbook*, "Honduras," <https://www.cia.gov/library/publications/the-world-factbook/geos/ho.html>.

d. World Bank, "Birth Rate, Crude (per 1,000 people)."

e. Gonzalez, "Weekly Chart: Latin America's Informal Economy"; World Bank "Informal Employment (% of total non-agricultural employment)."

Figure A1. Homicide Rates in Latin America¹¹⁹

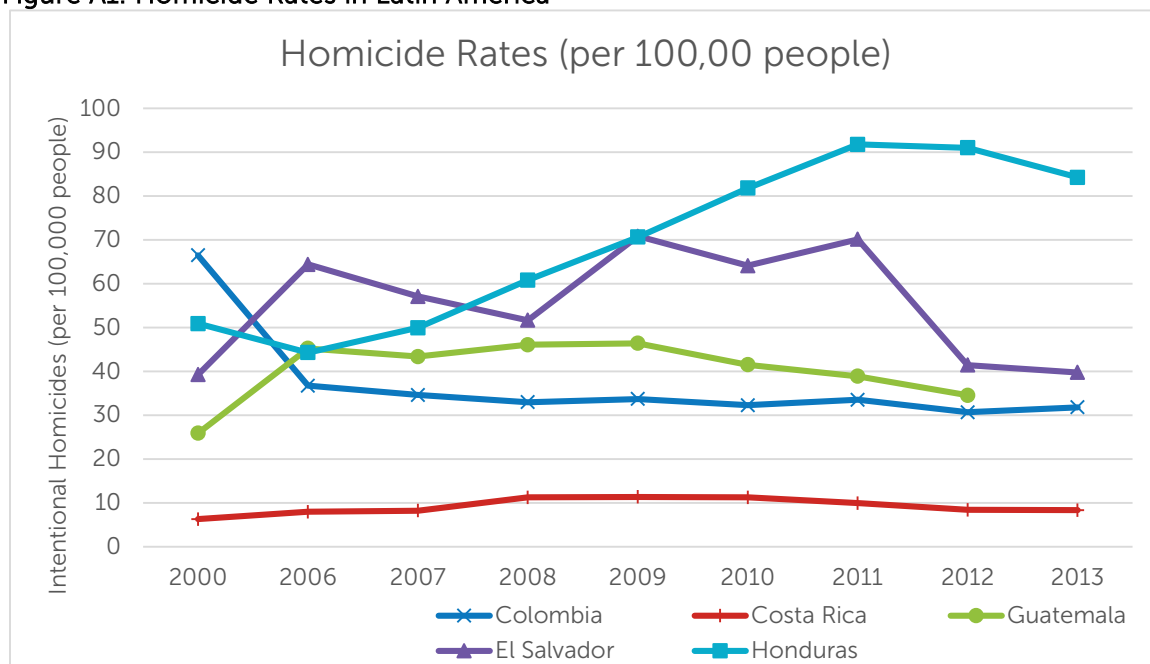
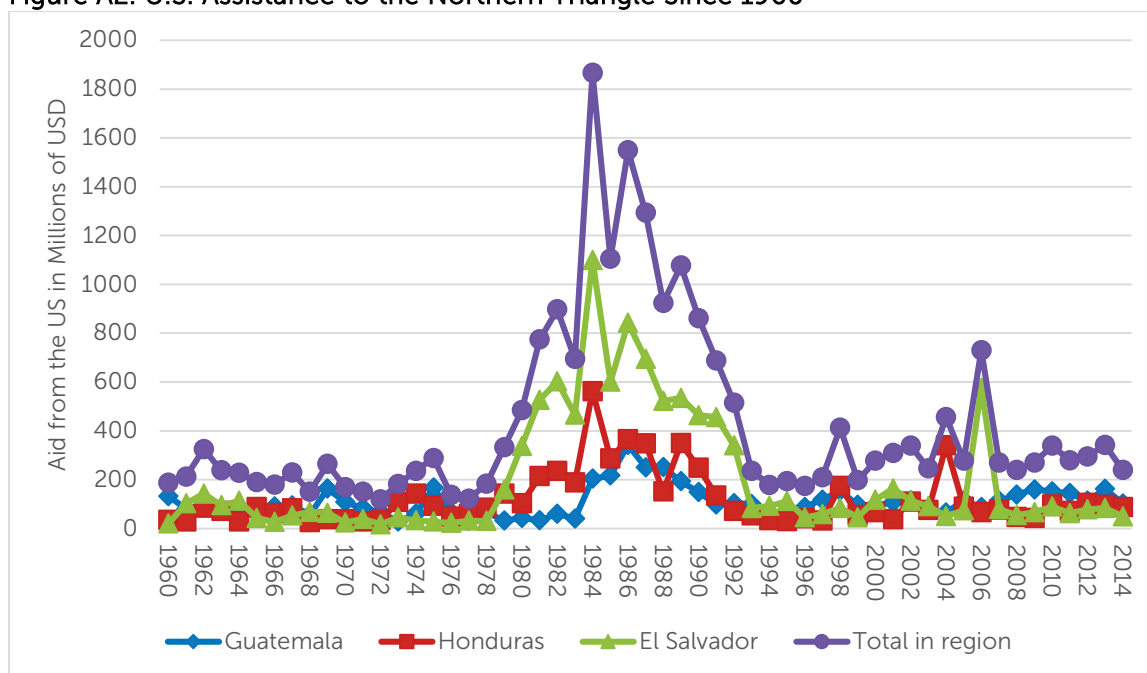


Figure A2. U.S. Assistance to the Northern Triangle Since 1960¹²⁰



Note: This chart represents aid from all sources: DoD, MCC, DoS, USAID, and others.

¹¹⁹ World Bank, "Intentional homicides (per 100,000 people)."

¹²⁰ USAID, "Foreign Aid Trends—2014," <https://explorer.usaid.gov/aid-trends.html>.

Figure A3. GDP and Homicide Rates in Colombia¹²¹

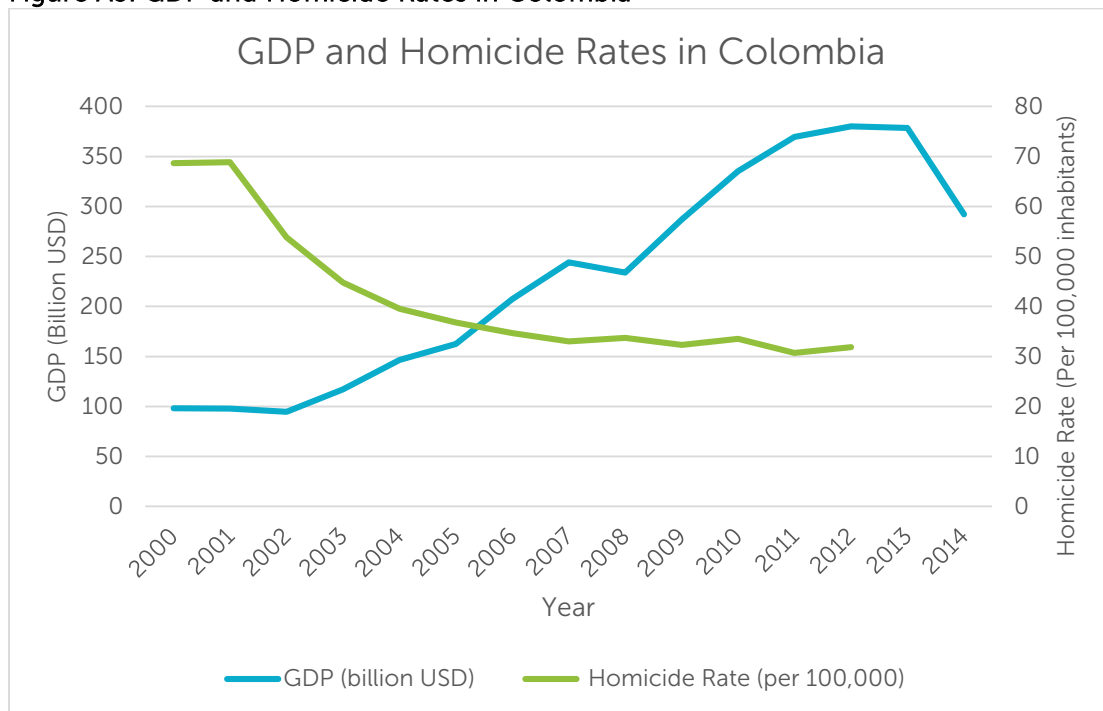
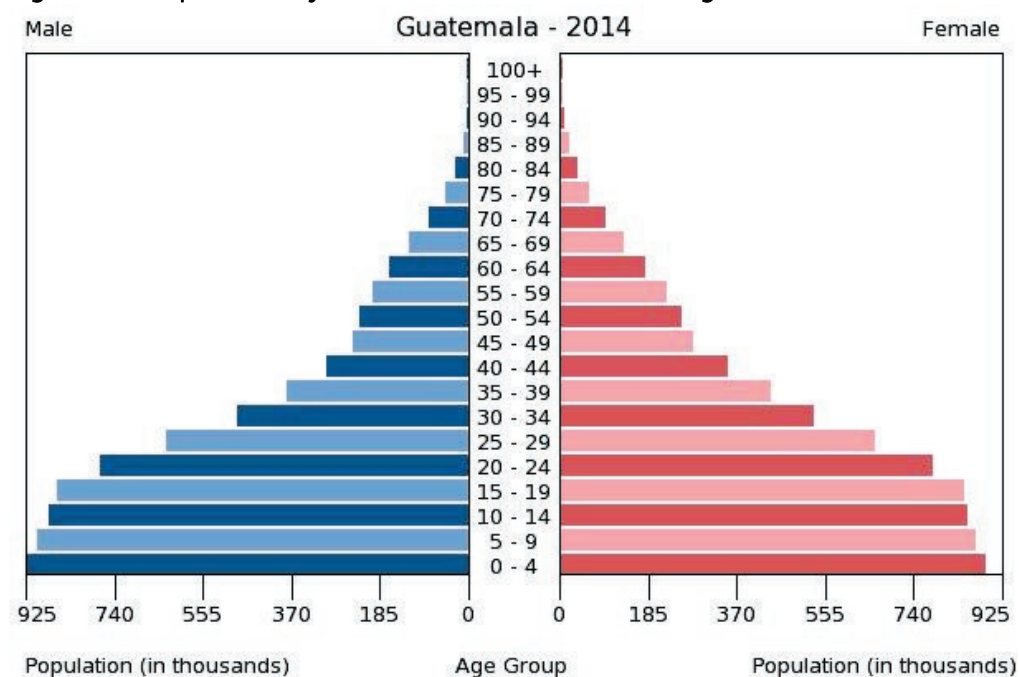
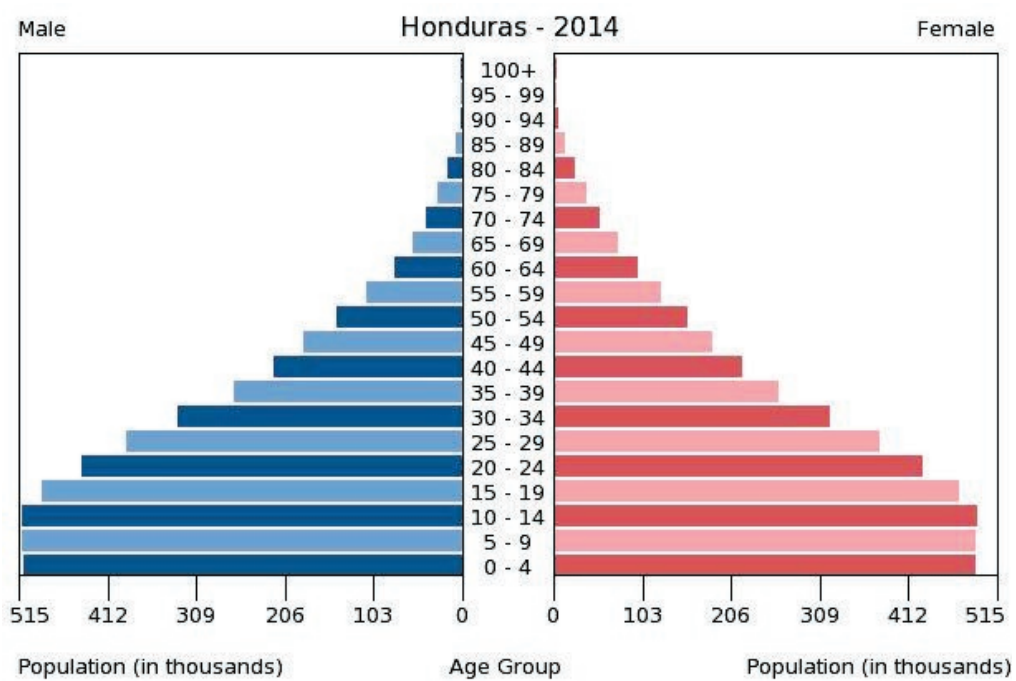
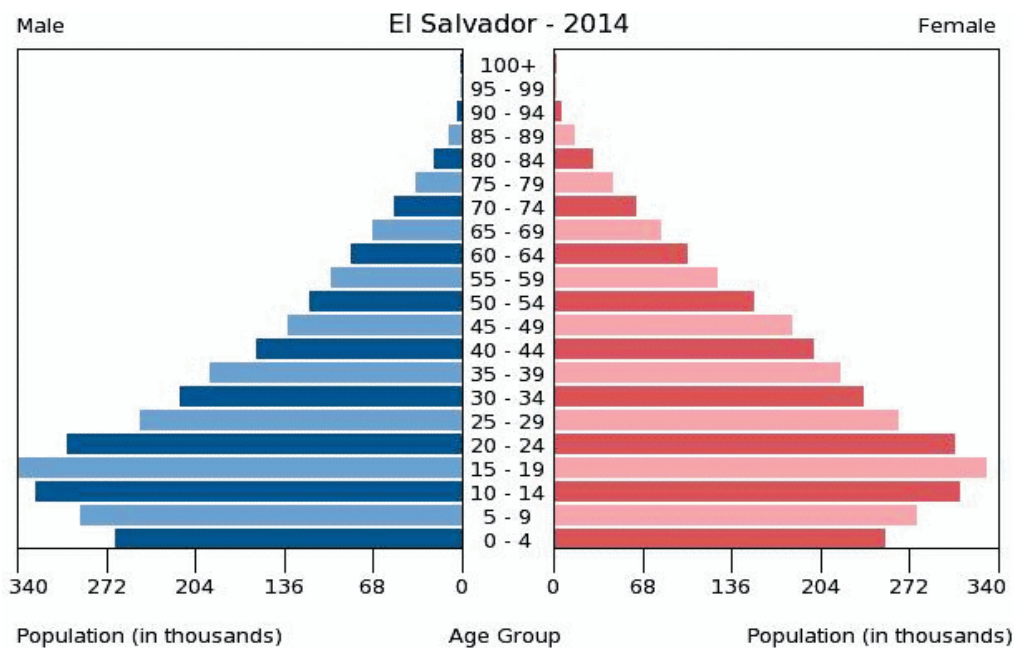


Figure A4. Population Pyramids for the Northern Triangle



¹²¹ Trading Economics, "Colombia GDP 1960-2016," <http://www.tradingeconomics.com/colombia/gdp>; Index Mundi, "Colombia—Homicide Rate," 2013, <http://www.indexmundi.com/facts/colombia/homicide-rate>.



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Daniel F. Runde is director of the Project on Prosperity and Development and holds the William A. Schreyer Chair in Global Analysis at CSIS. His work centers on leveraging American soft power instruments and the central roles of the private sector and good governance in creating a freer and more prosperous world. Previously, he led the Foundations Unit for the Department of Partnerships & Advisory Service Operations at the International Finance Corporation. His work facilitated and supported over \$20 million in new funding through partnerships with the Bill & Melinda Gates Foundation, Rockefeller Foundation, Kauffman Foundation, and Visa International, among other global private and corporate foundations.

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