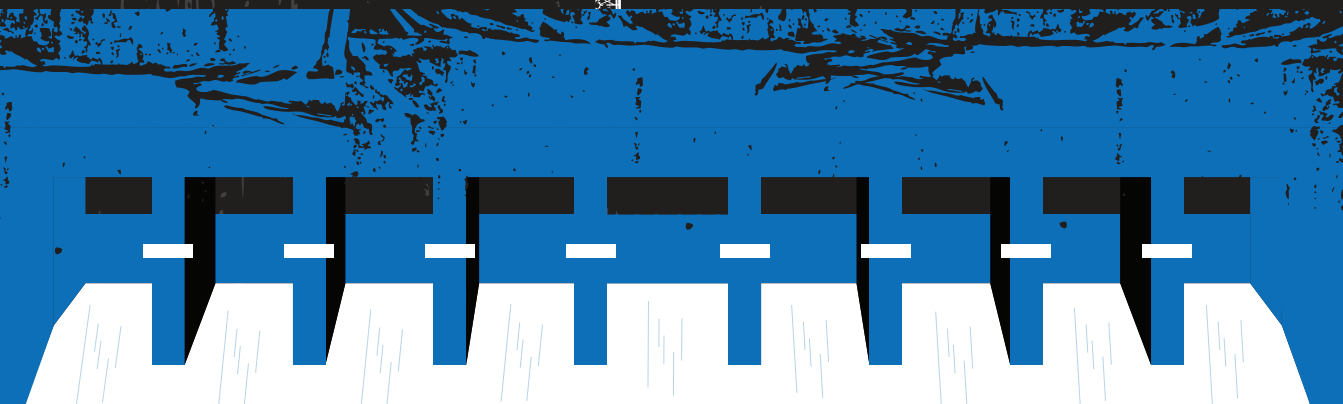
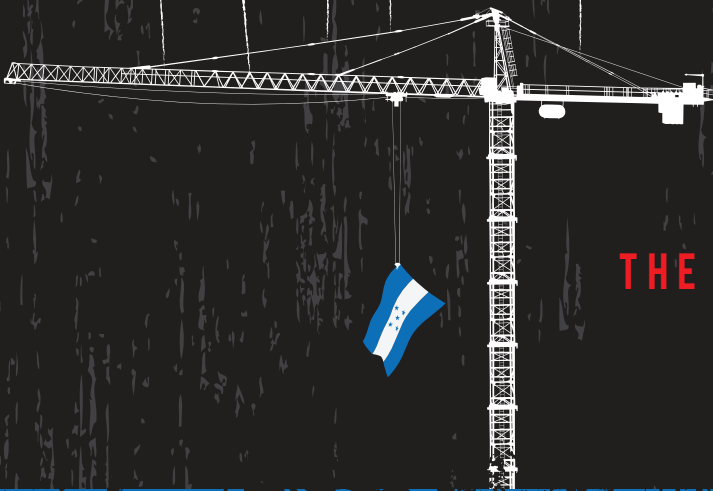


WHEN
CORRUPTION
IS THE
OPERATING
SYSTEM

THE CASE OF HONDURAS



SARAH CHAYES

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CARNEGIE
ENDOWMENT FOR
INTERNATIONAL PEACE

*“Corruption is not a scandal,
but the result of the functioning of a system.”*

—Former senior Honduran government official¹

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SARAH CHAYES is a senior fellow in the Democracy and Rule of Law Program at the Carnegie Endowment for International Peace. Her work explores how corruption exacerbates international crises such as terrorism, revolutions and their violent aftermaths, and environmental degradation. She is the author of *Thieves of State: Why Corruption Threatens Global Security*, winner of the 2016 *Los Angeles Times* Book Prize.

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SUMMARY

In some five dozen countries worldwide, corruption can no longer be understood as merely the iniquitous doings of individuals. Rather, it is the operating system of sophisticated networks that cross sectoral and national boundaries in their drive to maximize returns for their members. Honduras offers a prime example of such intertwined, or “integrated,” transnational kleptocratic networks. This case thus illustrates core features of the way apparently open or chaotic economies are in reality structured worldwide—and some of the dynamics that are driving climate change, persistent inequality, and spiraling conflict.

THE HONDURAN KLEPTOCRATIC OS IN ACTION

- In this example, the three interlocking spheres are roughly co-equal in psychological impact if not in amounts of captured revenue. They retain a degree of autonomy, and are often disrupted by internal rivalry.
- This system’s operations devastate the environment—though Honduras is not a “resource” country. Most threats to biodiversity derive from deliberate “development” policies—whose primary purpose is actually to funnel rents to network members.
- Modern renewable energy, as well as hydropower, is captured by the network. The migrant crisis is also fueled by this brand of corruption.

- Repression is carefully targeted for maximum psychological effect. An example was the March 2016 assassination of environmental and social justice activist Berta Cáceres, which reverberated through like-minded communities.
- The kleptocracy benefits from significant external reinforcement, witting or unwitting, including not just military assistance, but much international development financing.

A DIFFERENT “CHIP”

- The first step to disabling the kleptocratic OS is to acknowledge it, and outsiders’ role reinforcing it. Western policymakers should invest in the candid study of these networks and to corruption as an intentional operating system, and evaluate whether their inputs are, on balance, enabling or challenging these structures.
- Environmental protection is part of an awakening indigenous worldview that provides an integrated, positive vision many find worth fighting for. Community groups are establishing their own networks, in which cultural and environmental revival is linked to labor and land rights and autonomous education. But these groups receive proportionately little support from donor governments and institutions.
- Community-supported alternative development models exist. Members of such organizations—who have faced death to combat network-controlled dams—readily identify micro-dams that meet their approval. They have helped design and construct some; others contribute to local well-being. Development implementers should study such projects and apply their principles.
- Lessons from Honduras are applicable worldwide. Engaged Honduran community groups have valuable insights not just into how development assistance can produce better results in Honduras, but into ways the West might retool its economy to reduce inequality while preserving and cultivating natural resources.

INTRODUCTION

ON MARCH 3, 2016, news came of one more violent crime. A woman, Berta Cáceres, had been shot in the predawn in her home in southern Honduras. It was one of those stories that abruptly fuses attention to an unfamiliar, seemingly random place: a country with an unpronounceable capital, a segment of the slender serpentine that separates the Caribbean Sea from the Pacific, a country known for forests and cigars and the northward flight of tens of thousands of children, and, yes, for murder. But Cáceres was no ordinary woman, and her assassination had an import all its own: it somehow encapsulated the nature of the corruption that Honduras shares with at least sixty-five countries worldwide²—and the nature of some of the civic movements that are most successfully fighting it.

Honduras may seem a relatively insignificant country, of interest largely to Latin Americanists who came of age in the waning years of the Cold War. But the ways in which power is exercised there, and to what ends, are no local idiosyncrasy. Honduran dynamics illustrate core features of the way politics are taking shape worldwide in the twenty-first century, how reputedly open or even apparently chaotic economies are in reality structured, and how those dynamics help propel climate change, persistent inequality, and spiraling conflict.

It is no longer possible to think of corruption as just the iniquitous doings of individuals, be they street-level bribe payers, government officials, or business executives. In the five dozen or so countries of which Honduras is emblematic, corruption is the operating system of sophisticated networks that link together public and private sectors and out-and-out criminals—including killers—and whose main objective is maximizing returns for network

members.³ Corruption is built into the functioning of such countries' institutions. And, like the criminal organizations that are threaded through their fabrics, the networks cross international boundaries. Exchanging favors and establishing beachheads with partners and service-providers around the globe, they might best be considered transnational kleptocratic networks.

Populations from Afghanistan to Brazil, Iraq to South Korea have lashed out in recent years at this self-interested structuring of their economies and politics in a variety of ways. Many, in Brazil and Egypt, for example, Malaysia and Tunisia, have risen up in protest, sometimes toppling their political leaders. Others have joined extremist movements or criminal gangs, as in Afghanistan, Iraq, Mexico, and Nigeria. Elsewhere, people have voted for fringe political parties or champions, who promise fundamental—even radical—change. The most spectacular version of the latter may have been the 2016 U.S. presidential election, which took place as some 60 percent of the Americans polled reported fearing corrupt politicians more than any other threat, according to an annual survey,⁴ and both the unexpectedly popular Democratic Party candidate Bernie Sanders, and the victor, Donald Trump, made corruption central to their electoral campaigns.

Embedded in these extreme reactions to the scourge of corruption is an indictment: despite the efforts of thousands of people worldwide, in government oversight bodies, corporate compliance offices, nonprofit organizations, and development agencies, the mainstream response to corruption has not come close to meeting popular demand for a solution. Sometimes this failure has been due to the kleptocrats' ability to co-opt or disable independent authorities. The pursuit of monetary returns above other considerations on the part of many, or else willful blindness, or competing incentives or inattention, have led to policies that reinforce and facilitate these networks and their practices at home and abroad. Civil society organizations often seek ways of working “with” the corrupt government and businesses they wish to reform, with uneven results.

But at least part of the failure may be attributed to an honest misunderstanding of the way corruption operates.

Not, of course, that studies of power dynamics in developing countries have never been undertaken. On the contrary, the field of political economy analysis burgeoned in the early 2000s, with many aid agencies and international lending institutions conducting country studies.⁵ But those efforts often focused on formal institutions and informal practices, not de facto structures, and largely discounted corruption as a general and inevitable feature. And within a few years, as development experts Thomas Carothers and Diane de Gramont chart in *Development Aid Confronts Politics*, the studies' utility came into question—due to the “sensitivity and resistance” of host-country governments and the difficulty of translating often academic insights into concrete development approaches.⁶ The result was a shift to more sector- or project-specific analysis.⁷

But that shift means that the true dimensions and architecture of the problem go unnoticed. The sophistication, resilience, and adaptability of kleptocratic networks have escaped an equally cold-blooded understanding of their structures, modes of operation, and true scale. Too often, Western government officials still seem almost frightened to conduct such overarching analysis at all, concerned that even to try to inform themselves would be, once again, “too sensitive.”⁸ The work of investigative journalists or civil society organizations is usually tightly focused on the details of specific cases. A picture of the network as a whole fails to emerge, making strategic approaches difficult to develop.

Given the importance of corruption, its contribution to upheavals, violent conflict, and environmental damage worldwide, such disregard of its modalities is dangerous. It is time to return to bigger picture analysis.

This study seeks to do so by applying a framework for mapping kleptocratic networks and their practices to the case of Honduras, and by providing a reasonably legible depiction of that country’s integrated kleptocratic system. The framework and graphic template can be used to guide the study of any state or region,⁹ with a resulting picture that will differ depending on such factors as geography and natural environment, political history, economic fundamentals, and diplomatic context.

The principle is to examine in turn the public, private, and criminal sectors, as well as outside people and institutions that are interacting with the political economy of a given country, for signs that they are colluding in the illegitimate capture of wealth on behalf of network members—that they are, in effect, looting the commons.

In the case of the public sector, the inquiry must determine whether elements of state function have been tooled to serve the purpose of wealth-maximization, while government agencies that represent potential obstacles to it have been expressly disabled. For the private sector, the question is not just whether the structure of the economy is skewed toward the capture of rents by a limited number of people. The analysis must also find out whether these individuals exploit inordinately privileged state protection or relationships with members of government to secure those rents. In examining the criminal sector, similarly, it is potential personnel-sharing as well as active, system-wide government protection in return for a portion of the revenue stream generated by illicit activities that are of interest.

To draw the conclusion that a given government is functioning as an integrated kleptocratic network, it is necessary to see a pattern across many institutions and industries. Just as human rights reporters must demonstrate a repeated and consistent series of actions in order to dub their aggregate a “gross violation” and not just random acts of violence, so must this analysis make a distinction between merely opportunistic acts of corruption and the species of deliberate design that leaves distinctively consonant traces.

The novelty of this framing is its focus on the interpenetration of the three sectors. A ranking government official may have a brother who provides legal services to a drug cartel, or be married to the CEO of a company that depends on public contracts or permits. Individuals may cycle in and out of business and government. This flexible interweaving of the strands of kleptocratic networks is what makes them so resilient. So it is worth exploring the different ways that interpenetration is manifested. Are individuals wearing two hats, for example, playing a role in the public and the private sectors simultaneously and thus serving as a node linking the networks? Are key leaders in one sector represented in others by a nephew or a confidante? Or does an exchange of favors constitute the main form of interaction between one sector and another?

In Honduras, examples of all three categories of intersection are abundant.

These deep, real-world ties binding the sectors beneath the surface of ostensibly separate formal designations make the job of well-meaning, outside interlocutors difficult. Partners—in either foreign governments or business—tend to accept stated distinctions between public, private, and criminal sectors at face value, and treat each as though it were qualitatively different from the others. Some outsiders, taking the apolitical nature of their actions for granted, may be unaware of ways that their investments or support may reward this mode of operation. Other interlocutors may not care if they are facilitating kleptocratic capture of the local economy. In yet other cases, services are rendered to the network with eyes wide open. This analysis examines such supportive external actors. A distinction is made between enablers whose cooperation may be unwitting or well-intentioned, and service-providers better thought of as network employees. The geopolitical context or other conditions that favor permissiveness toward the Honduran government are also considered.

Like the webs of some species of spiders, the picture of such a complex and dynamic system can seem hopelessly chaotic—especially given the rivalries that periodically disrupt the configuration. Within the political-economic elite, such competition may play out in divergent party allegiances and political partisanship. Rivalries among those whose primary occupation is criminal can get more violent, and may draw selective enforcement campaigns in their wake. This project's research and design team has developed an infographic that visually alludes to this complexity, while simplifying it to the point of legibility. The long illustrative text in this report, divided up by the four sectors outlined above (public sector, private sector, criminal sector, and enablers, followed by a brief treatment of the places where the captured money tends to flow) will inevitably be more cumbersome, and may occasionally seem repetitive as it revisits some of the same strands as they weave back and forth from one sector to another. It also includes at least a glance at potential countervailing forces.

The research required to build up such a picture is quite literally infinite, since conditions are continually changing. The best way to construct one of these analyses would be to do so as an open-ended project, with ongoing contributions from teams that include trained investigators experienced in financial investigation, corporate due diligence, and network analysis. It would make sense for foreign ministries and businesses or philanthropies with long-standing interests in specific countries to invest in such open-ended analyses.

Short of a commitment of that order, this report reflects a necessary degree of selectivity. Some of it is keyed to specific impacts of network operations. In particular, our research was sensitive to ways this type of political economy threatens the environment. That emphasis was deliberate, given the significant long-term security threat represented by environmental degradation. The team gave a light touch, by contrast, to some perhaps better known aspects of the Honduran context. The relatively shallow examination of the structure of Honduran security forces—and of U.S. assistance to them—will disappoint some readers.

This study also underemphasizes the truly transnational nature of these kleptocratic networks, whose tendrils wind through similar structures in neighboring Colombia and El Salvador, Guatemala, Mexico, Panama, and the United States, extractive industry interests in Canada, and Washington lobbyists, among others. The global nature of kleptocratic networks like Honduras's urgently needs further work.

We had to make more prosaic compromises as well—striking a balance between clarity and detail, between dynamic, multidimensional realities and static, two-dimensional depictions, and between suspicions and documented proof.

Nevertheless, what follows provides a relatively in-depth effort to analyze systematically a problem that is certainly systemic. And it casts light on some of the most preoccupying repercussions for Honduras and its region.

Known for the drug trafficking and gang violence that turned whole neighborhoods into no-go zones, for example, where drivers had to roll down their windows and submit to interrogation by local lookouts before entering, and houses were mysteriously emptied of occupants overnight, Honduras has lost tens of thousands of young people in recent years, “disappeared” or driven onto the perilous routes north.¹⁰

The violence and intimidation they have fled are largely chalked up to the behavior of criminal organizations alone. Corrupt government officials, such as police or border personnel, are usually cast in supporting roles—as individuals who looked the other way in exchange for a bribe.¹¹ Or their venal behavior is counted among the obstacles to combating crime, but not as a dimension of the criminal activity itself.

In reality, as our findings make clear, the reinforcing relationships between public officials up to the highest level, business elites, and criminal organizations are much more organic and intrinsic than that framing suggests. In some cases, gangs serve as police auxiliaries. In others, gang membership can be understood as a reaction to the systematized corruption—an effort to build an autonomous social space. While Hondurans point to evidence of progress in curbing drug trafficking, most interviewees for this report agree it was achieved only reluctantly, under U.S. pressure. Urban violence and out-migration, in other words, are by-products of the corruption of the very government that enjoys U.S. (and European Union) support to combat those ills.

The reinforcement of corrupt operating principles in the past decade has also led to a concerted assault on Honduras's remarkable landscape. From a state of emergency to combat the mountain pine beetle, which has loosened the controls on logging and contributed to the expansion of inefficient biomass power generators, to the dozens of concessions for mines and hydroelectric dams awarded since the 2009 military coup, to drug-traffickers' penchant for laundering money by clearing rainforest for cattle ranches, a blitz is under way to convert nature into cash. Local campaigners like Cáceres, who have protested these developments, often inspired by a profoundly different attitude toward the relationship between human beings and the world around them, have been subjected to an onslaught that has made Honduras the most dangerous country in the world for environmental activists.¹²

One of the most striking developments revealed in this research is how the kleptocratic network has cynically exploited international climate concerns to corner a sweetheart market for solar energy production and revive large-scale hydroelectric installations—after their destructiveness to the environment and local communities led to a reduction in new dam construction worldwide in recent decades. In this way, though Honduras is not endowed with hydrocarbons, it is suffering its own version of the resource curse.¹³ Arrayed against this nefarious variety of carbon neutral development, often vulnerable indigenous communities and their allies are drawing inspiration from strands of traditional beliefs and practices to weave a new vision for the future.

GETTING TO SUCH A STATE

JUST A FEW MORE THAN 8 MILLION PEOPLE LIVE IN HONDURAS, generating an official gross domestic product (GDP) of \$20.93 billion in 2015—meaning, if it were divided up evenly, that everyone would get about \$2,527 per year. But like most Latin American countries, Honduras has a grossly unequal distribution of income,¹⁴ and an even more unequal distribution of wealth. In other words, a great many Hondurans make due with much less. Agriculture, including timber, accounts for nearly 14 percent of GDP, and industry, such as textile manufacturing, twice that, though the latter category includes processed agricultural goods such as sugar and coffee. A full 18 percent of GDP is provided by remittances sent home by Hondurans working abroad,¹⁵ with at least one-fifth of households benefiting from such assistance.¹⁶ No sign of the bloated illicit sector—the drug trade, the lively traffic in consumer goods or migrants or weapons—is to be seen in such official figures, so they present a highly distorted picture of the economy.

LEAVING BANANAS (BUT NOT THE UNITED STATES) BEHIND

The original exemplar of the pejorative term “banana republic,” Honduras at the turn of the twentieth century was dominated both politically and economically by three competitive U.S.-owned banana growers.¹⁷ In a symbol of these companies’ raw power, the owner of one of them, Samuel Zemurray, fomented a coup in 1910 to secure desired land and trade concessions.¹⁸ While not formally a U.S. colony, in other words, Honduras resembled one in many aspects of its political and economic structure. When practices stopped

short of violent regime change, the banana industry still sewed corruption into the fabric of the state, regularly bribing and leaning on officials, pursuing self-enriching land policies, and eventually drawing the Honduran government into a protracted intra-banana-company feud.¹⁹

Hit by crop blights and the Great Depression in the 1930s and 1940s, banana exports declined and the local economy diversified a bit.²⁰ A professional middle class began emerging;²¹ the government made investments in infrastructure and paid down its public debt;²² and legislative reforms opened the way for labor and peasant (*campesino*) leaders to organize.²³ But the preoccupation of the then president, former general Tiburcio Carías Andino, with maintaining his grip on power during this relatively stable period forestalled the germination of robust democratic institutions at a time when rising expectations were about to clash with the landed aristocracy's sense of entitlement.²⁴ Political and economic upheaval marked the 1950s and early 1960s.²⁵

Tensions over demands for social reforms, such as labor and social protections but especially land distribution, came to a head with a coup in 1963.²⁶ Honduras embarked upon two decades of rule by the military, in loose alliance with landowning elites. The social justice aspirations of the rural and urban poor went largely ignored.²⁷ Compared to neighboring Guatemala and El Salvador, however, the Honduran military practiced relative restraint and allowed for a measure of civic pluralism. Honduras was largely spared the death squads, disappearances, and torture that plagued other Central American countries.

Domestic discontent with economic stagnation and a procession of corruption scandals—but also pressure from the human rights conscious administration of then U.S. president Jimmy Carter—prompted the military to organize first a vote for a constituent assembly in 1980, and finally a presidential election in 1981.²⁸

But, hemmed in as it was by its more violent neighbors, Honduras could not escape the repercussions of conflicts in Nicaragua and El Salvador. Ronald Reagan's administration demanded that the country serve in one case, and *not* serve in the other, as a rear base for rebel groups from both countries.²⁹ The militarization of the 1980s substantially impacted the character of Honduras.

Referred to as the USS *Honduras* due to its launching function for American troops,³⁰ the country received hundreds of millions of dollars in U.S. military aid through the 1980s—when the United States was gripped by outsized fears about the national security threat emanating from Nicaragua—with an average annual assistance of \$57.7 million during the peak of the Contra conflict.³¹ Significant increases in funding for the military expanded its power, and though Honduras remained under civilian government during this time, political assassinations, kidnapping, and disappearances all increased.³²

The combination of military power and ideological context brought with it persecution of leftist activists, including the well-publicized kidnapping and torture of union leader Rolando Vindel González, and purges of left-leaning faculty from Honduran universities.³³ Impunity was the rule in these cases, with no repercussions for military units or officers widely believed to have been involved in human rights abuses,³⁴ even as evidence of state terrorism, secret detention centers, and hidden cemeteries and mass graves came to light.³⁵ U.S. involvement at this time also served to empower the growing drug-trafficking sector in Honduras, as the United States contracted with narco-entrepreneur Juan Ramón Matta Ballesteros's air fleet to distribute arms to the Contras.³⁶

THE ECONOMY: BATTERED AND RESTRUCTURED

In the 1990s, Honduras (like many other countries worldwide) embarked on a process of privatization, economic liberalization, and insertion into the globalizing economy, promoted by the United States and many multilateral institutions.³⁷ International Monetary Fund (IMF)–sponsored structural adjustment programs called for curbs to government expenditures, and an opening of the market to foreign investment, new export commodities (including sweatshop textiles), and tourism.³⁸

In mid-October 1998, a swirl of high winds that had been making its way across the Atlantic from West Africa churned into the Caribbean. Stalling and jerking forward again on its westward drift, dumping several feet of rain in places, the lumbering system took a full week to reach Honduras. But when it did, Hurricane Mitch wreaked historic destruction. Storm surges, flooding, and mudslides resulted in over 11,000 deaths across the region, left 3 million people homeless and displaced, and tore up as much as three-quarters of crops in the field, alongside other economic losses.³⁹

The Honduran government, led by the recently elected president from the Liberal Party, Carlos Roberto Flores Facussé, was ill-equipped to deal with the most destructive storm to hit the region in two centuries, and moved to concentrate power to manage the crisis.⁴⁰ On October 29, Flores declared a state of emergency, deploying the military to the most affected areas to impose public order and prevent looting. He suspended civil liberties and imposed a curfew on November 3.⁴¹

To tackle the longer-term recovery from the crisis, Flores brought in a new cabinet of five ministers. Inaccessible to local officials and congressional representatives alike, according to critics, the team designed the national reconstruction plan largely in secret.⁴² In early 1999, shortly after the government unveiled the blueprint, then human rights commissioner Leo Valladares reported on alleged widespread misuse of foreign aid.⁴³

The economic wreckage, nationwide disorientation, and crisis atmosphere made it easier to implement contested economic restructuring: further opening the Honduran market to foreign investment, including expansion of the *maquiladora* textile, export agriculture and tourism industries, and sales of public infrastructure. Many of the initiatives were tied to IMF debt renegotiations, described by proponents inside the government and abroad as vital.⁴⁴ Disproportionately benefiting a small group of families, these initiatives propelled the class of immigrants from Syria and Palestine, of which Flores was a member,⁴⁵ to prominence and gave them control of much of the “modern” economy.⁴⁶

Unsurprisingly, given the devastation wrought by Mitch, abrupt shifts in economic practices, and deportations from the United States, the same period also saw a proliferation of gangs and a rise in urban violence.⁴⁷ This crime boom was further fueled by the rising importance of overland trafficking routes through Central America for U.S.-destined cocaine, among other illicit goods.⁴⁸

THE ROAD ALMOST TAKEN

In 2005, amid frightening levels of crime and unrest, Liberal Party candidate Manuel Zelaya narrowly won a presidential bid on a platform that emphasized rehabilitation of violent offenders—a departure from the more traditional *mano dura* (tough on crime) approach of his predecessor—as well as a more inclusive exercise of power.⁴⁹

Indeed, although Zelaya belonged to the old power structure,⁵⁰ he seemed to pivot away from the inner circle of elite business families when he became president. He adopted an ostentatiously populist personal style, appointed a number of bona fide reformers to his cabinet, and took such provocative steps as increasing the minimum wage and opening investigations into violent land disputes between farmers in a fertile valley along the Caribbean coast and palm oil producers, including one belonging to the enormously powerful patriarch of the new business elite, Miguel Facussé.⁵¹ Zelaya overhauled the way Honduras’s fuel was sourced and distributed, reducing profits for the principal families in the energy business. Neither they nor the United States appreciated his decision to seek cheaper fuel from Venezuela, or his growing friendliness with that country’s president at the time, Hugo Chávez.⁵²

When Zelaya began campaigning in late 2008 for a referendum on constitutional reform, military and economic elites drew the line, seizing on the move as an attempt to eliminate presidential term limits and extend his time in office. The streets filled with demonstrators for and against the referendum as the political crisis grew acute, and the U.S. embassy organized several meetings in 2009 to try to chart a way through it.⁵³

To no avail. In the early hours of Sunday, June 28, soldiers marched on the presidential palace, disarming the guard and shooting out the locks, broke into Zelaya's bedroom, handcuffed him, and hustled him onto a plane bound for Costa Rica. A forged resignation was produced in Congress (the date was wrong), which swore in its president, Roberto Micheletti, as interim president of the country.⁵⁴ Though soldiers carried out the final acts of this drama, the military did not have the type of independent grievance against the government that, for example, ill-paid and -supplied Malian forces did when they toppled their president in 2012. The 2009 Honduran upheaval is best understood as a corporate coup.⁵⁵ Semantics matter, though, as U.S. law provides for automatic cutoffs in aid in the wake of a military coup.

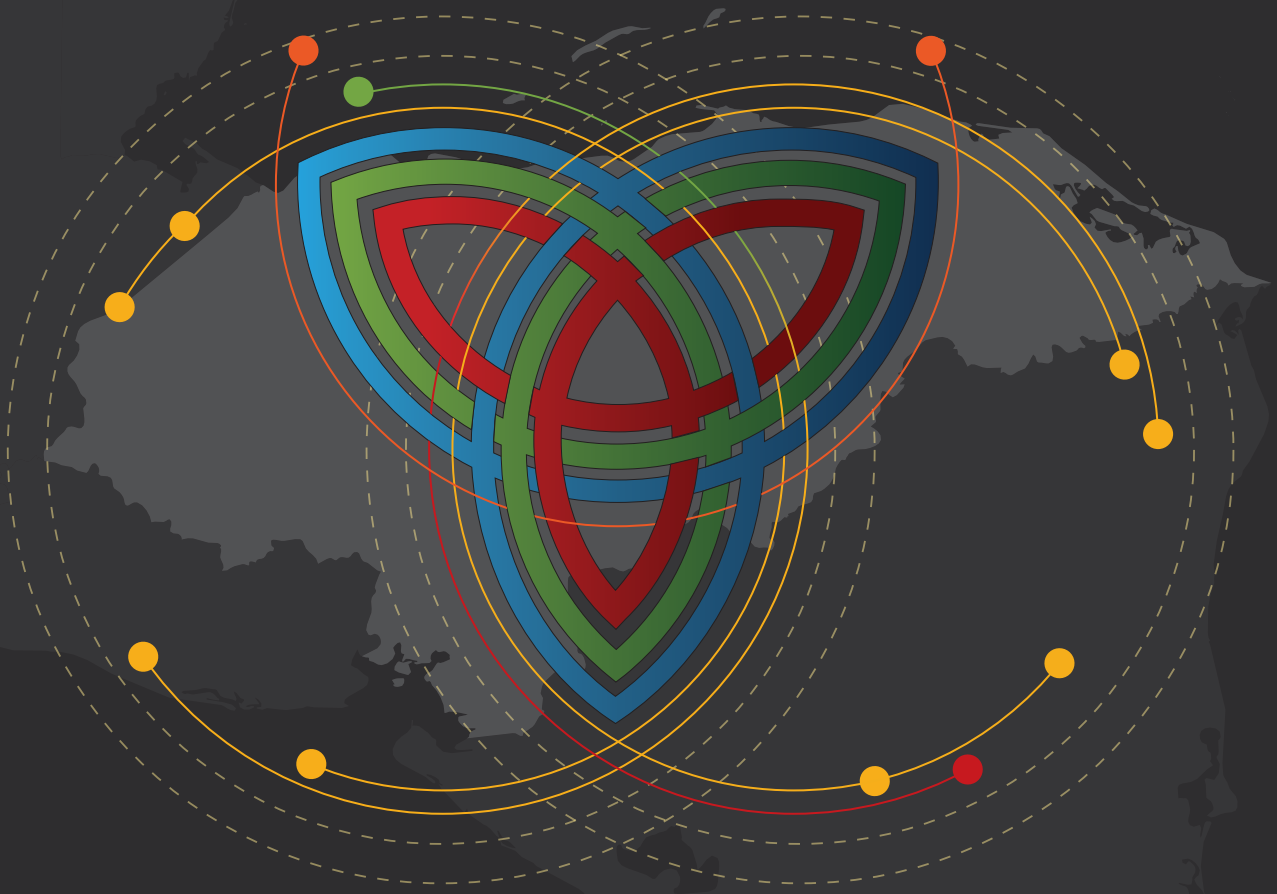
Strikes, protests, and civic disruption were met with widespread arrests, disappearances, and beatings; meanwhile, media outlets and lobbyists launched both a national and an international campaign to legitimize the new government.⁵⁶ At the end of November, under international pressure but amid an atmosphere of insurrection and ferocious crackdowns to quell it, another election was held, resulting in the victory of a National Party stalwart, Porfirio Lobo.

The attitude to these events struck by then U.S. president Barack Obama's young administration, beset by two wars in the Middle East and an epic financial meltdown, has sparked heated controversy. After an initially firm reaction to what the U.S. ambassador unequivocally termed a coup⁵⁷—including condemnation and a suspension of non-humanitarian aid⁵⁸—Washington reversed course. Urging Zelaya not to seek reinstatement, then secretary of state Hillary Clinton pushed for speedy elections to normalize the situation.⁵⁹ (The role of her longtime friend and lobbyist, Lanny Davis, in this change of direction is discussed below, pages 99–100.)

The 2014 elections that allowed Lobo's successor at the helm of Congress to rise in his footsteps to the presidency itself were only somewhat less problematic than the violence-wracked polls of 2009.⁶⁰ The victor, President Juan Orlando Hernández, is now campaigning for reelection in November 2017—precisely the purported ambition for which Zelaya was toppled.

In two phases, then, this difficult history has helped shape today's Honduran political economy, selecting for certain groups and practices. In the late-nineteenth and early twentieth centuries, colonial worldviews perceived and treated less-developed countries as suppliers of raw materials and agricultural inputs for the benefit of the dominant industrialized powers. The United States played the latter role with respect to Honduras. Later, the Cold War and deep concerns about leftist subversion defined U.S. policy.

These phenomena have been discussed and argued over elsewhere at length, and this report does not purport to re-litigate them. However, external actors had a heavy hand in creating today's Honduras, and thus, in our view, bear a responsibility to help fix what they have wrought.



- Public sector
- Private sector
- Criminal elements

- External service providers
- External enablers
- Enabling conditions

NETWORK STRUCTURE

THE NETWORKS THAT HAVE BEEN USHERED INTO CONTROL of the Honduran political economy by this process are perhaps less unitary than those of such highly structured kleptocracies as Azerbaijan, or Cambodia, or Zine el-Abidine Ben Ali's Tunisia.⁶¹ In those countries, the private sector is or was almost entirely dominated by subordinate members of the ruler's clan. In today's Honduras, by contrast, the public, private, and criminal sectors, while closely intertwined, are quite fractious and retain at least some autonomy.

For example, much of the modern private sector (banking, energy production, fast food and tourism, telecommunications, a few export commodities) lies in the hands of a small number of families whose shared Levantine origins isolate them somewhat from the rest of Honduran society. Such families—the Facussés, the Canahuatis, the Goldsteins, the Kafies, the Laraches, the Nassers, the Rosenthals, among others—moved to Honduras from the Middle East in the first part of the twentieth century and have benefited from post-Mitch economic policies. Until very recently, they tended to marry endogenously, thus preserving their distinct culture and identity.⁶² (Those marriages can largely be understood as economic alliances.) Several individual members have served in high public office, such as Flores, who was a nephew of the group's late patriarch, Miguel Facussé; Carlos Facussé's daughter, Mary Elizabeth Flores Flake, the current ambassador to the United Nations, or former minister to the presidency Yani Rosenthal.

But according to most (though not all) Hondurans interviewed for this study, this dominant Levantine private-sector strand and the public-sector element of Honduras's kleptocratic networks are not identical, but rather are bound together by a kind of elite bargain. "I have to have someone to manage the state," a Latin American official working in Tegucigalpa represented the elite's viewpoint. "You do it in my service. You're there to guarantee our businesses. In return, you can steal as much as you want."⁶³ Or, in the words of another highly placed interviewee, "The politicians are at the service of the economic elite. When the president tries to be a real president and doesn't obey the ten families, you get a coup d'état."⁶⁴

To put the exchange in strictly material terms, it appears that different revenue streams tend to accrue to different elements of the network. Looting of state coffers, by way of the public health system budget or padded public procurement contracts or self-dealing concessions for hydroelectric dams,⁶⁵ for example, enriches members of the public-sector element, as does the extortion of bribes. To capture returns from public procurement fraud, of course, government officials or their family members have to found private companies: pharmaceutical businesses or contracting firms, for example. So this strand of the private-sector element does fully overlap with the public sector.

But the dominant private-sector network elements reap their gains by way of laws, regulations, and selective enforcement that guarantee them undue profits. At the summit of the network, recompense for these official favors has increasingly taken the form of shares in the companies that stand to benefit, according to multiple interviewees. But the secrecy of corporate records and the use of proxies to hide the identity of the true beneficiaries of such shares made confirming these suspicions impossible.

In the past decade or so, both the elite public- and private-sector circles have been establishing increasingly close connections with the out-and-out criminal networks that run the narcotics trade as well as other types of smuggling, such as trafficking in people. Individuals and families that have tied their fortunes to government service provide legal or other help to criminal organizations, or ensure protection and impunity for their activities. In several cases, members of notorious drug-trafficking families have held local office, thus constituting a node connecting those two sectors. For their part, members of the economic elite connect with criminal organizations by providing money-laundering services or engaging in joint business ventures.

By sheer monetary value, this criminal sector likely dwarfs the other two,⁶⁶ and many experts suggest it should therefore be understood as the dominant element in Honduras's kleptocratic network. Yet ordinary people's perceptions and expectations of their government, and their keen desire to find a way to function in the licit economy, suggest that the criminalization and abuse of power of those two sectors may weigh just as heavily on the national psyche. The three sectors will therefore be treated here as of roughly equal consequence.

*“Juan Orlando has all state powers.
There is a face of a democracy here in Honduras,
but behind it is dictatorship.”*

—Austra Bertha Flores López, mother of Berta Cáceres



GOVERNMENT INSTITUTIONS BENT TO SERVE NETWORK PURPOSES

SEVERAL PEOPLE INTERVIEWED FOR THIS STUDY echoed this assessment that Honduran President Juan Orlando Hernández is making a strategic effort to consolidate the levers of government power, placing them within his personal grasp. While the means by which he himself may be extracting material gain from this arrangement are difficult to prove, several of them have been persuasively identified. And regardless, a pattern of subjecting institutions to his personal authority—or of ensuring their weakness—is clearly visible. The bulk of the actions or inactions of these agencies has served to facilitate or defend revenue maximization for the principal private-sector network members, or has provided siphoning opportunities for public officials.

NATIONAL DEFENSE AND SECURITY COUNCIL

A visible step in the process of consolidation of power was the creation of this powerful and secretive body in 2011. Its stated mission is to design, supervise, and coordinate policy on all matters relating to security, defense, and intelligence, including the appointment and supervision of the director of national intelligence. Made up of the president, the president of Congress, the minister to the presidency, the ministers of defense and security, the chief justice of the Supreme Court, and the attorney general, this council controls all electronic surveillance capabilities and activities, including judicial wiretaps. It also provides the

operational command for the interdisciplinary security force, FUSINA. (For more, see the section on military elements on pages 32–35 below.) The mingling of all three branches of government on this council formalizes the violation of the separation of powers that we frequently heard criticized during interviews. Its activities are protected by a law enacted in 2014 establishing broad categories of state secrets.

CONGRESS

The point of capturing a legislative body is to write the rules governing political and economic activity in such a way as to further advantage network members—people who already enjoy disproportionate power in both realms. Integral to that objective is disabling the body’s capacity to serve as an effective check on executive power. In other words, control over a majority of seats in a legislature does not in and of itself constitute “capture” of that body. But if that majority is consistent, election after election, or if ostensibly opposing parties frequently band together to defend network interests, or if internal rules are consistently exploited or violated in such a way as to disable the legislators’ ability to weigh on decisionmaking or exercise nonpartisan control functions at all, then its purpose is subverted.

Just a few minutes contemplating the Palacio Legislativo, the building in downtown Tegucigalpa where the Honduran Congress meets, is instructive regarding the accomplishment of these objectives. The 1950s building, its exterior walls made of dusty glass slats, contains no private offices for the 128 legislators, for example, and only two conference rooms where they can meet in caucus or with constituents. In the chamber, the electronic tally machines frequently malfunction, so when bills come up for a vote, members may not be able to see the score. Everything about the institution indicates its deficit of status, power, and independence.

Beneath the building, however, the contrast is striking: the garage is packed with late-model SUVs, spotlessly black.

Here’s the significance: opposition parties, if they vote together, outnumber the ruling Nationalist Party, and have on occasion thwarted its plans. It is to reduce this likelihood that the Honduran Congress has been weakened, both in its operating procedures and its physical plant.

The president of Congress is firmly in charge of all proceedings. “The ground rules say he decides who speaks and for how long and the agenda,” explains a member of the young Anti-Corruption Party (PAC). At his discretion, the congressional president can also constitute special committees, to which he can divert business, circumventing the formal

committee structure. “When there’s a special committee,” comments the PAC member ruefully, “watch out.”⁶⁷

Prior to his inauguration as president of the country, Hernández served for four years in this leadership post. Under his aegis, the systematic process of creating a favorable legislative climate for network practices ignited. Congress passed numerous laws framing economic rules so as to favor activities dominated by private-sector network members. The calendar in December 2013 and January 2014 (when Hernández was still serving as president of Congress but had been elected president of the country) was particularly full—like a final flourish to this fireworks display.

Some of the key laws from his tenure at the head of Congress are described below in chronological order.

The Public-Private Partnership Law (September 2010)⁶⁸:

Ostensibly responding to a dearth of government funding for public works projects, this law caters to the interests of private-sector network members by allowing businesses to carry out public works projects under highly flexible and nontransparent arrangements, which allow for the capture of some portion of the public moneys invested, as well as the fees, tolls, or profits realized. Successful bidders may also be paid a “service fee” of up to 2 percent of the total project budget. Typically, project financing is held in trust by a bank (especially Ficohsa and to a lesser extent Atlantida, controlled respectively by members of the Atala Faraj and Nasser-Facussé-Barjum, and the Goldstein and Bueso families), which is in charge of project implementation. Because activities are covered by commercial contract, accounts are not available to the public. (For further discussion, please see the sections below on the Coalianza, and banks, pages 35–36.)

Seven months after the passage of this law, then president Porfirio Lobo and foreign minister Mario Canahuati (a leader of one of the Levantine business clans) hosted an investment conference in San Pedro Sula and announced that Honduras was “Open for Business.” At this event, some 160 projects in the sectors of tourism, energy, infrastructure, forestry, and agribusiness were presented to more than 500 potential international investors, along with a package of complementary laws. The measures protected private investment, set conditions for hourly wage labor, and established free trade zones (referred to as “Model Cities”) whose territory would have been effectively removed from government control and placed under a separate tax and judicial system. (Such zones were ruled unconstitutional in 2012.)⁶⁹

The initiative was crafted to attract an injection of foreign direct investment into Honduras and is believed to have been largely designed by members of the Consejo Hondureño de la Empresa Privada (COHEP), the chamber of commerce dominated by private-sector

elements of the ruling network. Conference co-host Canahuati was a past COHEP president.⁷⁰ There were no public consultations, for example, to help constitute the list of projects to be funded.

It was specifically the businesses belonging to these network members that stood to benefit from the enticements on offer, including low interest rates and tax exemptions, but public-sector network members could also take advantage of the secrecy shrouding the contracts in play to move money away from normal budget scrutiny and the strictures of the public procurement law. A further point of the exercise was to garner the injection of outside capital that businesses needed to complete the pet projects.⁷¹ Many of the laws' benefits apply only to large investments, while a heavier tax burden continues to weigh upon small and medium enterprises.

The Anti-Terrorism Financing Law (December 2010)⁷²:

Similar to recently enacted strictures in dozens of countries worldwide,⁷³ this law requires nonprofit organizations to declare any contribution higher than \$2,000. The National Commission of Banks and Securities is empowered to act unilaterally against organizations suspected of financial involvement with a group organized for the purpose of committing terrorist acts. A broad definition of that term allows for selective use of this instrument against inconvenient organizations.

Special Law on Wiretapping (December 2011)⁷⁴:

While this law includes apparent safeguards, such as the requirement for a court order before personal communications can be intercepted, interviewees were convinced that the government makes wide use of its significant wiretapping capabilities outside the scope of criminal investigations. At a time when Internet-connected devices are vacuuming up unprecedented quantities of personal information, the implications are significant. Hondurans with an interest in public affairs rarely put anything of substance into writing that is sent electronically, and systematically use encrypted platforms for communication.⁷⁵ One journalist we met was so frightened about electronic surveillance that he insisted on writing down his answers to our questions rather than speaking out loud. Honduras scholar Adrienne Pine recounted that before launching into a conversation, one of her contacts requires interlocutors not only to turn off their cell phones, but to remove the batteries.⁷⁶

Special Law of the National Security and Defense Council (December 2011)⁷⁷:

This law establishes the permanent council referred to above, consisting of the president, his minister, the president of Congress, the chief justice of the Supreme Court, the attorney general, and the ministers of security and defense.

Secrecy Law (January 2014)⁷⁸:

While guaranteeing its own access to citizens' intimate information by way of the 2011 wiretapping law, the government took care to protect itself from any reciprocal scrutiny. This legislation establishes a level of classification for information described in very general terms as likely to produce "undesired institutional effects," or whose dissemination might be "counter to the effective development of state policy or normal functioning of public sector institutions."

The law has made it exceedingly difficult for Honduran citizens to obtain information on most government actions, including key public procurement contracts. As one community leader put it, "There is a privatization of information in this country: if you ask who owns a mine or a dam in your village, those facts are private."⁷⁹ Among the agencies whose information is considered confidential (not to be released before ten years) are the Supreme Court, the Foreign Affairs and International Cooperation Directorate, the National Migration Institute, the National Registry of People, the Social Security Institute, the Property Institute, the Merchant Marines, and the National Electrical Energy Enterprise (ENEE).⁸⁰ Any transactions these agencies carry out with private entities are also covered by the law.

Some earlier legislation also fits the pattern above, such as a 1992 agricultural modernization law that allowed for the titling and sale of small parcels of land, previously inalienable. Its effect was to undermine collective ownership traditions and open the way for big businesses to buy up and consolidate tracts of land. A 1998 law to promote tourism afforded generous tax breaks to fast food chains as well as a variety of other network-linked businesses. In 2001, a law transferred swaths of forest land from collective indigenous control to the government, opening the way for large-scale commercial, as well as illegal, logging.⁸¹ A 2003 anti-gang law modified the penal code to establish a minimum prison term and fine for leaders of gangs or other groups organized for the purpose of committing crimes.⁸² Critics charge that its broad terminology has allowed it to be used against land rights activists, and blame it for the sharp increase in incarceration in Honduras in recent years. (See below, pages 31–32.)⁸³ A 2007 renewable energy promotion law inordinately benefited large investors by requiring the government to buy all renewable electricity generated by its private contractees, at a rate 10 percent above the base level set in 2007, among other incentives.

JUDICIARY

One of the most important bonds that hold kleptocratic structures in place is the delivery of impunity in return for a portion of the cash generated by network activities.⁸⁴ Such a bargain can only be upheld if the judiciary and its affiliated institutions—or at least some portion of them—serve at the behest of network members. These institutions can then also be weaponized to punish and deter individuals who contest the ruling order.

More blatantly than in many other corrupt countries, Honduras's justice sector has been retooled to serve as just such an instrument. The changes it has undergone in the past decade reflect an unmistakable pattern. The justice sector is now openly deployed on behalf of private-sector network members as well as the president himself.

Even before the 2009 coup, some legal professionals strenuously contested what they saw as political influence and obstruction of justice within judicial institutions. In April 2008, for example, eight prosecutors—soon joined by dozens of members of civil society—underwent a thirty-eight-day hunger strike, setting up tents in the Legislative Palace, to demand that charges be brought in more than a dozen stalled anti-corruption cases, and that the attorney general be removed and the professional conduct of his office be investigated.⁸⁵

In the days immediately following the June 2009 coup that toppled Manuel Zelaya, a similar coalition of judges, prosecutors, and civil society activists challenged the legality of its outcome before the Supreme Court. Some of them and others filed a criminal complaint against named members of the military and Congress for their role in the coup. Signatories to the complaint, as well as other judges who took part in public protests or merely expressed concerns about the events, were dismissed, and judicial purges have continued.⁸⁶

In subsequent years, especially 2011 and 2012, despite substantial corruption within the judicial branch, the Supreme Court stood out as one of the few government institutions that pursued an independent path, challenging a number of legislative initiatives favorable to ruling business interests, such as the bill creating the Model Cities and a police reform bill that the court determined violated officers' due process rights.⁸⁷

In December 2012, Congress, under the leadership of its then president Hernández, set up a special committee to investigate the four judges who had voted to strike down the legislation. Based on a report delivered within twenty-four hours, Congress met in a 4:00 a.m. session and voted to remove all four, though the Honduran Constitution stipulates that judges may only leave office in cases of resignation, incapacitating illness, or death. Amid widespread protests, Hernández immediately appointed replacements.⁸⁸ This series of events was so irregular that it was quickly dubbed the “technical coup.”

Supporters of the earlier corporate/military coup against Manuel Zelaya had rationalized their actions by accusing him of intending to change the constitution in order to run for reelection.⁸⁹ Ironically, Hernández announced his plans to do just that on November 9, 2016.⁹⁰ His takedown of the Supreme Court was widely seen as preparation for this step. “We knew that one of the reasons Hernández needed to control the Supreme Court was the reelection issue,” said a PAC member of Congress. And indeed, on April 23, 2015, his handpicked justices struck down the constitutional provision preventing officeholders from running for more than one term.⁹¹

Less than a year later, in February 2016, Congress approved the new slate of justices, considered close to Hernández. Libre Party’s Jorge Calix alleged that the going rate for votes in Congress was \$10,000,⁹² and party Chairman Manuel Zelaya filed a legal complaint.⁹³ “They bought even members of the Anti-Corruption Party,” the PAC member lamented, “by way of family members and suspect elections. They worked on it for months ahead of time. And now, one of our biggest sorrows is that we are stuck with this court for the next seven years. Already we saw their first ruling was not to review the decision allowing presidential reelection.”⁹⁴

In March, the same newly packed Supreme Court invalidated several provisions of the law governing the professional attributes of the judiciary and the structure of its institutions (such as procedures for promotion and removal of judges, which were seen in the profession as guaranteeing its independence).⁹⁵

But it’s not just at the highest levels of judicial function that legal proceedings are distorted, even bent to network purposes. Journalists, opposition politicians, human rights defenders, and civil society activists opposed to mining or hydroelectric concessions complain of frequent spurious prosecutions.⁹⁶

Radio and TV Globo Director David Romero Ellner, who broke a major scandal in the public health system in 2015 that led to weeks of mass demonstrations, was prosecuted and convicted for defamation.⁹⁷ Some see judicial scrutiny of members of Manuel Zelaya’s Libre Party in a similar light.⁹⁸

A lawyer who specializes in anti-corruption cases says his briefs are regularly rejected on spurious pretexts, “once because the seal at the bottom of the page was halfway over the margin.” He recounts examples of blatant evidence-tampering, for example, when a car stopped by police in traffic proved to have \$50,000 in cash aboard, and a phony name was put on the affidavit to protect the well-known driver from scrutiny.⁹⁹ Even more ostentatiously, the evidence files in the most celebrated case in Honduras, the investigation of the murder of Berta Cáceres, were lost when alleged carjackers stole the vehicle of a judge on the case, who said she had taken them out of court to study at home.¹⁰⁰



A pig, representing government officials who have looted huge sums from the public health service (IHSS), flings the epithet “criminal!” at a young protester spraying a slogan on a wall. Behind the pig (outside the frame), education is being flushed down a toilet.

Blatant evidence-tampering seems to be a trademark of today’s kleptocrats. In Moldova, a 2014 vehicle fire sent twelve sacks of documents recording \$1 billion in corrupt bank loans up in smoke. In an earlier and even more shocking case, Serbia’s Slobodan Milošević had bodies of victims of his forces’ atrocities in Kosovo dug up and reburied well inside Serbia.¹⁰¹

To ordinary Hondurans, practices like these define injustice. “A government has the right to make any laws it wants,” remarked a small farmer and shopkeeper serving the canoe traffic on the Patuca River in the country’s far east. “But it has to apply them equally. Here they catch the little street delinquents and make them rot in jail, but the big ones? The vice president of Congress who made phony medicine? [See the section on the IHSS scandal, pages 48–50 below.] That’s a crime, she should be in prison. But not only do they go free, they get protection.”¹⁰²

A retired agriculture professor in Juticalpa points to a similar discrepancy in the treatment of the assets of different Hondurans charged or convicted in the United States. He noted that the Rosenths—a banking and business family, members of which were indicted in 2015 on money-laundering, narcotics, bribery, and embezzlement charges¹⁰³—“were expropriated right away because they’re from the opposing party. But other people who have been extradited, like [Juan Ramón Matta] Ballesteros or the son of Pepe [former president Porfirio Lobo] are different. Their families are still enjoying their property.”¹⁰⁴ In this case, the differential treatment meted out may reflect either efforts to discipline the network or rivalries among its separate and competing strands.

POLICE

Some instrument of force is invariably included in kleptocrats' toolboxes, for intimidating or punishing the most recalcitrant rivals or opponents. In some countries (such as Cameroon), a specialized army unit can play that role. In others (Egypt, Pakistan), the army itself constitutes the principal kleptocratic network. But very often, the police or a special branch within it, together with internal security services whose remit includes spying on the population, provide both muscle and a revenue stream.¹⁰⁵ Almost always, some informal armed groups—"thugs," "insurgents," or private security guards—also play a role.

In the case of Honduras, police officials at every level consistently serve on behalf of all three elements of the networks. They rarely seem to work in the interests of the ordinary population. Independent access to large sums of money, however, via relationships with trafficking organizations and youth gangs, affords police on the local level some degree of autonomy from top levels of the political hierarchy. Also, U.S. programming, whose stated aims are professionalizing the force and cracking down on violence and drug trafficking, may inhibit some ways of using this instrument. Responding to both of these realities, Hernández has consistently sought to insert the Honduran military, which he may deem more biddable, into domestic security roles that in most democracies are reserved for the police.

That police is a national force divided into two branches operating out of the cities of San Pedro Sula and Tegucigalpa, with regional and departmental headquarters and delegations in 298 municipalities. Numbering between 13,000 and 14,000 men and women (though thousands of those may not actually exist¹⁰⁶), the Honduran police force is described by a member of a nongovernmental organization (NGO) that is involved in police reform, *Asociación Para una Sociedad Más Justa* (ASJ, or Association for a More Just Society), as the "biggest state institution. It has arms, a national coverage, vehicles, and detailed intelligence on the population, including people's financial information and where they live."¹⁰⁷

"There was a politicization of the police before, during, and after the coup," judges another ASJ member. "The police were instrumentalized by politicians. Combine that with a nonrigorous selection process—anyone can join—and the glorification of tough practices. The police were converted into an instrument of repression."¹⁰⁸

Even U.S. diplomats—rarely seen as critics of Tegucigalpa—seem to agree with such assessments, which have been widespread inside and outside Honduras for years.¹⁰⁹ "There are a disturbing number of indications that police personnel are involved in some crimes," notes a March 2006 embassy cable, "though such allegations . . . are not unique to this [Zelaya's] government." The minister of public security, the cable concluded, "despite his bold statements about police being part of the problem, has yet to take any measures to shake up the corrupt ranks."¹¹⁰

Three and a half years later, in a cable alerting Washington to dramatically rising violent crime in postcoup Honduras, the U.S. embassy emphasized the “lack of resources . . . corruption and politicization resulting from the 2009 political crisis” as factors contributing to the wave of violence. “Prosecutors,” the cable adds, “do not trust the police to carry out effective investigations of crime, citing cases where police have warned suspects or divulged information to them.” But also, U.S. officials noted, “police have been politicized, defending the de facto regime against those who have taken to the streets to oppose the coup. . . . The Attorney General has initiated a series of politically-motivated prosecutions against President Zelaya and his cabinet members, undermining the Public Ministry’s credibility as an agent for equal justice.”¹¹¹

The police, in other words, were being used as a weapon to enforce the results of a manifestly illegal coup d’état.

Before the end of that year, the country’s chief counternarcotics official, Julián Arístides González Irías, was slain, an almost textbook case of police enforcement of the integrated network’s financial interests—in this case, its narcotics business. Top police and elected officials and a notorious narcotics trafficking organization allegedly colluded in the murder.¹¹²

This was just the most dramatic recent example of the widespread and long-standing evidence that Honduran police, at every echelon, have been actively collaborating with—have essentially been functioning as a part of—the country’s drug cartels,¹¹³ even becoming “subordinate” to them, in the view of some at the ASJ. “They would even commit assassinations for them.”¹¹⁴ (For more, see the section on criminal network elements, pages 79–83 below.) Since that time, nothing has transpired to improve the reputation of the Honduran police.

The force is still frequently accused of harassing people opposed to government policies, for example. “It started in 2012,” recounted the head of one community organization that tallies nine suspicious deaths in its ranks in a little over a year. “When we began contesting permits for dams on all the rivers around here and the mayor’s plans to measure off our land into individual parcels, we started getting problems with the police. They’ll stop you, ask who are you, where are you going, what did you eat today. They charge people with sedition, plant drugs on them.”¹¹⁵

Human rights defender Marlene Cruz was charged with aggression against the police.¹¹⁶ Luis Galdamez, another reporter for the dissent-minded *Radio Globo*, was dragged from his car and beaten, allegedly for a routine traffic violation. In *Honduras in Dangerous Times*, anthropology and international studies professor James Phillips documents this and other arrests for illogical or trumped-up charges, such as trespassing.¹¹⁷

Beleaguered activists who have turned to the Inter-American Commission on Human Rights joke darkly about one of the remedies it frequently orders—police protection. “The police aren’t giving me protection,” scoffs one. “I need protection *from* the police!”¹¹⁸

Hondurans in the capital and the countryside complain about the type of street-level shakedowns that are typical of police in most corrupt countries. “The police stop you for anything,” said a private school language teacher. “It’s ‘Pay me, or you get a ticket.’ So either way you pay. They usually ask for 200 lempiras. The ticket is 600.”¹¹⁹ Another sufferer concurred, adding: “Especially if you are hauling cargo. They’ll ask what do you have, where are you going, they’ll demand your documents, find some problem with your vehicle; the whole point is to make the driver give them money.”¹²⁰

Of greater concern are the reports we heard in interviews of collusion between police and the youth gangs whose depredations it is their job to curb.¹²¹ “What worries me most,” said a Western implementer of a street-level anti-gang program, “are neighborhoods where there is a lot of gang-police interaction, where people with gang markings are in and out of police stations, where conversations suddenly change when you walk in the room. Those are the hardest neighborhoods to work in.”¹²² Recent investigations indicate that more than sixty police officers, including commissioners, were actually on the payroll of the notorious gang MS-13.¹²³

One purpose of this murky relationship, according to many Hondurans, is revenue generation. Extortion—of homeowners, small businesses, and providers and users of public transport, among other victims—developed into a major gang activity beginning around 2012.¹²⁴ But the general atmosphere of violence and anonymity made it hard to know exactly who was profiting. At the height of the chaos a few years ago, says a professional driver, “everyone was terrified of a call in the night.” Even now, “if someone is shot for not paying extortion money, no one wants to report it, because they’re afraid the police will inform the gang.”¹²⁵ The anti-gang expert agrees. “The atmosphere of violence allows for more criminality. If someone calls saying ‘I’m MS-13 and I want X amount of money,’ you give it.”¹²⁶

The resulting confusion can be exploited by the police. “Everyone says it’s gang violence,” remarks the driver, “but no one knows.” For the retired agriculture professor who noted the discrepancy in how laws are enforced against connected versus unconnected people, there is no question: “The police take part of the extortion money,” he affirms.¹²⁷ “The police are totally involved in extortion,” concurs one of the ASJ members. Commenting on cases the ASJ has investigated and passed to the new police reform commission, he concludes that police “see, advise, protect, and facilitate extortion—to protect family members who are in gangs, and to get money.”¹²⁸

In other words, though they are known to shake people down for spurious traffic violations just like their counterparts in Nigeria or Uzbekistan or dozens of other corrupt

countries, Honduran police can also outsource their extortion activities to gangs. And that relationship may go further: gangs may serve as informal police auxiliaries, “for certain purposes—dirty work,” the retired professor puts it.

Anthropologist Phillips writes, “Sometimes people ask whether there is collusion or even integration between death squad activities and police actions.”¹²⁹ Indeed, most of those interviewed in Honduras, Western as well as Honduran, suspect the police of participating in a policy of what has sometimes been called “social cleansing”—extrajudicial killings and round-ups or disappearances in tough neighborhoods.¹³⁰

The impact on Honduran youth is devastating. “The police are integrated into gangs and form part of inter-gang fighting,” the former senior Honduran official whose quote serves as the epigraph for this paper is convinced. “Young people, the best of our country, are being killed at a rate of fifteen or sixteen a day. What can they do? Migrate or die.”

In these ways, a very consistent pattern of police participation with criminal elements of the kleptocratic networks as well as public- and private-sector network members in committing crimes or protecting illicit capture of revenue streams is evident, as is its role in interweaving the networks. This brand of corruption may thus lie at the heart of the recent Central American refugee crisis.¹³¹

It is in this context, and in the wake of the 2016 revelations about police involvement in the 2009 murder of the counternarcotics czar, that Hernández announced the establishment of a special commission to reform the police.¹³² While there is no doubt the force needs reforming, most Honduran interviewees expressed deep doubts about the true objectives or likely effects of this commission.

Consisting of Security Minister Julian Pacheco, former Supreme Court president Vilma Morales (an outspoken advocate of the 2009 coup and a Hernández confidante), Honduran Fellowship of Evangelical Churches President Alberto Solórzano, and the ASJ’s Omar Rivera, it is empowered to “determine [police officers’] suitability for service,” as well as supervise those who are purged from the ranks.¹³³ By late 2016, some 2,100 officers, many of them high-ranking, had been removed from (or had left) their positions out of a total of approximately 14,000,¹³⁴ while about 2,500 new graduates of the police academy were sworn in.

“Some [of the purged officers] are corrupt, some aren’t corrupt or delinquent, they’re just too old, or they’re mediocre or negligent,” judges one of the ASJ members involved in the effort, who salutes the commission’s results so far. For this faith-based nonprofit, the chance to help guide the process is worth the potential risk of inadvertently serving (and whitewashing) the Hernández administration’s purposes. The ASJ member sees the effort as an opportunity for genuine reform, especially at the street level. “We can get rid of the worst officers, substitute better trained new police, establish a new curriculum, including

human rights training; reinforce police capacity with better communications equipment, arms, and vehicles; and create mechanisms for citizens' oversight."¹³⁵

But, though many observers have hailed the efficiency of the purge, others suspect ulterior motives. Some suggest that the leak of documents implicating police leadership in the 2009 assassination scheme was suspiciously convenient for Hernández, who has long sought to establish personal control over Honduran policing. In the view of the lawyer who specializes in anti-corruption cases, the reform process may be allowing Hernández to selectively weed out those officers who are not at his beck and call. "The steps taken against the police have come very fast, and are based on unreliable information. The president is using this commission to protect his faithful people. You can tell which police officers are in favor with the government by the fancy cars they drive."¹³⁶

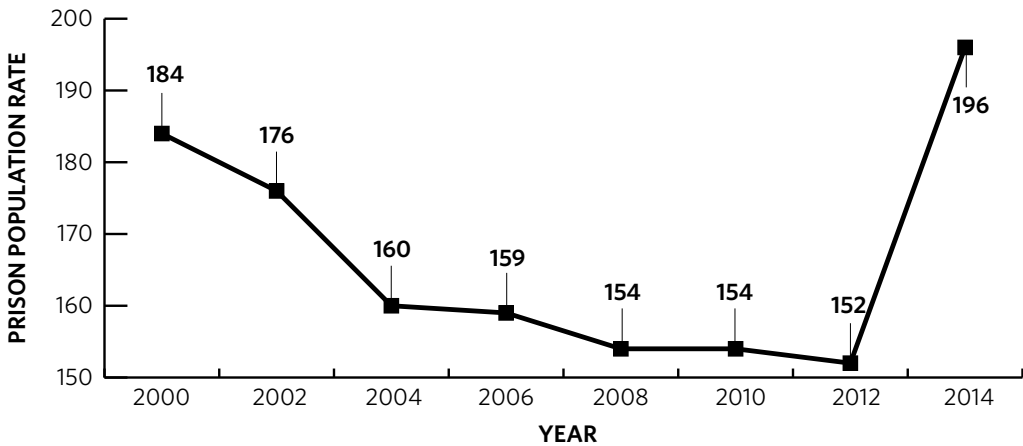
When Hernández was still president of Congress, he spurred legislation creating a specialized organized crime response unit called the TIGRES.¹³⁷ Though it officially reports to the Security Ministry like ordinary police, this 250-man unit is now under the operational command of the military-led interagency task force, FUSINA. (See below, page 34.) The TIGRES are housed and trained side-by-side with military battalions,¹³⁸ including, on occasion, by U.S. Special Forces.¹³⁹ Indeed, given the U.S. preference for partnering with police rather than military units for domestic security, the TIGRES may have been set up and maintained partly for the express purpose of attracting U.S. security assistance.¹⁴⁰ TIGRES personnel have been observed at the construction site for the Agua Zarca dam, the project Berta Cáceres was assassinated for opposing.¹⁴¹

Since he became president, Hernández has pursued the transfer of policing function into the hands of the professional military¹⁴²—implying the army is his preference among the instruments of force available to him. Apart from the creation of a new and favored military police, discussed below, he has further anchored this transformation by appointing an active military officer (who has since resigned his commission) as security minister, with jurisdiction over the police. Current or former military brass also serve as heads of customs and the prison system.

PRISONS

Indeed, it is hard to separate concerns about the police from concerns about the penitentiary system, which also falls under the security minister's purview. Police often serve as prison guards. Honduran jails, which were hit with a steep increase in detainees in 2012 and 2013 (see figure 1), are notorious for inhumane conditions, including overcrowding, violence, filth, uncontrolled self-government by prisoners, corruption, and extortion. Money is ubiquitous, with officials taking a cut for all of the practices they condone, from the outright sale of private cells to inspection-free visits to intra-inmate shakedowns.¹⁴³ Given

FIGURE 1: Prison Population Rate in Honduras, 2000-2014



Source: World Prison Brief, “Honduras,” Institute for Criminal Policy Research, last modified September 2015, <http://www.prisonstudies.org/country/honduras>.

the high likelihood that at least some portion of this take is passed further up the chain,¹⁴⁴ prison administration must be understood to represent a revenue stream for certain elements of the kleptocratic network.

The sudden 30 percent increase in the number of Hondurans behind bars between 2012 and 2014 is consistent with rumors about social cleansing that the research team kept hearing: reported arbitrary sweeps and detentions in gang neighborhoods. More ominous are widespread suspicions that police or other government officials may take advantage of insalubrious prison conditions to dispose of specific, unwanted detainees. “There has been this kind of event in different prisons,” one observer told us. “There’s a big jail, and suddenly, a big fire. People say there’s an electrical problem, but the cells won’t be opened. Because they want certain people to die.” Reports on the most famous of these prison fires—in 2003, 2004, and 2012—describe volleys of gunfire, and the death of some victims by gunshot wounds.¹⁴⁵

ARMED FORCES

Given the Honduran military’s history often at the center of politics—running the country outright from 1963 through to 1982, and then enjoying significant U.S. patronage during the civil wars in neighboring Nicaragua and El Salvador in the 1980s—it is somewhat misleading to include the armed forces among other clearly subordinate

elements of state function that are at the disposition of the country's interwoven elites. To some extent, the armed forces represent an autonomous bloc.

Nevertheless, almost every report on Honduras or interview with experts inside or outside the country contains information on the increasing use of the Honduran military for purposes other than national defense—more specifically to patrol indigenous communities, to protect land or developments claimed by private-sector network members as their property, to suppress protests against the transfer of such land or natural features into network hands, to curtail the exercise of free speech, and, most broadly (via Hernández's new Military Police for Public Order, or PMOP from its Spanish name), to assume a wide variety of domestic security and policing roles.

Examples of the inappropriate or repressive use of the army are legion, especially and most recently in connection with the Agua Zarca dam project. The First Engineer Battalion worked on the dam, for example, setting up its premises inside the construction company's camp perimeter.¹⁴⁶ On July 15, 2013, soldiers stationed within the camp opened fire on local protesters, killing one.¹⁴⁷ Members of the leading opposition organization were arrested at military checkpoints.¹⁴⁸ And one serving and two former military officers are among the eight suspects who have been arrested for Cáceres's killing. One of them had been appointed chief of army intelligence in 2015. He and another suspect had served in the Honduran special forces.¹⁴⁹

One unexpected use of soldiers is (purportedly) to protect and replant Honduran national forests. According to an assessment conducted for the U.S. Agency for International Development (USAID), 100 million lempiras (approximately \$4.2 million) per year is allocated for these forest conservation purposes, of which 70 million is transferred to the armed forces.¹⁵⁰ On a trip down the Patuca River in the isolated eastern reaches of the country, my sister and colleague on this investigation, Eve Lyman, and I and two Honduran naturalists witnessed soldiers patrolling small, far-flung villages such as Wampusirpi and Bilalmo. Residents told us they were there to protect the woods, but they did not appear to have the vehicles or other specialized equipment required for such duties, and there was no evidence of any effort to curb illegal tree-felling along the river.

But it is through the PMOP that Hernández's use of the military has had by far the broadest impact, and been the most controversial.

Even in the decades since the end of military rule in 1982, the idea is not new. It was former president Zelaya who first swelled police ranks by assigning military police officers who had completed their service to the civilian force. Still, they then came under police hierarchy and supervision. Hernández, by contrast, has launched the most concerted effort to shift internal security responsibilities to the military since Honduras completed its transition to civilian rule.¹⁵¹

The law creating the PMOP that he pushed through the Congress went into effect in the fall of 2013.¹⁵² Now this unit, charged with “maintaining and conserving public order”—especially against gangs and drug traffickers—as well as enforcing the law against terrorist financing, numbers at least 4,000 officers.¹⁵³ “They are in the personal service of the president,” says a resident of the eastern Olancho Department. “They are acting like gods or kings, instilling fear, not security.”

In January 2015, Hernández tried to amend the constitution to enshrine the PMOP as a permanent element of the Honduran security apparatus. Congress demurred,¹⁵⁴ but the issue is now up for popular vote in a 2017 referendum. The ASJ’s lead on police reform issues is confident the unit won’t expand further, that it is mainly “a marketing gimmick,” and that Hernández will be prevented by the United States as well as local civil society from further transfers of policing functions to the military.

Others aren’t so sure. One veteran American advocate of local civil society organizations described what she called a disturbing new phenomenon: small groups of PMOP officers fanning out into the countryside, allying with local retired military personnel, and hiring hitmen to keep tabs on opposition groups.¹⁵⁵ Ordinary Hondurans don’t underestimate the PMOP either. “They act like kings,” says the Olancho resident. “People part in front of them. They order people to do this or do that. They take whatever they want. People are really afraid of them—afraid to demonstrate because of tear gas and beatings and imprisonment.”¹⁵⁶

One of the two active duty military officers arrested in connection with Cáceres’s murder, Major Mariano Díaz Chávez, was a trainer at the PMOP academy.¹⁵⁷

Responsibility for domestic security—and protection of network interests—is further confused, however, via the apparently interchangeable roles of military and police elite units such as the PMOP and the TIGRES and others, and the conduct of joint operations by private security guards or hired civilian toughs together with police or military personnel.¹⁵⁸ The ill-defined and overlapping roles of these various units and individuals add to the shroud of impunity protecting them, since they make it hard to pinpoint their official mandates and determine if lines have been violated and by whom.

Hernández has institutionalized this commingling by way of a variety of joint task forces in which soldiers serve side-by-side with police officers, prosecutors, customs agents, intelligence personnel, and other civilian authorities. From about 2010 to 2014, Xatruch, an early such force, held sway over the lush Bajo Aguán valley, where locals protested land grabs by palm oil interests.¹⁵⁹ Now, the most active and well-known of these is the National Interagency Task Force (FUSINA), which reports directly to the National Security Council and is under operational command of the military. It reportedly comprises some 6,300 military officers, including the entire PMOP, the TIGRES, plus much of the navy. It can be deployed throughout the country’s territory.¹⁶⁰

The Honduran military is thus being utilized for various inappropriate purposes. Apart from deployment to gang-ridden neighborhoods and involvement in counternarcotics, it is an instrument for the consolidation of power, the protection of the private property or business interests of private-sector network members, and intimidation.¹⁶¹

In 2011, Congress passed a special tax levied on some of the key economic sectors held by private-sector elements of the network: financial transactions, profits from fast food and mobile phones and mining exports. The proceeds are earmarked for materiel purchases for the security services. Businesses protested the tax as onerous and opaque.¹⁶² U.S. State Department personnel interviewed in July 2016 confirmed that what the department had initially supported as a commitment to improving the security situation proved disappointing in its execution, given nontransparency and indications that funds were being syphoned off for other purposes.¹⁶³ Honduran interviewees corroborated the murkiness of this tax, including deposit of the funds it generates into numerous accounts in several different banks.

Hernández himself attended military academy as a young adult. The choice may have been no more freighted with meaning than the choice of some American families to send their children to Catholic school: military academies are a relatively inexpensive way to get a decent education and useful contacts. The longer-term service of his brother and confidante Amilcar, who retired as a colonel, is more significant, and cemented a family connection to the armed forces. That and the persistence of Hernández's efforts in applying the Honduran military to domestic tasks strongly suggest that the army is Hernández's personal preference among the instruments of force at his disposal.

COALIANZA (COMISIÓN PARA LA PROMOCIÓN DE LA ALIANZA PÚBLICO-PRIVADA)

A vital stitch knitting together the public- and private-sector skeins of Honduras's kleptocratic networks is the Coalianza, or the Commission for the Promotion of Public-Private Partnerships. Created in 2010 to further the objectives of the public-private partnerships (PPP) law, the commission's stated role is to promote, conclude, and oversee contracts whereby private companies execute public works projects ranging from road and port construction to passport delivery and the purchase of medicine for the public health system.

In practice, that means funneling public financing into private contracts via a nontransparent bidding process (if any),¹⁶⁴ and typically a trust arrangement managed by a private bank.¹⁶⁵ Responsibility for completing and operating the public installation or service is ceded to a technical committee, which may include government officials as well as bank or other private-sector executives. Procurement takes place according to special processes, not those set forth in the general law of public procurement.

Coalianza chooses prospective projects, then coordinates any tender process and enters into the contracts. By this means, the president can personally direct or approve projects, including such terms as tolls to be taken or purchase guarantees. Called by a former cabinet member “a son of Juan Orlando,” the Coalianza operates in close cooperation with the Honduran president. The current finance minister is a former head of the agency.

Coalianza officials resisted the enactment of a 2014 reform that marginally increased supervision, including the creation of a new Fiscal Contingency Unit that reports to the finance ministry (SEFIN), which is supposed to examine risks and develop mitigation strategies and to rule on the suitability of a given concept for this type of public-private partnership arrangement. But according to a 2015 Inter-American Development Bank (IDB) report, “in practice SEFIN has not yet built up the capacity to examine and authorize PPP proposals . . . even now that it has the main role in the approval flow.”¹⁶⁶ As is frequently the case in such documents, the question is left open as to whether the government is even seeking to build up such capacity, or whether the deficit is deliberate.

Similar confusion reigns with respect to the inclusion (or not) of Coalianza projects within the overall national budgetary processes, as well as independent financial monitoring. “The constitutional responsibility for performing this task falls within the Comptroller and Auditor General in Honduras, yet the institutional capacity to oversee the PPP portfolio is shallow,” reports the IDB. “For example, no guidelines for auditing infrastructure projects under the PPP model have been issued by the Auditor General.”¹⁶⁷

To date, neither the Supreme Court of Accounts, nor the Finance Ministry, nor the Banking and Securities Commission has published an audit of a single Coalianza project.¹⁶⁸ Contracts are made available to the public only after signature, and even then only partially.

Indeed, according to one interviewee, a member of Congress who has been researching these arrangements in an effort to exercise constitutional oversight, their primary purpose is to “hide money from the budget and from the public procurement law and associated oversight.”¹⁶⁹

The confusion may enable not just bank executives but also public officials on the technical committee to extract undue benefits, according to the member of Congress. Some bankers have reportedly expressed reluctance to continue taking on such projects, given the conduct witnessed on the seventeen currently contracted.¹⁷⁰ The implication is that government officials, as well as their private-sector partners, are exploiting these off-budget expenditures for personal gain while the bank retains statutory responsibility for any wrongdoing—such as violations of international money-laundering provisions.

The Honduran government may guarantee loans taken out in support of such projects, thus assuming institutional risk and compounding debt, although that engagement of state reputation does not benefit from normal government oversight procedures.¹⁷¹

International development financing is applied to these projects too, providing a potential additional windfall for their managers. According to an economist for one of the main regional development banks, even these rather lenient institutions are uneasy. “The World Bank, us, even the IMF are always trying to push the Honduran government to reduce the role of trust funds. But they don’t want to.”¹⁷²

ENEE (EMPRESA NACIONAL DE ENERGIA ELECTRICA)

It may seem odd to include an electricity company in a list of state agencies bent to the services of a country’s kleptocratic network. But when the financial situation of that enterprise is so catastrophic as to block the government’s qualification for international loans;¹⁷³ when senior management positions are filled by close relatives of influential politicians;¹⁷⁴ and when the enterprise seems to do business exclusively with families at the core of the kleptocratic network’s private-sector segment, then the attention is warranted. The Honduran electricity sector, moreover, has attracted many of the network’s external enablers,¹⁷⁵ and given rise to protracted conflicts between kleptocratic elites and rural populations. The energy sector generates both a key revenue stream for the network and a significant threat to the environment.

In 2013, the national electricity enterprise, ENEE, was hemorrhaging money at a record rate of more than 20 million lempiras, or approximately \$1.3 million, per day. The annual total, nearly 9.6 billion lempiras, or roughly \$477 million, was about 2.5 percent of GDP.¹⁷⁶ International lenders (also known as international financial institutions, or IFIs) clamored for reform of the power sector. But most of the changes they demanded concerned the structure of the enterprise, rather than outcomes that demonstrated repair of its weaknesses. The IFIs wanted ENEE privatized (though that reality is typically masked by the bland terminology of “structural reform”). A December 2014 IMF press release about the fund’s approval of nearly \$190 million in low-interest financing, for example, noted that “structural reforms are expected to play a crucial role in supporting fiscal consolidation and improving growth prospects. The program comprises reforms in the electricity sector, including ENEE.” Elsewhere, the IMF was explicit that such reforms should “foster competition in the electricity sector.”¹⁷⁷

The Honduran government began breaking ENEE apart in 2014, with a view toward inviting in private capital. The enterprise has been split into three entities with responsibility respectively for power generation, transmission, and distribution. The ongoing privatization process is to be managed via one of the Coalianza’s trust funds, held as usual by Bancos Ficohsa and Atlantida.¹⁷⁸

It was not so much this transformation, however, as falling oil prices—and 2,000 layoffs out of a total workforce of 5,000¹⁷⁹—that helped bring ENEE’s operating losses down

by some 180 million lempiras by 2015, or about \$30 million, approximately 1.9 percent of the total.¹⁸⁰ But, though the enterprise is on very slightly better financial footing, and though the catastrophic electricity outages that plagued the region in the early 1990s have not recurred, blackouts remain common,¹⁸¹ and rural areas are underserved.¹⁸² According to some experts, as much as 15 percent of the Honduran population has no access to electricity.¹⁸³

That's why, explained Giovanni Ayestas of UEPER (a unit of ENEE in charge of large generation projects) in an interview in his office in the summer of 2016, government plans call for a significant expansion of Honduras's generation capacity. He was clicking through PowerPoint slides as he made the argument. But the numbers on the screen did not support the policy choice. Current electricity production, Ayestas acknowledged, exceeds demand. Honduras even exports approximately 1 percent of its power.

The most startling figure, however, was the one for leakages: fully 30 percent of Honduras's current disappears through faulty lines and connections and customer theft.¹⁸⁴ Yet, rather than launch a nationwide campaign to renovate materiel; tighten connections; and identify disabled meters, unauthorized hook-ups, or connivance with favored businesses, the government has rushed to sign contracts with private companies for more generation capacity.¹⁸⁵

ENEE has long relied largely on private generation for the electricity it sells to customers, producing only about one-third of the country's total supply itself. And this outsourcing has generated significant rents for private-sector network members for more than two decades.

In the early 1990s, crippling shortages throughout the region prompted a fifteen-year state of emergency, under whose terms ENEE granted generous contracts to well-connected industrialists who built oil- and coal-fired power plants. Indeed, it was the renegotiation of some of those contracts that helped reduce the enterprise's deficit after 2014.¹⁸⁶

The 2007 law promoting renewable energy was aimed at shifting sourcing away from these costly fossil fuel plants. However, its terms were even kinder to the private electricity generators (largely the same people) than the 1994 legislation. Renewable generators enjoy a 10 percent premium over market rates, guaranteed annual increases on those higher prices, a variety of tax breaks (including dispensation from income and sales tax), as well as a \$0.03-per-kilowatt-hour (kWh) bonus for the first 300 megawatts from projects that went online by July 31, 2015.¹⁸⁷

These terms are locked in for the life of the contract—typically at least twenty years—at a time when solar energy prices are falling as much as 10 percent per year.¹⁸⁸ “The private producers enjoy undue benefits,” says Ramon Romero, who has studied the interconnection between what he calls electrical elites and political power-brokers.¹⁸⁹ “They get

a higher price than thermal [fossil fuel] plants, without any reasonable justification. The inputs are cheaper.”¹⁹⁰ By way of comparison, coal-fired electricity averages between \$0.07 and \$0.09 per kWh, while the government-guaranteed prices for solar are about double, at slightly above \$0.15 per kWh, not including the 3 cent bonus.¹⁹¹

It was in this context that Congress enacted a law restructuring ENEE, changing the contracting framework, and establishing a new regulatory agency charged with supervising an open bidding process, approving contracts, and publishing a list of energy production companies. But according to several experts, an odd delay occurred between submission of the bill to Congress, its passage, and its entry into force in July 2014. (Almost a year after that, the regulatory agency was still not up and running.)¹⁹²

During that unusual lapse, ENEE signed at least thirty of the old, no-bid sweetheart contracts, totaling an estimated 400 megawatts of renewable electricity.¹⁹³ Beneficiaries were none other than members of the same families that had enjoyed the overpriced fossil fuel contracts the government was renegotiating with the help of the Inter-American Development Bank, families at the heart of the private-sector element of the Honduran kleptocracy: the Facussés, the Kafies, the Larashes, the Nassers (who are allied to the Facussés by marriage).¹⁹⁴ Indeed, the timing of the two developments suggests that the excessively generous terms for renewables may have served as a sweetener to facilitate renegotiation of the older fossil fuel contracts. In the case of both types of electricity generation, the contract terms are so liberal as to constitute a direct transfer of public funds into the pockets of private-sector network members. (See also the section on private-sector control of the energy industry, pages 70–73 below.)

In this context, international pressure to reduce or end electricity subsidies may be misguided. It obliges poor customers—many of whom may not be subject to income or other taxes—to directly finance private generators’ excessive profits.

These developments rubbed even some of ENEE’s own officials the wrong way. Ayestas’s resentment was palpable when he referred to the government’s “weak bargaining position” in these negotiations. “The concessions set a lower limit below which the price cannot fall; but it can rise. By law and by contract, the state is required to buy all the renewable energy they produce,” whether or not the grid even has the capacity to carry it. “It is an expensive, nontransparent market.”¹⁹⁵

Oddly, given the sector’s advantages and the high costs of these contracts, ENEE did not seek to make its own investments in solar electricity generation. It abandoned that segment of the market, instead choosing to commit to large, expensive, and technically and environmentally questionable hydropower projects.¹⁹⁶

AS SEEN FROM THE RIVER

One notorious example is a project that UEPER's Giovanni Ayestas and his colleague Lourdes Sagastume touted: a controversial dam across one of Honduras's last remaining wild rivers. As the details below demonstrate, the practices by which this project was midwived, in the teeth of local residents' vociferous objections, not to mention those of experts in hydrological and environmental science, demonstrate a consistent pattern that is replicated in similar contexts throughout Honduras.¹⁹⁷

Twining for some 300 miles between steep, once lushly forested banks that settle into tropical floodplains near the Caribbean Sea, the Patuca River is the Amazon of Central America.

Plans to dam it have repeatedly been launched and financing documents signed, but then ultimately scrapped.¹⁹⁸ Undaunted, some months after the 2009 coup, the Honduran government turned to China, agreeing to a series of terms for construction of a dam upstream of the original site by hydropower giant Sinohydro, to be paid for with loans from China's Export-Import Bank and the Industrial and Commercial Bank of China.¹⁹⁹ Banco Atlantida reportedly backed loans to ENEE for purchase of land to be expropriated.²⁰⁰ Protests that had blocked earlier plans continued; the financing proved difficult to secure; and work on the project kept stalling and restarting.²⁰¹

At the end of 2012, for example, officials at the Inter-American Development Bank (IDB) sent a stern letter to ENEE, regarding the project's likely environmental and social impacts. An environmental assessment conducted by the Honduran government and completed in 2008, said the IDB letter, was "so weak that we could not even envision starting to study [the dam] seriously." So the development bank ordered and paid for a separate examination, conducted by a competent outside contractor.

The verdict of that IDB-financed independent study was categorical. "The Project is not in compliance with our Safeguards; as you will see in the report there are many critical gaps and some are very hard to correct given the stage of the Project." On the basis of these findings, the IDB refused to pay even for assessments of the other sites on the river that the Honduran government hopes to dam in the future, after Patuca III is complete.²⁰²



The Patuca River and the Patuca III worksite, July 2016.

In other words, the Honduran environment ministry had failed to exercise its most basic oversight role, and had served instead as a rubber stamp for a manifestly problematic project. It had proved to be a classic example of a state institution that is deliberately hollowed out. (See below, pages 52–54.)

The voluminous IDB analysis of Patuca III uncovered significant likely impacts, especially downstream of the dam, a zone neither the Honduran evaluation nor ENEE's mitigation plans address. According to the study, "thirty-eight towns [apart from the three of direct impact] will experience collateral effects, especially of a socio-economic nature. Some affected areas can be rehabilitated by suitable interventions, but the majority . . . will experience a permanent change in the use of the land." These impacts include changes in the flow of the river, "which in turn affects the terrestrial fauna in a significant manner," as well as water quality and sedimentation. The report also mentions the likelihood the dam will impede use of the river as a transportation artery by local communities, deforestation due to migration into the zone, changes to flooding patterns upon which local agriculture depends, and threats to dozens of registered endangered species, including lizards, turtles, crocodiles, and migratory fish.²⁰³

The lawyer cited above, a member of the Anti-Corruption Bar, knows the area well, because he fought U.S. packaging companies' purchase of timber extracted here for years.²⁰⁴ In his view, the dam will do "incredible damage." The river, moreover, is physically unsuitable for electricity generation, he says: "The Patuca

doesn't have rapids. It is a slow river with only a 3 to 4 percent slope. The water spreads out laterally; it doesn't build up the kind of pressure the turbines will need."²⁰⁵

Nevertheless, during our visit to the site in summer 2016, massive cranes could be seen completing the dam wall. Reports and photographs sent later by Honduran members of the team indicate the work was accelerating in the second half of the year.

Apart from its unequivocal denunciation of the environment ministry's lack of "any enforcement mechanism to ensure the [project] meets environmental mitigation measures," one of the IDB assessment's main criticisms of ENEE's plans was the lack of proper consultation with local communities, which had been actively and consistently opposed to damming the river for two decades.

The International Labor Organization's Indigenous and Tribal Peoples Convention, of which Honduras is a signatory, takes pains to recognize "the special importance for the cultures and spiritual values of the peoples concerned of their relationship with [their] lands or territories." Indigenous peoples' rights to "participate in the use, management, and conservation of these resources," it states, shall be "specially safeguarded." And in the (presumably exceptional) case "in which the State retains the ownership" of resources, "governments shall . . . consult these peoples, with a view to ascertaining whether and to what degree

their interests would be prejudiced, before undertaking or permitting . . . the exploration or exploitation of such resources. . . . The Peoples concerned shall wherever possible participate in the benefits of such activities, and shall receive fair compensation for any damages."²⁰⁶



Boats awaiting their loads, Arenas Blancas, July 2016.

We spent five days traveling the Patuca River by the only mode of transportation available, a traditional wooden boat, long and blunt-nosed, stopping to interview residents both upstream and downstream of the



Tawahka children, leaning over the porch of their house-on-stilts in Krautara, July 2016.

worksites, and discovered not a single person who favored the project.

Upstream landowners, who are now being flooded out by the reservoir, camped in front of the ENEE offices in Tegucigalpa in 2015.²⁰⁷ But the first local our team flagged down by the side of the road told us how that effort had turned out. A small farmer, he approached us astride a bay mare, her foal trotting behind, and his attitude typified the resignation we encountered everywhere: “The rich people were offered a higher price for their land, so they agreed,” he commented. “We didn’t want to sell, but

we were backed into a corner by *los grandes*.”²⁰⁸ The anti-corruption lawyer later confirmed the farmer’s story: “Most of the land was effectively stolen, because many of the people who went to Tegucigalpa to protest were the large landowners who don’t even live in the area.” Offered a higher price, he told us, the absentee landlords abandoned the protest, stranding the local farmers.²⁰⁹ (But protests sparked off again in late 2016, forcing a twenty-six-day stoppage in the work.²¹⁰)

A teacher, whose ninety-six-year-old father was born in the well-tended house where we met, said he was never invited to contribute to the decisionmaking process. “We were told the project is a project of the government; it’s going to happen this way. They didn’t ask our views; we were told this has to happen because it’s a necessity. They said it’s a government development project.”²¹¹

“Development for whom?” shot back a neighbor who had joined the conversation on the porch of the small community upstream of the dam, Las Planchas. “Is it development for local communities, or for industries in Juticalpa and Tegucigalpa and Nicaragua?”

All interviewees recounted the same one-way communication during the few meetings that were organized. “The government people just stated: ‘It’s a

program of the state,” said a woman. “If it helps the people or not, it will be done. Even if people oppose it, it’s going to happen.’ That’s what we understand.”²¹²

Avelino Betancourt, the mayor of Nueva Palestina, the village immediately downstream of the dam, was told “local governments can’t oppose” the project because it is of national importance. Under the renewable electricity law, his staff pointed out, no tax is paid to the municipality. “They brought a document showing they are excused from local taxes. They don’t even have their own ambulances, they use ours!” Mayor Betancourt said he has repeatedly sought, but been unable to obtain, a meeting with government officials to discuss the dam’s impact on his constituents or other development projects that might be implemented to offset the harm.²¹³

Further downstream, in areas clearly covered by the ILO convention on indigenous and tribal peoples, residents told of outright deceit. “They would hold meetings, and we signed an attendance sheet,” recalled a resident of the village of Krautara, inhabited by Tawahka indigenous people, already squeezed nearly to the point of extinction by deforestation and unregulated migration into their traditional lands. “Then later they said those signatures signified our approval.”²¹⁴ Two more days’ boat-ride downriver, in Bilalmo, in Miskito territory, a man recalled the first such meeting two years ago. “They offered us rice seed, and told us to sign for it. When they called another meeting the next year, and our representatives said we hadn’t been consulted, the commission showed them those signatures and said yes we had.”²¹⁵

Evidence was overwhelming that only a cursory box-checking exercise had been undertaken, not a genuine effort to fulfill legal obligations to obtain community input and consent based on a thorough understanding of the project’s implications.

Far from consent, there were widespread fears of calamitous impacts to an entire way of life.

“The river is the road for all of our communities” noted one of the beleaguered Tawahkas. “Already the effect is immense. Soon our boats won’t be able to move in summer.”²¹⁶ The owner of a small restaurant serving beans and fried plantains near the worksite agreed: “They say it is progress and will be good for other parts of the country. But it is a barbarism to nature. It will affect navigation a lot, especially in winter. There won’t be enough water.”²¹⁷



Deforestation along the Patuca River, July 2016.

“We won’t be able to catch fish or turtles as the river gets low,” worried another Krautara resident. “We’re going to lose a whole part of our life.”²¹⁸ The Miskito, a people who cultivate the flat lands even further downstream toward the Patuca’s delta, expressed similar concerns about their traditional practices, which depend on seasonal high water and sediment deposits. And then there were the repeated fears of a catastrophic accident: “If that dam breaks, there will be flooding worse than during Hurricane Mitch,” predicted one woman.²¹⁹

New roads carved out of the forest to facilitate construction have accelerated an ongoing land-grab that has deforested this landscape—all of which constitutes a protected natural reserve. The destruction spools out for miles: trees hacked down with machetes, their ragged stumps protruding from denuded hillsides like broken teeth, charred remains of burned boughs littering the slopes. Where most trees on a patch of ground have been felled, the others die, leaving the once rich tapestry of vines and orchids and air plants draped from their limbs like dusty cobwebs. Lime-green, deathly silent pasture grass takes over.

Thus, ironically, a project that is touted as “renewable”—whose partial objective is to garner carbon credits—is in fact generating significant carbon emissions via forest destruction and decomposition.²²⁰

UEPER’s Ayestas dismissed the Tawahkas’ and Miskitos’ anguished concerns about deforestation: “Indigenous communities don’t want to protect the woods; they just want to get in on the business,” he contended. Indeed, he and his colleague Sagastume touted the community relations drive they were piloting with Patuca III as “different from anything done before, public or private.”

“We helped residents establish title to their land,” boasted Sagastume, “so they received a more just compensation.” But, she conceded, the payments had stopped “because the state didn’t have the money.”

Plans—not yet implemented—call for meeting residents of nineteen villages arrayed in an outer ring around the future reservoir to diagnose development challenges and remedies. “The government wanted a loan for all these mitigation projects,” but China had only offered to fund the dam itself, and the current budget deficit does not allow for such expenditures, Sagastume relayed. As for the communities located downstream of the dam? “Our focus area is the upstream communities. It’s up to Avelino Betancourt to work on development issues downstream.”²²¹ That’s the same Mayor Betancourt who for several years has been unable to obtain a meeting with any government official to discuss dam impacts on his community and how to mitigate them.

In other words, ENEE is railroading communities that will be drastically affected, in order to build a substandard dam that menaces irreplaceable natural environments while contributing to climate change.

And to what end? Above all others, the desired aim seems to be cash generation. After an enthusiastic mention of the carbon credits Patuca III is meant to garner, Sagastume and Ayestas turned to a further objective: reaping income by way of exports into the increasingly integrated Central American electricity market.

The Sistema de Interconexión Eléctrica de los Países de América Central, or SIEPAC, is an initiative to link the power grids and associated legal frameworks of six Central American countries (omitting only Belize). The stated aim is to address periodic local shortages by enabling countries to purchase electricity from their neighbors.



Typical houses, middle Patuca River, July 2016.

“We believe that integration is the key to the development of this region,” an official at one of the development banks that has contributed loans to the scheme told us. “In particular the road system, and SIEPAC.” Though the transmission lines are largely joined up, he reported, legal and regulatory frameworks are yet to be harmonized.²²²

SIEPAC is run by a Panama-registered, Costa Rica-based entity, Empresa Propietaria de la RED, a consortium of private (one-quarter) and public (three-quarters) companies from the six member countries plus Colombia, Mexico, and Spain.²²³ It is these external partners that compound many Hondurans' concerns that SIEPAC may be yet another cash cow for well-connected interests.

Told they have to sacrifice their land or their way of life for the greater good of Honduras so their compatriots can enjoy electricity, many Patuca III victims expressed fears that the dam will instead do precisely what the UEPER officials said it is supposed to do: increase the volume of electricity that Honduras exports. And not just to nearby Nicaragua, as mentioned by the resident of Las Planchas during our evening discussion on his neighbor's porch. Honduran electricity could well go to feed power-hungry markets and industries beyond Central America's borders, with any profits accruing either to the notoriously corrupt ENEE, or, once it is privatized, to its shareholders and other SIEPAC consortium members. Rural Hondurans interviewed for this study fear they will be left, again, in the dark.²²⁴

In final twists to the Patuca III story, the Honduran National Anti-Corruption Council announced in September 2016 that it had discovered price-padding and other malfeasance worth more than 121 million lempiras (\$5.2 million) by high-ranking ENEE officials in the contracts for building and maintaining the camp that houses the project's Chinese engineers and construction workers.²²⁵ (Officials named in the reports had left ENEE between 2012 and 2015.²²⁶) As of January 2017, investigations were still under way.²²⁷ Six months later, testimony in the New York trial of an accused drug kingpin indicated that UEPER contracted with a company belonging to the Cachiros drug cartel for other infrastructure associated with this dam.²²⁸

Analysis of failed development infrastructure projects ("white elephants")—of which large dams are a prime example—suggests they may not be designed to function efficiently on behalf of their stated beneficiaries at all. Their actual function may be precisely to provide opportunities for malfeasance of this kind.²²⁹ (For further discussion of the electricity market, see pages 70–73 below.)

IHSS (INSTITUTO HONDUREÑO DE SEGURIDAD SOCIAL)

The story that aired on Globo TV on May 8, 2015, would hardly have won points for technical artistry. Balding and dressed in a casual denim shirt, the reporter practically shouted into the microphone. B-roll footage of hospital waiting rooms, ambulances, and buildings sporting the IHSS logo ran on a loop.²³⁰ But the revelations David Romero Ellner unveiled in the segment were explosive. No less than 7 billion lempiras (about \$297 million) had been siphoned out of the national healthcare system, of which at least 3 million may have wound up in the coffers of President Hernández's Nationalist party, where they had helped finance his 2014 presidential election campaign.²³¹ Globo's cameras zoomed in on some of the canceled checks as Romero recited the numbers.

Honduras erupted. The realization that the notoriously indebted public health system²³²—wracked by shortages of medicine for months²³³—was the target of systematic embezzlement at such a scale, and for such blatant purposes, galvanized even corruption-inured Hondurans. Adding to the anguish, as many as 3,000 people may have died ingesting useless or dangerous compounds they thought were medicine, or due to corruption-linked shortages or other system dysfunctions.²³⁴

In evening marches, protesters dressed in doctor's whites and carrying torches clogged the streets of Tegucigalpa.²³⁵ Throughout June and July, the demonstrations continued in the capital and at least a dozen other cities nationwide, as well as in Miami and Washington, DC. Signs and banners blared the bare facts: "L7,300,000,000 Robados! 2,800 Muertos!" (7.3 billion lempiras stolen; 2,800 dead). Demonstrators demanded the resignation of President Hernández and the establishment of an internationally backed investigation and prosecution commission along the lines of the Comisión Internacional Contra la Impunidad en Guatemala (CICIG) that was indicting officials in the neighboring country.

In the not-too-distant past, the IHSS (the Honduran Social Security Institute) had been known for providing a reputable standard of medical care to Hondurans employed in the formal economy, who contributed to the system monthly on a sliding scale. But according to interviewees we asked, the quality of care had been declining and the price increasing for a number of years. By 2013, equipment, staff, and supply shortages were capturing the attention of patients and healthcare professionals.

In 2014, the first major revelations about the causes of these shortages were made public. An investigation by the National Anti-Corruption Council (CNA) and the public prosecutor (*ministerio público*) discovered that some 600 million lempiras per month were bleeding away in fraud and corruption.²³⁶ At the heart of the scheme was a chocolate-box assortment of procurement frauds, including unjustified purchases, contracts or purchases at prices in some cases more than twice the global average, and purchases of medicine that proved not to contain the requisite active ingredients—that were, in effect, placebos.²³⁷

According to reports and some trial documents, an array of shell companies—Insumedic, for example, or Sumimed, or Improme—were incorporated to obtain contracts for which no goods or services were delivered, or to bank inflated payments. Some were incorporated in Panama, but many in Honduras.²³⁸

President Lobo's declaration of a dengue fever emergency in 2010 reportedly facilitated some of these fraudulent purchases.²³⁹ And from that year through the next four, according to one of our interviewees (an international official who is involved in ongoing investigations), 60 to 70 percent of the IHSS operating budget was siphoned off.

The 2014 investigation examined the potential implication of as many as 400 individuals, most of them either public officials themselves or related to or close friends of officials. The IHSS commissioner and the chief of supplies and purchases (both with the family name Zelaya, though unrelated to each other or the former president) topped the list alongside the agency's treasurer, Vivian Melissa Juárez Fiallos, and Edita Lizbeth Lopez, the wife of IHSS administrative and financial manager José Ramon Bertetty.²⁴⁰ Most spectacularly, a drug company founded by Congress Vice President Lena Gutiérrez, her father, and two of her brothers sold placebos and charged the health system vastly inflated prices for other supplies. Arrested in July 2015, she has been on trial since August 2016.²⁴¹ Other suspects have been convicted and are serving prison sentences, but none of these cases have yet cast light on the links between the IHSS scandal and the presidential reelection fund.

This case illustrates the rough division of labor or territory that characterizes the Honduran kleptocratic network, with most of the outright looting of government coffers perpetrated by public-sector members, often via private companies in the hands of relatives or immediate proxies. In general, companies that win public procurement contracts from government agencies like the IHSS tend not to belong to members of the self-contained, Levantine-descended business elite.

But the "ten families," as they are sometimes called, were not entirely unspattered by the scandal. In June 2015, business magnate Shukri Kafie was arrested on suspicion that his company had overcharged the IHSS in contracts for the acquisition, maintenance, and repair of medical machinery worth some \$118 million (though he was immediately released upon his assertion of a medical emergency, and there is no indication that legal proceedings have gone forward).²⁴² Banco Ficohsa was also implicated, reportedly participating in an illegal transfer of IHSS funds as part of the scheme.²⁴³

A number of the people involved in breaking or investigating the case have suffered reprisals. Both the lead prosecutor and the attorney general were transferred to other posts (though the attorney general was made a justice of the Supreme Court). Globo's Romero and several key witnesses were shot and wounded in the weeks following the 2015 television report.²⁴⁴

Yet the IHSS scandal and the massive demonstrations it sparked eventually forced the government to acquiesce to the establishment of a version of CICIG in Honduras. The MACCIH, as it is called (Misión de Apoyo Contra la Corrupción y la Impunidad en Honduras, or Support mission against corruption and impunity in Honduras), can assist Honduran legal authorities in investigating and bringing corruption cases—but it cannot bring them itself, as can the CICIG. The MACCIH does, however, have the authority to help design institutional reforms that might constrain the incentive structure and opportunities favoring corruption, such as changes to campaign finance or corporate laws. (For more, see the section on MACCIH, pages 105–106 below.)

In a notable parallel to the national electricity company, ENEE, discussed above, the International Monetary Fund identified the losses incurred by the IHSS as a major contributor to the Honduran government’s deficit. But rather than pinpoint the actual cause of those losses—in both cases, corruption—and require specific measures to address the problem, such as the investigation and sanctioning of wrongdoers and improvements in government oversight, the IMF seems to have found sufficient explanation for the poor financial performance in the bare fact that the IHSS was a public institution. The “restructuring” of the IHSS (read: privatization), like that of ENEE, was a prerequisite to delivery of the IMF’s 2014 package of financial assistance. Tegucigalpa was not required to increase the independence of its anti-corruption agencies, or to demonstrate robust legal action against high-ranking IHSS suspects and their beneficiaries, or even to demonstrate how privatization would be conducted in such a way as not automatically to benefit the very companies that had exfiltrated the public funds.²⁴⁵

GOVERNMENT INSTITUTIONS THAT HAVE BEEN DELIBERATELY WEAKENED

IT IS A DISTINCTIVE FEATURE OF KLEPTOCRATIC GOVERNING SYSTEMS that agencies displaying independence or representing a potential threat to network interests are intentionally hamstrung or short-circuited. In Afghanistan, for example, when internationally backed investigators uncovered a nearly \$1-billion hole in the top private bank and caught a member of the presidential staff extorting a bribe to influence the investigation, then president Hamid Karzai sought to disband the investigative units. U.S. and UK officials resisted, and he turned against specialized anti-corruption prosecutors, reducing their salaries overnight and transferring several to distant, dangerous provinces.²⁴⁶ In Egypt, first under former president Hosni Mubarak and then the Supreme Council of the Armed Forces following the Arab Spring, a somewhat independent judiciary was circumvented by use of military tribunals.²⁴⁷

Perhaps the most stunning recent example was what can only be described as the cannibalization of the militaries of Iraq, Nigeria, and Ukraine by the governments of Haider al-Abadi, Goodluck Jonathan, and Viktor Yanukovich, respectively. All three forces were crippled by the appointment of incompetent officers, the wholesale theft of materiel, and the proliferation of nonexistent “ghost soldiers,” whose pay was collected by superior officers. Challenged in 2014 by far less well-endowed and -structured militant groups (the self-proclaimed Islamic State and Boko Haram) or Russian-backed insurgents, all three militaries collapsed—requiring significant external support in the aftermath.²⁴⁸

Cases of deliberate sabotage of institutions are not hard to find in the United States, either. After the Federal Home Loan Bank Board mounted a campaign to investigate executives responsible for the 1980s savings and loan crisis, resulting in more than 1,000 felony convictions, U.S. officials reduced the number and independence of oversight professionals, and promulgated prosecution guidelines that made punishment of wrongdoers more unlikely.²⁴⁹ The same anti-regulatory climate in the U.S. left the Food and Drug Administration underfunded.²⁵⁰ Then, with pharmaceutical companies (and patients) complaining about the slow rate of drug approvals, regulations were relaxed.²⁵¹ More recently, President Donald Trump's initial budget released on March 15, 2017, slashed funding to such regulatory or oversight agencies as the Environmental Protection Agency and the Department of Justice.²⁵² A few of the Honduran agencies that have been similarly crippled are discussed below.

SERNA (SECRETARIA DE RECURSOS NATURALES Y AMBIENTE DE HONDURAS, OR ENVIRONMENT MINISTRY)

As is plain from the Patuca dam narrative above, the environment ministry, or SERNA, is one of them.

Subsumed in 2014 into a consolidated ministry of energy, natural resources, environment, and mines, for example, SERNA lost out in that amalgamation, according to the anti-corruption lawyer cited above. "The environment used to be separated for reasons of checks and balances," he points out. "But now they're all together. So the water and the wood have no protection."²⁵³ One Western development official compares Honduras unfavorably with some of its neighbors in this regard. "In Costa Rica, if I'm the agriculture, transportation, or infrastructure ministry, I have to go to the environment ministry and ask for a license like everyone else. That autonomy improves the standard."

But standards in this domain are not the Honduran government's priority. "It's not written law," the official muses, "but it's almost law that they don't have to respect environmental standards. They do a road wherever they want; the president signs an executive order saying it's in the national interest."²⁵⁴

In the case of mining, the agency charged with regulation and oversight was restructured to report directly to the president in the summer of 2014.²⁵⁵ Canadian companies operate most of the mines in Honduras, a number of which have been at the center of controversy for reportedly poisoning streams or drying up watersheds.²⁵⁶

Where SERNA does play a role allowing prospective projects to go forward, irregularities in the permitting process seem to be the norm. In the case of Patuca III, the original environmental impact assessment that drew the Inter-American Development Bank's scathing

rebuke expired after two years, in 2010. But neither a full, properly conducted study nor even a new, pro forma one has been undertaken as the law requires, yet permits have been delivered and construction on the dam has gone ahead.²⁵⁷ In one of the most infamous cases, the Agua Zarca dam project, SERNA's number two official allegedly signed off on the permit in return for a bribe. He is currently in jail awaiting trial.²⁵⁸

In 2009, Global Witness published a meticulously researched report on illegal logging in the Río Plátano national forest that shed light on similar practices by the subordinate environmental agency. The report details how the forest authority issued memoranda and permits that violated legal provisions requiring the confiscation and public auction of illegally felled mahogany. The new rules made it easy to camouflage fresh illegal logging. Hundreds of rare and protected mahogany trees are believed to have been chopped down as a result.²⁵⁹

Veteran environmentalists and research biologists, both Honduran and American, talk about a “biological mafia”—a group of “academics,” to use UEPER’s term, who can be counted on to rubber-stamp environmental studies. “That’s their specialty,” the environmental expert cited above said, confirming descriptions given to us by U.S. and Honduran naturalists familiar with the forests of eastern Honduras. “Their studies accommodate what constructors want.”

In many cases, SERNA may dispense with environmental assessments altogether. “A process of evaluation is supposed to happen before construction,” the lawyer adds. “But—illegally, in my view—work often starts before the study is completed. The owners are given a license in a single day, a so-called temporary license. But the license won’t ever be revoked.”²⁶⁰

Dutch researchers requested a copy of the environmental impact assessment for a new version of the Agua Zarca dam, designed amid the widespread resistance to the project, which moved the main construction across the river from the original, permitted installation. They were told “that the new report appeared to be at the public prosecutor’s office. But [the woman] did not know where. Later, we received an official letter that stated that the report is not public.”²⁶¹ The question arises as to whether it exists at all.

The ministry contends with chronically low budgets, and it relies heavily on donor country support. Under the 2008 Forestry Law, for example, 1 percent of the national budget is supposed to be set aside in a Forest Reinvestment and Plantation Fund, to be used for “rehabilitation of forested zones that have been degraded or deforested.”²⁶² But the actual amount of money currently placed in that fund is just 100 million lempiras—of which 70 million has been transferred to the army, according to the USAID biodiversity study cited earlier.²⁶³ Indeed, then president Zelaya announced the initiative flanked by members of the armed forces, who soon fanned out into the Río Plátano Reserve.²⁶⁴ But, in five days

traveling down the Patuca River, inside ostensibly protected national parks, we could discover no trace of replantation efforts or of an attempt to curb illegal tree-felling.

Using language that is ubiquitous among development agencies, this USAID assessment “concluded that *institutional weakness* is the root cause of environmental problems . . . in Honduras” (emphasis added). It enumerates inadequate enforcement of environmental laws and regulations; poor implementation, monitoring, and enforcement of environmental impact assessment requirements; low government priority; ignorance; and corruption.²⁶⁵

But this terminology of weakness, which is very common in donor discussions of developing country institutions, masks the deliberate nature of the deficiencies under consideration—and thus diverts attention from what lies at the root of many of the problems: structured corruption. The USAID report does give an oblique nod to this intentionality, pointing out that “the government is currently supporting expansion of palm, coffee, and sugar cane monocultures,” as well as cattle ranching and coastal tourism, all of which pressure the environment and threaten biodiversity. Environmental protection laws, therefore, “are often in direct conflict with current Honduran economic development policies.”²⁶⁶

Perhaps coincidentally, the businesses whose activities constitute the most serious menace to biodiversity—and therefore *require* “weak” environmental and legal institutions in order to flourish—are businesses in the hands of private-sector network members. These are the activities the Honduran government has selected as pillars of its development strategy.²⁶⁷

Some scholars suggest that the environmental degradation that results from such policies is also deliberate—that it is used to create a rootless class of poor laborers for industries controlled by the kleptocratic network. “Degraded environments often made community life almost impossible,” writes James Phillips in *Honduras in Dangerous Times*. “Pollution of water and land resources by logging or mining forced people to move. Often this meant the end of their traditional way of life, turning peasant farmers into displaced job seekers. Environmental destruction also undermined the spiritual values and morale of local communities. . . . [Daniel] Faber argues that environmental deterioration from such developments . . . is an intended part of the economic control of society. Displacing rural people from their land creates a pool of cheap labor.”²⁶⁸ (Not to mention northbound migrants.)

Thus, the very business model of the kleptocratic networks seems to be predicated on virtually unhindered exploitation of the environment. In the words of a villager, whose house overlooking the Patuca River is perched in the traditional style on stilts, “the same government that makes laws protecting this place is involved in the businesses that are destroying it.”²⁶⁹

SECRETARIA DE DESARROLLO E INCLUSIÓN SOCIAL (MINISTRY OF DEVELOPMENT AND SOCIAL INCLUSION)

Other examples of such weak—or deliberately weakened—government institutions are worth at least a cursory glance.

They include the social affairs ministry. It is remarkable that this agency, presumably responsible for addressing Honduras's legendary poverty and income inequality, as well as deplorable infrastructure in rural areas—conditions that give rise to gang recruitment and migration—should be as relatively invisible as it is.²⁷⁰

One of its flagship initiatives is the Bono Vida Mejor, a program of cash transfers to impoverished Hondurans, especially aimed at educational expenditures.²⁷¹ But interviewees pointed out that it is the president's office that selects many of the beneficiaries, not the ministry. The Honduran government's own communication confirms the observation.²⁷²

Interviewees consistently criticized the lack of transparency in the distribution of such *bonos*, and said they are used to secure support for the president. “The *bonos* and *borsas* are only given to National Party people,” observes a member of one southern Honduran community organization. “It's a kind of vote-buying.” Others cited personal experiences of discrimination. “We can't get that Bono 10 Mil [a predecessor of Bono Vida Mejor] or other programs because we are criticizing the government,” said a woodland farmer from the hills on Honduras's border with El Salvador. “They use it like a political campaign. It's a two-faced discourse: they talk education and development, but we're not getting anything.”²⁷³ Other interviewees echoed this suspicion that some portion of these funds is used for campaign advertising or transporting people to—and paying them to participate in—public consultations or demonstrations, such as a July 24, 2016, Tegucigalpa rally in favor of Hernández's reelection, during which hundreds of busses stood parked in ranks along the capital city's central avenues and flyovers.²⁷⁴

In a view echoed by most interviewees, a former high-ranking official says “they are using money from the government budget for other purposes.” He singles out “Vida Mejor, which gets 1 percent of the national budget. Part of it is held in a trust fund. There is no transparent process for determining who the beneficiaries are.”²⁷⁵ As a professional driver echoed, “There are programs for kids and so on. But they help the people that suit them, that give them power. The money doesn't go where it's most needed.”²⁷⁶



Busses that carried demonstrators to a march supporting a second term for Hernández, Tegucigalpa July 2016.

INA (INSTITUTO NACIONAL AGRARIA, OR NATIONAL AGRARIAN INSTITUTE)

From the perspective of underprivileged rural Hondurans, the role of the INA has varied, reflecting different governments' approaches to land tenure, and perhaps some internal divergences among staff appointed at different times. On the one hand, it has facilitated big businesses' consolidation of holdings under the 1992 Agricultural Modernization Act, and has allowed for illegal titling of protected land. The environmental law expert cited above highlights the agency's internal incentive structure: "There's a contradiction: no one is supposed to sell land within national forests. But the INA has targets for the number of titles it is expected to deliver."²⁷⁷

But agency officials have also challenged the standing of large palm plantation developers in the Bajo Aguán valley, including enormously powerful Miguel Facussé, saying the conflict there could have been solved by expropriating lands to which ownership claims were dubious and distributing them to locals who had long farmed them.²⁷⁸ More recently, the institute has helped such indigenous communities as the Garifuna and Miskito gain collective rights to ancestral lands.²⁷⁹ "INA was a supportive partner during the whole recognition process," says Fernando Rodriguez, an anthropologist studying the development of Miskito governance practices on the newly titled land. "It has served as a point of entry into the state for rural organizations and social activists."²⁸⁰

Perhaps because of that accessibility, INA seems now to be in the process of getting hollowed out. It has suffered repeated budget cuts,²⁸¹ leading to protests by unpaid workers in 2016 and fears on the part of peasants' organizations that the intent is to dissolve the agency.²⁸² "I hear it may be dismantled," Rodriguez remarked, echoing rumors his contacts had passed along.²⁸³

Given the lack of any alternate forum for appeal, starving the INA of resources effectively deprives peasant farmers and indigenous Hondurans of any means of redress when they are embroiled in local conflicts over land. In other contexts, such a systematic deprivation of means of appeal or redress of legitimate grievances frequently drives the sufferers to violent extremes.²⁸⁴

AUDIT INSTITUTIONS

The legendary ineffectiveness of the High Tribunal of Accounts (Tribunal Superior de Cuentas) is an example of hollow oversight agencies. "Cuentas?" scoffed one Honduran audit professional when I asked him about it. "That's a joke. There is no control institution. It's completely disabled. I mean, they didn't even do anything about the IHSS scandal."²⁸⁵ Indeed, it was the National Anti-Corruption Council that initiated investigations into that sprawling case, on the basis of an anonymous tip.²⁸⁶ In November 2016, the MACCIH complained publicly about a slate of new magistrates selected.²⁸⁷

By contrast, interviewees point out that the tribunal opened an investigation into the purchase of shoes for distribution to the poor by a charity owned by former president Porfirio Lobo's wife.²⁸⁸ The rumor had spread that she was on a U.S. list for potential extradition, but under Honduran law, no one can be extradited if a Honduran legal process is under way against him or her.²⁸⁹

Despite the open secret about the quantity of drug money washing through the Honduran banking system, the financial industry regulatory body, the Comisión Nacional de Bancos y Seguros, has not brought a major money-laundering case in recent memory. Nor has it audited a single one of the public works or public-private partnership projects that are implemented by bank-managed trust arrangements.

It is critical to bear in mind the intentionality that is on display in these examples of institutional weakness. These are not cases of human capital deficits due to underdevelopment, or of opportunistic corruption within these agencies hampering professionals' ability to do their jobs. Nor are well-intentioned officials being blocked on occasion by political interference. Rather, the agencies' independence is being systematically crippled. Their remaining functionality is bent to the role of protecting network practices, often by throwing up smokescreens in the direction of the public or of international interlocutors.

The regulations and oversight agencies are deliberately purposed to neuter actual oversight power and thus facilitate kleptocratic practices.

The examples above represent some of the national agencies that have been shaped or purposed in such a way as to serve the objectives of the Honduran networks. Several interviewees drew our attention to the further reflection that opened this section. Not only are government functions being distorted in this way, it was several interlocutors' consensus that Hernández has also worked to consolidate control of these functions in his own hands to a degree that is remarkable even in Honduras. The word "autocracy" featured frequently in their assessments.

"Part of this crisis is the fact that we have a completely autocratic government: imposing decisions by force, sequestered justice, all the apparatus of government that is supposed to be operating independently is captured and controlled by the president," said one.

"It's very unusual, the way he has taken control of all the levers of power: Congress, the Supreme Court, and so on," another put it. "Like a king."

In the words of a third: "Hernández is trying to increase his power. He's trying to concentrate as much power as possible in the presidency."²⁹⁰

LOCAL OFFICIALS

Western discussions of corruption frequently dismiss daily shakedowns by street-level functionaries as relatively unimportant "petty corruption" that need not command much policy attention. Or they focus on ties between municipal leaders and organized crime as an almost autonomous phenomenon—usually with the organized criminals cast in the dominant roles: as the corruptors of local officials or infiltrators of targeted government structures. In most cases, this framing underestimates the significance of corruption on a subnational level, and the degree of vertical integration that characterizes these systems.

In the case of Honduras, while local autonomy is observable, the kleptocratic network is also vertically integrated. That integration is visible in institutional structures as well as personal ties. Taxes gathered on the local level, for example, are not sufficient to cover all expenditures, so mayors rely on cash transfers from the national budget, set by law at 10 percent of tax and nontax government revenues, to be shared among the 298 municipalities.²⁹¹

The suspension of these transfers to towns whose mayors protested the 2009 coup demonstrates the potential for Tegucigalpa's discretionary use—for disciplinary purposes—of this critical funding.²⁹² National parties, furthermore, select mayoral candidates, rather than local party committees or the prospective candidates themselves deciding independently

to join the race.²⁹³ Some observers say certain mayors—those who have tapped into the tide of drug money, for example—have significant bargaining power in this process. Still, national-level network members play a determining role in deciding who actually runs local government.

Like corruption victims everywhere, Hondurans decry the shakedowns they suffer at the hands of local officials and bureaucrats. “The place where you go to get birth certificates,” a Tegucigalpa English teacher recounted by way of illustration, “they say they have no paper. But if you pay someone, you get it. That doesn’t make sense. If there’s no paper, there’s no paper! It makes me feel bad and angry . . . all sorts of feelings mixed up.”

In the rural department of La Paz, “they do all sorts of stupid little things to get money. Like on Independence Day, you have to sing the national anthem. If you refuse, you have to pay. If you don’t pay the fine, then your kids don’t move on to the next grade in school.”²⁹⁴

In numerous other countries, from Afghanistan and Azerbaijan to Nigeria and Uzbekistan, a portion of these street-level shakedowns is paid up the chain of command: either in the form of a portion of the cash handed off to a superior’s intermediary, the outright purchase of office, or gifts of labor or goods. Such payments are the price of the license to steal. Azerbaijan’s system is the most institutionalized of any I have documented: like a tip-pooling arrangement, bribes extorted at street level are consolidated at a higher echelon, then a portion of the cash is sent back down as so-called “envelope salaries.”²⁹⁵ No interviewee provided evidence of such an elaborate system in Honduras. But the likelihood that a cut of street-level shakedowns is shared upward was confirmed by several people. One corruption expert said the practice is especially well-established within the police and construction permitting offices.

The revenue streams most directly available to local officials are those related to land. Mayors are often involved in efforts to measure off and title small-holdings, as allowed under the 1992 Agricultural Modernization Law, either for their own purposes or to benefit private companies. “Our local indigenous councils own land collectively,” explained the coordinator of a community organization that covers a dozen villages in that department. “But the government told the mayor to parcel out our land and record individual plots in the cadastre. He assures us that no one has measured anything. But we went to the cadastre office and checked, and we found the measurements.”²⁹⁶ The coordinator noted that to obtain ordinary municipal services, such as a marriage license or an electricity hook-up, residents had to sign their agreement with the principle of individual land titling.

We visited his brother’s farm, where coffee and cocoa bushes grow interspersed between mangoes and tall forest trees on the steep slopes. Every few minutes, he would interrupt our conversation to point out a medicinal herb or a plant whose leaves or seeds help fix

nitrogen in the soil or repel insects. The community clearly understands the area as his land, and knows where its boundaries lie. But traditionally, he could not sell it to outsiders for money. It is this tradition that the 1992 law is eroding. One of the consequences of individual parceling is that companies wanting to dig mines or build dams can buy out and replace enough individual residents to create dissension in the community. Newcomers, grateful for the land, may be happy to sign their consent on consultation documents as the price. Association members reported that their opposition to the measurement and registration of individual plots triggered a wave of police harassment and intimidation.²⁹⁷

For these rural Hondurans, the only role local government seems to play is an extractive one. “Our mayors aren’t bringing us any public services,” noted a man in a green jacket, missing several teeth. “They are only here to measure the land.”

“The roads here are terrible; we have to beg for development,” agreed another, wearing a red T-shirt, “but five different municipalities are taking taxes from us and want our forest, our water, and our wind energy.”²⁹⁸

As a result of these experiences, many rural Hondurans conclude that the democratic party system has not succeeded in providing them a real voice—that it is in fact a distraction, aimed at pitting them against each other and diverting their attention from defense of precious rights. “Political parties come in and divide people,” reflected the coordinator. “Now many of us are realizing neither one really represents us.” Others agreed. “It’s political sectarianism. Just another way of oppressing us.”²⁹⁹

Here and elsewhere in rural Honduras, residents complain about nontransparent budget expenditures and the capture of development resources by local officials. “We have terrible education here. No medicine in the health center,” said the man in the red T-shirt. “The government gets humanitarian resources, but none of it reaches us.” Another pointed out that international development agencies tend to channel resources through local officials’ offices.

In a push to avoid creating parallel structures, the European Union development agency—and, to a lesser degree, USAID—does highlight its preference for implementing programming through local officials.³⁰⁰ As one senior European development official went out of her way to emphasize in an interview, “We’re not substituting.”³⁰¹ The question that should perhaps be asked with more care in this context is whether Honduras’s current political dispensation makes it likely that these officials actually represent their constituents, and if not, how better to deliver development assistance.

Along the Patuca River, the type of arbitrary, discretionary use of development assistance experienced in La Paz is fraying the gossamer threads that hold threatened indigenous communities together, and represents an essential cog in the machine that is chewing through some of the last tracts of tropical rainforest in Central America.

In repeated accounts, villagers explained that until about two years ago, small-scale development projects helped generate the tiny sums of cash they needed to subsist in the modern economy: to pay for the boat ride up or down river for supplies, or for medicine or shoes for their children. “There used to be little projects in all these villages,” explained a resident who requested a ride upstream from Wampusirpi to her home. “It would be a campaign to clean up the village, or to repair the dirt track down to the river, so people could make a little money. But now, nothing.”³⁰² The mayor with jurisdiction over this stretch of river abruptly ceased sponsoring the activities about two years ago, she reported.

A man we met in the grassy village of Bilalmo told the same story. Ponies were grazing around us as we spoke, and cows walking free amid groves of orange trees and stacks of drying palm thatch. Stairs led up to the porches of wooden houses perched shoulder-high on stilts. “The mayor gets 25 million lempiras for this project, 25 million for that one; he carries it off on his shoulder,” the man told us, as half a dozen of his neighbors gathered around nodding. “He takes the money and says he implements the projects, but the government doesn’t check.”³⁰³

Press reports confirm the existence of widespread corruption allegations, as well as Mayor Walter Bertran Gonzales’s long absences from his post.³⁰⁴

Residents up and down the river have grown so incensed that they staged a sixty-day sit-in at the local capital, Wampusirpi, earlier in 2016. “For three years we’ve had no mayor we can trust,” the man exclaimed. “No mayor at all, for that matter. We’ve gone again and again to the government to get another mayor. We’re tired.” Eventually the protest broke up with no change in the situation.

As the small cash-for-work projects dried up, residents surreptitiously sold their land—though under the 1999 charter creating the national park, that land is inalienable, and no one but those who lived in the park when the charter took effect and their direct descendants can reside there.³⁰⁵ Any titles or deeds of sale granted by local officials or employees of INA are illegal.

But “the people have nothing,” explained our hitchhiker. “No other way to make money. It’s only because my daughter works in Tegucigalpa and sends me a little each month that I could refuse and keep my land for my grandchildren.”

Young Krausirpi residents described heated village meetings about the sales lasting late into the night. “We are angry at our elders for selling land,” said one, to whom we had also given a lift in our boat after spending the night in Krausirpi. “We told them: ‘You’re going to die, so it doesn’t matter to you. But what about us and our children?’”

“If there were projects,” regretted another young Krausirpi man, “we wouldn’t have to sell our land. The problem is cash. We have the capacity to grow rice, beans, and yucca, enough for our own subsistence. But it’s not enough to sell.”³⁰⁶

In this bitter personal quandary for indigenous households lies a threat to tropical forest that represents irreplaceable virgin wilderness—not to mention a giant carbon bank. The buyers of the lands long held by the Tawahka and Miskito villagers we interviewed are cattle-ranchers, who are laying waste to the ostensibly protected national park.

“They’ll bring in outsiders to clear it and plant pasture,” the hitchhiker said simply of the forest behind her village. Otherwise, indigenous people themselves are forced to do the work, as they seek wage labor once they can no longer sustain themselves from their land. A soft-spoken man who also flagged down our longboat for a lift, explained what we were seeing along the banks. “The businessmen’s people cut the trees down with machetes. Then when the wood is dry, they burn it. They might use some for their own houses, but they burn the rest or leave it to rot. It’s too expensive to take out.”³⁰⁷

“It’s not practical to sell the wood,” confirmed the environmental law expert. “It’s very hard to get permission to sell or use precious woods, so it’s not worth the effort. Twenty-four authorizations are required just to use the wood for noncommercial purposes. It takes forever and it’s costly, so people see no benefit. Best for them is to chop it down and put in cattle.”

Some on the river reported seeing canoe-loads of contraband wood plying the Patuca in broad daylight, but the black scars across miles and miles of hillsides confirmed the preference for burning. Once the trees are cleared, the land is often planted with corn and beans for a few years, then it is converted to pasture.

Patuca residents rarely know exactly who is buying their land. “Olanchanos,” they say, meaning non-indigenous people from Olancho, the department that includes an upstream section of the national park, but extends well to the west of it. We confirmed the assessment by asking a number of ranchers and their employees where they were from. Olanchanos, steeped in a noisy, frontier-style rancher/biker culture, have also bought out shops and other businesses in Wampusirpi. “It’s a new Spanish conquest we’re undergoing,” spat a resident of Krautara.³⁰⁸ These Wampusirpi businessmen are the people the hitchhiker identified as purchasers of land in her village and nearby Krausirpi.

But a few interviewees who dared talk about it confirmed the findings of American geographers and earth scientists long familiar with the area: that these small-time shopkeepers are fronts for, or allied with, the really significant businessmen in this notorious part of the country—drug traffickers.

The drug economy will be treated in greater depth in the section below on criminal elements of the kleptocratic network. But it is so integral to the fate of the Patuca watershed—and to understanding the role of local officials more generally—that it needs at least a glancing mention here. In the mid-2000s, the downstream reaches of the river became part of a major transit zone for U.S.-bound cocaine. In “Drug Policy as Conservation Policy: Narco-Deforestation,” Kendra McSweeney, Eric Nielsen, and their co-authors note the “close correlation between the timing and location of forest loss and drug transit in this zone.”³⁰⁹ The pace of that loss vastly accelerated, they and others have found, after 2006.

Buying and “improving” land by converting tropical forest into ranches is a good way to justify presence in the isolated region, to secure space for transshipment, and to launder money—especially given the Honduran government’s promotion of meat exports.³¹⁰ The researchers’ interviews revealed that many residents are intimidated or coerced into selling their ancestral lands. “It is narco-traffickers who act as shock troops in the assault on native homelands . . . dispossessing residents and rapaciously converting forest commons to private pasture primed for sale.”³¹¹ To several expert observers, the shutting down of small-scale development projects has been another deliberate element of this process, making it all the harder for villagers to resist the drug-traffickers’ encroachments.

In this way, the integrated corruption that braids together public officials, government-supported businesses, and criminal organizations is driving an assault on irreplaceable habitats and the people who have guarded and nurtured them for centuries.

To the west of the Patuca basin, around the city of Juticalpa, the connections between local government officials and narco-traffickers are even more blatant. For years, the area was a rear base for three, often rival drug-trafficking organizations, the Bayrons,³¹² the Cachiros,³¹³ and the Sarmientos.³¹⁴

“They were using this road as a landing strip!” a local who took us on a tour of the town maintained. “Before, you couldn’t have driven through here slowly like this.”³¹⁵ By “before,” our guide meant before a wave of arrests of members of the Sarmiento family and associates—including the then-mayor of the town.³¹⁶ For ten years, Ramon Daniel Sarmiento, the nephew of the family patriarch, Ulises “Liche” Sarmiento, had served as mayor of Juticalpa.

An in-depth report on another historic Honduran drug kingpin by an expert on organized crime in Central America, Steven Dudley, reinforces the views of many Hondurans that the current mayor of the commercial and industrial hub San Pedro Sula, Armando Calidonio Alvarado, may also be a key figure in the narcotics industry.³¹⁷ His prior government office, deputy security minister, suggests the vertical integration of this intertwined strand of the

network. Alex Ardón, of the AA Brothers Cartel, was mayor of El Paraiso, located in the department of the same name, contiguous in the southwest with Olancho.³¹⁸

But these are hardly the only cases. In the past several years, a rash of investigations and arrests has swept through the ranks of mayors. Nearly three dozen have come under scrutiny for drug trafficking, money laundering, and assassination, among other crimes.³¹⁹

A former minister whose duties included oversight of counternarcotics efforts expressed some empathy for local officials who are suborned. “A police chief is assigned to a small town,” he asked us to imagine. “He’s paid \$1,500 a month. A ‘businessman’ offers him \$30,000 a month not to notice the clandestine airstrips that are being built. For someone like that, it’s hard to say no. And this converts the whole security system into a branch of organized crime.” The former minister described the strategy he had observed: “There are three key people the narco-traffickers try to bring onto their side: the police, the judge, and the mayor. They usually succeed.”³²⁰ (For further discussion, please see the section on criminal network elements, pages 79–83, below.)

Other mayors, such as Tegucigalpa’s Nasry Juan Asfura Zablah, seem to take a more traditional route to self-enrichment, by promoting infrastructure projects that their own companies participate in implementing. “They call him ‘Papi a la Orden,’” commented an economist at a major international development bank. “He’s also a businessman. He owns a construction company. He openly talks about his own people working on public contracts.”³²¹ Deadpans one Western development contractor: “The Tegus mayor is a construction guy; he’s really into infrastructure. He thinks you fix everything by infrastructure!”³²²

*“It’s hard to distinguish between
public officials and private-sector interests.
They’re the same people.”*

—Development economist



PRIVATE-SECTOR NETWORK MEMBERS

THE INDIVIDUALS OR FAMILIES referred to here as private-sector members of Honduras's kleptocratic network by no means control the nation's entire economy. Plenty of businesses exist outside the network: the small restaurants that line the roads and city streets, small-scale manufacturing for local or regional consumption, agriculture—even much coffee cultivation, processing, and export—do not fall within the networks' purview.

Kleptocratic networks focus on those economic activities that are most likely to generate and concentrate exponential returns in relatively few hands, especially by way of government favoritism, or that are most likely to attract significant international financing. In Honduras as elsewhere, banking, energy and natural resources, export agriculture (licit or illicit), and large-scale construction are prime targets of network predation.

One strand of Honduras's private-sector network element does overlap very closely with the public sector, as the epigraph above suggests is the case. It consists of those companies that provide goods and services directly to the government, such as construction or pharmaceutical companies. But even the more powerful and more distinct private-sector strand—members of the handful of families of Syrian or Palestinian origin that dominate many of the most lucrative activities—may also be gradually fusing with the governmental cohort. Some have held high public office. And several students of Honduran elites told us that the young adults descended from Middle Eastern stock (approximately the fourth generation) are beginning to marry outside of their traditional clans.³²³

For many in these increasingly overlapping social groupings, the luxurious American School of Tegucigalpa—where “the language of money is built”³²⁴—serves as a social and business networking platform that may be breaking down some of the earlier separation. Interpenetration may also be taking place below the surface level of corporate ownership and management, by way of exchanges of company shares for generous contract terms, including free inputs such as electricity, illegal permitting, or other administrative favors.³²⁵ Such international initiatives as the Alliance for Prosperity—aimed at the three Central American countries known as the Northern Triangle, whose outside funding includes a projected \$750 million from the United States—provide big businesses a seat alongside government decisionmakers in determining economic and development policy.³²⁶

Concerted research by a corporate due-diligence professional on our team with experience in the former Soviet bloc found Honduran corporate ownership “far less transparent than it is in Russia.”³²⁷ Companies are listed with the Commercial Registry Office, and must submit articles of incorporation and shareholder identity to their municipal chamber of commerce, together with annual balance sheets. But they are not required to make any of this information public. Chambers of commerce are unevenly transparent, and no national business registry exists.

There is no question that such secrecy is deliberate, meant to obscure from view the owners of companies engaged in contested activities. When Global Witness reported that the vice president of Congress (via her husband) owned the company building two unpopular dams, she denounced the information as false.³²⁸

Nevertheless, weeks of trawling public records, social media, and other sources allowed us at least to corroborate the basic picture sketched in numerous interviews and studies: that corporate ownership in those sectors of the Honduran economy that are most likely to generate rents is concentrated in the hands of members of about a dozen families.³²⁹

One characteristic that emerges from this examination is a notable degree of diversification within the key families’ activities. Like Azerbaijan’s ruling Aliyev family, they own conglomerates that often are engaged in a variety of lucrative businesses, and notably span the divide between finance and the real economy.³³⁰ “Bankers and industrialists are the same people,” comments a former senior government official.³³¹ As a result, they can collaborate as a powerful bloc to fix the political and economic rules that underpin their domination. Rivalries within this private-sector element of the network certainly exist, and are often manifested by way of cleavages between major political parties. The Rosenthal family, for example, has leaned toward the Liberal Party, while the rival Atalas are Nationalist stalwarts.

Though the lack of public corporate records complicates substantiation, it is clear even from piecemeal evidence that the boards of many of these companies interlock, either via exchange of directorship positions or marriage alliances. As a result, like a tightly woven

goal net, the families are “strategically positioned as indispensable allies to external actors seeking entrance” into Honduras, as scholar Aaron Schneider put it,³³² and they benefit disproportionately from foreign direct investment and international loans and development financing.

The discussion below elaborates on a few of the economic sectors that some of the primary families dominate. A glance at any of the relevant company websites indicates that almost all their business operations cross borders. Further study is needed to explore and depict the transnational dimensions of the activities and relationships involved.

BANKS

More than 50 percent of Honduras’s financial market is now controlled by just three banks: Banco Ficohsa (led by members of the Atala Faraj family), Banco Atlantida (Goldstein and Bueso families), and Banco de Occidente (Bueso and Arias). Honduran banks have traditionally been parsimonious with credit, only extending it given substantial collateral and/or guarantees.

To help lubricate this constricted market, the International Finance Corporation has made significant loans, ostensibly for onward lending to small businesses.³³³ But in at least one case, an internal investigation found that International Finance Corporation money “in excess of agreed ratios” has been passed through Banco Ficohsa to one of its biggest borrowers, the Facussés’ Dinant Corporation, despite the violent conflicts surrounding Dinant’s palm plantations in the Bajo Aguán.³³⁴ (See the section on pages 73–74 below.)

Bancos Ficohsa and Atlantida hold almost all the trust funds through which many public infrastructure projects are implemented and public services delivered. (See *Coalianza* above, pages 35–37.) These funds do not secure and manage financing just for physical infrastructure, such as roads or ports. They have also been used for purchasing medicines and supplies for the public health service, privatizing the national electricity company, managing street lighting, and holding money that is collected through the “security tax” and set aside for welfare *bonos* to the poor.³³⁵

Legally, the agreements governing these funds’ structure and use are commercial contracts, and therefore are shielded from public scrutiny under Honduran law. “The contracts are negotiated under the table,” says a former Central Bank governor. “If there is a bad negotiation, the state assumes the risk and the costs.” According to another interviewee who has been studying trust fund operations, Banco Atlantida is considering reducing its exposure due to concerns about the way technical committees responsible for carrying out the terms of the trust arrangements are using the money.³³⁶

The recent liquidation of a smaller but still influential financial institution, Banco Continental, in the wake of U.S. money-laundering sanctions sent shock waves through the industry,³³⁷ according to several interviewees. The charges against the bank and its owners, members of the Rosenthal family, were based on purchases of beef from the Cachiros drug cartel and the subsequent acquisition of its meat-packaging business, as well as investments in or loan provisions to the family's zoo, palm oil plantations, and personal mortgages.

In any economy that is as inundated by drug money as is that of Honduras, it is nearly impossible for banks to avoid doing business with companies linked to drug traffickers. Or even to steer clear of their cash. Kirk Meyer, who as a U.S. Drug Enforcement Administration (DEA) special agent investigated a shortfall of some \$900 million in the Kabul Bank in Afghanistan in 2010 and 2011, remarks that the only solvent private banks in that country were those floated by the opium industry.³³⁸

To the eyes of the development economist, the Honduran situation looks similar. "A lot of the liquidity of the main banks is connected to drug trafficking. I can remember one important banker telling me he knew Continental was laundering. He and all the others say they don't do it, of course, but it's part of the game. You know where the traffickers are—the office in Olancho gets a lot of cash . . . where is that from? Everyone knows: the Central Bank knows, the Banking Commission knows, but how do you stop it without creating a crisis in the sector?"

This reflection helps explain the durability of networked corruption: when its tendrils weave through several critical sectors, it can seem impossible to prune them back without destabilizing the entire economy. This economist conceded that his own analysis and forecasting does not take the massive shadow economy, or the financial industry's exposure to it, into account. "We don't have an estimate for how big it is," he justified.³³⁹

ENERGY

Since the mid-1990s, private-sector members of Honduras's kleptocratic network have surged into energy production, especially, in recent years, renewables.³⁴⁰ "It's the easiest way of making money fast,"³⁴¹ says an officer at a local NGO who has been supervising a study on the topic. The key investors are members of the Facussé/Nasser, Kafie, and Larach families. All of them have been expanding their electricity generating businesses into the neighboring countries of El Salvador, Guatemala, Nicaragua, and Panama.

Solar power has been particularly attractive to these most powerful families, because the inputs are relatively inexpensive and getting cheaper, and risks are limited. (For a discussion of the extremely advantageous conditions offered to solar generators, see the section

on the state-owned electricity enterprise, ENEE, pages 37–39 above.) But, because of potential fluctuations, large-scale use of solar requires a stable backup—especially if it is to be sent onto the interconnected Central American grid. And, as the NGO official notes, “that backup is hydro.” Indeed, the main Honduran families invested in solar energy at home have been building dams in neighboring Panama and Guatemala.³⁴²

ENEE itself is implementing several large hydroelectric projects, such as Patuca III and Llanitos y Jicatuyos in the western department of Santa Bárbara. But in the single year of 2010, immediately following the coup, no less than twenty-four concessions were granted for privately owned dams that were described as active in 2013.³⁴³ Environmentalists have counted more than forty.³⁴⁴

The most infamous of these projects is the now-halted Agua Zarca dam on the Gualcarque River in the southwestern department of Intibucá. Its backers’ willingness to risk the international outcry that assassinating Berta Cáceres would predictably unleash indicates what a high-stakes project it was, materially and symbolically.

In early 2011, Desarrollos Energéticos SA (DESA) began seeking local approval to build a dam. That was around the time that Atalas, some of whom own Banco Ficohsa, acquired a significant stake in the company. The company’s links into the public-sector element of the Honduran network include the prior position of company secretary Roberto Pacheco Reyes as justice minister, and that of its president, Roberto David Castillo Mejía as a military intelligence officer.³⁴⁵

According to 2013 filings by the affected communities, residents repeatedly rejected DESA’s requests to approve the dam’s construction. Purported consultations with them were just as spurious as those described by villagers along the Patuca River.³⁴⁶ Nevertheless, the mayor signed off on the project, which received an environmental license valid for fifty years—in return for a bribe, as was later discovered.³⁴⁷ Funding was secured via a variety of bilateral and multilateral development banks.³⁴⁸

DESA contracted Sinohydro—the same Chinese hydropower giant that is constructing the Patuca III dam—to build this dam, and work began in 2012. In almost no time, conflicts were erupting between the villagers and construction workers, who trampled crops, damaged school equipment, and fenced off a spring used for drinking water.

When, in March 2013, guards and signs appeared on the road, denying villagers access to the river altogether, protesters set up a roadblock. Soldiers and security guards pitched their camp inside the DESA compound, and made themselves visible around the site—a notable example of the use of the military to protect the interests of private-sector network members. The legal system was also harnessed to this cause: Cáceres was arrested in May on illegal weapons possession charges that later proved to be bogus (the gun had been planted). In July, soldiers fired from inside the DESA enclosure on a public meeting,

killing one of the local activists, Tomás García. Residents reported continuing confrontations with security forces as well as physical threats, both open and anonymous.³⁴⁹

These events prompted Sinohydro to terminate its Agua Zarca contract in August 2013. “Right from the very beginning,” it explained the move in a letter, “it was noticed that there were serious . . . conflicts between the Employer of the Project, i.e. DESA, and the local communities.”³⁵⁰

The type of multifaceted campaign required to ram such a project past local opposition can leave lasting scars. “When you introduce bribery,” mused an American who has been reporting on the Agua Zarca situation for years, “when you buy off community leaders, and bring in the military and introduce generalized violence as a cover for political violence, you destroy the fabric of the community. And it’s hard to roll that back.”³⁵¹

Nevertheless, other outside investors, such as the Central American Bank for Economic Integration, and the Dutch and Finnish development banks, maintained or upped their stakes in the project.

The Honduran authorities’ initial response to the killing of Berta Cáceres was dazzlingly inappropriate. Instead of following up any of the leads Cáceres had provided in repeated complaints of death threats in the weeks leading up to the attack, investigators suggested the murder was part of botched robbery or even an internal feud. In a further example of the network’s use of judicial processes to discipline dissenters, the first people detained were a member of Cáceres’s organization (COPINH) and a Mexican friend of the movement who was the sole witness to the events.³⁵²

Some weeks later, under intense international pressure, a half dozen suspects were arrested: employees either of DESA, the Honduran security services, or both.³⁵³ In June, reports surfaced that members of two elite interdisciplinary anti-drug and -gang units, Xatruch and FUSINA, were being tasked to assassinate environmental and land-rights activists, including Cáceres.³⁵⁴ Attacks on COPINH leadership have continued.³⁵⁵

Another such dam project, in La Paz Department, represents an even more direct example of self-dealing by public-sector members of the network. The recipient of the concession for the dam on the Chinacla River was Los Encinos SA, which belongs to the husband of Gladis Aurora López, the current vice president of the Honduran Congress.³⁵⁶ Leaders of a local community coordination movement that is combating the project showed us photographs of the same type of falsified local consultations that characterized the Patuca III and Agua Zarca projects. Two flatbed trucks shown on several images parked nose to nose were used to transport outsiders to participate in the meetings, creating a false impression of dissent, according to the coordination-members.³⁵⁷

Given the well-known environmental impacts of dams, which resulted in a reduction in new construction starts worldwide for some years, it is ironic that recent climate-consciousness has allowed them to pose as environmentally sustainable sources of renewable energy.

Across Honduras, interviewees were adamant that the energy being produced by such projects—the massive solar farms in the southern part of the country, the dozens of dams, the new biomass plants—is not aimed at community development at all. Its real purpose is revenue generation. “Using the language of renewables is a disguise,” said the leader of a community group opposed to the dams. “These projects aren’t about electricity for people, they’re about companies and profits”—or, to put it in this study’s framework, profits that are not warranted by the level of investment and risk, otherwise known as rents. “They’re for the integrated grid, the SIEPAC, for extractive projects, for mining and cement.”³⁵⁸

As a Patuca III critic put it, “The thing about big dams isn’t that they generate electricity. They generate money for government pockets. The developers are the biggest companies. And big companies, big money also offers big opportunities for money-laundering.”³⁵⁹ Projects like this serve as nodes around which the three elements of Honduran kleptocratic networks coalesce.

PALM OIL

Apart from cattle (and dairy), the only agricultural commodity in which the private-sector elements of Honduras’s kleptocratic network have established a significant stake is palm oil. Almost immediately following the 2009 coup, companies belonging to Facussés among others began aggressively moving in on farmlands along the central Caribbean coast, in the Bajo Aguán Valley (Colón Department). The objective was the intensive cultivation of African palm trees—either to respond to the international demand for cheap cooking oil, or to anticipate a more economically significant shift from fossil fuels to biodiesel—which is also dubbed a clean form of energy.³⁶⁰ Consolidation of the vast tracts of land required for such monoculture was accompanied by a wave of human rights violations, ranging from harassment to torture to murder. As in the later violence against opponents of the Agua Zarca or Aurora dams, the pattern of violations committed by Honduran security services and judicial institutions indicate that they were harnessed to the service of the companies, especially the Facussés’ Dinant.³⁶¹

Residents along the Patuca River, to the south and east of these African palm frontlines, were concerned that part of the objective of the Patuca III dam was to regulate the river’s flooding so as to allow for the plantations’ expansion into their region. “The government and the people with palm plantations have their eyes on this land. It started in Puerto Lempira and the Río Plátano area, but of course they want this area, too.” The experience

of the Bajo Aguán *campesinos* visibly affected this interviewee. “The government is well-known for killing those who resist.”³⁶²

The proximity between these vast expanses of palm trees regimented in rows and the remote tracts of coastline used by drug traffickers to transship cargo has made palm another obvious choice for money-laundering. Alongside its meat-packing business, the Cachiros’ Maradiaga family also owned Palma del Bajo Aguán SA. And a U.S. embassy cable dated March 19, 2004, provides a detailed account of the delivery of a tracked cargo of cocaine to one of Miguel Facussé’s properties in Colón.³⁶³

And yet, Honduran palm continues to benefit from a robust trade in carbon credits.³⁶⁴

CONSTRUCTION

From the earlier sections on Coalianza and banks, it is clear that construction contracting is a means by which Honduran networks siphon public money into private pockets. But given the secrecy shrouding this sector, it is difficult to establish the corporate ownership of the main builders operating in Honduras, or to identify which ones have received public contracts. Selecting implementers is one of the closely guarded prerogatives of the technical committees that manage Coalianza trust arrangements, and identifying which companies got which contracts, and who owns those companies, remains a critical target for further investigative effort.

A few examples, however, are illustrative.

Consider the toll road from San Pedro Sula to Tegucigalpa, one interviewee suggested, as an example of the disproportionate risk the Honduran government often assumes in these construction deals. “COVI [Concesionaria Vial Honduras SA] collects the tolls. But if for any reason—such as public protest or a hurricane—the total does not reach the amount agreed under the contract, the government has to make up the difference.”³⁶⁵ And indeed, the multiple tolls to be collected on the COVI road were the target of several public protests in 2016.

Though it may have been expropriated along with the rest of the Rosenthals’ holdings, the family’s logistics company, in the form of Portland Cement mixers among other heavy machinery, was conspicuously present at the Patuca III dam site. The Nassers’ Grupo Terro is building a number of airports.³⁶⁶ Tegucigalpa Mayor Nasry Juan Asfura Zablah’s ownership of a construction company—and his well-known enthusiasm for infrastructure as a fix for the capital’s woes—suggests contracting as a mechanism for public-sector network members to claim their share of the spoils.

Sergio Canales, former minister of public works, transport, and housing, awarded a contract to his construction company, Inseco, to participate in Honduras's Road Fund. Inseco did not have the required profile, but, like other companies that received concessions, secured a contract that paid 39 percent over the estimate that was submitted in its bid. Canales is a former member of the road technical committee charged with evaluating potential construction companies.³⁶⁷

Real estate and construction—as our driving tour of Juticalpa suggested—are common ways to launder money, and not just in Honduras. In many countries, these sectors link business and criminal members into interwoven networks.³⁶⁸

In Honduras, construction and contracting may also serve as a junction between criminal and public-sector network members. In several telling examples, the Honduran government contracted with a construction company belonging to the same Cachiro cartel that Tegucigalpa (and Washington) punished the Rosenthal family for financing.³⁶⁹ This relationship further demonstrates the horizontal integration of the public, private, and criminal sectors within Honduras's kleptocratic networks.³⁷⁰

MEAT AND DAIRY

One thing network-controlled fast food restaurants require is a steady supply of meat. Connections between the ranching business and drug trafficking are explored above, pages 62–64. Here, it is worth highlighting the evidence of threads weaving ostensibly respectable private-sector network members into that tress: members of the Rosenthal banking family were indicted on money-laundering charges in part because their meat packaging business regularly bought beef cattle from the Cachiros, and they later purchased the Cachiros' Ganaderos Agricultores del Norte outright.³⁷¹

NONPROFIT ORGANIZATIONS

The ability of a corruption network to establish or infiltrate nongovernmental organizations so as to capture resources provided to them, or to seed dissension so as to short-circuit such groups' resistance to network-linked projects, has been documented.³⁷² Global Witness's careful 2009 study of illegal logging in the Río Plátano Biosphere Reserve highlights timber traffickers' use of internationally supported local cooperatives as covers—allowing them to benefit from the international financial support accorded to the cooperatives in the name of forest protection, while simultaneously profiting from illegally logged mahogany.³⁷³

In our interviews in Krausirpi, it was clear that the main association representing the Tawahka indigenous group had been divided against itself, perhaps fatally. Other researchers and activists described to us their findings that drug-trafficking organizations were able to suborn some Miskito activists with offers of lobster boats or other perks.³⁷⁴ In a 2009 report, the Caribbean Financial Action Task Force, a regional affiliate of the international body that monitors money-laundering risks worldwide, singled out NGOs as notably unregulated and concluded that “a deep review of the non-profit sector to assess its vulnerability to abuse” for illicit financing is needed.³⁷⁵

Some Honduran churches, especially the Honduran Evangelical Church, are seen by many to have applauded the 2009 coup, and to have been instrumental in implementing many of the policies favored by the kleptocratic networks.³⁷⁶ Multiple interviewees made a point of mentioning this apparent alliance between some segments of the Catholic Church and the Evangelical movement and the networks that dominate the Honduran political economy. One described the local priest throwing stones at him, presumably because of his anti-dam activism. Another put Hernández’s relationship with the Honduran Evangelical Fraternity on a par with his persistent efforts to inject the military into domestic security roles.

These concerns raise further questions about the ASJ, Transparency International’s local chapter and recipient of significant USAID funding and other U.S. government support. With framed religious aphorisms hung on its office walls, it is an explicitly evangelical group. Critics question the even-handedness of its social welfare activities and its work in favor of privatized education.³⁷⁷

*“In Olancho, you don’t talk much
about the three cartels.”*

—Resident of Juticalpa



CRIMINAL ELEMENTS

NARCOTICS TRAFFICKING

It was in the mid-2000s that Honduras—and in particular Miskito and the rest of the Caribbean coast—became a major transit zone for U.S.-bound cocaine, as Mexican trafficking organizations took the place of Colombian cartels that were buckling under the pressure of crackdowns at home, and as the sea routes across the Caribbean became more dangerous due to U.S.-led counternarcotics efforts.

Juticalpa, in Olancho Department, with its three rival gangs, became a drug-trafficking hub. Our guide there showed us a number of gaudy properties residents say are used to “dry-clean” drug money. On one, Residencia Roble, small, brightly painted houses stand cheek by jowl behind a fence. “They’re sold to government workers on credit,” he said, noting that the development is technically owned by an automobile mechanic. Other such properties, warehouses, a stadium, a gym, “suddenly sprang up. From where?” he asks.

We crossed a bridge that used to be almost a no-go zone. “See those businesses, over to the right? Those belong to the Sarmientos,” who, according to our guide, “acted like the nobles of the town.” Rice, coffee, and molasses were among the commodities the family monopolized—their version, the assumption is, of dry-cleaning.

Because so much has been written about the Central American narcotics trade,³⁷⁸ we have chosen to emphasize other elements of Honduran state criminality in this study. Of most importance to us here are indications of interpenetration between trafficking organizations and the public- and private-sector strands of the networks we are studying. Such signs would support this report’s contention that organized crime is not a separate activity

but rather woven into the very fabric of Honduras's kleptocracy. Our presumption was that signs of such interconnections, especially at the higher echelons, might be difficult to uncover.

Instead, on the ground in the country's eastern departments that were until recently overrun by drug traffickers, the facts seem as self-evident as they were to me in the early 2000s in Kandahar, Afghanistan, where I lived. There, local hardware stores sold the specialized tools for harvesting the sap from opium poppies in sacks on their doorsteps, and the labor market went dry each May as busses lined up to transport men to fields that were pink with acres of tulip-like flowers. Everyone knew who the top traffickers were and saw them stopping by the houses of senior political leaders for meals.

Driving through the streets of Juticalpa with the observant local who hosted us, I had a strong sense of *déjà vu*. He would point out the farms belonging to Fabio Lobo, son of former Honduran president Porfirio Lobo; these farms have not been expropriated, but rather are being managed by a caretaker. The former president still lives in the area. Fabio, arrested in May 2015, pled guilty to drug-trafficking charges a year later.³⁷⁹ His father was no longer the Honduran president. But the crimes with which Fabio was charged spanned at least from 2009 to 2014.³⁸⁰ They included working not just with the Cachiros but also with that gang's Mexican allies, El Chapo and the Sinaloa Cartel.³⁸¹

If just about every Juticalpa resident was aware of his activities, it is implausible his father was not. And it is implausible that his father is not enjoying the fruits of the traffic, as he lives quietly on his vast farm, irrigated with one of the huge revolving overhead metal irrigation systems common in the U.S. Midwest but not to be found anywhere else in Olancho. And it is his son Fabio who reputedly benefits from the dry-cleaning that Residencia Roble is known for.³⁸²

Another Olancho Department figure was Lucio Rivera.³⁸³ Rivera is the cousin of Hernández's minister to the presidency, Reinaldo Sanchez.³⁸⁴ Olanchanos ascribe the arrest of their former Mayor Sarmiento, a scion of the Sarmientos cartel, to a turf war between his locally implanted family and the nationally connected Rivera and Sanchez clans. After Rivera's arrest at the Sarmientos' behest, "they [the national government] sent in COBRAS and TIGRES" on a revenge raid, recounted one local. "Moncho' [Sarmiento, the then mayor] was captured in his mother-in-law's house. They took him away in a helicopter. This whole area was full of military police. They were looking for [his uncle, Sarmiento patriarch Ulises] 'Liche,' but they couldn't find him. People said he escaped to Nicaragua down the Patuca River, with Mel [Manuel Zelaya]'s help."³⁸⁵

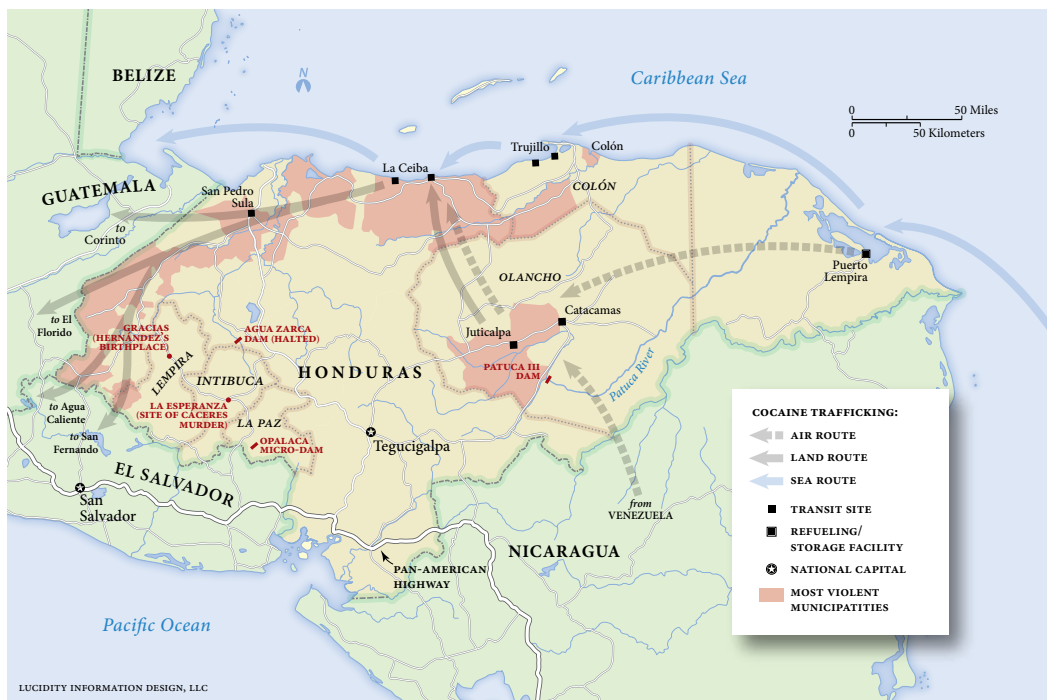
Two interviewees also noted that President Hernández's brother has served as a lawyer for narcotics suspects.³⁸⁶

And yet, every Honduran interviewed during the summer of 2016 concurred that the Hernández government has significantly reduced drug trafficking and its attendant violence in Honduras. Residents of former transshipment hubs described markedly improved security conditions compared to four years ago. Even critics of the Hernández government conceded, “There has been some success in the fight against organized crime.”³⁸⁷ Another Olancho suspiciously framed it this way: “The government is making believe it’s against the narcos, but it’s not real. It’s under pressure from the United States. The U.S. has Hernández in their hands.”³⁸⁸

Indeed, in one of the earliest high-level extraditions from Honduras, two members of the Valles’ cartel were whisked to the United States in December 2014, at the end of Hernández’s first year in office.³⁸⁹ “The Americans didn’t tell the president when they went to arrest them,” maintained a Juticalpa resident. “They surrounded the house, *then* called the police chief.”³⁹⁰ The suggestion is that with the information that began pouring into the U.S. government with this first extradition and that has increased with each subsequent one—including information about his own brother—Hernández is now almost obligated to cooperate with U.S. counternarcotics policies.

Another way of understanding some of these developments is to relate them to both geography and rivalries within the somewhat loosely structured Honduran kleptocratic

Drug-Trafficking Routes Through Honduras



networks. Geography may play a role in the more intensive counternarcotics enforcement under Hernández for the simple reason that he grew up in the mountainous southwestern part of the country, which is not the most convenient transshipment zone. Conversely, many of the human rights violations that are sparking social conflicts under Hernández are taking place precisely in his native region.

Zelaya and Lobo, by contrast, hailed from contiguous departments in the east, Olancho primarily, as well as Colón, which anchor the eastern end of narcotics trafficking routes through Honduras (see map). And both apparently became entwined with local cartels, seeming to affiliate primarily with the Sarmientos and Cachiros respectively.

It may be that Hernández's willingness to crack down on this lucrative trade—despite his close political collaboration with Lobo over the years—derives in part from his lack of opportunity to become engaged in it himself. It was taking place too far from his home base. The sacrifice, even of cartel-members close to his political mentor, may not have done much harm to his own financial interests, while the benefits to be reaped from a grateful U.S. government may have seemed worth the cost.

Rivalry within parts of the kleptocratic network may also manifest itself in government policy by way of divisions that separate narcotics and business families roughly along the fault line between the National and Liberal Parties.

TRAFFICKING IN OTHER FORMS OF CONTRABAND

The year 2014 was when bulk shipments to the United States of another commodity began, both from and through Honduras: unaccompanied minors fleeing Central America.³⁹¹ So lucrative is the trade that it is difficult to imagine well-established trafficking rings passing it up. Other obvious forms of contraband that may be smuggled through Honduras include sex workers, weapons, and counterfeit consumer goods. Further research is required to ascertain whether the networks organizing these varieties of trade overlap with drug-trafficking networks and/or key elements of Honduras's kleptocracy.

It goes without saying that many of the criminal activities perpetrated by members of Honduran kleptocratic networks are transnational in nature. Even the youth gangs that ravaged urban neighborhoods from Juticalpa to San Pedro Sula had their roots in urban gangs that were deported after proliferating in the United States in the 1980s and 1990s.³⁹² Drug-trafficking organizations are by definition transnational, and none more so than those in Central America, which play an intermediary role between producer and consumer countries.³⁹³ The same goes for networks that traffic other controlled cargo, such as weapons or people.

A particularly important angle for further research would be to determine whether the intersections among different strands of Honduran kleptocratic networks carry across the international borders they traverse. That is, do the Guatemalan affiliates of Honduran businesses, for example, also work in tandem with Guatemalan correspondents of Honduran drug-trafficking organizations?

ARMED GROUPS AND ASSASSINS (*SICARIOS*)

Most kleptocratic networks like those in Honduras rely on one or more informal instruments of force to administer violent correction when other means of intimidation fail to deter those who stand up to them. Few who saw the 2011 photographs will forget the image of the camel-riding “thugs” who bore down on Egyptian demonstrators during the 2011 Tahrir Square protests in Cairo. In Nigeria, youth gangs, sometimes called “area boys,” are frequently hired to commit electoral violence.³⁹⁴

In Honduras, urban gangs are known to serve as police auxiliaries on occasion. Elsewhere, the choice of such muscle is more insidious. Private security companies, employed to protect dams or palm plantations, may attack protesters side-by-side with the police or armed forces, or alone. Unidentifiable masked gunmen, known locally as assassins, or *sicarios*, have been responsible for many killings of land-rights and other activists. In environments where life is cheap, disguising network-allied purveyors of violence behind more generalized violence, such as gangs or violent insurgents (or Internet trolls), further complicates the identification and punishment of those responsible.³⁹⁵

“That’s a gray area.”

—Development oversight professional



EXTERNAL INSTITUTIONS, PRACTICES, AND CONDITIONS THAT ENABLE THE NETWORK

THE USE OF THE WORD “ENABLERS” in this discussion of kleptocratic networks is deliberate. It is meant to provoke a more candid consideration of the actual impacts of many activities in which respectable professionals participate. Often, to be fair, facilitating practices or programs are engaged in unintentionally. The people who implement them don't mean to reinforce criminally corrupt governments or their allies. In most cases, they intend to do just the opposite, and may simply not be examining with enough care the actual costs that reverberate out from a project they support, versus its apparent direct benefits. In other cases, however, the phrase “willful blindness” might be a more apt description of their attitude. The actions or services provided by still other entities that do business with members of such kleptocratic networks must be labeled active facilitation.

In a range of the latter cases, the distinction between an external enabler, as opposed to a full-blown member of what is best understood as a transnational kleptocratic network, may be hard to parse. Further research, therefore, should seek to develop a picture of these systems that is less geographically centered on a single country and to examine the web of international intersections and relationships outside that frame in a more concerted fashion than we do here.

The following discussion, and the different colors used in this study's infographic diagrams, are meant to encourage consideration of the different categories referred to above. In many cases, the choice of one classification rather than another came down to a judgement call.

ENABLERS

This category is composed of entities or activities whose reinforcement of kleptocratic practices may not be intentional.

U.S. security assistance:

Given the history of the U.S. military's involvement in Honduras, there is a tendency among Hondurans and outsiders who know the country well to see U.S. security assistance as a determining factor in the country's destiny. The reality of that support, especially in comparison with other recipients in today's post-September 11 context, may not match its psychological impact, so it is important to distinguish the two. But doing so is complicated by an extremely confusing tissue of overlapping funding streams exacerbated by a generalized lack of transparency.

The reporting and oversight rules governing U.S. security assistance are less stringent than those that apply to civilian assistance. The U.S. Department of Defense is to date not required to provide even a total dollar amount for assistance it delivers annually by country. According to one Washington specialist, "Right now, [the Defense Department] has no comprehensive understanding of what it supports in a given country in a given year, and no after-the-fact comprehensive reporting requirement."³⁹⁶

Much support is delivered under project umbrellas that cover several countries (such as the Central America Regional Security Initiative, or CARSI) and/or leave open the possibility that moneys be applied to either development or security purposes.³⁹⁷ Some assistance is covert and therefore classified. Adding to the confusion are the shifting boundaries between Honduran interdisciplinary forces and their sub-units, such as FUSINA, and the possibility that individual officers and men are exchanged among these sub-units, as discussed above. "Tracking U.S. assistance to Honduras is a nightmare," confided a researcher whose primary job is to do so.³⁹⁸

That said, U.S. nongovernmental organizations that monitor security assistance worldwide have reported that identifiable funding for Honduran military and police nearly doubled between 2014 and 2015, totaling some \$22 million in 2015 before falling to just over \$17 million in 2017, with by far the largest proportion devoted to counternarcotics.³⁹⁹ As part of that effort, the Department of Defense has spent some money on building small bases, especially on the Caribbean coast, which are often used for activities outside the country.⁴⁰⁰

Not included in this figure are arms sales (\$15.6 million authorized in 2015⁴⁰¹) or the flexible, State Department-run counternarcotics funding stream, dubbed International Narcotics Control and Law Enforcement (INCLE). At least through 2014, Honduras was also a favored site for U.S. Special Forces joint trainings, and some officers stay in the

country to monitor operations mounted by their trainees.⁴⁰² The budget for those activities is also unknown, as is the amount of money the United States spends on Colombian officers it hires to train their Honduran military and police counterparts.

These numbers are dwarfed by the more than \$1 billion per year accorded to Egypt and Pakistan, let alone the billions spent training, equipping, and mentoring military and police forces in Afghanistan and Iraq. But in the Central American context, the sum is significant. Psychologically, moreover, the impact may be greater than the numerical totals imply. Especially given the history of profound U.S. military involvement in the region, the use of Honduras as a base for cross-border U.S. operations, and the U.S. record of training officers who have gone on to stage coups or direct military campaigns marred by widespread human rights abuses, populations are likely to be more overawed than outsiders may think they should be when U.S. support is brandished by its recipients.⁴⁰³

Funding requests for military assistance projects are not required to include any specific objectives or benchmarks so their effectiveness can be measured. Generally, training and materiel provided to foreign militaries is aimed only at their technical proficiency. Both the State Department's Bureau of Political-Military Affairs and Department of Defense personnel tend to recoil from responsibilities for improving the way trainees treat local populations.⁴⁰⁴

But in repeated conversations with U.S. military officers delivering security assistance or training and mentoring to local forces worldwide, the assumption has been that such partnering is by its very nature a positive, that it helps "professionalize" local officers.⁴⁰⁵ U.S. military leadership initially credited the refusal of Egyptian soldiers to fire on Tahrir Square protesters, for example, to the training some of their officers had received at U.S. military schools. But it proved impossible even to connect with any of the graduates during the crisis, and given the subsequent coup against former president Mohamed Morsi and the killing of at least 1,000 demonstrators by Egyptian security forces in August 2013,⁴⁰⁶ U.S. training came to seem insignificant in explaining that early behavior.

The Leahy Law prohibits the provision of military assistance or training to a unit "if the secretary of state/secretary of defense has credible information that such unit has committed a gross violation of human rights."⁴⁰⁷ However, the restrictions can be waived in "extraordinary circumstances," and since the September 11 terrorist attacks, U.S. assistance has been delivered to several units known to perpetrate extrajudicial killings.⁴⁰⁸ In Honduras, the mixing of different units on a single operation complicates the identification of perpetrators of human rights violations. Most such violations have been episodic,⁴⁰⁹ and don't rise to the level of the widespread violations that, for example, bloodied neighboring Guatemala during that country's civil war.

One exception—to which U.S. security assistance may be linked—is the pattern of abuses committed by members of the Xatruch force deployed in the Bajo Aguán.⁴¹⁰ Half

a dozen years earlier, officers from this same Xatruch force were deployed to Iraq as part of the U.S.-led coalition. While the makeup of the units may have shifted between the two episodes (and the sequence means the Leahy Law would not apply, since the alleged human rights violations occurred after the assistance and partnering in Iraq), this relationship exemplifies how the U.S. security relationship fails to prevent abuses, and more likely gives recipient forces a sense of impunity.

An enforcement action on behalf of a kleptocratic network need not necessarily qualify as a gross violation of human rights to be effective, moreover. While it is important to make crisp distinctions between assistance that materially empowers specific abusive units and security-sector support in general, it is also true that the mere existence of an assistance relationship can serve a significant enabling role for such networks. Few ordinary Hondurans are in a position to track the details of which particular units receive assistance. The various forces operate jointly in any case. U.S. support sends a message of invincibility that network leaders can amplify by means of various public messaging tactics.

In this light, all U.S. military assistance must be understood to play an enabling role to the current ruling networks. When that assistance takes the form of military training provided to a favored police unit, such as the TIGRES, the reinforcing function is even more direct. President Hernández's habit of mixing units within joint task forces further complicates the picture, and makes it more likely that Hondurans' perception of U.S. military assistance will extend to all those units that directly report to Hernández.

Mindful of this enabling effect, members of the U.S. Congress in the wake of the Cáceres assassination introduced a bill that would suspend all security assistance grants or loans to Honduras. The cutoff would stay in effect until Tegucigalpa has investigated and brought suspects in her murder and some others to trial, has “withdrawn the military from domestic policing,” and has built a judicial system capable of bringing members of the security forces to justice for human rights violations.⁴¹¹ American experts and advocates gave this bill a slim chance of passing. But despite a State Department certification that Honduras has met qualifying conditions, Congress was still holding up its portion of a large aid package earmarked for the region in March 2017.

Civilian overseas development aid:

Development professionals who fund or implement projects in the countries in question have been among those most stung by the “enabling” concept—and its evocation of misguided family members currying favor with an alcoholic by providing drinks on the sly. In conversations sparked by the suggestion, assistance personnel have frequently cited their agencies' incentive structures, which often prioritize the expenditure of budgets over the outcomes achieved. Others point to sovereignty concerns and the need to work with local governments to improve their capacity to serve their citizens. Most rightly point to

the significant—often onerous—efforts their institutions require of them to avoid waste of resources.

In meetings with officials at Sweden’s development agency, reflections went deeper. Visibly distressed, several employees acknowledged that this framing of corruption problems challenged their whole understanding of themselves and their place in the world—their ability to think of themselves as people who do good.

A welter of different projects and programs, paid for by development agencies from the United States and Canada to Spain, Switzerland, and Japan, compete to assist poverty-stricken Honduras. Tabulating them all is a literal impossibility, due to unequal or inconsistent data. According to the very partial Honduran government portal on development assistance, the European Union is the largest bilateral donor for the most recent six months for which data was presented.⁴¹²

A senior EU official we interviewed asked not to be named so she could speak candidly. She emphasized the “stringent oversight, audits, and checks” that govern all EU assistance, and she “doubt[ed] that there is any effort to steer development assistance to cronies. Of course there’s a lot of corruption in Honduras, but in terms of our own programs, I’m confident.”

Yet, unlike the United States, the EU channels much of its assistance directly to the Honduran government. “We pride ourselves on strengthening the government. It is our objective to increase the capacity of the government, and where there are weaknesses, to prop it up with technical assistance.”⁴¹³

But as discussed above, those capacity deficits may be a deliberate feature of the Honduran kleptocratic networks’ operation. One regional development official expressed a frustration with the effort to reduce these deficits that called Sisyphus to mind. “When you’re trying to improve the capacity of local counterparts,” she noted, “the big problem is rotation. You can waste a lot of money training units, creating systems, then a new government comes in and you have to start over.”⁴¹⁴

Asked if she could point to specific improvements in government capacity that might indicate that Honduras was at least embarked on a positive trajectory, the European official could not. Since the last time she had worked intensively on Honduras twenty years ago, she conceded that “progress has been very slight. One step forward, two steps back. And then,” she noted, “there was a double-dip with the coup.” Echoing her regional counterpart, she regretted that “new people can be of different quality and standards” from the old.

Permanently low expectations seem to underlie this conception of development assistance—and clearly work to the advantage of those who want to milk the aid industry for all the material and moral support they can get. Twenty years of stagnant government

capacity is considered normal, and to expect it is considered a prerequisite to development work. “You have to make a choice with development. Either you start where they are, or you don’t get involved.” Asked about the office of President Hernández—where numerous interlocutors say power is increasingly concentrated—the European official hesitated to be so “presumptuous” as to hazard an assessment. “I have a good impression of his office,” she concluded at length. “I think they may be well-meaning, but they don’t have the country behind them.”

Such an attitude, coupled with a manifest lack of research into the nature of the institution that is receiving development assistance, can only be considered enabling.

U.S. civilian assistance is largely aimed at reducing the endemic violence that plagues Honduras. Programs with acronyms like CARSI, CONVIVE, and NEXOS aim to “disrupt the systems, perceptions, and behaviors that support violence,” thus promoting “security, crime prevention, and social cohesion.” Taking inspiration from the Afghanistan and Iraq counterinsurgency approach, these programs also seek to “improve citizen satisfaction with locally provided services.”⁴¹⁵

The Office of Transition Initiatives (OTI), known as the most nimble branch of the U.S. Agency for International Development, and which attracts personnel tempered by experience in the difficult theaters of Afghanistan and Iraq that absorbed so much U.S. attention over the past decade, controls \$67.6 million per year worldwide.⁴¹⁶ In Honduras, it supports small projects aimed at improving conditions in the most violent urban neighborhoods.

Yet, though OTI has an interest in police-community relations, it has not analyzed the police purges conducted by the recently established police reform commission, officials told us.

USAID-funded anti-gang work, according to the description of a top implementer, is also focused on the micro-environment: the individual and family characteristics likely to make a young person susceptible to gang recruitment.⁴¹⁷ Its very premise avoids scrutiny of the larger forces that may be pushing young people toward gang membership, instead emphasizing traits that are unique to each youth.

While such approaches may not actively reinforce the practices of Honduran kleptocratic networks, they stop short of posing a challenge to those practices or of identifying them as factors in the country’s pervasive violence. One seasoned, international-justice-sector professional criticizes the short-sightedness of such an approach. “INL [The State Department Bureau of International Narcotics and Law Enforcement Affairs] is focused on organized crime. It hasn’t wanted to see that the problem is rooted in a rotten bureaucracy.”⁴¹⁸

OTI also provides small infrastructure grants, especially in urban neighborhoods where they are seen as likely to improve the quality of life and reclaim no-go areas. It has kept these grants small, but its partners include the national electricity company, which is well integrated into the kleptocratic network.

U.S. funding is also channeled toward improving the capacity of select justice-sector agencies, such as the Violent Crimes and Financial Crimes task forces. More recently, it has contributed to launching the new international justice-sector commission called for by anti-corruption protesters in 2015, the MACCIH, whose efforts are aimed at combating corruption and helping design and enact institutional reforms. (See below, pages 105–106.) Such programming does not seem to serve an enabling function.

USAID emphasizes its work with local NGOs, be they environmental organizations or the ASJ, which is a leading actor in the police reform process and depends for its survival on Washington's moral and material support.

In Honduras as elsewhere, a degree of schizophrenia characterizes the delivery of such U.S. assistance to civil society. As one local recipient put it, “The issue is, the U.S. doesn't want a crisis in its back yard. So it goes along with the politicians, saying ‘You can carry on with this type of poor governance’ while at the same time working with NGOs, because it wants to promote democracy and transparency and that kind of thing. But it can't take that line openly, because that would be interfering with Honduran sovereignty.”⁴¹⁹ It can sometimes seem as though the U.S. government is subcontracting its efforts in favor of good governance and ordinary people to local NGOs, while its official position cuts the other way.

All interviewees stressed that the United States wields tremendous influence in Honduras—and thus leverage.⁴²⁰ U.S. officials tend to underestimate this type of influence, which is usually subtle and rooted in historical power dynamics. They often cast themselves in the position of having to cultivate their developing country counterparts.⁴²¹ Doing so, in the case of Honduras, rather than leveraging U.S. influence on behalf of the ordinary population, also serves an enabling function.

Development lending by international financial institutions:

Even more significant financially than bilateral or multilateral aid are the loans made to Honduran public- and private-sector entities by international financial institutions that specialize in development.⁴²² Interviewees who work within these institutions proved remarkably secretive—often more secretive than Hondurans who are under daily physical threat.

All speak of themselves as development professionals, and use that word to describe their own objectives and those of their institutions. As an official with one multilateral bank put it: “The bank is a development bank, its aim is development. We were founded to support the integration and development of this region.”⁴²³ Several European institutions, such as Finland’s Finnfund, are almost wholly owned by their foreign ministries and are governed by the ministry’s stated development policies, for example “to eliminate poverty in an economically, socially and ecologically sustainable manner.”⁴²⁴ Investment guidelines and evaluation tools routinely employ the jargon of “development impact indicators,” or “*ex ante* evaluation of development results,” including “objectives, products, effects, and impact,” or the old standby, “international best practices.”⁴²⁵

Interviewees cited complex project approval processes that “take some time,” mustering “environmental teams, economic teams, corporate social responsibility teams.”⁴²⁶ Occasionally, of course, internal debates arise over specific potential loans. “Periodically we have discussions in which we don’t necessarily agree. Sometimes management wants to go faster, while the compliance department wants the work to go slower and be better done.” Or, in this more candid description: “Here, there are some old fashioned bankers, there are some of us who are more development oriented, and there are cowboys. In front of the board, everyone is pushing and shoving, it’s not easy.”⁴²⁷

Relations with the Honduran government can be just as challenging for banks that provide loans to the public sector or to Coalianza projects. Some officers reported that Tegucigalpa “push[es] hard to retain control of implementation.” When it succeeds, one said, environmental and social standards typically decline. And the government resists being sidestepped. “The government says: ‘You should improve our capacity, not replace us.’ They give various arguments.”⁴²⁸

In every case we examined, we found the connection between purported development objectives and what actually happened on the ground to be circuitous, to put it mildly.

Foreign ministries’ and development agencies’ personnel do draw up development guidelines to steer banks’ selection of prospective loans in directions believed to promote development, but these documents are written in the most general terms. Every year, for example, the Finnish foreign ministry addresses a “steering memo” to Finnfund. “This states a broad framework,” said the foreign ministry official in charge of overseeing the bank’s activities, “but very broad. This is how we are involved. We do not participate in any decisionmaking on specific projects.”⁴²⁹ One official on the receiving end of such instructions said they define, for example, “the maximum portion of the fund that can be invested in certain sectors.”⁴³⁰

Subsequent oversight or monitoring to ensure projects actually conform to the guidelines, seems almost lackadaisical. Though all interviewees noted that their loan recipients are required to report regularly, the accuracy of those reports is essentially taken on faith. “We

trust Finnfund's operations," said the Finnish foreign ministry official. "We don't go and check and verify. We don't go through the documentation. We trust on what they tell us."

And at Finnfund, one step down the line? Trust also reigns. "What wrong have our clients done?" wondered the officer in charge of the Agua Zarca dossier, almost angrily, in response to a question about oversight. "I don't understand it. They're among the handful of very rich people who are interested in doing good for their countries. They're reinvesting their profits in new power projects, not taking the money out of the country. People are trying to dig dirt on people."⁴³¹

We heard similar sentiments from a development fund manager with respect to his Honduran borrowers. "The companies report annually or more frequently. There has been no need for independent verification. The companies provide independent monitors. We don't double-check, we trust."⁴³²

The widespread use of subordinate development funds like the one this interviewee manages came as a surprise to our research team. They are time-limited pools of money to which a number of different lenders or bilateral aid agencies commit investments, and hand off to ordinary private equity firms to manage. The "shareholders" expect development outcomes but also a return on investment.

Such instruments add yet a further management layer between the governments originally providing development assistance and the intended beneficiaries. At this stage, it is no longer just one foreign ministry or development agency that establishes the investment guidelines. All of the investors—which may be governments, international financial institutions, bilateral or multilateral development agencies, or development banks—must negotiate the terms of a single guidance document.

And the terms of that contract "are not public," regretted a Finnfund official, referring to one such fund. "We would have to check with the other shareholders before releasing them." Though Finland enjoys an enviable reputation for transparency and lack of corruption, even the amount of Finnfund's investment in the Central American Mezzanine Infrastructure Fund (CAMIF) was secret until 2016.⁴³³

The banks' relationship to the managers of funds like CAMIF has grown to resemble their own relationships with their foreign ministries of tutelage. "We agree on policy, sit on an advisory committee, look at potential conflicts of interest, that kind of thing. But we don't discuss individual projects."⁴³⁴

As for the fund managers, though they presumably play by the explicit rules they are given—don't make investments in prohibited economic sectors, for example—they measure themselves by the same standard any investor does: return on investment. "The

private equity guys are money guys, not development guys,” noted one development bank official. The firm that manages CAMIF is Latin American Partners, a subsidiary of EMP Global. Another of EMP’s clients is the sultan of Brunei.

Such arrangements are confusing (one development bank official we interviewed had to conduct research over the course of several days in the wake of a follow-up question to discover that his bank is invested in seven different such funds); they even further dilute the degree to which development priorities guide the use of the money, and they weaken already cursory monitoring and oversight. But according to several interviewees, they’ve grown increasingly attractive since about 2000, because of their ability to draw money from a range of sources.⁴³⁵

This type of financing has been critical to the dams and solar farms and palm oil plantations belonging to Honduran network members, because without it, they cannot muster the required capital for such projects. In one example of how badly wrong such investments can go, the International Finance Corporation, the World Bank’s private-sector lending arm, suspended support to Dinant Corporation’s palm plantations, and is now reviewing whether its loans to Banco Ficohsa, which were earmarked for small businesses, instead wound up as further credit for Dinant.⁴³⁶

Perhaps the most egregious recent example was the investments by the Central American Bank for Economic Integration (CABEI), the Dutch development bank FMO, and its subordinate partner Finnfund in the Agua Zarca dam project. It seems it should not have taken the brutish predawn murder of one of the most cherished community leaders in Central America for the project’s international funders to rethink their initial support. But only some weeks after Cáceres’s assassination, in the vortex of an international uproar, did they finally withdraw from the project.

Asked how such misguided lending can take place, one financial industry observer put it this way: “Maybe the banks didn’t expect DESA to use such practices. It can be very tricky. It depends on the type of private enterprise you’re working with. Some are ethical. Some just try to look ethical, and it can appear pretty similar. They show you a group of people saying all the right things; they show you mayors in favor of the project, but across the river, people are protesting. . . . Then you get dragged onto the terrain of legal technicalities: ‘Show me the documents; show me the map; where are the people on the map?’ And they always have things to demonstrate they are in compliance. You’re asking for a license; they show you a license—but they paid for it. What do you call that?”⁴³⁷

“Corruption,” I supplied.

In this scenario, it would take energetic due diligence on the part of lenders and their government overseers, dogged work “double-checking” what DESA was saying to determine

the real state of affairs on the Gualcarque River. And that is precisely what development finance officials conceded to us in interview after interview that they never do.⁴³⁸

Other observers suggest it was hard *not* to notice what was going on.

As implied in several of the quotes above, development bank personnel seem almost to have been psychologically captured by their borrowers, whom they described to us as “family businesses” and “good people.” The lenders discovered no reason to suspect that any of the DESA owners might be involved in drug trafficking, for example, and described the connections between these business elites and the political leadership of Honduras as similar to the family and social ties that bound together the great men of European capitals until recently. Reluctant to hold DESA accountable for anything that had transpired, they instead blamed Sinohydro alone for careless work and property damage that ruined relations with villagers. The local association COPINH was also cast in the villain’s role, accused of manufacturing the dispute as a platform for its “broader agenda.”

Asked if there was anything they would do differently in light of the tragedies that have attended the Agua Zarca project, our Finnfund interlocutors replied that they “still think we followed good practices,” but now they know it’s not enough to examine just the merits of a project. They also need to look at “the broader political context.” But in their minds, that context did not include the kleptocratic nature of the Honduran power structure. They thought increased due diligence efforts should be aimed at finding out if any “powerful NGOs” lurk in the vicinity that may sway world opinion against the project.

As we were wrapping up our conversation, one interviewee turned to me, real passion in his voice, to further spell out his motivations. “I just wanted those people to have power,” he exclaimed. “I want them to have what my grandmother got during her lifetime. Getting power was a life-changing experience for her. And if I have to work with these crooks to do it, I’ll hold my nose.”

I took that in. “But are you sure,” I wondered after a moment, “the villagers are actually getting the power?”

“Do we *know* this electricity is going to rural households? No. It’s going onto the national grid.”⁴³⁹

This one small example thus illustrates the careless way that development finance institutions are injecting money into Honduras. Success is measured largely in terms of financial return, with personnel proudly citing projects like Celtel in Africa, which “made lots of money for investors!” and more slides on evaluation documents taken up by dollar amounts than by outcomes for beneficiaries.

Are these truly the right criteria for gauging the success of development projects? “Money for investors” (by virtue of a rigged, secret contracting system) is why the Honduran kleptocracy has raced into solar and hydroelectricity. But that type of profitability, financed by development loans, is in fact degrading the Honduran government and undermining development outcomes.

The argument for spending development resources this way is that it allows for the application of larger sums of money than bilateral assistance alone. The numbers, according to this reasoning, are irrefutable. Without the private sector, aid budgets are just not up to the magnitude of the problem. “The role of development banks is growing because they provide the ability to leverage more money,” said the Finnish foreign ministry official quoted above. “There is an increasing interest in development financing institutions from both donors and developing countries,” concurs a report from the Center for Strategic and International Studies’ Project on Prosperity and Development. For policymakers face increasingly complex challenges, which “call for a move from ‘billions to trillions,’” in a context of stagnating conventional development resources. Development finance seems like the perfect solution.⁴⁴⁰

But if there was one takeaway from the United States’ disastrous interventions in Iraq and Afghanistan, surely it was that too many development resources pumped into a fragile or captured governing system produces enrichment for network-linked officials and companies, increased violence, and not development.⁴⁴¹

Like those battered countries, violent, corruption-ridden Honduras may already have more money than it can handle. “The World Bank, the Inter-American Development Bank, and CABEL together have approved something like \$4 billion in loans to the region,” calculated one banker, and “\$800 million to Honduras. Only 25 percent of that is implemented. That’s a problem: pushing a host government to implement \$800 million quickly leads to corruption.”⁴⁴²

So what is the real reason development agencies are rushing to hand their budgets over to development banks? Is it that their personnel don’t have the manpower, energy, or capacity to comply with their own somewhat more stringent oversight requirements? Is the consensus that these administrative hoops have grown so constraining that the need to jump through them fatally encumbers the process of aid implementation? Have people on both sides of the Atlantic been brainwashed by the prevailing zeitgeist, apparently unscathed by the 2008 financial crisis, that private-sector answers to all questions are just intrinsically better?

Or are at least some of these banks themselves intertwined into the kleptocratic networks of the countries they serve? In the case of the Agua Zarca dam, two Atala cousins serve as the vice president and a board member of DESA. The board member, José Eduardo Atala

Zablah, is the past Honduran CABEI director, a relationship that may have helped the company secure its CABEI loan. The current Honduras director at CABEI is none other than the daughter of former president Lobo, Tania Lobo. So it is a matter of judgement, to be applied on a case-by-case basis and based on more in-depth inquiries than have been conducted here, to determine whether some of these development banks should be considered merely enablers or perhaps full-fledged network members.

SERVICE PROVIDERS

This term refers to entities that knowingly provide vital services to kleptocratic networks, but usually for remuneration and without discrimination. They would provide similar services to anyone who could pay for them.

Lobbyists:

Given the importance of U.S. policy to the fortunes of Honduras's kleptocratic networks, the firms that have provided lobbying services on their behalf in Washington must be considered service providers, actively facilitating network practices. These firms' operations—and impact—were most clearly visible in the immediate aftermath of the 2009 coup.

Within days, the Honduran Maquiladores Association (AHM)—run for many years by members of the Canahuati family, whose scion Mario was also head of the most powerful such business organization, COHEP, and later served as Porfirio Lobo's foreign minister—hired the Cormac Group to lobby in Washington.⁴⁴³ The association also secured the services of former assistant secretary of state for Western Hemisphere affairs Roger Noriega and his partner at *Visión Américas*, José Cárdenas, a former USAID official.⁴⁴⁴ Another large contract reportedly went to Chlopak, Leonard, Schechter, and Associates.⁴⁴⁵

But perhaps the most significant choice of Washington facilitators came less than a month after the events when the *de facto* government, AHM, and another business association, the Honduran branch of the Latin American Business Council (CEAL) hired former White House counsel and Clinton family insider Lanny Davis to influence Washington's assessment of the coup. CEAL also included members of the Canahuati family as well as Miguel Facussé and Camilo Atala.⁴⁴⁶ Davis and other partners or associates at Orrick, Herrington & Sutcliffe engaged in the typical type of campaign such lobbying firms design, according to contemporary reports: taking out advertisements in influential news outlets, helping write congressional testimony, and arranging meetings on Capitol Hill. Interactions of a more private nature, phone calls or brief meetings between old friends, would not necessarily be signaled in public-facing literature. Atala's Banco Ficohsa and Jorge Canahuati's media conglomerate, *Organizacion Publicitaria SA*, paid the lobbyists

on behalf of CEAL.⁴⁴⁷ Davis took the business with him when he left Orrick for McDermott Will & Emery later that year.⁴⁴⁸

The results were spectacular. Although Hillary Clinton's own ambassador wrote of the events of June 2009, "the Embassy perspective is that there is no doubt that the military, Supreme Court, and national congress conspired on June 28 in what constituted an illegal and unconstitutional coup,"⁴⁴⁹ and her policy planning chief Anne-Marie Slaughter urged her to label it as such and cut off U.S. assistance, the then secretary of state refused to use the coup terminology. Her stated reason for shunning it was to avoid "hurting the people" through what would have been the resulting legally mandated aid cutoff.⁴⁵⁰ Clinton called Zelaya's attempt to return to the country "reckless,"⁴⁵¹ and pushed Tegucigalpa to move on by quickly organizing elections, though mass demonstrations against the coup were being savagely repressed by security forces.

The original 2014 edition of Clinton's autobiography, *Hard Choices*, lays out her reasoning for this policy stance,⁴⁵² but, perhaps because the reality might prove embarrassing—at a time when Clinton was courting Latino voters for her presidential bid—the section was removed from the 2015 paperback version.

More recently, the Honduran administration ("principal place of business at Casa Presidencial, Tegucigalpa, Honduras") contracted with the Washington office of Ketchum Inc. for nearly half a million dollars for strategic public relations services at the height of public outrage and demonstrations over the IHSS revelations.⁴⁵³ The president's sister, Honduran Communications Minister Hilda Hernández, is a signatory to the contract.

Law firms:

The Panama Papers leak, consisting of e-mails exchanged between a law firm providing shell company registration and other services and its clients, contained few Honduran correspondents. Among the well-known network names, Goldsteins and Rosenthals had most recourse to Mossack Fonseca's services.⁴⁵⁴ But that law firm is just one of many operating in Panama alone. Moreover, it may be that money-laundering is so easy to accomplish within Honduras that the services of such offshore facilitators are not necessary.

ENABLING CONDITIONS

Within this category are prevailing circumstances, often of a geostrategic order, that work in favor of kleptocratic networks. Widely accepted political or economic theories or competing diplomatic or security imperatives may weigh on outside decisionmakers, contributing to their tendency to take a tolerant approach to a partner country's kleptocratic

networks and practices. In the case of Honduras, several such enabling conditions have affected U.S. policies in particular, but also those of other international actors.

Across-the-board preference for free-trade economics:

Foremost among them has been a consistent preference especially on the part of successive American administrations in favor of liberalized trading conditions, and the privatization of public enterprises as a way of addressing their financial losses and governance problems. Privatization has frequently been seen to be a good in and of itself, with little attention paid to the modalities of the transfer of state-owned assets, specific mechanisms for addressing identified problems, and benchmarks to ensure and measure that market liberalization as implemented does in fact produce better outcomes. Similarly little attention has been paid to the relationships among individuals holding positions of leadership in the public and private sectors. The conceptual presumption in favor of privatization and trade liberalization is shared by most international financial institutions and, to a somewhat blunted degree, by European donors.

Concern about the influence of Venezuela's Hugo Chávez:

With the 2013 death of the Venezuelan strongman and the subsequent collapse of that country's economy, the importance of this factor has declined precipitously. Earlier though, deep concern over Chávez's theatrical leftism and anti-American bombast did color the way U.S. officials responded to events in Honduras. Members of the Obama administration as well as conservative senators and representatives were susceptible to arguments that stressed Manuel Zelaya's deepening relationship with Chávez.⁴⁵⁵

Concern not to see Chávez's regional influence reinforced—along with the incoming U.S. administration's preoccupation with two difficult wars in the Middle East—may have contributed to Washington's 2009 rush to normalize the situation in Honduras, even at the cost of sanctioning a coup that restored to primacy and vastly empowered the country's kleptocratic networks, over the protests of an outraged civil society.

Counterterrorism approach to drug trafficking and the juvenile migrant crisis:

With two wars against extremist movements having shown little progress despite the generous application of money, civilian and military personnel, and the best minds in the U.S. government, the wrong lessons from those efforts were transferred to Honduras. By 2010 or 2011, it was clear that no amount of military force was going to deliver a death-blow to the tenacious movements that were challenging the governments of Afghanistan

and Iraq and their international backers. Indeed, so reviled were those governments that continuing to provide them with essentially unconditional support was proving counter-productive.

Yet a parallel approach was applied to Honduras, as U.S. assistance focused on enforcement against gangs and drug cartels and studiously ignored the organized capture of the political and economic order by the networks that had orchestrated the coup. Some Honduran security personnel participated in the war in Iraq, while others were trained by U.S. forces that had served in one or both theaters. Even USAID personnel working the Honduras account had Afghanistan or Iraq experience. Unfortunately, rather than leading to an alternate strategy for Honduras that gained from the painful experience and sought to test creative new ways of getting at similar problems, this overlap led to the replication of the same approach that had failed in those wars.

Benefiting from this short-sightedness, Hernández has taken steps that respond to immediate U.S. imperatives, thereby winning a degree of acquiescence to policies and practices that arguably reinforce the underlying conditions that give rise to gang and drug-trafficking activity in the first place.

MONEY FLOWS

THE KLEPTOCRATIC NETWORKS that dominate Honduras may not be reaping the type of fabulous booty that has come to light in other afflicted countries—especially those with oil endowments, such as Nigeria, where as much as \$1 billion per month may have disappeared from oil revenues for several years during Goodluck Jonathan’s presidency.⁴⁵⁶ No one, indeed, has sought to estimate the total take in Honduras. Such an enterprise would be doomed in any case. Not only are pains taken to hide and disguise the money that results from the activities detailed here for obvious reasons, but that money derives from a combination of sources that are often considered separately: undue profits accruing to private companies thanks to individual favoritism or an inordinately preferential regulatory regime; old-fashioned bribery, fraud, and kickbacks; and the proceeds of out-and-out crime.

There is some debate as to whether money is in fact the objective of governing networks like those of Honduras, or if what they are after instead is power. The two are intertwined, and the balance between them may be different in different countries. The IHSS scandal provides direct proof that some of the revenues captured by the public-sector element of Honduran networks are indeed invested in electioneering, and private-sector network members and drug-trafficking organizations are both believed to make campaign contributions.⁴⁵⁷

And yet, with some select exceptions, the Levantine-origin business elite has not made a significant effort to colonize the political arena. Similarly, where drug-trafficking organizations’ leaders have placed a nephew or a brother in local office, the aim has been to guarantee a friendly environment for their ventures, not to sate an appetite for power. If anything, descriptions of social relations in these towns suggest that cartels treat local office-holders as subordinate. Even within the public sector, agencies and Congress have so (embarrassingly) little autonomy as to make it implausible that power is what attracts people to those positions. Rather they are enticing because of the money to which they give access.

The phenomenon is visible around the world: money, rather than courage, selflessness, intellectual achievement, or service to the public, seems to have gained pride of place as the yardstick by which social status is measured.

Despite the increase in attention devoted to high-level corruption internationally, organizations that study and assess the risks of laundering illicitly acquired money remain focused on terrorist financing and drug trafficking, not corruption. Nevertheless, their reviews of Honduras offer some suggestions as to where the proceeds are going. Real estate and automobiles top the list both for the U.S. Department of State and the Caribbean Financial Action Task Force.⁴⁵⁸ Moreover, “laundered proceeds,” according to the State Department Report on Countries/Jurisdictions of Primary Concern, “typically pass directly through the formal banking system,” as well as “remittance companies, currency exchange houses, and the construction sector.”⁴⁵⁹ The U.S. nongovernmental organization Global Financial Integrity, which calculates illicit financial outflows, estimates these to total some 20 percent of GDP for Honduras.⁴⁶⁰ The group’s methodology is conservative—cash, for example, is left out of its calculations—so the real amount may be greater.

Given the likelihood discussed above that the entire Honduran banking sector is awash in drug money, such comparatively less tainted sources as undue profits, inflated contracts, and even out-and-out bribes must raise fewer eyebrows. Reports on money-laundering unanimously note that nonfinancial businesses, such as real estate agents and law firms, escape anti-money-laundering supervision altogether. “It can be inferred that they consider that this problem does not concern them and that money laundering activities are carried out in other sectors,” concluded the Financial Action Task Force of Latin America in a 2016 report.⁴⁶¹ As the Panama Papers and recent reporting on the property market in London and New York have made plain, lawyers and real estate companies may be as important as banks in providing money laundering services to the criminal and the corrupt.⁴⁶²

It is fair to assume from the above and from on-the-ground observation that much of the proceeds of Honduras’s networked corruption is spent on conspicuous consumption at home: fancy cars, luxurious houses and farms, retinues, fine food and entertainment, and travel.⁴⁶³ Indeed, our team found little direct evidence of property or bank accounts held outside Honduras.

But given the proximity and regional stature of the United States, and the expansive and ill-regulated Florida and Texas real estate markets, it is likely that a significant amount of Honduran corruption money does wind up in the United States. This hypothesis may be tested in the near future, given the placement of two new kleptocracy initiative investigators in the Florida FBI field office and the added anti-money-laundering scrutiny being applied to the Florida real estate market on an experimental basis.⁴⁶⁴ It would be another important angle for deeper study.

POSITIVE NETWORKS

THE FOREGOING PICTURE IS DARK. But Honduras is also a place where members of the research team were struck and inspired by the countervailing models they found, whose precepts and practices held promise for confronting challenges extending far beyond the country's borders. For an analysis like this to be most effective, it must include a similarly careful examination of constructive networks and individuals. Some of the grassroots organizations we visited were actively building networks with allies both inside and outside Honduras, by way of frequent visits and meetings to pursue common agenda items. But often those constructive actors are just individuals, lacking the resilient network structure that characterizes their kleptocratic counterparts. Part of the task of reinforcing them would be to study what it might look like for them to be more effectively woven together in such a hostile context.

VECTORS OF REFORM WITHIN GOVERNMENTAL INSTITUTIONS

When news of rank profiteering within the public health service brought tens of thousands of Honduran citizens into the streets in 2015, one of their demands was for an internationally backed law enforcement commission, along the lines of Guatemala's CICIG, which after several years of work had made some spectacular arrests. After weeks of protests and contentious negotiations, a convention establishing the Organization for American States–sponsored MACCIH was negotiated and ratified.

Many Hondurans criticize the agreement for according the body less autonomous power to take legal steps against corrupt officials than CICIG's founding documents do. Most of our interviewees were skeptical of MACCIH's likely independence. Still, in contrast to CICIG, which can punish delinquents without doing much to address the structures that select for their behavior, the Honduran commission is vested with at least the theoretical power to engage in crafting deep-seated reforms to the Honduran governing system that go beyond CICIG's mandate.

It is in this context that the Honduran Congress takes on an enhanced role. The legislature is not functioning quite as a rubber stamp, ratifying every wish of Honduran self-dealing elites. In a notable development, some young and dedicated members of Congress have brought twenty-eight of their colleagues together into a front to support the fledgling MACCIH. Drawn from all parties, these members of Congress have set themselves the task of ensuring that MACCIH does get substantive input into legislative reforms that could reduce the kleptocratic networks' maneuvering room—such as revisions to the criminal code, corporate law, and campaign financing rules.⁴⁶⁵

“The point of the front,” said one of its founders, “is to open communication between anti-corruption-minded members and MACCIH—those who want the convention to be respected in spirit as well as letter. We have been able to stop some so-called reforms from being rushed through Congress without MACCIH's involvement.”⁴⁶⁶ In an initial victory for this coalition, a new political finance law was passed in October 2016.⁴⁶⁷ In spring 2017, its next objective was to obtain passage of a law allowing for plea bargaining.

CULTURE-BASED JUSTICE MOVEMENTS

If there were ever a Honduran Nelson Mandela, it would have to have been Berta Cáceres, the environmental and social justice activist beloved among disenfranchised people throughout the country for her dedication to grassroots democracy, cultural revival, and environmental protection. “Whenever we go outside and come close to the leaves, we feel the loss of our dear friend Berta,” mourned the coordinator of a sister organization to the one Cáceres founded in 1993. “Because she was defending indigenous rights and the rights of the woods and the waters and nature throughout Central America.”⁴⁶⁸

It may have been the profound challenge posed to kleptocratic practices everywhere by this different understanding of how humans fit into the natural world, as much as her leadership of the specific campaign to halt construction of the Agua Zarca dam, that led to Cáceres's March 2016 assassination.⁴⁶⁹

“Her first fight was to prevent deforestation,” Cáceres's mother, Austra Bertha Flores López—herself a former elected official and activist—told us a few months later. “She

sat down in front of the machinery! There were big protests, eight hundred, a thousand people. And she was working to bring schools and social services into our communities, she sent nurses to Cuba to study and brought the Cuban medical brigades here. She was fighting against the privatization of everything and patriarchy and militarization. It is a spectacular fight, because all those things are connected.”⁴⁷⁰

The organization Cáceres co-founded in 1993, the Civic Council of Popular and Indigenous Movements of Honduras (COPINH), has energized indigenous Lenca communities—and not only them—in a remarkable way. At a time when the Lenca language has been lost, and surviving strands of traditional indigenous culture were far more tenuous than they were, for example, in neighboring Guatemala, COPINH helped communities throughout the country revive their sense of that culture, sometimes dynamically re-imagining it, and find in it the inspiration for a positive vision of their future. We could even feel the effects among the isolated Tawahkas living on the Patuca River.

“Our proposal as COPINH is about the relationship between nature and humans,” a member of the leadership told us. “We believe that the common goods of nature are not merchandise, they are part of life. In our spirituality, they are integral, the way a body has fingers and a nose. In the same way, water is life. In water there are beings, like fish, and those beings help stop climate change. And there are the spirits of our ancestors, which maintain the strength of our people. Privatizing a river is like slitting our wrists or stopping our breath.”⁴⁷¹

“For us,” echoed the coordinator whose own movement was inspired by COPINH, “rivers are sacred. A dam is like cutting off its head.” His organization’s mission, he says, is in part to “rescue our worldview [*cosmovision*]. It’s like a chip in a cell phone: it encompasses architecture, mathematics, religion, language, how to cultivate plants and relate to the natural world. The Spanish took our chip out and inserted a new one, and our communities are returning to their own chip.”⁴⁷²

This “chip”—this re-imagined, traditional worldview—questions the very premises of a global economy based on infinite growth and the forced conversion of human labor and elements of the natural environment into cash by which that growth can be measured. COPINH and similar organizations’ vision of a more circular economy, in which animals and even features of the landscape are endowed with rights, and humans bear responsibilities to care for and cultivate these members of their broader community, defies the framework within which kleptocratic networks thrive, and suggests a realistic alternative.

COPINH contrasts with many associations dedicated to language or cultural revival in Europe, or identity-based groups in the United States, in the concerted effort it makes to articulate its concepts in crosscutting terms and to include and ally with non-Lencas. It has joined land-rights campaigns by *campesinos* as well as broad-based labor or women’s

movements.⁴⁷³ During meetings with members of such organizations, proceedings were marked by their careful initial introduction of every participant (all of whom were accorded time to speak), their transparency, and their focus on each local community's specific concerns.⁴⁷⁴

ALTERNATIVE DEVELOPMENT MODELS

It is not as though COPINH and like-minded movements are opposed to development altogether, or even to hydroelectric dams. On July 22, 2016, members of a sister organization took us to visit a 1-megawatt micro-dam funded, ironically, by the Finnish foreign ministry, as well as the UN Development Program, the EU, and USAID, and built by local residents under the supervision of Spanish Agency for International Development Cooperation personnel. The micro-dam lies a two-hour walk down the slopes of a steep wooded valley carved by the river. Villagers explained a two-year process, whereby 179 of their neighbors—one from each family in three communities—took part in negotiations as to how the dam would be built and used, and then about a hundred of them, including women and young adults, participated in construction.

“This is a successful project,” said the young man who showed it to us, “because it empowered the people. If people approve, and give their land and work, a project will be strong and last. If the money goes to the municipality, it won't work: they're corrupt.” We noticed that the dam only blocks off half the river's channel. “That was part of the agreement with the Spanish,” the young man explained. “The river had to be allowed to run free, because the river creatures need the water too. We are responsible for the creatures of the forest.”⁴⁷⁵

Truly consultative small power-generation projects may be as hard to implement as large ones, given almost equivalent reporting and oversight requirements. And arithmetic dictates it would take a hundred such micro-dams to generate as much electricity as a single Patuca III. So the environmental impact of expanding the model would not be insignificant.

Nevertheless, there is a lesson in this example—in contrast to the kleptocracy's capture of the solar energy industry—for environmentalists the world over. It is this: not all forms of carbon reduction are equal. While a green kleptocracy may be preferable to an oil-drenched one, the evolution of the Honduran power market suggests the importance of seeking decentralized ways of converting to carbon-neutral energy sources, providing individuals and small communities as much autonomy as possible in meeting their own energy needs. A kind of energy democracy. Otherwise, as the world transitions away from fossil fuels, the so-called resource curse may afflict even more countries than it does today, as kleptocratic networks rush to capture monopoly control over the “resources” embodied in storied forests and the winding rivers that are the lungs and arteries of a landscape.



Built with input and labor from local residents, this dam serves some 300 households.

It seems equally critical for the developed and developing world alike to listen to the analysis of groups like COPINH, whose members still know the forest and hear how it breathes, and learn from them ways of envisioning new models of human development and values other than money that can be held up as measurements of social worth to compete over.

Having met these thoughtful men and women, who subsist near the material edge of survival but with such a fierce and joyful reverence for the community of nature and people that makes up their lives, it was interesting to think back to the words of the Finnfund officials, who cast them in the role of adversaries. Those development professionals did not recognize in the activists precisely the electricity-deprived poor they claimed to want to help. Nor did they see them as people from whom Westerners might learn, not just about how most effectively to deliver assistance to Honduras but also about how the West might pursue its own destiny in such a way as to reduce inequality and avoid depleting natural resources as it continues to develop.

For no matter how talented and dedicated and courageous their members may be, beleaguered grassroots organizations like these cannot be expected single-handedly to take on and transform a system as entrenched as the Honduran kleptocracy. And despite much lip-service paid to civil society in recent years, this study indicates that the vast bulk of Western intervention in Honduras—civilian and military assistance as well as nonmaterial diplomatic engagement—tends to reinforce the kleptocratic networks that are victimizing such groups and the populations they represent. Until this reality is recognized and its implications taken into account, there is little chance that these efforts will result in a reduction in the violence, underdevelopment, and out-migration that plague Honduras—much less the corruption that fuels these ills.

CONCLUSION

THE RESULTS OF THIS EXAMINATION ARE SOBERING—not just for what they tell us about Honduras but, more importantly, for the light they shed on the structure of the political economy in far too much of the world. Despite repeated anti-corruption uprisings on almost every continent in less than a decade, members of the policy, business, and aid-delivery establishments in Western countries still tend to greet news of the latest scandal with an awkward shrug. Their reasons for failing to connect corruption with issues of primary concern to them are oddly contradictory: some see these episodes as “black swans”—disparate if remarkable examples of individual delinquency that seem to plague unfortunate countries—while some others minimize corruption as a reality that has always existed, and may even help lubricate a seized-up system.

Such attitudes prevent us from recognizing, let alone addressing, a dangerous development that is systematically stymying development prospects, accelerating environmental destruction and wealth and income inequality, and driving its victims toward ever more desperate responses. Even the professional anti-corruption community seems to flinch from the larger realities, generally limiting itself to technical approaches to a problem that has grown too grave and too central to the way wealth and power are distributed to be susceptible to such fixes.

What has given this age-old problem such potency in this generation is that the basic societal constructions in which it is rooted have shifted, just as new technological means for making and moving money have exploded prior practices.

Over the past three decades or so, money has increasingly come to eclipse other values as the standard against which people measure themselves and evaluate their own and each other's social stature. Not that money hasn't been an important measure of personal worth from the moment it was invented in its various forms. But in some historical periods, other such markers that also play that role, such as trustworthiness, erudition, or service to members of the community, fade to relative inconsequence. We are in one of those periods.

A particularly destructive feature of this contemporary evolution is the scant regard paid to the provenance of the cash or the means by which it was acquired. In earlier decades, at least in many cultures, wealth was only deemed honorable if it had been come by honorably. In England or France, for example, open displays of net worth might be so frowned upon that the rich would discreetly downplay their fortunes. Nigerian village elders might sternly interrogate members of the community who had become suddenly rich. Among Native Americans or the Vikings, booty had to come from a raid in which courage and endurance was tested to elevate the stature of those who captured it.⁴⁷⁶ The United States has characteristically been unabashed about its admiration for people who “make money”—by any means. But even here a slide further in that direction is palpable, as increasingly the bare fact of riches delivers envied status.

Meanwhile, the globalized financial system, offshore havens, and electronic money transfers have revolutionized the uses to which ill-gotten gains can be put, thereby raising the stakes. And so the controls have come off the methods by which wealth is acquired.

To compete in this race—for return on investment or for zeroes in personal bank accounts—elites in the developed and developing world alike, across political and identity cleavages, have been writing the rules governing political and economic activity (or selectively enforcing such rules) to their own benefit. This perversion of government function, and not merely cash in an envelope or an inflated purchase order, is what in this study is encompassed by the word corruption.

In-depth interviewing in nearly a dozen countries worldwide suggests that such practices veered onto terrain not seen in more than a generation during and around the 1990s. In Honduras, Hurricane Mitch provided the opportunity for rapid transformations along these lines at the end of that decade.⁴⁷⁷ Manuel Zelaya's 2005 election checked their momentum, so the 2009 coup marks the clear turning-point.

To achieve their goal of self-enrichment most effectively, Honduran elites duplicated a pattern observed elsewhere: they wove themselves into multidimensional networks. Of variable geometries and degrees of structure, these webs knit together disparate sectors—government and business, out-and-out criminals, and violent groups. Many observers see these categories as entirely separate. Indeed, their own political preferences or professional activities may be predicated on that separation—between government and the private

sector, for example, or “bad guys” and licit actors. This entirely human reflex to categorize has blinded us to crosscutting kleptocratic networks.

In Honduras, a rough bargain has bound together the private- and public-sector elements of the network: in return for a legal and regulatory environment that tips the market steeply in favor of the industries monopolized by the top business families, plus protection by the state apparatus for them and their interests, these families look the other way when government officials and their proxies pilfer public coffers and engage in self-dealing.

The main purpose for which such kleptocratic networks coalesce, of course, is to capture revenue streams disproportionate to the effort exerted or contribution made to the common good. In Honduras, the 1990s shift in the routes for the rivers of cocaine that cascade northward to the United States did not bypass the network. The most significant drug-trafficking cartels in the country are woven into it. It is more than likely that people-smugglers joined them during the wave of youth flight that peaked in 2014 and 2015. In Honduras as elsewhere, whole categories of crime, notably money laundering, have become normalized.

Rigging and criminalizing the political and economic systems in this way have, in dozens of countries worldwide, infuriated populations. In Honduras, localized protests gave way in 2015 to repeated massive demonstrations similar to those that broke out that year in half a dozen other countries. Earlier, such indignation helped spark the Arab Awakening and the Euromaidan revolution in Ukraine, and has been shown to contribute to the attractiveness of violent extremism.⁴⁷⁸

Kleptocratic networks have proven remarkably adept at managing or exploiting this indignation. Often—as in Russia, the United States, and a number of Arab countries—they have manipulated nationalism, identity affiliations, or social mores to distract the public from their consolidated hold on (or recapture of) the political economy. Humans are almost hardwired to form identity groups whose paramount objective becomes the defeat of other such formations, even in the face of a win-win scenario that might be more objectively beneficial than victory over rival groups.⁴⁷⁹ A talented manipulator can play upon such affiliations to channel vitriol at out-groups and away from his and his network’s malfeasance. Identity politics of this sort, or push-button social issues like full-body veils or abortion rights, have not played as significant a role in Honduras as elsewhere.

Violent repression, by contrast, carefully targeted for the maximum psychological effect, has. The assassination of Berta Cáceres is a prime example. So inspiring a figure was she that her killing sent reverberations through like-minded communities, where people were left wondering, “if they can gun down a Berta Cáceres, just imagine what they can do to me.” This intimidation effect may have been judged worth the international condemnation that was guaranteed to greet news of her death.

The exploitation of legalisms is another technique employed by Honduran elites, which carefully if deceitfully gather signature lists they can display as evidence of local assent to projects, or push legislative changes through select committees. In better established democracies with abiding faith in their legal institutions, such as the United States, this is the tool of choice. It could be seen in operation in the U.S. Supreme Court's unanimous 2016 decision to overturn the corruption conviction of former Virginia governor Bob McDonnell because the meetings he arranged in return for cash and in-kind gifts were not deemed "official acts,"⁴⁸⁰ or Donald Trump's frequent reminders that the president is not subject to conflict of interest laws.

Ironically, given the opportunity presented by widespread indignation at the brand of corruption discussed here, genuine reformers have proven far less able to capitalize on it than spoilers. Idealists have been thwarted again and again, as the networks rapidly reconstituted themselves in the wake of major upheavals that had been aimed at unseating them. Adding to the odds against reformers, especially in developing countries like Honduras, has been the impact of much international assistance, including diplomatic engagement and foreign direct investment as well as military and civilian aid. Taken in the aggregate, the vast bulk of such assistance flows toward kleptocratic networks, enriching them and reinforcing their psychological and material dominance, and bypassing the victims of their practices or those fighting doggedly to reverse them. It is time to consider those realities candidly.

This study may paint these systems as so multifaceted and resilient, so pervasive, so supported by broad-based cultural attitudes and well-meaning interventions, as to be impossible to combat. And, indeed, rolling back this global phenomenon will be very hard. But the danger that transnational kleptocratic networks pose to governments in the interests of the governed, to global security, and environmental health is too significant to make failure an option.

The first step must be to acknowledge today's corruption as the intentional operating system of sophisticated and successful networks. We must be willing to study these networks as such—wherever we encounter them. We must stop presuming the reality of distinctions between their different functional branches. We must carefully examine overlapping private- and public-sector footprints for evidence of self-dealing. We must cease excusing the unprincipled use of power for personal gain—and not just in our developing country borrowers or government counterparts, but at home as well. For far too many Western countries exhibit elements of the pattern described here. We must cease accepting legalisms as pretexts for the criminalization of politics.

The approach modeled in this report, in other words, is not just aimed at helping practitioners better tailor the specifics of aid delivery or the use of diplomatic leverage with respect to Honduras. The shift in mindset this report urges and the analytical tool it provides are critical to treating the growing pathology of political economies in the West as well as our less economically developed neighbors.

INFOGRAPHIC: The Structure of Corruption in Honduras

The strands of the Honduran kleptocratic network overlap, and personnel is shared among public, private, and criminal network elements. But the three sectors do retain some autonomy, interacting via exchanges of revenues and services. A certain amount of internal competition disrupts the network, though President Juan Orlando Hernández is assiduously concentrating control in his own hands. Revenues are captured at the expense of the environment as well as the people of Honduras, and some of the most resilient opponents of the network's business model are community groups defending the land. These groups are largely ignored by international donor institutions, the bulk of whose assistance benefits the network.



Public Sector

1. Congress

After the 2009 coup in which it played a notable role, and under the leadership of Juan Orlando Hernández until 2014, Congress legislated much of the enabling environment for today's kleptocratic operations. Various mechanisms are used to undermine its capacity to check executive power.

2. Judiciary

The 2012 “technical coup” illegally removed four of five Supreme Court justices who had ruled against measures favored by the network, and empaneled a court packed with more amenable alternatives. Legal protections for judicial independence, including rules for hiring, promoting, and removing judges, have also been weakened. Judicial proceedings are used to discipline recalcitrant Hondurans, while network members—except U.S. narcotics targets—are almost guaranteed impunity.

3. Police

The police serve both as an instrument of force and a revenue stream for the network, protecting drug-trafficking operations and installations on land whose ownership is locally contested, harassing opponents of the transfer of these lands, and outsourcing extortion to gangs. Elite units are interchangeable with their military counterparts, and joint activities with private security personnel or unidentified vigilantes are common.

4. Prisons

Notoriously overcrowded and insalubrious prisons reinforce network intimidation.

5. Armed Forces

The military is the instrument of force favored by President Hernández. He has placed several former officers in top cabinet positions and has assigned a variety of ill-defined domestic policing duties to a Military Police for Public Order.

6. Coalianza

This commission decides which infrastructure and public service projects will be implemented via public-private partnerships. Public funds are moved off-budget into a trust arrangement, managed by a bank.

7. ENEE

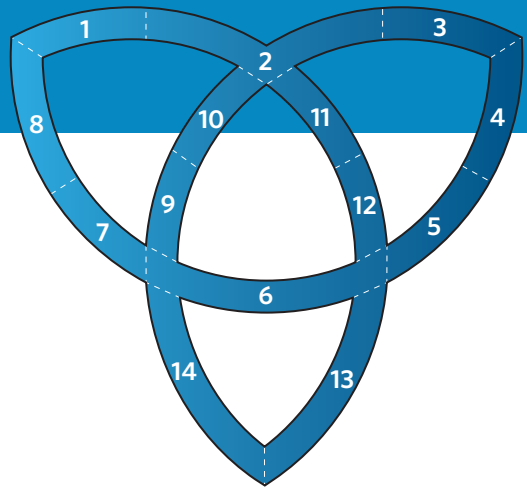
The national electricity company has served as a cash cow for Honduran kleptocratic networks for years. Most recently, it has accorded dozens of sweetheart contracts for solar electricity generation to private companies, and has embarked on two major hydropower projects. They have both been plagued by corruption.

8. IHSS

For years, the agency that runs the national healthcare system provided a significant revenue stream to private-sector members of the kleptocratic network, via padded or fraudulent contracts with companies that either kicked money back or served as stand-ins for officials making contracting decisions.

9. SERNA

The environment ministry has been hollowed out by chronic underfunding and human capacity deficits. It does not conduct rigorous or independent environmental assessments of projected infrastructure projects, but typically rubber-stamps deficient studies.



10. Ministry of Development and Social Inclusion

Many of this ministry's flagship welfare programs are criticized for favoritism in their choice of beneficiaries.

11. INA

This agency deals with land titling and has assisted in the consolidation of large land parcels by network members. But it also serves as one of the few avenues of recourse for local residents. Its ability to perform this function is being undermined by budget cuts and nonpayment of employees.

12. Regulatory and Audit Bodies

With the exception of the National Anti-Corruption Council, none of the statutory regulatory bodies (the High Court of Accounts, the Banking and Securities Commission, and so on) shows any independence or carries out critical auditing functions. Sometimes these bodies actively protect network members.

13. Election Officials

Interviewees reported seeing election officials changing votes or inflating numbers at local polling stations. Vote buying is seen as commonplace.

14. Local Officials

Local officials provide critical approvals for land-based schemes, such as mining, dams, large solar farms, tourism infrastructure. They also intertwine with criminal-network members, supplying protection and necessary land and infrastructure. Exchange of personnel between the public- and criminal-sector network elements is most common at this level.

Private Sector

1. Banks

Through ownership most notably of Bancos Ficohsa (which bought out Citigroup's Central American holdings in 2015), Atlantida, and Occidente, the network controls the bulk of the financial sector. The first two manage almost all the Coalianza public-private partnership trust arrangements. All Honduran banks are presumed by financial industry professionals to launder drug money.

2. Energy (Including Gasoline)

Via Freddy Nasser's Grupo Terra, Enersa, and Hondupetrol; the Kafies' Genisa and Lufussa; and pop-up single-project companies like DESA, Inversiones Encinos, or La Aurora, not to mention ENEE, the network controls essentially all electricity generation in Honduras.

3. Palm Oil

The Facussés' Dinant Corporation is the biggest player in this market, both for biofuel and comestible oil and derivatives. But other companies also participated in land grabs along the Caribbean coast, and narco-traffickers have invested in this sector as well.

4. Construction

This sector is shared between some of the major private-sector consortia, such as Grupo Terra, Grupo Roble, and Proyectos y Servicios Inmobiliarios, and smaller companies that serve as proxies for public-sector network members.

5. Fast Food

Ferraris, members of the allied Canahuati and Larach families, and Shukri Kafie are believed to dominate the industry.

6. Meat and Dairy

Kafie is also heavily invested in dairy, especially via his Lactosa line of companies. U.S. development professionals found it fixing the prices it would pay for farmers' milk.⁴⁸¹ Cattle ranching and meat packing are favored money-laundering ventures, especially in eastern Honduras.

7. Pharmaceuticals

Canahuatis, Facussés, and Kafaties, especially.

8. Nonprofit Organizations

The landscape is more fragmented for the nonprofit sector than others; but it is clear that nongovernmental organizations, including churches and international development funders' implementing partners, serve critical revenue-generation and discipline functions for the kleptocratic network. Several major consortia, such as Grupo Ficohsa, have charity arms.

9. Media

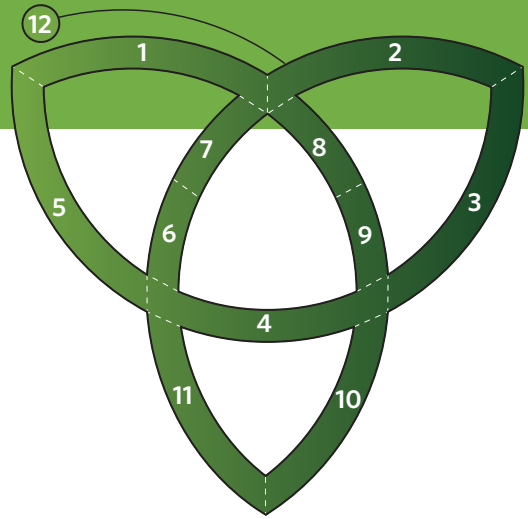
The Ferrari, Canahuati, and Sikafie families own numerous ostensibly competing newspapers and television and radio stations between them.

10. Sweatshop Textile Manufacturing (Maquiladora)

Canahuatis and Facussés dominate.

11. Private Security Companies

Hundreds of private security companies operate throughout Honduras; even soft drink delivery trucks are accompanied by armed guards in the countryside. This proliferation absorbs some retired military and police personnel, and provides hard-to-identify manpower for network-ordered acts of violence.



12. Foreign Direct Investment

Foreign direct investment and the sale of goods and services by well-known brands, such as Goldcorp and other Canadian mining companies, Germany's Voith hydropower, or Sinohydro, are essential to network operations. U.S. fast food companies lend their names to network-held franchises. And Citibank may have sought to reduce its exposure to money-laundering risks by selling its Central American activities to Banco Ficohsa, but the origin of the money paid to Citi remains an unanswered question.

Where the relationships are deeply intertwined and longlasting—as with Canadian mining interests, for example—investors might be considered full-fledged network members. Similarly, Honduran network implantation in neighboring countries should by rights be depicted by an extension of the green strand of the knot across Honduras's borders. We are suggesting this ambiguity by including foreign direct investment in green among the enabler dots.

Criminal Elements

1. Narcotics Trafficking

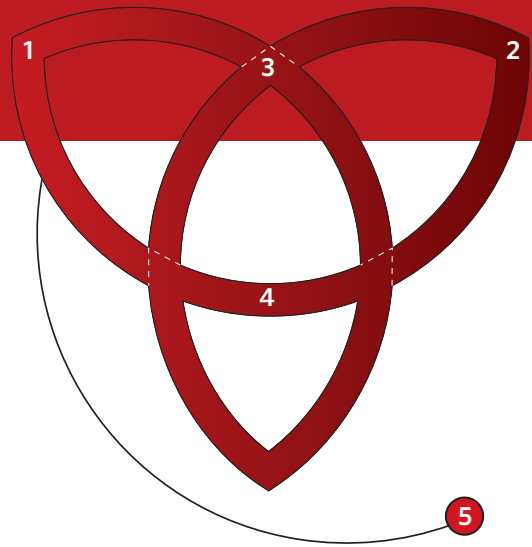
For half a dozen years beginning in 2006, Honduras's role as a transshipment zone for cocaine headed from South America to the United States was the dominant factor in the country's economy. Drug cartels were fully interwoven into the kleptocratic network at every level. While this intensity has diminished, narcotics remain an important revenue stream for the network.

2. Human Trafficking and Smuggling?

Arrivals of unaccompanied Honduran minors at U.S. borders in 2014 quickly took on the allure of a crisis. But the absolute numbers of border-crossers were well below earlier averages.⁴⁸² It is hard to imagine such a consistent and lucrative traffic, and one that is so dependent on official connivance, not being captured by the network. Sex trafficking, a different phenomenon, is also included in this category.

3. Arms Trafficking?

Data on arms trafficking are thin, and suggest a steady flow of small shipments, including parts, though reliance on official sources may under-estimate flows linked to the narcotics trade. Part of that flow moves in the opposite direction from narcotics: from the U.S. to and through Honduras.⁴⁸³



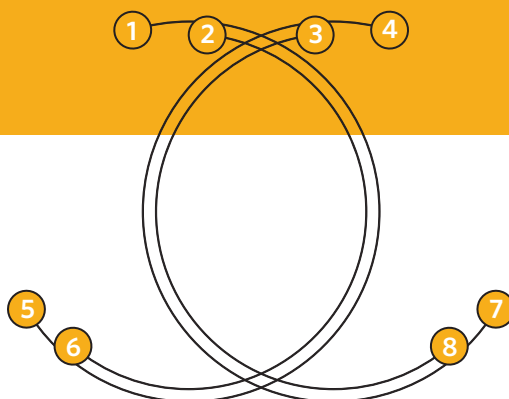
4. Gangs and Other Armed Groups

Substantial evidence indicates that some youth gangs may have been infiltrated or instrumentalized by Honduran police. In rural areas, hard-to-identify hit men, or *sicarios*, have been blamed for the assassinations of many opponents of network approved projects.

5. Latin American Drug Cartels and Their U.S. Affiliates

It might make just as much sense to consider these cartels as intertwined with their Honduran counterparts in transnational networks. To better illustrate such a relationship, the red strand of the network would be extended beyond the borders of Honduras.

External Enablers



1. U.S. Security Assistance

U.S. equipment, training, and mentoring of Honduran units provide psychological as well as material reinforcement for the kleptocratic network.

2. Development Assistance

Development agencies seem to have grown comfortable with the prospect of shoring up the capacity of Honduran counterparts without examining the reasons why local capacity stubbornly fails to improve.

3. Development Lending

Animated by the presumption that more development spending will result in more development, development banks and funds provide one of the most important revenue streams into the kleptocratic network. Profits are largely generated at the expense of the very populations the development missions purport to serve.

4. Remittances

Abject poverty, exacerbated by government neglect or network operations, are cushioned to some degree by remittances sent home by Hondurans working abroad—to approximately one-fifth of families in the country. This cash influx accounts for no less than 18% of GDP, according to the World Bank.⁴⁸⁴

5. Stature-Enhancing Public Meetings

In March 2017, Hernández was invited to provide a closed-door Congressional briefing, and to meet Vice President Mike Pence. Opportunities to address the United Nations and high-profile business meetings can also be used to enhance the network's stature and credibility.⁴⁸⁵

6. International Certifications and Partnerships

International organizations often serve image-laundering purposes by allowing network companies or individuals to obtain coveted branding opportunities. Dinant Corporation's sponsorship of the 2013 Roundtable on Sustainable Palm Oil Latin America Conference and the World Food Program's partnership with Freddy Nasser's Grupo Terra are examples.

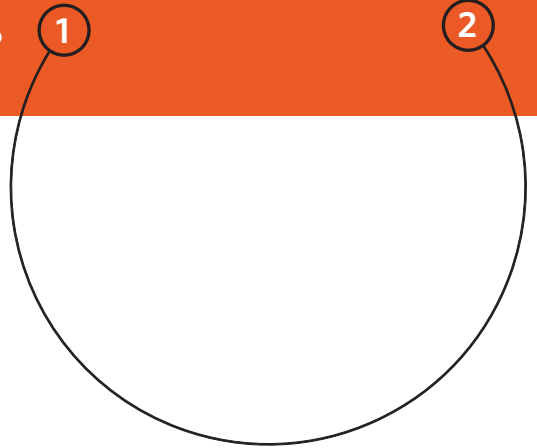
7. U.S. Real Estate Companies?

Real estate companies that don't diligently examine the origin of foreign funds used to buy properties must be considered enablers if the funds are derived from illicit activities.

8. U.S. Universities

Many children of network members are enrolled in prestigious U.S. universities, and often serve as research assistants for scholars working on Central America.⁴⁸⁶ They simultaneously burnish their credentials and affect the substance of research conducted. Honorary degrees and speaking opportunities can also serve enabling functions.

External Service Providers



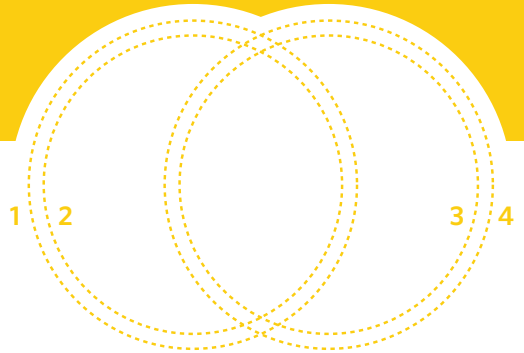
1. U.S. Lobbying Firms

Select U.S. lobbying firms probably succeeded in turning around U.S. policy toward the 2009 coup and thus rendered a crucial service to the kleptocracy. Others sought to blunt the impact of the IHSS scandal on U.S. decisionmakers and may be assisting with strategy toward the Donald Trump administration.

2. Law Firms and Registered Agents

These facilitators assist with creating shell companies outside Honduras.

Enabling Conditions



1. Western Preference for Free-Trade Economics

The network has skillfully exploited this preference, couching its operations in the language of public-private partnerships and economic restructuring.

2. Concern About the Influence of Venezuela's Hugo Chávez

This preoccupation may have led to ambivalence within the U.S. government about the coup that unseated Manuel Zelaya from the presidency and the network's subsequent consolidation of control over the political economy.

3. U.S. Demand for Narcotics

Without a market for their product, Honduran drug traffickers would be out of business.

4. Counterterrorism Approach to Drug Trafficking and the Refugee Crisis

Despite poor results in both Afghanistan and Iraq, the U.S. government has largely applied the same equation that dominated policy there to Honduras. The Honduran government garners U.S. support, and gangs and narco-traffickers are targeted for arrest. Development projects aimed at dissuading gang or cartel recruitment are focused on the neighborhood level. The broader, structural forces pushing young people toward delinquency are not examined or addressed.

NOTES

- 1 Because of the unwavering threats to those who reveal and oppose the workings of the political economy of Honduras described here, few, if any, names will be used in this report. This decision makes for some awkward phrasing, as descriptive identities are repeated through the text.
- 2 For the full list and methodology, see *Corruption: Violent Extremism, Kleptocracy, and the Dangers of Failing Governance*, Before the Senate Comm. on Foreign Relations, 113th Cong., (June 30, 2016) (statement of Sarah Chayes, https://www.foreign.senate.gov/imo/media/doc/063016_Chayes_Testimony.pdf).
- 3 For explorations of how these systems work in a variety of settings, see for example Tom Burgis, *The Looting Machine: Warlords, Oligarchs, Corporations, Smugglers, and the Theft of Africa's Wealth* (New York: Pegasus, 2013); Sarah Chayes, "The Structure of Corruption: A Systemic Analysis Using Eurasian Cases," Carnegie Endowment for International Peace, June 30, 2016, <http://carnegieendowment.org/2016/06/30/structure-of-corruption-systemic-analysis-using-eurasian-cases-pub-63991>; Sarah Chayes, *Thieves of State* (New York: Norton, 2015); Karen Dawisha, *Putin's Kleptocracy: Who Owns Russia?* (New York: Simon & Schuster, 2014); Balint Magyar, *Post-Communist Mafia State: The Case of Hungary* (Budapest: Central European University Press, 2016); and Minxin Pei, *China's Crony Capitalism* (Cambridge, MA: Harvard University Press, 2016).
- 4 Chapman University Survey of American Fears, "America's Top Fears, 2016," Wilkinson College of Arts, Humanities, and Social Sciences, October 11 2016, <https://blogs.chapman.edu/wilkinson/2016/10/11/americas-top-fears-2016/>.
- 5 See, for example, Tom Dahl-Østergaard et al., "Lessons Learned on the Use of Power and Drivers of Change Analyses in Development Cooperation," OECD DAC Network on Governance, Organization for Economic Cooperation and Development, September 20, 2005, <https://www.oecd.org/dac/governance-peace/governance/docs/37957900.pdf>.
- 6 Thomas Carothers and Diane de Gramont, *Development Aid Confronts Politics: The Almost Revolution* (Washington, DC: Carnegie Endowment for International Peace, 2013), 148–49.
- 7 *Ibid.*, 164. "Mainstream aid organizations are both expanding and rethinking their use of political economy analysis. The thrust of this move is toward more focused studies, moving from the country level to sector-level or problem-focused approaches."

- 8 During briefings on this methodology, the sentiment was expressed, in these terms, by government officials in Germany, Sweden, and the United States, among other countries.
- 9 This was first tested on Azerbaijan, Kyrgyzstan, and Moldova in June 2016. See Chayes, “Structure of Corruption.”
- 10 For an in-depth and relatively recent look at the Central American migrant crisis, see “Easy Prey: Criminal Violence and Central American Migration” (Latin America Report No. 57), International Crisis Group, July 28, 2016, <https://d2071andvip0wj.cloudfront.net/057-easy-prey-criminal-violence-and-central-american-migration.pdf>.
- 11 Including at the U.S. border. See Ron Nixon, “The Enemy Within: Bribes Bore a Hole in the U.S. Border,” *New York Times*, December 28, 2016, http://www.nytimes.com/2016/12/28/us/homeland-security-border-bribes.html?emc=eta1&_r=0.
- 12 See “On Dangerous Ground,” Global Witness, June 20, 2016, <https://www.globalwitness.org/en/reports/dangerous-ground/>; as well as “Honduras: The Deadliest Place to Defend the Planet,” Global Witness, January 31, 2017, <https://www.globalwitness.org/en-gb/campaigns/environmental-activists/honduras-deadliest-country-world-environmental-activism/>.
- 13 See Sarah Peck and Sarah Chayes, “The Oil Curse: A Remedial Role for the Oil Industry,” Carnegie Endowment for International Peace, September 30, 2015, <http://carnegieendowment.org/2015/09/30/oil-curse-remedial-role-for-oil-industry-pub-61445>.
- 14 Honduras had a GINI coefficient of 50.64 in 2014, where 0 is perfectly equal. The U.S. scored 41.06 the same year. See “Data: Honduras,” World Bank, <http://data.worldbank.org/country/honduras>.
- 15 “Honduras,” CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/geos/ho.html>, and “Data: Honduras,” World Bank, <http://data.worldbank.org/country/honduras>.
- 16 Katherine Brogan and Elizabeth McGuinness, “FIELD Report No. 19: Assessment of Remittances in Honduras,” USAID, ACDU/VOCA, and FHI360, October 2013, <https://www.microlinks.org/sites/default/files/resource/files/FIELD%20Report%20No%2019%20Honduras%20Remittances%20Assessment.pdf>. Note that internal remittances are also important, as city-dwellers send part of their wages back to family members who have remained on the land.
- 17 Thomas M. Leonard, *The History of Honduras* (Santa Barbara, CA: Greenwood Publishing, 2011), 83.
- 18 *Ibid.*, 84–85.
- 19 See Kirk Bowman, “The Public Battles Over Militarization and Democracy in Honduras, 1954–1963,” *Journal of Latin American Studies* 33, no. 3 (August 2001): 539–60.
- 20 Tim Merrill, *Honduras: A Country Study* (Washington, DC: Federal Research Division, Library of Congress, 1995), 29.
- 21 Leonard, *The History*, 135–36.
- 22 Merrill, *Honduras*, 32.
- 23 Leonard, *The History*, 138.
- 24 Merrill, *Honduras*, 32.
- 25 Leonard, *The History*, 143. See also John A. Booth, Christine J. Wade, and Thomas W. Walker, *Understanding Central America: Global Forces, Rebellion, and Change* (Boulder, CO: Westview Press, 2010), 211; and Thomas P. Anderson, *Politics in Central America: Guatemala, El Salvador, Honduras, and Nicaragua* (New York: Praeger Publishers, 1982), 112.
- 26 Anderson, *Politics*, 113.
- 27 Booth, Wade, and Walker, *Understanding*, 210–12.
- 28 *Ibid.*, 212.
- 29 *Ibid.*, 213.

- 30 Ibid., 213.
- 31 Ibid., 347.
- 32 Nancy Peckenhams and Anne Street, eds., *Honduras* (New York: Praeger Publishers, 1985), 194.
- 33 Ibid., 211–18.
- 34 Ibid., 211.
- 35 See James LeMoyne, “Testifying to Torture,” *New York Times*, June 5, 1988, <http://www.nytimes.com/1988/06/05/magazine/testifying-to-torture.html?pagewanted=all>.
- 36 “Honduras,” InSight Crime, December 6, 2016, <http://www.insightcrime.org/honduras-organized-crime-news/honduras>.
- 37 Booth, Wade, and Walker, *Understanding*, 220.
- 38 Ibid., 219.
- 39 “1998- Hurricane Mitch,” Hurricanes: Science and History, 2015, <http://www.hurricane-science.org/history/storms/1990s/mitch/>; “Mitch: The Deadliest Hurricane Since 1780,” National Climate Data Center, January 23, 2009, <https://www.ncdc.noaa.gov/oa/reports/mitch/mitch.html>; and “1998: Hurricane Mitch slams into Central America,” History.com, <http://www.history.com/this-day-in-history/hurricane-mitch-slams-into-central-america>.
- 40 Vilma Elisa Fuentes, “Post-Disaster Reconstruction: An Opportunity for Political Change,” in *The Legacy of Hurricane Mitch: Lessons From Post-Disaster Reconstruction in Honduras*, ed. Marisa O. Ensor (Tucson, AZ: University of Arizona Press, 2009), 106.
- 41 Ibid., 106–7.
- 42 Ibid., 107.
- 43 Ibid., 113. See also Naomi Klein, “The Rise of Disaster Capitalism,” *Nation*, April 14, 2005, <https://www.thenation.com/article/rise-disaster-capitalism/>. For a look at an interesting twist on this “disaster capitalism,” see Benjamin F. Timms, “The (Mis)use of Disaster as Opportunity: Coerced Relocation From Celaque National Park, Honduras,” *Antipode: A Radical Journal of Geography* 43, no. 4 (2011): 1,357–79.
- 44 Booth, Wade, and Walker, *Understanding*, 221.
- 45 William Aviles, “The Political Economy of Low-Intensity Democracy: Colombia, Honduras, and Venezuela,” in *Corporate Power and Globalization in U.S. Foreign Policy*, ed. Richard W. Cox (London: Routledge, 2012), 146.
- 46 Ibid., 147. See also the section on private-sector network members, pages 67–76.
- 47 Booth, Wade, and Walker, *Understanding*, 221.
- 48 “Honduras,” InSight Crime, December 6, 2016, <http://www.insightcrime.org/honduras-organized-crime-news/honduras>.
- 49 Booth, Wade, and Walker, *Understanding*, 223.
- 50 For a history of the Zelaya family, see Will Weissert, “Zelaya Hometown Provides Look at Divided Honduras,” *San Diego Union-Tribune*, July 7, 2009, <http://www.sandiegouniontribune.com/sdut-lt-honduras-divided-070709-2009jul07-story.html>. For links between Zelaya and the Sarmiento family, see Steven Dudley, “WikiLeaks: Zelaya and Organized Crime,” *InSight Crime*, December 12, 2010, <http://www.insightcrime.org/investigations/zelaya-and-organized-crime>; and “Un hijo de Ulises Sarmiento sustituye a ‘Mel’ Zelaya en Olancho,” *El Heraldo*, October 6, 2016, <http://www.elheraldo.hn/pais/1004221-466/un-hijo-de-ulises-sarmiento-sustituye-a-mel-zelaya-en-olancho>.
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- 52 Fiona Forde, “Oil Negotiation Between Honduras and Venezuela Rankles Washington,” *Irish Times*, May 20, 2006, <http://www.irishtimes.com/news/oil-negotiation-between-honduras-and-venezuela-rankles-washington-1.1005625>; “Can President Zelaya Be Brought Back to the

- Fold?” (U.S. Embassy Tegucigalpa cable to Washington), WikiLeaks, September 19, 2008, <http://wikileaks.redfoxcenter.org/cable/2008/09/08TEGUCIGALPA863.html>. We heard one account from a former minister of a speech by Zelaya in which a patriarch of one of the families issued a direct threat, to the effect that an attack on any of their interests would be treated as an attack on all of them.
- 53 Booth, Wade, and Walker, *Understanding*, 224. For the contemporary view from the U.S. embassy, see “Honduras: A Political Crisis Brews,” WikiLeaks, June 25, 2009, https://wikileaks.org/gifiles/docs/16/1687739_honduras-a-political-crisis-brews-.html; and “Zelaya and the Fourth Urn” (U.S. Embassy Tegucigalpa cable to Washington), WikiLeaks, June 9, 2009, https://wikileaks.org/plusd/cables/09TEGUCIGALPA438_a.html. It is worth noting that Zelaya himself never mentioned eliminating term limits. And now that President Juan Orlando Hernández has announced his plans to run for reelection, it is clear that this ostensible reason for toppling Zelaya was a pretext.
- 54 Booth, Wade, and Walker, *Understanding*, 225. See also, for example, Elisabeth Malkin, “Honduran President Is Ousted in Coup,” *New York Times*, June 28, 2009; or William Finnegan, “An Old-Fashioned Coup,” *New Yorker*, November 30, 2009. One former official showed me cell-phone video of a group of *golpistas* entering his office with a forged resignation letter and demanding he read it, which he refused to do.
- 55 Much thoughtful and sometimes fraught study and analysis has been devoted to this question. U.S. policy response to a “coup” uses the terminology “military coup,” so much effort has been devoted to proving that it was indeed that. For a selection of some of the more substantive analysis, see Leticia Salomon, “Conozca las diez familias que financiaron el golpe de Estado en Honduras,” *El Libertador*, August 8, 2009, which identifies Jose Rafael Ferrari, Juan Canahuati, Camilo Atala, Fredy Nasser, and Miguel Facussé, among others, as its primary architects. See also Geoff Thale, “Behind the Honduran Coup,” *Foreign Policy in Focus*, July 1, 2009. This anonymous slide presentation, oddly branded with an Israeli flag, is suggestive: “Esquema del golpe de estado en Honduras el día 28 de junio 2009, SlideShare, August 9, 2009, <https://www.slideshare.net/xatruchmorazan/esquema-del-golpe-de-estado-en-honduras-el-dia-28-de-junio-2009>.
- 56 Salomon, “Conozca las diez.”
- 57 See “Open and Shut: The Case of the Honduran Coup” (U.S. Embassy Tegucigalpa cable to Washington), WikiLeaks, June 28, 2009, https://wikileaks.org/plusd/cables/09TEGUCIGALPA645_a.htm.
- 58 See Arshad Mohammed and David Alexander, “Obama Says Coup in Honduras Is Illegal,” Reuters, June 29, 2009; Ben Feller, “Obama’s Stand on the Honduran Coup,” Associated Press, June 30, 2009; and Tim Padgett, “Why Obama Won’t Use the M-Word for Honduras’ Coup,” *Time*, September 5, 2009.
- 59 See, among multiple analyses during the 2016 presidential campaign, Robert Naiman, “Did Secretary of State Hillary Clinton Enable the Coup in Honduras?,” *Huffington Post*, February 19, 2016; or Tim Shorrock, “How Hillary Clinton Militarized U.S. Policy in Honduras,” *Nation*, April 5, 2016.
- 60 Booth, Wade, and Walker, *Understanding*, 228.
- 61 See Chayes, *Thieves of State*; and Chayes, “Structure of Corruption”; as well as “Cambodia’s Family Trees: Illegal Logging and the Stripping of Public Assets by Cambodia’s Elite,” Global Witness, June 2007.
- 62 Victor Meza et al., *Poderes Fácticos y Sistema Político* (Tegucigalpa: Centro de Documentación de Honduras [CEDOH], 2014); Dario Euraque, “La configuración histórica de las elites en Honduras hasta 1990: una aproximación” (seminar paper and presentation for “Elites and the Reconfiguration of Power in Central America,” Antigua: American University, Febru-

- ary 16–18, 2012); Stephen Dudley, “Honduran Elites and Organized Crime: Introduction,” InSight Crime, April 9, 2016; and numerous interviews.
- 63 Topping the world in unexplained deaths of environmental activists, Honduras is an extremely dangerous country for those who threaten the regime. For this reason, the names of all interlocutors will be withheld from this publication (interview by author, Tegucigalpa, August, 3, 2016).
- 64 Interview by author, Tegucigalpa, August 3, 2016. Among other versions of the idea we heard, from Hondurans of all walks of life: “It’s financial and media support, and freedom to steal, in return for stability.” “It functions via favors: you do this for me, I do this for you. It’s good for the president and his family and his town.” Leticia Salomón, “La percepción de la relación entre grupos económicos y poder político,” in Meza et al., *Poderes Facticos*, 49–50: “Businessmen see the relationship [with politicians] as a bet whose prize is political security for their business, which pushes them to become close to anyone who could win, and ultimately, those who have the possibility of controlling government groups or institutions.” Or, “The quantity of institutions in which private business has institutional representation is worrying, as are the growing amounts of power they are acquiring with each new government. . . . [And] the instrumental vision businesspeople have of the state, which they perceive less as an arbiter and more as a means to transmit their corporate interests” (52).
- 65 See section below on the IHSS scandal on the health budget. On padded procurement contracts, see “Exgerente Roberto Martinez acusado de millonario fraude,” *La Prensa*, September 5, 2016, <http://www.laprensa.hn/honduras/997184-410/exgerente-roberto-mart%C3%ADnez-acusado-de-millonario-fraude>. On hydroelectric dams, see “Honduras: The Deadliest Place to Defend the Planet,” Global Witness.
- 66 Although there is not a clear-cut estimate for the size of the criminal sector in Honduras, it has been estimated that extortion alone costs Hondurans upward of \$200 million per year (see Mike LaSusa, “Honduras Authorities Grapple With Social, Economic Impacts of Extortion,” InSight Crime, May 2, 2016), whereas cocaine flowing through Honduras has an estimated eventual value of up to \$25.2 billion, based on estimates that 90 percent of the United States’ \$28-billion cocaine market passes through the Central American corridor; see *World Drug Report 2016*, (Vienna: United Nations Office on Drugs and Crime [UNODC], 2016), 77, http://www.unodc.org/doc/wdr2016/WORLD_DRUG_REPORT_2016_web.pdf.
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- 69 See “170 Companies at ‘Honduras Open for Business,’” Central America Data, March 11, 2011, http://www.centralamericadata.com/en/article/home/170_Companies_at_Honduras_Open_for_Business/; “Este jueves comienza la ronda de negocios ‘Honduras is Open for Business,’” *América económica*, May 5, 2011, <http://www.americaeconomia.com/economia-mercados/comercio/este-jueves-comienza-la-ronda-de-negocios-honduras-open-business/>; “Honduras Is Open for Business,” Council for Hemispheric Affairs, July 26, 2011, <http://www.coha.org/honduras-is-open-for-business/>; “Renewable Energy Sector Investment Opportunities: Honduras Is Open for Business,” Honduran National Investment Promotion Program, April 2011; and Associated Press, “Honduran Judges Rule Against Privately Run ‘Model Cities’ Project,” *Guardian*, October 4, 2012, <https://www.theguardian.com/world/2012/oct/04/honduran-judges-reject-model-cities>.
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- 73 See Thomas Carothers and Saskia Brechenmacher, “Closing Space: Democracy and Human Rights Support Under Fire,” Carnegie Endowment for International Peace, 2014, 29–30.
- 74 “Ley Especial sobre la Intervencion de las Comunicaciones Privadas,” Government of Honduras, December 12, 2011, [http://www.poderjudicial.gob.hn/CEDIJ/Leyes/Documents/Ley%20Especial%20sobre%20Intervencion%20de%20las%20Comunicaciones%20Privadas%20\(8,2mb\).pdf](http://www.poderjudicial.gob.hn/CEDIJ/Leyes/Documents/Ley%20Especial%20sobre%20Intervencion%20de%20las%20Comunicaciones%20Privadas%20(8,2mb).pdf).
- 75 See “Junta Nominadora Exige cese de espionaje telefonico,” *El Libertador*, January 8, 2016, <https://honduprensa.wordpress.com/2016/01/10/junta-nominadora-exige-cese-de-espionaje-telefonico-junta-nominadora-confirma-espionaje-telefonico-en-honduras-asesor-presidencial-revela-nombres-de-proximos-magistrados/>; “Honduras: Gobierno paga L.8 millones en software de espionaje telefonico,” *Conexihon*, July 6, 2015, <https://honduprensa.wordpress.com/2015/07/06/honduras-gobierno-paga-l-8-millones-en-software-de-espionaje-telefonico/>; “Revelado espionaje contra Rafael Leonardo Callejas,” *Cholusat Sur Canal 36*, May 21, 2015, <http://cholusatsur.com/noticias/?p=10621>; Inter-American Commission on Human Rights, “Situation of Human Rights in Honduras,” Organization of American States, 2015, 187.
- 76 Interview by author, Washington, DC, February 16, 2017.
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- 79 Interview by author, Monte Capado, July 23, 2016.
- 80 Inter-American Commission on Human Rights, “Situation of Human Rights,” 183–84.
- 81 See James Phillips, *Honduras in Dangerous Times: Resistance and Resilience* (Lanham, MD: Lexington Books, 2015), 45; and “Illegal Logging in the Rio Platano Biosphere: A Farce in Three Acts,” Global Witness, January 2009.
- 82 “Presidente envia al CN revision de Ley Antimaras,” *La Tribuna*, March 16, 2015, <http://www.latribuna.hn/2015/03/16/presidente-envia-al-cn-revision-de-ley-antimaras/>.
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- <http://www.ipsnews.net/2008/05/honduras-prosecutors-on-hunger-strike-against-corruption/>; Bureau of Democracy, Human Rights, and Labor, “Honduras: 2008 Country Report on Human Rights Practices,” U.S. Department of State, February 25, 2009, <https://www.state.gov/j/drl/rls/hrrpt/2008/wha/119164.htm>. For a close account of the prosecutor strike, see Adrienne Pine, “Caso Gasolinazo,” *Quooha* (blog), June 8, 2008, <http://quooha.net/node/17>.
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- 96 Ibid., 4–7; Inter-American Commission on Human Rights, “Situation of Human Rights,” 29–30, 40, 43–44; “The Voice of Greatest Authority Is That of the Victims,” Commission of Truth, April 2013, 98–102; “Declaran culpable por seis delitos de difamacion e injuria a David Romero,” *El Heraldo*, November 13, 2015, <http://www.elheraldo.hn/pais/900815-466/declaran-culpable-por-seis-delitos-de-difamaci%C3%B3n-e-injuria-a-david-romero>; and “Estado Hondureño Recrudece Persecución Contra Defensores y Defensoras de Derechos Humanos,” Radio Progreso el ERIC, March 14, 2014, <http://radioprogreso.hn.net/index.php/comunicaciones/noticias/item/793-estado-hondure%C3%B1o-recrudece-persecuci%C3%B3n-contra-defensores-y-defensoras-de-derechos-humanos>.
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- 101 Andrew Higgins, “Moldova: Hunting for Missing Millions, Finds Only Ash,” *New York Times*, June 4, 2015, http://www.nytimes.com/2015/06/05/world/europe/moldova-bank-theft.html?_r=0; Serbia’s Slobodan Milošević went further, actually transporting the bodies of war crimes victims in refrigerator trucks deep inside Serbia, where they were dumped in rivers or buried under highways. I reported this story for the BBC-WGBH radio program *The World in 2001*. See also “Serbian Minister Comments on Exhumed Bodies,” BBC Worldwide Monitoring, June 13, 2001, <https://www.globalpolicy.org/component/content/article/163/28718.html>.
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- 103 See *United States of America v. Jaime Rolando Rosenthal Oliva, Yani Benjamin Rosenthal Hidalgo, Yankel Rosenthal Coello, and Andres Acosta Garcia*, S2 13 Cr. 413 (JGK), <https://www.justice.gov/usao-sdny/file/781866/download>. Yani and Yankel are in U.S. custody and standing trial as of April 1, 2017.
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- 105 Some portion of the money from street-level shakedowns and bribes extorted from passers-by, arrestees, and even the victims of crime is typically sent upward within the hierarchy. The total sum is very significant. For examples, see Chayes, chap. 5 in *Thieves of State*.
- 106 Inter-American Commission on Human Rights, “Situation of Human Rights,” 102.
- 107 See “Results of the First 60 Days” (materials presented at Wilson Center event, June 16, 2016) Special Commission for the Clean-up and Transformation of the National Police, <https://www.scribd.com/doc/316032212/Honduras-Police-Depuracion-Documents>; or “Hon-

- durans Organized Crime News,” InSight Crime, December 6, 2016, <http://www.insightcrime.org/honduras-organized-crime-news/honduras#security>. Quote from an interview in Tegucigalpa, August 5, 2016.
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- 109 See for example Inter-American Commission on Human Rights, “Situation of Human Rights,” 28–29, 42, 44, <http://www.oas.org/en/iachr/reports/pdfs/Honduras-en-2015.pdf>.
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- 112 Elisabeth Malkin and Alberto Arce, “Files Suggest Honduran Police Leaders Ordered Killing of Antidrug Officials,” *New York Times*, April 15, 2016, https://www.nytimes.com/2016/04/16/world/americas/files-suggest-honduras-police-leaders-ordered-killing-of-antidrug-officials.html?_r=0; and Alberto Arce, “Honduran Ex-Police Chief Says Government Faked Documents in Assassination Case,” *New York Times*, April 22, 2016, <http://www.nytimes.com/2016/04/23/world/americas/honduras-ramn-sabilln-pineda-police-antidrug-assassination.html> suggest that the 2016 leak of information on the conspiracy that he reported may have been part of a ruse to allow Hernández to hobble the police and exert more direct control over internal security.
- 113 Just two examples: U.S. Attorney’s Office, Southern District of New York, “Manhattan US Attorney Announces Charges Against Members of the Honduran National Police for Drug Trafficking and Related Firearms Offenses,” press release, U.S. Department of Justice, June 29, 2016, <https://www.justice.gov/usao-sdny/pr/manhattan-us-attorney-announces-charges-against-members-honduran-national-police-drug>; Malkin and Arce, “Files Suggest,” *New York Times*.
- 114 Interview, Tegucigalpa, August 5, 2016.
- 115 Interview, Monte Copado, July 22, 2016.
- 116 “Estado Hondureño Recrudece Persecución Contra Defensores y Defensoras de Derechos Humanos” [Honduran state intensifies persecution of human rights defenders], Radio Progreso, March 14, 2014, <http://radioprogressohn.net/index.php/comunicaciones/noticias/item/793-estado-hondureño-recrudece-persecución-contra-defensores-y-defensoras-de-derechos-humanos>.
- 117 Phillips, *Honduras in Dangerous Times*, 149–51, 158.
- 118 Interview, La Paz Department, July 22, 2016. See also “Honduras Indigenous Leader Under Police Protection Arrested,” TelesUR TV, January 11, 2017, <http://www.telesurtv.net/english/news/Honduras-Indigenous-Leader-Under-Police-Protection-Arrested-20170111-0024.html>.
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- 120 Interview, Nueva Palestina, August 1, 2016.
- 121 Links between the police and narco-traffickers are more well-known and better documented, and are discussed below in the section on local officials.
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- 123 “La Pandilla Tenía a sus Servivios a 13 Jefes Policiales” [13 police chiefs in the gang], *La Prensa*, January 10, 2016, <http://www.laprensa.hn/honduras/1033698-410/la-pandilla-ten%C3%ADa-a-sus-servicios-a-13-jefes-policiales>.
- 124 “Honduras Gangs Extort Homeowners,” Fox News, August 9, 2012, <http://www.foxnews.com/world/2012/08/09/honduras-gangs-extort-homeowners.html>.
- 125 Interview, July 21, 2016.
- 126 Interview, Tegucigalpa, July 23, 2016.
- 127 Interview, Juticalpa, July 25, 2016.

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- 138 Watch “Alianza – Creación de la Policía los TIGRES” [Police creation of the Tigers], YouTube video, uploaded by “Alianza por la Paz y la Justicia” [Alliance for peace and justice], October

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- 167 *Ibid.*, 29. The assessment of the supreme audit institution was corroborated by interviewees, including a Honduran oversight professional, who called it “a joke. It is no control institution.”
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- 295 Chayes, "Structure of Corruption."
- 296 Interview, July 22, 2016.
- 297 Interviews, La Paz department, July 22 and 23, 2016. See also Phillips, *Honduras in Dangerous Times*, 46.
- 298 Interview, July 23, 2016.
- 299 Interviews, July 22 and 23, 2016.
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- 301 Interview (telephone), November 10, 2016.
- 302 Interview, Patuca River, July 31, 2016.
- 303 Interview, Bilalmo, July 30, 2016.
- 304 "Liberan a alcalde hondureño que llevaba 900 mil lempiras," *La Prensa*, December 6, 2014, <http://www.laprensa.hn/sucesos/774333-410/liberan-a-alcalde-hondure%C3%B1o-que-llevaba-900-mil-lempiras>; "Vecinos denuncian alcalde de Wampusirpi, Gracias a Dios, desde hace más de dos años sin que nadie haga nada," *Criterio*, January 13, 2016, <http://criterio.hn/2016/01/13/vecinos-denuncian-alcalde-wampusirpi-gracias-dios-desde-dos-anos-sin-nadie-haga-nada/>.
- 305 "Decreto no. 157-99," *La Gaceta de la República de Honduras*, December 21, 1999, <http://icf.gob.hn/wp-content/uploads/2015/09/AP-Decreto-157-99-Declaratoria-PN-Patuca-y-RB-Tawahka-Asagni.pdf>.
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- 307 Interview, Patuca River, July 30, 2016.
- 308 Interview, July 28, 2016.
- 309 Kendra McSweeney et al., "Drug Policy as Conservation Policy: Narco-Deforestation," *Science* 343, no. 6,170 (January 31, 2014): 489–90, <http://science.sciencemag.org/content/343/6170/489>.
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- 311 McSweeney and Pearson, "Prying Native People From Native Lands," 7; see also Elizabeth Bourne Jackson, "From Lobsters to Cocaine: The Shifting Commodity Landscape on the Miskito Coast of Honduras" (PhD dissertation, University of Wisconsin-Madison, 2015).
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- 313 Steven Dudley, "Honduran Elites and Organized Crime: The Cachiros," InSight Crime, April 9, 2016, <http://www.insightcrime.org/investigations/honduras-elites-and-organized-crime-the-cachiros>.
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- 321 Interview, Tegucigalpa August 5, 2016; “Las 12 cosas que no sabias de Nasry ‘Tito’ Asfura,” *El Heraldo*, August 28, 2015, <http://www.elheraldo.hn/metro/873699-213/las-12-cosas-que-no-sab%C3%ADas-de-nasry-tito-asfura>; “Marcia Villeda pide renuncia a Nasry Asfura,” *El Heraldo*, April 7, 2014, <http://www.elheraldo.hn/pais/583328-214/marcia-villeda-pide-renuncia-a-nasry-asfura>; “Tito Asfura dice que seguira con contrato de basura en Tegucigalpa aunque resulte electo Alcalde,” *Ultima Hora*, July 16, 2012, <http://ultimahora.hn/node/6551>.
- 322 Interview, Tegucigalpa, July 23, 2016.
- 323 Interview, Tegucigalpa, August 2, 2016.
- 324 Comment by a parent who chose to enroll her son in a new American school, called Discovery School: interview (telephone), September 20, 2016. Perusal of their social media posting suggests young members of these elite groups remain tightly networked as they go on to university studies, usually in the United States.
- 325 In the words of a former senior government official, “This is how the political class has refined bribery: companies give shares to the circle [relatives or close associates] of government officials”: interview, Tegucigalpa, August 4, 2016.
- 326 On the Alliance for Prosperity, see Office of the Press Secretary, “FACT SHEET: The United States and Central America: Honoring Our Commitments,” White House, January 14, 2016, <https://www.whitehouse.gov/the-press-office/2016/01/15/fact-sheet-united-states-and-central-america-honoring-our-commitments>; House Amendment #1 to the Senate Amendment to the Military Construction and Veterans Affairs and Related Agencies Appropriations Act of 2016, H.R. 2029, 114th Cong. (December 15, 2015), <http://docs.house.gov/billsthisweek/20151214/CPRT-114-HPRT-RU00-SAHR2029-AMNT1final.pdf>; but also: Dan Beeton, “Central America’s ‘Alliance for Prosperity’ Plan: Shock Doctrine for the Child Refugee Crisis?,” *The Americas* (blog), Center for Economic and Policy Research, November 26, 2014, <http://cepr.net/blogs/the-americas-blog/central-americas-alliance-for-prosperity-plan-shock-doctrine-for-the-child-refugee-crisis>; and “Kids First: A Response to the Southern Border Humanitarian

- Crisis,” Congressional Progressive Caucus, 2014, <https://cpc-grijalva.house.gov/uploads/CPC.Kids.First3.pdf>. Several interviewees, Western as well as Honduran, noted that key network members are putting significant focus and energy into shaping the use of these funds, such as former foreign minister and veteran operator Arturo Coralles, as well as the participation of members of the key families that dominate the private sector on the Consultative Council for the Alliance for Prosperity.
- 327 Katherine Wilkins, a member of the team that conducted the research for this report, during a team meeting, December 28, 2016. Chambers of Commerce, which typically house corporate registries do not include company data in Honduras. And the 2016 closure of the Executive Directorate of Revenue, a source for company tax registration data, further complicates access to information. The website of the directorate’s successor, the Presidential Commission for Tributary Administration, links to an inactive directorate page for its listing of large taxpayers. By contrast, ironically, most of these companies’ websites communicate abundantly about their sustainable practices and corporate social responsibility.
- 328 Jacobo Garcia, “El informe ecologico que irrita al Gobierno de Honduras,” *El Pais*, February 11, 2017, http://internacional.elpais.com/internacional/2017/02/09/america/1486617921_790115.html.
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- 332 Aaron Schneider, *State-Building and Tax Regimes in Central America* (New York: Cambridge University Press, 2012), 146.
- 333 International Finance Corporation (IFC), “CAO Audit of IFC Investments in Banco Financiera Comercial Hondurena S.A. (FICOHSA),” World Bank Group, August 11, 2014, http://www.ifc.org/wps/wcm/connect/region__ext_content/regions/latin+america+and+the+caribbean/countries/factsheet_ficohsa.
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- 336 Interview by author (telephone), February 8, 2017.
- 337 A smaller, but still important, bank is undergoing liquidation due to U.S. money-laundering sanctions. See Michael Lohmuller, “Honduras Closes Bank as Elite Money Laundering Hits Savers,” InSight Crime, October 13, 2015, <http://www.insightcrime.org/news-briefs/honduras-closes-bank-as-elite-money-laundering-case-hits-savers>; and Samuel Rubinfeld, “U.S.

- Extends Banco Continental Wind-Down Until June 2016,” *Wall Street Journal*, December 8, 2015, <http://blogs.wsj.com/riskandcompliance/2015/12/08/u-s-extends-banco-continental-wind-down-until-june-2016/>.
- 338 Conversations in Kabul and confirmation by e-mail, January 2, 2017.
- 339 Author interview, Tegucigalpa, August 5, 2016. Note the implications of this state of affairs for Citibank, whose Central American operations were bought out by Banco Ficohsa in 2015. It is almost inconceivable that some of the purchase price was paid in laundered drug money.
- 340 For a discussion of these developments, see Ramon Romero, “Electrical Elites and Political Power,” in Meza et al., *Poderes Facticos*, 119–34.
- 341 Author interview, Tegucigalpa, August 2, 2016.
- 342 GENISA, building a dam in Panama, belongs to the Kafie; see Kerem Perez, “Detienen a empresario de Genisa en Honduras,” tvnNOTICIAS, June 18, 2015, http://www.tvn-2.com/nacionales/judicial/Detienen-empresario-Genisa-Honduras_0_4234826593.html. For the controversy over the dam, see “Companies Building Controversial Dam in Panama Hit \$1.2 mn in Fines,” Agencia EFE, September 25, 2015, <http://www.efe.com/efe/english/business/companies-building-controversial-dam-in-panama-hit-with-1-2-mn-fines/50000265-2722376>. In Guatemala, the Nassers’ Grupo Terra has at least two dams: “Xacbal Hydroelectric project, Guatemala,” Environmental Justice Atlas, last updated November 13, 2014, <https://ejatlas.org/conflict/area-de-uso-multiple-rio-sarstun>; and “Hidroelectrica Santa Rita S.A. in Monte Olivo, Guatemala,” Environmental Justice Atlas, last updated November 11, 2016, <https://ejatlas.org/conflict/hidro-santa-rita-monte-olivo-guatemala>.
- 343 “Decreto No. 109-2012,” Government of Honduras, January 26, 2013, <http://tzibalnaah.unah.edu.hn/handle/123456789/926?show=full>. Cf. Austra Berta Flores et. al., “Hechos y circunstancias.”
- 344 Nieves Capote Figueroa, “Represas Hidroelectricas en Honduras,” Otros Mundos AC/Amigos de la Tierra, September 8, 2011, http://otrosmundoschiapas.org/docs/escaramujo/escaramujo521_represas_honduras.pdf. A more recent development has been the emergence of inefficient biomass generators, especially in areas covered by pine forests. In January 2016, a state of emergency was declared due to an epidemic of pine beetles—just like those wreaking havoc in the Rocky Mountains. Forestry specialists maintain that larger tracts of forest are being cut down than the customary eight meters, and notice that new operators, not previously in the energy business, are entering the biomass market.
- 345 Lakhani, “Berta Cáceres.”
- 346 In a July 20, 2016 interview, a U.S. observer described a repudiated community official, stripped of his position, stating he had participated in the meeting on behalf of La Tejera village, for example. See also Bird, “The Agua Zarca Dam,” 4.
- 347 “Honduras: Capturan exviceministro de Serna acusado por caso de Agua Zarca,” *El Heraldo*, October 14, 2016, <http://www.elheraldo.hn/pais/1008434-466/honduras-capturan-exviceministro-de-serna-acusado-por-caso-de-agua-zarca>.
- 348 In an August 2016 interview, a lender confirmed that it was the Honduran government that had designated DESA before funding had been requested.
- 349 The early history is carefully detailed by Bird, “The Agua Zarca Dam”; see also Nina Lakhani, “Honduras Dam Project Shadowed by Violence,” Al Jazeera, December 24, 2013, <http://www.aljazeera.com/indepth/features/2013/12/honduras-dam-project-shadowed-violence-201312211490337166.html>; for a later analysis, see Willems and de Jonghe, “Protest and Violence Over the Agua Zarca Dam”; and among the many written after Cáceres’s assassination, Jonathan Blitzer, “The Death of Berta Cáceres,” *New Yorker*, March 11, 2016,

- <http://www.newyorker.com/news/news-desk/the-death-of-berta-caceres>.
- 350 “Sinohydro Group Response to Report by Rights Action” (letter from Sinohydro to the Business and Human Rights Resource Centre), Sinohydro Group Limited, November 25, 2013, http://www.google.com/url?q=https://business-humanrights.org/sites/default/files/media/documents/company_responses/sinohydro-response-re-agua-zarca-25-nov-2013-en.doc&sa=U&ved=0ahUKEwipp_qm36TRAhUBTSYKHWaDC1oQFgg4MAY&sig=ZBdAlXSC148XRJbn3VGcvA&usg=AFQjCNFdK8LmxEuG1YYOHg9z_5mfegPoug.
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- 352 Alessandra Borella, “Honduras, assassinata la militante ecologista Berta Cáceres,” *Repubblica*, March 3, 2016, http://www.repubblica.it/esteri/2016/03/03/news/honduras_assassinata_la_militante_ecologista_berta_caceres-134696570/; Simon Lewis, “Main Witness Barred From Leaving Honduras as Suspicions Mount Over Activist’s Murder,” *Time*, March 9, 2016, <http://time.com/4252033/berta-caceres-gustavo-castro-soto-honduras-witness-murder/>.
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- 359 Author interview, Patuca, July 26, 2016.
- 360 Nina Lakhani, “Honduras and the Dirty War Fueled by the West’s Drive for Clean Energy,” *Guardian*, January 7, 2014, <https://www.theguardian.com/global/2014/jan/07/honduras-dirty-war-clean-energy-palm-oil-biofuels>.
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- 366 “Terra Infraestructura,” Grupo Terra 2017, <http://corporaciongrupoterra.com/infraestructura/>.
- 367 “Mas Corrupcion,” *La Prensa*, July 5, 2007, <http://www.laprensa.hn/honduras/650187-97/m%C3%A1s-corrupci%C3%B3n>.
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- 374 Phillips, *Honduras in Dangerous Times*, 104: “People in communities throughout the region

- were forced to collaborate with drug traffickers while police, military, and U.S. anti-drug units were not disposed to employ much discretion or time to differentiate the guilty from local people simply trying to survive.” See also Jackson, “From Lobsters to Cocaine.”
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approximately a half hour. Then they emerged and the officers busted out. That display significantly reinforced the governor's power vis-à-vis his constituents.

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- 432 Interview, Washington, October 15, 2016.
- 433 Interviews, Helsinki, June 6, 2016.
- 434 Ibid.
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