

U.S. STRATEGY FOR ENGAGEMENT IN CENTRAL AMERICA

Summary

Central America is at a pivotal point in its history. Compared to the 1980s, the region is relatively free from armed conflict, politically stable, and benefiting from a free trade agreement with the United States. However, a combination of economic stagnation, weak governmental institutions, and insecurity in some countries has plagued Central America. The recent surge in migration to the United States and Mexico from Honduras, El Salvador, and Guatemala is just one result of these challenges and of the inability, to date, to find solutions to the challenges the region faces. Current efforts by Central American governments, the United States, and other regional governments have proven insufficient to achieve meaningful progress in addressing these challenges. U.S. local-level programs have achieved some important successes; however, a broader, more comprehensive strategy and greater Central American government resource and political commitment is required to achieve systemic and lasting success at the national level. It is therefore in the national security interests of the United States to develop an integrated U.S. strategy for engagement in Central America and to work with international organizations and regional governments to put the region on a course to sustained, broad-based economic growth, better government performance, and improved security conditions. This is consistent with our commitment in the National Security Strategy to work in equal partnership with the region to advance economic and social inclusion and safeguard citizen safety and security, among other objectives. While the United States will need to invest significant resources in such an effort, the success of the strategy will depend far more on the readiness of Central American governments to continue to demonstrate political will and undertake substantial political and economic commitments to bring about positive change in the region. We will work closely with Central American governments and the governments of Mexico, Colombia, and Canada; multilateral development banks; and other international actors to establish a shared vision and develop concrete plans for realizing that vision. U.S. support should be geared toward promoting Central American ownership of both the challenges and the solutions. The *Alliance for Prosperity* represents an important effort to develop a unified, Central American-led plan that could be supported by the international community and be a starting point for continued multilateral engagement.

Background

Central American countries emerged in the early 1990s from two decades of civil strife and enjoyed a decade of economic growth and development. By the mid-2000s, however, economic deficiencies and the growth of gangs and organized crime presented Honduras, El Salvador, and Guatemala with social and economic challenges, even as Panama and Costa Rica experienced growth. Current economic and social indicators reflect a region in crisis. Central American countries represented four of the five countries with the highest homicide rates in the world in 2012. Central America's economic growth has lagged well behind that of the rest of Latin America, East Asia, and middle income countries, and 50 percent of the population lives in poverty. Economic productivity grew slowly or remained flat over the last decade and underemployment hovered between 30-40 percent in the northern triangle countries (El Salvador, Honduras, and Guatemala.) Energy costs are as much as three times that of the United States,

and 40 percent of electricity production relies on oil. A fungus has devastated coffee plants - the main cash crop in Honduras, Guatemala, and El Salvador - over the last three years, displacing thousands of farmers and rural workers. Demographic trends are also problematic, with 63 percent of the 43 million citizens of Central America under the age of 30 with the highest growth rates in Honduras and Guatemala, where jobs are not being created fast enough to absorb the burgeoning labor pool. Finally, incidences of sexual abuse and pregnancy among very young women have grown significantly in recent years in parts of Central America, especially Guatemala, for reasons that are unclear, but that are pushing young women to leave their homes in greater numbers.

The United States and other donors have committed significant resources in an effort to address these challenges, including \$642 million in U.S. security assistance since 2008 and more than \$850 million in support since 2005 for Honduras, Nicaragua, and El Salvador through the Millennium Challenge Corporation; El Salvador's selection in 2010 for participation in the Partnership for Growth is another example of our commitment to the region. The European Union, the World Bank, and the Inter-American Development Bank (IDB) have also committed significant resources. These resources have contributed to localized gains and proof-of-concept policy examples, but they have not yielded sustained, broad-based improvements in social or economic conditions.

The implications are stark for the United States if the aforementioned Central American concerns become a trend. More than five million Central Americans are expected to join the workforce over the next decade, many of them in Guatemala and Honduras. If economic prospects remain poor and the crime rate remains high, migration and organized crime may present challenges for the United States and Mexico. In short, U.S. security is intimately linked to the security and prosperity of Central America.

Proposed Strategy

Central America alone cannot address these challenges without the support of the international donor community. An approach is required that will encourage private sector investment and combine the financial, intellectual, and human resources of North American governments, Colombia, the European Union, and multilateral development banks. Central American governments should commit to extensive reforms and increased regional coordination. We know from our discussions with potential donors that they are prepared to work with us in support of Central America.

Desired End State

Our objective is the evolution of an economically integrated Central America that is fully democratic; provides economic opportunities to its people; enjoys more accountable, transparent, and effective public institutions; and ensures a safe environment for its citizens. Important successes would include: the establishment of strong regional coordination mechanisms and institutions; reducing violence to a point where no Central American country is among the top ten countries in terms of homicide rates; a 50 percent reduction of the youth unemployment rate in Honduras, El Salvador, and Guatemala; full implementation of ongoing electrical

interconnection projects and other initiatives aimed at making energy more affordable, cleaner, and more sustainable; and steady economic growth throughout the region such that the poverty rate is pushed to below 40 percent over the next decade.

Assumptions

- In the absence of international cooperation and assistance, certain Central American countries will continue to suffer from weak economic growth, poor social indicators, and high levels of crime, generating instability in the form of illegal migration and entrenched organized crime. Other Central American countries will continue to perform relatively well in terms of economic growth and social development but will not realize their potential without stronger regional growth.
- Central American governments will continue to demonstrate leadership and contribute significant resources to address challenges if they are supported by a strong network of international partners.
- Transnational criminal organizations will continue to have a strong presence and influence in Central America. The United States will continue to assist Central American nations to combat organized crime.
- Consistent with Presidential Policy Directive (PPD)-6 (*U.S. Global Development Policy*) and PPD-23 (*Security Sector Assistance*), an inclusive whole-of-government process that aligns activities and resources, including specialized technical advice and cooperation, with national security priorities is most effective at addressing common security challenges in the Western Hemisphere and achieving the sustainable development outcomes of this strategy.

Implementation

We propose the following approach:

1. Convene Partners to Establish a Common Understanding of the Problem [Completed November, 2014.]

- There are many existing studies carried out by governments, development banks, and think tanks analyzing the constraints to growth in Central America, including those identified above. We will convene a major conference in the fall, hosted by either the World Bank or the IDB, to elevate those findings and identify how the main constraints should be addressed.
- This conference would also serve to bring together the key actors who will act in support of Central America and help prepare a plan of action.
- We will use the period prior to the conference to run an intensified interagency process to hone our strategy and lines of action and map out the resources necessary to implement that strategy. We will meet with Central American governments and civil society, regional partners

(especially Mexico), multilateral banks, Congressional offices, and U.S. nongovernmental organizations and think tanks to solicit input and modify our strategy as necessary.

2. Work with Central American Governments to Develop a Common Vision [Completed November, 2014, with the introduction of the “Alliance for Prosperity”.]

- Central American governments should play the leading role in developing solutions to the problems identified for priority action.
- A small group of senior officials from the United States, Mexico, the European Union and multilateral development banks will act as facilitators to help Central American governments to either strengthen existing regional coordination mechanisms or establish new ones to address shared problems.
- We will work to ensure that accountability, transparency, and sustainability feature prominently as principles undergirding any framework established by Central American governments.

3. Establish a Mechanism to Coordinate International Support for Central America

- A coordinated international structure will distribute responsibility for lines of action, coordinate assistance, and avoid duplication of effort. This could involve, for example, the establishment of a “Central American Development Council” or a similar body.
- It is important to develop solutions that involve all Central American countries; a successful outcome requires the involvement of all seven Central American nations. However, it will also be vital to focus resources on the countries most at risk of continued decline.

Lines of Action

Our strategy will be to use international resources to address the immediate and longer-term challenges facing Central American governments, while encouraging greater Central American government political and financial commitment. Specifically, we will **promote regional prosperity through regional integration, deepen security cooperation to reduce gang violence and the influence of organized crime, and provide technical assistance to promote good governance and fiscal management.** These three overarching areas for action – prosperity, security, and governance – are mutually reinforcing and of equal importance.

Prosperity and Regional Integration

- **Strengthening Central American Institutions:** We will work with regional governments to promote concrete projects that will strengthen the mandates of key institutions and highlight the need to bring greater scale and coordination, especially for major regional economic initiatives.

- **Promoting Trade Facilitation under Existing Free Trade Agreements:** Though the Central America – Dominican Republic – United States Free Trade Agreement and intra-Central American trade agreements create a framework for highly integrated markets, the region is not operating at its full integration potential because of customs/border and transportation inefficiencies and other logistical impediments to cross-border trade. We will work with governments, private sector organizations, and multilateral organizations to promote the full implementation of existing trade agreements and implementation of the World Trade Organization Trade Facilitation Agreement.

- **Linking Central America to an Integrated North America:** Consistent with our commitment at the February 19 North American Leaders Summit in Mexico, we will promote deeper cooperation regionally between Central and North America. We will focus on areas such as transportation, customs, border control, law enforcement, energy distribution, and investment protections, taking particular advantage of Mexico’s existing collaboration with Guatemala.

- **Promoting Transport and Customs/Border Integration:** Poor roadways and lengthy border crossing procedures slow truck traffic to an average of 10 miles per hour in Central America. We will seek ways to support and complement projects such as the IDB’s \$1.4 billion Coordinated Border Management and Pacific Corridor logistics projects to improve transportation networks and provide more efficient air, maritime, and land ports of entry. These measures will enable safe and secure trade resulting in improved regional competitiveness, and more opportunity in the formal economy.

- **Promoting More Efficient and Sustainable Energy:** The Central American Electrical Interconnection System’s regional grid, a project first envisaged in the 1980s and launched in 2007, is complete and, subject to reform that promotes electricity trade, Central America would attract more investment, lower energy prices, and advance energy security. However, the full benefits will only accrue if countries adopt integrated regulatory regimes and governance policies that attract foreign investment, increase modernization and privatization, and encourage adoption of regional energy solutions and standards. We will provide technical assistance to help countries modernize their regulatory systems, diversify their energy matrixes, and facilitate increased financing for investment in energy-related projects. There are good opportunities for collaboration with Mexico and Canada in this area.

- **Reducing Poverty:** As indicated in the background, 50 percent of Central America’s population lives in poverty. We will focus on initiatives aimed at lowering the poverty rate below 40 percent during the next decade and put the poverty rate on a downward trajectory over the longer term. A key component of this effort will be rural development programs.

- **Education and Workforce Development:** Central American countries have among the lowest secondary school graduation rates in the Hemisphere, and the quality of education at the primary level is weak as evidenced by low reading scores in primary grades. Improving the quality of education would likely increase Central American productivity. In the short term, we will focus education and vocational training in the cities and regions that are the source of the recent migration surge, but we will also promote broader efforts by Central American governments and institutions to expand access to education and update curricula. The U.S.

Agency for International Development is developing approaches to improve the quality of education, keep children in school, reintegrate drop outs and provide workforce training. We will use the President's 100,000 Strong in the Americas initiative to focus on opportunities in higher education as well.

- **Business Development:** The challenges of starting a business in Central America push economic activity into the informal sector, limiting business growth and depriving governments of tax revenue. We will work with regional governments and the private sector to remove barriers to economic opportunity in both urban and rural areas; improve the business enabling environment; promote small businesses and encourage entrepreneurship; enhance access to financial services, including credit and banking services; expand access to markets and strengthen participation in value chains; and develop the next generation of job creators and leaders. We will work with the private sector to encourage investments that will foster broad-based economic growth.
- **Increasing Resilience:** Global climate change, setbacks such as the coffee fungus, and weak governmental institutions threaten the economic and environmental resilience of Central American countries. Unseasonal temperature and rainfall patterns damage small-scale and commercial agriculture in Central America; local governments are ill equipped to respond to different natural disasters; and rural communities are heavily reliant on stressed natural resources. To help countries manage these challenges, we will: assist with improving land and resource management; reduce deforestation; help vulnerable countries upgrade critical infrastructure; protect potable water supplies; develop risk mitigation measures in concert with the private sector; and improve rural livelihoods.

Enhancing Security

U.S. engagement complements the efforts of host nations and like-minded donors to: (1) reduce levels of crime and violence; (2) strengthen rule of law institutions; and (3) assist nations and marginalized communities in addressing the root causes of insecurity that impede broader economic development and social inclusion. Many successes have resulted from those investments and evaluations will continue to: a) inform the smartest investments moving forward; and b) allow for governments and the private sector to devote resources to “scale-up” successful models. Host nation investment in domestic and regional security institutions is important. Security cooperation and assistance should be coordinated with recipient government actions to provide security to its citizens, work in concert with U.S. law enforcement agencies, address corruption, promote governmental transparency, and protect human rights.

We will focus on:

- **Promoting Police Reform:** We will build on past police reform initiatives to create more professional police forces able to reduce corruption within the ranks, develop a police career path, and perform their functions in accordance with their mandate. We must focus efforts on building measurable increases in police security capacity, including a commitment to community policing through multilateral efforts and increased regional security cooperation. Vetted units working in concert with U.S. departments and agencies are important to this effort.

- **Improving Community Security:** Community policing programs in Nicaragua, and U.S.–supported municipal crime prevention programs throughout the region have proven the ability of even poorly resourced security forces to make a major impact on the security of Central American cities and towns. We will use this and similar models to expand the presence of trusted security forces significantly in communities most affected by violence in Honduras, El Salvador and Guatemala. There will be a special focus on reducing the presence of gangs and prevention activities in vulnerable communities.
- **Continuing Defense Cooperation:** The United States will continue to build defense partnerships that professionalize and improve the competency, capability, and accountability of military institutions in the region from the tactical to the strategic levels. The United States will assist partner militaries to develop long-term plans and postures that, when appropriate, transition them from their current roles of supporting internal security to other missions as determined by their civilian authorities’ national security strategies and defense priorities. The United States will also work to strengthen regional defense cooperation and invite increased multilateral defense activities in Central America with other capable partners in the Western Hemisphere. All security and defense cooperation will continue to emphasize respect for human rights and the rule of law, as well as support to civilian authorities that lead our partners’ security agendas.
- **Attacking Organized Crime:** Organized crime groups have become more powerful in Central America and, in some cases, have gained significant influence over elected bodies and actual territory. Drug trafficking is the major source of revenue for the most powerful organizations, so our work to combat organized crime must be closely linked to intensified counternarcotics efforts in Central America. Some criminal groups are involved in a broader array of criminal activities, such as extortion, and, while not major actors in the drug trade, have a greater impact on the daily lives and security of citizens. International cooperation, specialized police and other law enforcement efforts, and judicial operations can support Central American governments to disrupt and dismantle such groups. Over the medium term, this effort may require creative new initiatives, such as regional courts or prison systems to reduce the vulnerability of local police and judicial officials. Multilateral efforts should focus on attacking vulnerabilities in the supply chains, transportation systems, governance of borders (land, maritime, and air), and financial infrastructure of major organized crime groups and smuggling networks through coordinated enforcement operations.
- **High-Level Security Dialogue:** A High-Level Security Dialogue will be established to reinforce these security efforts. This dialogue will invite other international partners supporting Central American security including the region, the European Union, and multilateral organizations.

Improved Governance

- **Targeting Corruption:** One of the greatest complaints of citizens in Central America is a culture of corruption. We will support programs to modify current practices in the delivery of government services to reduce opportunities for corruption.

- **Investing in Civil Service Reform:** Throughout Central America, many essential, day-to-day governmental service delivery and policy implementation functions are carried out by staff who turn over with every election cycle. As a result, there is little institutional memory across organizations and a steep learning curve following each election. The lack of a professional civil service undercuts the efficacy of donor investments, as well as the capacity and effectiveness of governments in the region. In cooperation with host governments and with the support of other donor organizations, the United States Government will support efforts to undertake comprehensive civil service reforms, such as support for the institutionalization of career public service systems, including merit-based hiring and promotion, training, and professional development curricula. Given the scope of the needed reforms, a coordinated multi-donor investment is essential in order for us to move with this program.
- **Improving Fiscal Capacity:** Central American countries have among the lowest tax collection rates in the world, impacting the delivery of government services. Increased ability to generate new revenues and improve public financial management will help enhance the ability of governments to make key public investments, provide critical public services, improve fiscal transparency, and decrease the need for international donor support. We envision a major increase in technical support to national governments, major municipalities, and regional organizations to establish clear metrics for the collection of revenues and delivery of services.
- **Increasing the Role of Civil Society:** Citizen-led efforts to demand better government services, to seek reduced corruption, to broaden economic access, to improve use of tax dollars, and to promote human rights are key to improving governance. Civil society has grown increasingly important in Central America, and we will promote the capacity of citizens to demand accountability from and influence their governments, including through the Open Government Partnership and similar pro-transparency initiatives.
- **Strengthening Judicial Institutions:** U.S. resources spent building the capacity of justice systems in the region have resulted in a sector that is stronger than a generation ago, however, results have been mixed largely due to a lack of host government political will for meaningful reform. The lack of transparent and effective judicial system not only deters domestic and foreign investment, but more importantly forces ordinary citizens to endure a sense of pervasive injustice in both the civil and criminal arena. This is an area that will require significant contributions by those with greater experience and success in the application of civil law. At the same time U.S. assistance is needed in the form of judicial engagement programs, imbedded advisors for prosecutorial efforts in areas of U.S. expertise, technical assistance for prison reform, and expansion of prison security and capacity.
- **Reinforcing Democratic Institutions:** Some democratic institutions remain fragile in Central America and require the attention and support of the international community. While improved delivery of government services will help reinforce support for democracy, we will also need to maintain a strong defense of regional commitments to democracy and human rights to prevent governments from abusing or extending their powers beyond democratic levels.