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LOBBYING FOR INEQUALITY? HOW BUSINESS ELITES SHAPE DIFFERENTLY POLICY

IN EL SALVADOR, HONDURAS AND GUATEMALA

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LOBBYING FOR INEQUALITY? HOW BUSINESS ELITES SHAPE POLICY IN EL SALVADOR, HONDURAS AND GUATEMALA

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Abstract

Why does inequality endure? This is a particularly disconcerting problem in middle-income countries with relatively stable macroeconomic indicators, where some people benefit from development while the majority is left behind. Analyzing El Salvador, Guatemala and Honduras, this paper investigates the differentiated role of elites in processes that perpetuate inequality. The study finds that the commitment of economic elites to quality social spending is crucial for developing institutional capacity and that they can limit it when their interests are threatened. In many policy contexts, the interests of economic elites, although heterogenous and often with internal conflicts, are generally at odds with investments in human capital when the creation of wealth does not depend on adding value, but only on reducing costs, as is the case in the commodity-export economies. Economic elites' concentration of wealth, efficient organization and technical capacity affords them disproportionate influence on political parties and executives, legislatures, judiciaries and oversight institutions. This influence is used to strengthen institutions that support their economic activities and counteract public policy that doesn't benefit them directly. Although some political agendas have at times counteracted limitations on social spending, as was the case of FMLN in El Salvador, the capacity of economic elites to influence limitations on public spending in general can offset such incremental advances. As a result, while the exchange rate and inflation remain stable, public education and health receive little investment. Nonetheless, politics can change existing trends in policy outcomes as the case of El Salvador reveals in the last decade. Understanding the role economic elites have in policy processes can help to identify ways to gain their support for policies that would reduce inequality, rather than perpetuating it.

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Keywords: Inequality, lobbying, El Salvador, Honduras, Guatemala, political representation, private sector, institutional arrangements

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1. Introduction

In El Salvador, Guatemala and Honduras business associations pursue various lobbying strategies to shape public policy. These strategies range from the production of information to persuade policymakers to strategic investments in political campaigns. Members of these groups may even enter politics themselves (Schneider, 2013). While business groups represent a strong voice, unorganized voters may lose theirs as their collective action capacity and understanding of the policymaking consequences is limited (Amsden et al., 2012; Barrientos & Garita, 2015; Bull et al., 2014).

Inequality can exacerbate these differences in representation, making it difficult for institutions to translate democratic institutional deliberation into better outcomes for all. This paper argues that this helps to explain why, although these economies have acceptable macroeconomic performance (International Monetary Fund [IMF], 2018; United Nations Department of Economic and Social Affairs [UNDESA], 2020), human development indicators have seen only sluggish improvements, suggesting structural impediments to building human capital. Guatemala and Honduras illustrate the disproportionate influence of the private sector on democratic outcomes and processes of policy formation, in contrast to El Salvador – in which left-centered politics swayed social spending tendencies. We discuss how this contrasting influence may in turn explain how – while inequality is entrenched in the former cases, it can change trajectories as in the case of El Salvador.

To the extent that public policies are meant to contribute to the well-being of society, low performance in social indicators shows there are problems in policy design and implementation. However, the paradox of persistent inequality and robust macroeconomic indicators suggests that these states are not necessarily unable to develop the capacity for solving social problems, but instead that they are selective as to which ones to address.

Despite significant differences in historical trajectories, traditional elites in El Salvador, Guatemala, and Honduras maintained political and economic influence even after the consolidation of electoral democracy in the 1990s. Schneider (2013) has shown that, instead of limiting their scope and influence, traditional business groups in Latin America adapted by diversifying their portfolio or using political strategies that result in effective protection. This paper illustrates some of the strategies that these groups have used to influence policy and their possible consequences for inequality. It examines how organized economic interests interact with political institutions to create and maintain an equilibrium that prioritizes the needs of their constituencies and in which systematic strategies to maintain the status quo become the default policy option.

This paper argues that persistently high levels of inequality result in uneven structures of representation that privilege the interests of those who can organize and invest in effective lobbying strategies. Although unorganized citizens may represent a larger share of the electorate in absolute terms and may even contribute more to the economy in aggregate terms, the needs of organized business groups receive more attention from governments. Private sector lobbying[1] is present in most societies, but in the context of highly concentrated economies that rely on the production of lower-complexity goods, it becomes a zero-sum

[1] It is not illegitimate, of course, for private sector actors to advance their interests, and achieving economic stability and institutional efficiency is desirable. Moreover, the private sector is heterogenous, and it conflates different types of actors. In general, this study focuses on the "traditional private" sector, which is organized politically and has a visible presence in public debates, in contrast to other private actors that rely on transnational capital, are dispersed in services, depend on state spending, or engage in illicit activities.

game. Private sector interests can compete with investments in human capital, while groups that would benefit from redistribution in the form of human capital investment have fewer avenues to represent their interests.

This dynamic, moreover, has been subject to a path dependence of "political influence." This accumulation of influence over time has proven durable. Through changes in political regimes, shifts in economic conditions, technological advances and sectoral transformations, business associations have succeded to leverage formal and informal institutions that make overall fiscal and budgetary policy to help their interests. This, in addition to the pressure felt by other organized interests on the supply side of public goods provision, has considerable implications for the type of expenditures and social policy outcomes, which further entrenches inequality, driving a vicious cycle.

With the introduction of electoral democracy, the rules for competing over policy preferences opened up to new social and economic actors. However, the playing field gave advantages to those contenders able to gain privileged access to key decision makers.

To observe the strategies of organized business sectors, this paper focuses on long-standing traditional, local, formal, and legal business groups that coordinate through their main umbrella organizations in Guatemala and Honduras:[2] the Coordination Committee of Agriculture, Commerce, Industry, and Financial Associations (Comité Coordinador de Asociaciones Agrícolas Comerciales y Financieras; CACIF) in Guatemala, and the Honduran Council of Private Business (Consejo Hondureño de la Empresa Privada; COHEP) in Honduras. These are different than other private business groups that operate independently, are not necessarily formal or legal, and may depend on foreign capital. In these countries, there is an intricate relationship between the public and private sectors. Lobbying activities are not regulated and are often associated with state capture and high levels of corruption. These two cases are compared to the case of El Salvador, in which the existence of a more ideologically structured political system, and the presence of a strong left has shifted long term inequality as priorities in social spending have become stronger in the agenda.

The methodological approach is twofold. First, the strategies of influence used by economic elites are identified, using qualitative evidence, such as semi-structured interviews with key actors and experts and secondary sources such as news articles and reports. The paper also draws on quantitative macroeconomic and social indicators to illustrate the influence of economic elites on democratic institutions and the consequences of this influence.

The rest of the paper is organized as follows: the next section describes the economic and social panorama of El Salvador, Guatemala, and Honduras over the last two decades, and the persistent tension between economic development and high levels of social inequality. The subsequent two sections present the theoretical framework and the general argument of the paper. The following three sections examine economic elites' influence over political institutions, explain the organization of the private sector in these three Central American countries and rationalize why the persistently high levels of inequality and backwardness in social development go far beyond corruption. The subsequent four sections analyze the multiple avenues through which business interests influence democratic institutions in El Salvador, Honduras, and Guatemala. The last two parts present the consequences of uneven

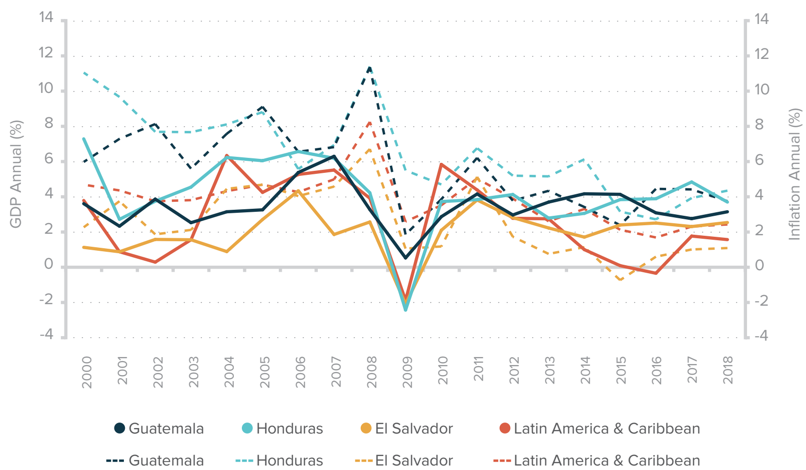
[2] It's important to recognize that even these formal groups are not homogenous nor free from internal differences. However, to this paper focuses on instances where their participation in public decisions has been coordinated.

structures of representation in these countries in terms of fiscal policy and social spending performance.

2. Persistent Inequality[3]

The economic and social outlook in El Salvador, Guatemala and Honduras represents a paradoxical combination: sustained economic growth, persistent inequality and large gaps in social development. Their economies show better performance than most Latin American countries. In particular, Guatemala and Honduras have grown a respective 3 percent and 4 percent on average since 2000, even when the region experienced negative growth during the 2009 economic crisis.

Figure 1. GDP Growth and Inflation Rate (Annual %) in Latin America 2000-2018



Source: Authors' elaboration. World Bank (2020).

El Salvador, Guatemala and Honduras also perform well on macroeconomic indicators such as inflation. Guatemala and Honduras have managed to stabilize their inflation rates around 4 percent.

However, despite macroeconomic stability, these countries lag in social development indicators (Lustig, 2017). Table 1 summarizes some of the most relevant social indicators. Poverty rates in Guatemala and Honduras are the highest in the region, with over 48 percent of Hondurans and Guatemalans under the poverty rate.In high contrast, in El Salvador only 25,7% of its population were under the poverty line (2018).

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[3] Since the beginning of the 21st Century, El Salvador, Guatemala, and Honduras developed an accelerated process of integration compared to the rest of Central America by signing different Free Trade Agreements with other countries, as well as homogenizing some of their internal tariffs and tax procedures (U.S. Department of State, 2017). After the 1980s, these three countries went through peace and democratization processes. Since then, they have enjoyed relative political stability, absence of state-guerrilla conflict, and improved economic growth and macroeconomic performance.

Moreover, resources are unequally allocated across the population, as measured by the Gini coefficient and by the 90-10 ratio, which represents the relative income of the top decile compared to the other 90 percent of the population. Honduras is the most extreme case with a 90-10 ratio of 14.13—twice the regional average of 8.42—but other Central American countries also have highly unequal distributions. While income inequality has fallen by almost 13 percentage points in El Salvador over the last 20 years, it has diminished little in Guatemala and Honduras.

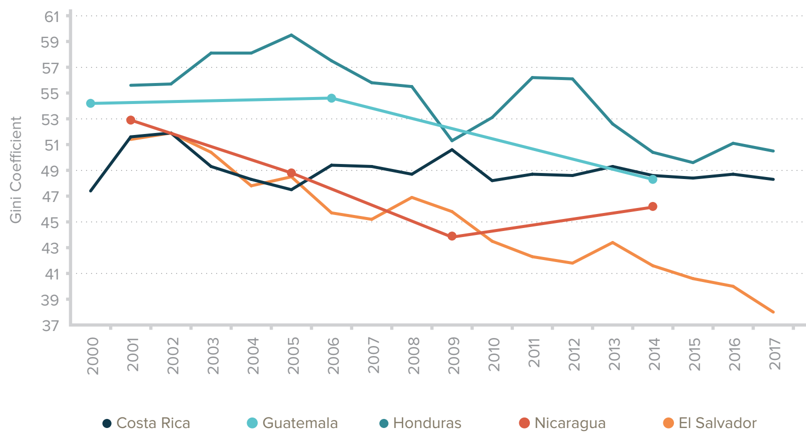
Table 1. Poverty and inequality indicators in Latin America

Country	Year	Poverty rate	Vulnerable $5.5-$13 (2011 PPP)	Poverty $3.2 (2011 PPP)	Poverty $1.9	Rate 90/10	Gini coefficient
Argentina (urban)	2018	9.6	28.8	3.0	1.0	7.57	0.414
Bolivia	2018	23.1	41.2	10.6	4.5	8.40	0.422
Brazil*	2018	19.9	32.0	9.2	4.4	12.50	0.539
Chile	2017	3.7	30.1	0.7	0.3	6.24	0.444
Colombia	2018	27.8	39.1	10.9	4.1	9.33	0.504
Costa Rica	2018	10.9	31.9	3.6	1.4	9.57	0.48
Dominican Republic	2018	13.8	44.9	2.6	0.4	6.04	0.437
Ecuador	2018	24.2	41.4	9.7	3.3	8.72	0.454
El Salvador	2018	25.7	48.0	7.7	1.5	5.87	0.386
Guatemala	2014	48.8	36.1	24.2	8.7	8.24	0.483
Honduras	2018	50.3	31.9	30.0	16.5	14.13	0.521
Mexico	2016	25.7	44.6	7.9	2.2	7.10	0.463
Nicaragua	2014	34.8	43.2	12.8	3.2	6.66	0.462
Panama	2018	12.7	25.3	5.2	1.7	11.14	0.492
Paraguay	2018	17.0	40.1	5.9	1.6	7.73	0.462
Peru	2018	22.1	41.4	8.3	2.6	7.66	0.428

Source: Authors' elaboration. LAC Equity Lab (2020).

Redistributive spending offers one avenue to address inequality. But while public expenditure tends to be pro-poor in the region (Lustig et.al., 2013; Lustig et al., 2016), the amount spent is too modest to significantly reduce inequality. While some Latin American countries (notably Argentina and Uruguay) have been able to use redistributive policies effectively and diminish inequality, others show no significant effect (Lustig, 2017; Martorano, 2018). After social security transfers, health and education expenditures are included, Colombia, Guatemala and Honduras show the smallest redistribution effects. Furthermore, the impact of social policy and fiscal transfers on extreme poverty shows no significant results in Guatemala, Honduras, and Nicaragua (Lustig, 2017).

Figure 2. Gini Coefficient for Selected Countries in Central America (2000-2018)



Source: Authors' elaboration. World Bank (2020).

There is also variation in the levels of inequality within these countries. The Human Development Index (HDI)[4] at the subnational level shows higher heterogeneity in Guatemala and Honduras than in El Salvador. Guatemala has an average HDI of 0.57, but the capital, Guatemala City, has a much higher rating of 0.75. In Honduras, the HDI has consistently increased in four of the seven regions since 2004 but has decreased in the northeast region. El Salvador has the highest HDI of the three countries (0.62) and the least variation between regions. The Central I region (the capital, San Salvador) averaged 0.70 over the last 10 years, while HDI in the other three regions increased from 0.50 in 1990 to 0.63 in 2018.

Inequality disproportionally affects indigenous groups, particularly in Guatemala. Regions where indigenous groups make up more than half the population have considerably less access to basic services (UN DESA, 2009). Violence also plays an important role in reducing economic growth and blocking opportunities in El Salvador, Guatemala, and Honduras (See Annex 1).

3. The Role of Business in Democracy: A Theoretical View

An extensive literature demonstrates that organized interests continuously lobby to protect their interests and advance their policy preferences (Amsden et al., 2012; Barrientos & Garita, 2015; Bull et al., 2014; Esteban & Ray, 2006; Schneider, 2012). In Latin American democracies, lobbying takes place in specialized executive committees; it targets the legislature and members of the executive branch when they debate fiscal reforms to increase tax exemptions, limit dividend taxation, or obtain value added tax devolutions for capital investments (Instituto Centroamericano de Estudios Fiscales [ICEFI], 2015).

[4] HDI encompasses three dimensions: long and healthy life, access to knowledge, and having a decent standard of living.

As De Figuereido and Kelleher (2014) point out, organized interest groups from different constituencies employ a variety of strategies to change policy, ranging from campaign finance to strategic communication, as well as lobbying legislators and executive officials for favorable regulation.

The fact that certain interest groups have ample resources to gain access to key decision makers, while others do not, has frequently resulted in policy agendas that differ markedly from those mandated by the electorate. When examining who benefits from these policies, attention to economic policy is especially important, as it affects aggregate economic growth potential as well as how income is distributed among individuals and groups in society (Amsden et al., 2012).[5]

Counteracting the undue influence of powerful elites represents a long-standing theoretical and practical challenge for democratic regimes. Various countries around the world regulate lobbying (Organisation for Economic Co-operation and Development [OECD], 2014).Esteban and Ray (2006) show that in less-developed democracies, the influence of organized interest groups is even more substantial, given their greater power relative to the state. Beramendi and Rueda (2014) argue that high levels of inequality reduce the likelihood that different groups can coordinate to adopt redistributive economic institutions.

However, there is a distinction between lobbying as such and more overtly corrupt practices. Corruption is linked to private individual gain, mostly by extracting resources, whereas lobbying seeks to influence public policies and regulations; these generate public goods, even if they are not always those prioritized by the majority. While perceptions of the private sector as corrupt are widespread in Honduras and Guatemala, and indeed are borne out by a number of high-profile corruption cases (See Annex 2 for more detail), this phenomenon is distinct from lobbying as such. Moreover, it is insufficient to explain why some public policies are consistent with the interests of the private sector (albeit narrowly construed in some cases), and not just those of particular individuals.

Given that economic elites are interested in promoting institutions that allow them to preserve and expand a privileged position, understanding the role of such groups' lobbying may yield important insights into the persistence of inequality in Latin America.

4. A Well-Organized Private Sector in a Low-Complexity Economy

Guatemala, El Salvador and Honduras are low-complexity, primarily informal, highly concentrated economies, dependent on trade with the United States (Hartmann, 2014; See Annex 3 for more details). Large businesses tend to be owned by families with diversified portfolios. The private sector is organized in associations that often join umbrella organizations, participate directly in public policy decisions, and are supported by think tanks.

[5] Jacobs (2016) examines the time and sequence in which decision-making occurs, particularly how policy choices in developed democracies may address some issues before others (economic growth over social policy or environmental policy), and the influence of organized interest groups over these choices about sequence.

The composition of the economy has important implications for the power of business organizations and for inequality. A considerable body of literature correlates types of productive structures with different types of institutions, human capital, and inequality (Hartmann, 2014; Hartmann et al., 2017; Sokoloff & Engerman, 2000). The more diverse and sophisticated a productive structure is, the more opportunities there are for labor mobility and bargaining power of workers, more even distribution of economic and political power, and more inclusive institutions. On the other hand, a historical pattern of economic specialization in the exploitation of resources undermines inclusive growth and leads to extractive institutions (Acemoglu & Robinson, 2012).

The concentration of the market in El Salvador and Honduras, occurs in the context of complex relations within the private sector. The dominant economic groups are joined by family ties (Bull & Kasahara, 2017), and companies tend to be owned by individuals belonging to a network of families that control diverse businesses, have privileged access to financial services, and often partner with regional firms.

In Guatemala and Honduras, although new economic actors have emerged, traditional economic elites from the agriculture and manufacturing sectors remain; they have expanded to other commercial activities and developed tighter links with financial institutions. In El Salvador, the composition of the current economic elite differs from the highly cohesive families that historically controlled land, coffee, and agricultural exports, and exercised influence in politics and the armed forces (Bull et al., 2014). Local businesses in these countries are also partnering with multinational companies in the region, which benefit from their know-how and connections.

When members of the private sector coordinate, they benefit from combining complementary control over different areas of the economy and political expertise. El Salvador, Guatemala, and Honduras private sector associations have considerable influence on policy. As well as representing their members' interests, these associations promote business-friendly or "free market" ideas and, in El Salvador and Guatemala, fund think tanks to provide technical and legal support for these policies (See Appendix, Figure 4A and 5A). Knowing their practices is essential to understanding institutional strengths and weaknesses in each country (Bull & Kasahara, 2017).

ANEP[6] was created in El Salvador in 1966. It includes around 50 business associations, encompassing over 15,000 companies. ANEP advances proposals on economic, fiscal, political and security policies. The career of its former president, Luis Cardenal, is instructive: he ran for mayor of San Salvador and was president of the El Salvador Chamber of Commerce and Industry (Cámara de Comercio e Industria de El Salvador; CAMARASAL) (See Appendix, Figure 1A).

CACIF[7] was created in Guatemala in 1957. It brought together nine of the most significant business associations, which encompass about 120 sub-associations. Its previous president, Antonio Malouf, who became Minister of Commerce in 2019, was the former president of the Guatemala Exporters Association (Asociación Guatemalteca de Exportadores; AGEXPORT) and a board member of the political party Unión del Cambio Nacional (UCN) (See Appendix, Figure 2A).

[6] See: https://www.anep.pro/
[7] See: https://www.cacif.org.gt

COHEP,[8] created in Honduras in1967, is composed of 62 associations representing 90% of the employers in the country. Its previous president, Mario Canahuati, ran for vice-president representing Partido Nacional de Honduras (PNH) and is the former Honduran ambassador to the United States (See Appendix, Figure 3A).

These associations, established well before the transition to democracy and composed of business leaders who often were also politicians, were able to gain representation in different government entities, either through formal or informal means. The existence and the extent of these groups suggest that economic activity in El Salvador, Guatemala, and Honduras requires political influence as democratic institutions consolidate and other interests represented may conflict with their preferred outcomes; and that organizing is snecessary for avoiding the risk of being marginalized in the policy-making process.

To understand how business elites lobby within the policy-making processes, the next section analyzes the institutional framework in which they operate and the rules of the game that they must follow to influence policies and have their voices heard.

5. Lobbying and Institutional Design

Presidential regimes in Latin America give the executive branch a prominent role as an agenda-setter and policymaker (Alemán & Tsebelis, 2016; Shugart et al., 1997). However, El Salvador, Guatemala and Honduras also provide the legislature with considerable power over economic policies. Business groups therefore must influence both the executive and legislative bodies to advance their interests. Figure 3 summarizes the main components of the formal institutions and their points of influence.

Economic elites can gain privileged access to decision makers because they bring to bear wealth, organization and technical capacity. Rival interest groups do not necessarily have the resources or the ability to mobilize support and advance robust policy proposals. Economic elites use these assets to advance their interests in the electoral arena by influencing political parties. By providing financing, technical staff and even candidates during electoral campaigns, they gain a say in who attains access to public office.

Once elections conclude, access to the executive branch is vital, particularly to the president, vice-president and ministers or secretaries of finance and commerce. In the legislative branch, economic elites may seek to influence bills related to economic issues, taxes, and treaties, primarily through the chairs of key legislative committees such as finance and commerce.

In addition to elected public officials and members of the cabinet, economic elites can gain direct or indirect access to other decision-making bodies involved in the oversight and enforcement of regulation, including the entities responsible for determining monetary and fiscal policy, supervising public spending, collecting taxes or regulating markets.

Finally, as a last resort, influencing the courts can lead to the veto of undesirable policies through judicial review and can settle disputes in favor of economic elites.

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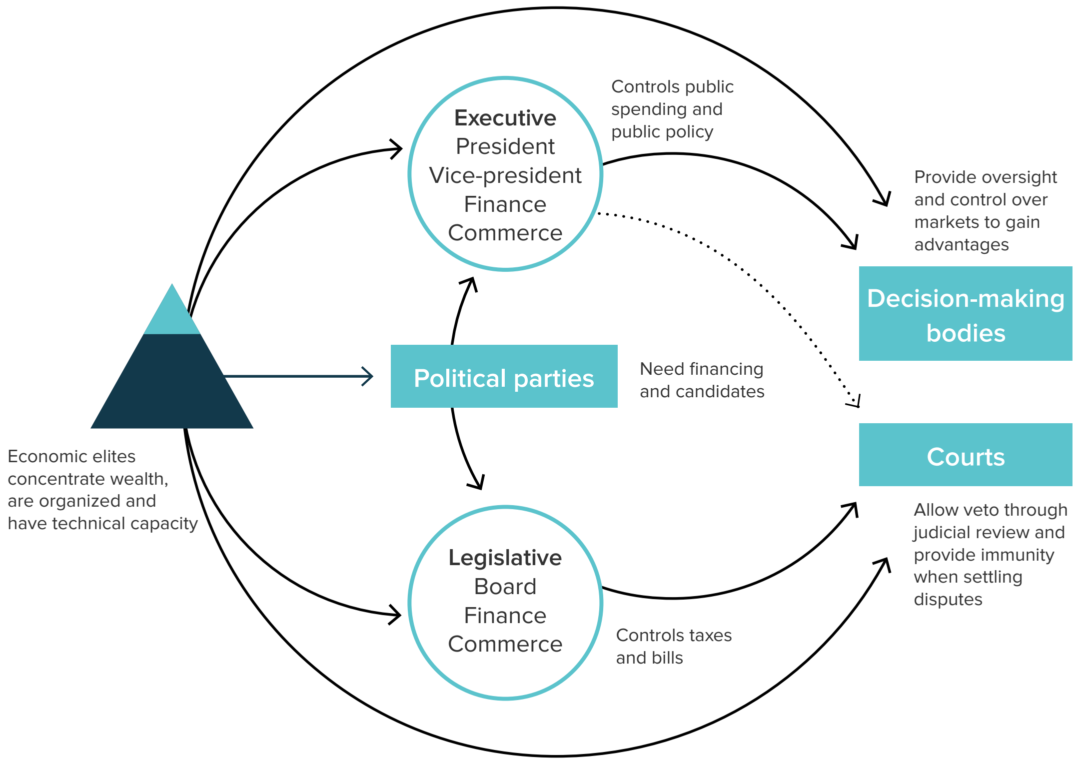
[8] See: http://cohep.com

Figure 3. Influence of Economic Elites over Economic Policy



Source: Authors' elaboration.

6. The First Point of Entry: Electoral Democracy

With the adoption of electoral-democracy institutions, political parties became the space where society legitimizes candidates and agendas through voting. Although El Salvador, Guatemala and Honduras are geographically close, their party systems show some differences.

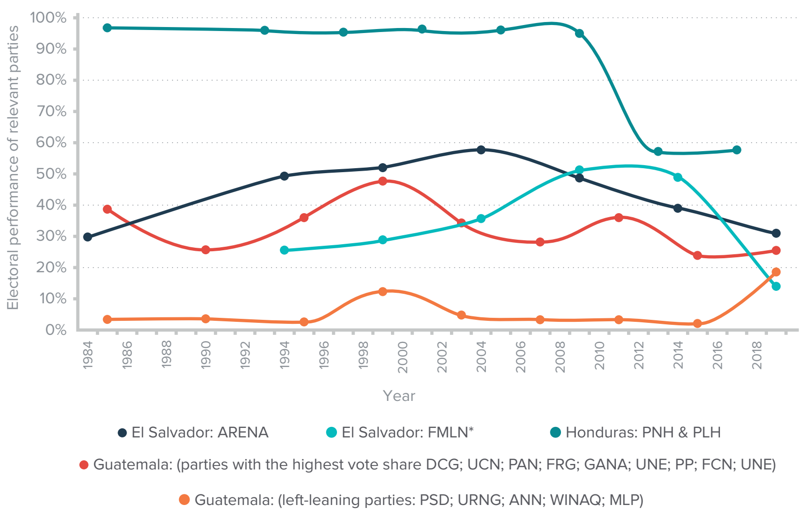
Honduras is mainly a two-party system dominated by the Partido Nacional (PNH) and Partido Liberal (PLH). Both traditional parties are highly institutionalized, and while other parties can compete, the path to a political career runs mainly through them. Both parties are private-sector friendly and clientelistic, with strong ties to their regional support bases.

Guatemala, in contrast, has a highly volatile and fragmented party system. The average life of a political party is less than eight years, and no party has ever been reelected to the presidency (Brolo, 2016; Martinez-Rosón, 2016). A lack of ideological cohesion and extreme personalism makes politics more susceptible to influence from the private sector. Since the transition to democracy in 1985, Alfonso Portillo (2000-2004), from the now-defunct Frente Republicano Guatemalteco (FRG), and Álvaro Colom (2008-2012), from Unidad Nacional de la Esperanza (UNE), have been the only two presidents whose political projects ran counter to the interests of the private sector.

Contrasting the more personalistic political culture from Honduras and Guatemala, El Salvador – since the return to democracy in the 1990s - has been a more programmatic two-party system, dominated by the right-leaning Alianza Republicana Nacionalista (ARENA) and the left-leaning Frente Farabundo Martí para la Liberación Nacional (FMLN). El Salvador's party system is widely acknowledged as the most programmatic of the region, being historically polarized over a "left-right agenda" (Jones 2005; Jones & Straface, 2009). Political parties are well-organized: their committee assignments and reelection rates of around 55% indicate a level of professionalism (Jones & Haime, 2017).The private sector has organized around ARENA to gain direct access to key positions in government. This puts the private sector at risk of being left out when FMLN is in power.

Figure 4 shows the contrasts between political party systems. Until 2009, the two hegemonic parties in Honduras, PHN and PLH, had concentrated over 90 percent of presidential election votes. In El Salvador, ARENA and FMLN have alternated winning a majority of votes since the 2009 election until 2019.[9]

Figure 4. Differences in the Political Party System in El Salvador, Guatemala and Honduras



Source: Authors' elaboration. Data from Carr (2020).

In El Salvador, Guatemala, and Honduras, funding for political campaigns during elections is the conventional avenue for economic actors to gain influence. Recently, and partially as the result of campaign scandals, legislators have enacted bills to limit such influence.[10] In El Salvador, the Political Parties Act established different spending ceilings for election years and non-election years. In Guatemala, in 2016, the period for campaigning was shortened to lower costs, and indirect public financing was introduced for media outlets. All countries place explicit restrictions on donations from government contractors, foreigners and anonymous contributors.

Nevertheless, electoral authorities face difficulties enforcing these rules. The disproportionate

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[9] Recently, this system was disrupted by the emergence of the Gran Alianza por la Unidad Nacional (GANA), which helped the Nuevas Ideas movement get Nayib Bukele elected president in 2019. Nuevas Ideas, which won presidential elections in 2019 and gained a legislative majority in 2021

[10] Limitations did not exist until 2016. Decree I-85 or Ley Electoral y de Partidos Políticos (LEPP) was enacted in 2016 in Guatemala.

amount of resources spent by economic elites, as well as funds from drug trafficking and illicit activities, are a mainstay of the daily news.[11] Electoral observers from the Organization of American States have warned about the lack of enforcement of finance rules on multiple occasions (Muñoz-Pogossian, 2015).

6.1. Forging Ties to the Executive and the Legislature

In addition to financing campaigns, economic actors in El Salvador, Guatemala, and Honduras must deal with different elected officials. What is the panorama that these actors face as they consider their influence with the executive and legislative branches?

All three countries have presidential systems, with the president and vice-president chosen through direct, plurality voting. Presidential reelection is constitutionally forbidden in El Salvador and Guatemala; in Honduras, it was legalized in 2017 (Viciano & Moreno, 2018). Presidents from El Salvador, Guatemala and Honduras are relatively weak by Latin American standards (See Tables 2 and 3).

Table 2. Non-Legislative Powers of Presidents, Selected Countries[12]

Country	Year	Non-Leg Power	Govt-Power	Emergency-Power	Interbranch-Power
El Salvador	1983	2.05	1.03	60.6	1
Guatemala	1985	9.51	9.54	87.54	1
Honduras	1982	35.89	66.77	60.6	2.31
Brazil	1988	38.73	71.9	60.6	2.31
Chile 1980 (ref.)	2005	40.42	66.77	87.54	1
Mexico 1917 (ref.)	2012	44.03	78.91	87.54	2.31

Source: Negretto (2020b).

Legislatures have almost no restrictions on the policy agenda they can initiate. In El Salvador and Honduras, legislators can freely amend executive-initiated bills, except for the budget. In Guatemala, Congress has full jurisdiction over the budget as well.

[11] "According to a 2015 CICIG report, Guatemala's political parties derive around half of their financing through unreported donations intended to buy influence. Some 25 percent of this illicit financing comes from wealthy elites and businesses, 25 percent from organized crime, and the other 50 percent from state contractors. Politicians from various levels of government rely on quid pro quo relationships with both licit and illicit actors to remain in political power and reap the benefits that follow that power" (Beltrán & Hite, 2019).
[12] The index includes the following prerogatives: appointment of subnational authorities, Court appointments, appointments of the Attorney General and Comptroller, Congressional authority to question ministers, censure, dissolution, impeachment, and whether the President requires Congressional authorization to declare a state of emergency (Negretto, 2013).

Table 3. Executive Legislative Powers, Selected Countries[13]

Country	Year	Leg-Power	Agenda-Power	Veto-Power
Brazil	1988	84.22	85.26	82.78
Colombia	1991	91.63	97.5	84.02
El Salvador	1983	40.07	17.35	82.72
Guatemala	1985	28.93	7.34	75.54
Honduras	1982	24.33	7.34	59.96
Chile (ref.)	1997	74.68	63.7	89.47
Mexico (ref.)	2012	32.82	19.8	61.26

Source: Negretto (2020a).

In El Salvador and Honduras, parties play a critical role in establishing the legislative agenda and ensuring the success of the legislative process. Committees are elected for three consecutive years, incentivizing specialization. Presidents have exclusive jurisdiction over the budget, and legislators cannot modify or increase expenditures. Consequently, private sector organizations maintain a constant lobbying effort before the executive to influence bills that could affect their interests, particularly bills on economic issues.

Information on the private sector work experience of former presidents, vice-presidents, and finance ministers was collected to show how business organizations seek to engage in politics using the “revolving door,” in which politicians move to positions in the private sector after leaving office or between elected terms (See Appendix, Table 1A). Table 4 summarizes an indicative measure of the level of representation of the private sector in key executive positions, based on publicly available information about public officials. The measure ranges from 1, where private sector leadership participates directly in government, to 4, where the public official is openly antagonistic to the private sector.

In El Salvador, during the ARENA administrations from 1989 to 2008, the private sector benefited from having friendly representation. For example, Alfredo Cristiani, president from 1989 to 1994, came from a prominent family of landowners. William Hándal, the finance minister from 2006 to 2009, was previously vice-president of TACA International Airlines. The FMLN administrations between 2014 and 2019 advanced an agenda independently of the private sector (even though some cabinet members had private-sector ties), with significant social policy consequences. Table 4 shows the stark contrast and the consequence of having a different party in power.[14]

In Guatemala, the private sector has generally played a key role in supporting the winning presidential candidate, independent from party affiliation. Óscar Berger, president from 2004 to 2008, hails from a family of coffee and sugar producers. Representatives from the

[13] The index includes the following prerogatives: veto override, veto chambers, partial observations, partial promulgation, budget veto, urgency bills, residual decree, among others (Negretto, 2013).
[14] For more on the political party system of El Salvador, see Jones, Mark. 2017.“A Strong Party System and Peace in El Salvador”, available at: https://blogs.iadb.org/ideas-matter/en/a-strong-party-system-and-peace-in-el-salvador/, October 13th, 2017.

private sector often join the ticket as vice-president; for example, the current vice-president, Guillermo Castillo Reyes, was the executive director of the national Chamber of Commerce prior to the election. In addition to gaining influence over presidents, vice-presidents and the legislature, the private sector takes an interest in the Ministry of Finance and Ministry of Commerce.[15] The Ministry of Commerce has traditionally been led by a direct representative of the private sector: the current minister, Antonio Malouf, was president of CACIF the year before he took office.

In Honduras, various presidents were also prominent businessmen and leaders, such as Carlos Flores Facusse (1998-2002) and Ricardo Maduro (2002-2006).[16] Several vice-presidents or presidential designates have had, as in Guatemala, tight connections to the private sector. However, given the highly institutionalized party system in Honduras, the private sector there has been able to establish more lasting relationships with the parties.

In El Salvador, Guatemala and Honduras, legislators are elected directly to a single chamber using proportional representation, and reelection is allowed. As with the executive, the private sector has been able to secure seats in key positions within the legislature (in particular, presiding officers and committee leadership) for reviewing taxes, public debt and regulation.[17]

No systematic data is available to describe each legislature's link to the private sector, so the affinity of legislators and parties to the private sector was measured using a question from the Observatory of Parliamentary Elites in Latin America (PELA) data set, which asked legislators how much they trust business organizations.[18] Figure 5 plots the percentage of interviewed legislators who trust business groups a lot or to some extent, by party.

In the case of El Salvador, it is clear how the two ideologically opposed parties, ARENA and FMLN, have differing views of the traditional private sector. Around 20 percent of FMLN legislators trust business groups, while the figure for ARENA members is around 88 percent. In Honduras, 62 percent and 72 percent of PLH and PNH members trust business organizations respectively. Legislators from the various ruling parties in Guatemala tended to trust the private sector less than ARENA or the parties in Honduras, but more than the FMLN, with a considerable increase during the government of Otto Pérez Molina (2012-2016).

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[15] In El Salvador, this is the responsibility of the Ministerio de Hacienda and Ministerio de Economía. In Guatemala, this is the responsibility of the Ministerio de Finanzas and Ministerio de Economía. In Honduras, this is the responsibility of the Secretaría de Finanzas and the Gabinete Sectorial de Desarrollo Económico.

[16] He was named businessman of the year for 1983 by the Cámara de Comercio Hondureño-Americana (HAMCHAM), and later won the Boris Goldstein prize in 1997 for his role as businessman, given by Gerentes y Empresarios Asociados de Honduras (GEMAH).

[17] In El Salvador, the electoral system for the Legislature has evolved from closed-list to open-list. It has 84 representatives, who are elected every three years along with local government, except in years that coincide with presidential elections. The two key committees are: Hacienda y Especial del Presupuesto, and Economía. In Guatemala, the electoral system is closed list, and it combines national and regional representation in districts from size 2 to 32. It has 160 representatives, elected every four years at the same time as local and national government. The two key comittees are: Finanzas Públicas y Moneda, and Economía y Comercio Exterior. In Honduras, the electoral system is closed list. It has 128 representatives, elected every four years at the same time as local and national government. The two key committees are: Finanzas y Cooperación Externa, and Desarrollo y Protección Social.

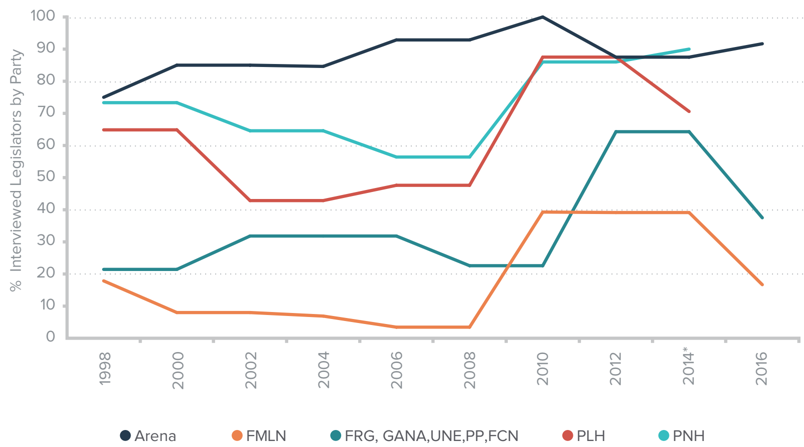
[18] The Observatory of Parliamentary Elites in Latin America (PELA) has conducted interviews in these three countries since 1998. Each wave corresponds to a new elected legislature in each country. The sample size by country varies. In the original question, respondents were asked to rank their trust toward business groups on a scale from 1 (none) to 4 (a lot).

Table 4. Indicative Measure of Private Sector Participation in Key Executive Positions

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
El Salvador																			
President	4	4	4	4	4	4	4	1	1	1	1	1	1	1	1	1	1	1	1
Vice-president			2	2	2	2	2	1	1	1	1	1	1	1	1	1	1	2	2
Ministry of Commerce			4	4	4	4	4	2	2	2	2	2	4	4	4	4	1	2	2
Ministry of Finance			4	4	4	4	4	3	3	3	3	3	3	3	3	3	3	3	3
Party	ARENA	ARENA	ARENA	ARENA	ARENA	ARENA	ARENA	FMLN	FMLN	FMLN	FMLN	FMLN	FMLN	FMLN	FMLN	FMLN	FMLN	NI	NI
Guatemala																			
President	1	1	4	4	4	4	2	2	2	2	2	2	2	2	3	3	3	3	3
Vice-president	4	4	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	4
Ministry of Commerce	3	3	4	4	4	4	2	2	2	2	4	4	4	4	4	4	4	4	4
Ministry of Finance	3	3	3	3	3	3	2	2	2	2	2	2	2	2	4	4	4	4	3
Party	FRG	FRG	GANA	GANA	GANA	GANA	UNE	UNE	UNE	UNE	PP	PP	PP	PP	FCN	FCN	FCN	FCN	VAMOS
Honduras																			
President	4	4	4	4	4	4	4	4	4	4	4	4	2	2	2	2	2	2	2
Vice-president	4	4	4	4									4	4	4	4	4	4	4
Ministry of Commerce													2	2	2	2	2	2	2
Ministry of Finance											4	4	4	4	4	4	4	3	3
Party	PNH	PNH	PNH	PNH	PLN	PLN	PLN	PLN	PNH	PNH	PNH	PNH	PNH	PNH	PNH	PNH	PNH	PNH	PNH

Source: Authors' elaboration.
(Blank spaces correspond to cases where it was not possible to collect enough information about a functionary's background). 1 - Representation is antagonistic to private sector. 2 - Representation of private sector not identified. 3 - Private sector represented indirectly. 4 - Private sector represented directly

Figure 5. Legislators Who Trust Business Groups Organizations in El Salvador, Guatemala and Honduras



Source: Authors' elaboration. Data from Observatorio de Instituciones Representativas (2020).
* Interviews in El Salvador were conducted in 2015.

6.2. Illustrating Influence over Economic Institutions: Tariffs and Fiscal Spending

Bills that provide economic incentives for production, protect activities from market failures or competition, modify taxes or distribute the budget are of particular interest to the private sector.[19] These organizations seek to avoid increases in taxation (which could add to their members' production costs) and debt (which could affect macroeconomic stability). Limiting increases to the budget directly limits the social-spending capacity of the state.[20] Rigidities further hinder changes to the budget structure, while the minimal investment money available ends up in isolated infrastructure projects for political gain.[21]

Historically, there have been many ways in which economic elites have tilted the playing field in their favor to influence fiscal policy. One avenue has been to oppose more taxation, either by resisting fiscal reforms altogether or by greatly amending fiscal bills. Given limited tax collection, reforms are frequently introduced and substantially amended. Barrientos and Garita (2015) show that there were at least nine tax reforms between 1980 and 2012 in Guatemala.[22] For most of them, business organizations resorted to lobbying the executive or the legislature, or as a last resort, appealing to the Constitutional Court to protect their interests (Corbacho, Fretes & Lora, 2013).

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[19] One great example is biofuels, which can be traced in other legislatures as well. See for example, https://www.elheraldo.hn/economia/610646-216/cn-pretende-aprobar-mas-incentivos-para-la-generacion-de-bioenergia

[20] See for example, Romero, Fátima. "Es inviable: Empresarios en contra de alza de presupuesto", available at: https://www.laprensa.hn/honduras/1318164-410/nviable-empresarios-cohep-contra-alza-presupuesto-honduras, September 12th, 2019.

[21] In the case of Guatemala, it is possible to analyze something informally called "Listado geográfico de obras", and in Honduras the "Fondos de Desarrollo Departamental", which are assigned to each legislator ($40,000) to spend in their district. http://fdsf.hn/wp-content/uploads/2017/01/Informe_-Produccion_Legislativa_Tercera_Legislatura.pdf

[22] The reforms were in 1983, 1985, 1987, 1992 and 1994; in 1996-1999 (associated with the signing of the Peace Accords); in 2000-2003 (linked to the Fiscal Pact); and in 2004-2005, 2008-2012 (proposed by the Fiscal Dialogue Promotion Group) (Barrientos & Garita, 2015).

Major fiscal reforms are rare and often initiated by the executive (See Table 5). It is notable that in Guatemala, half of the attempts to advance fiscal reform did not even make it to the legislature. In contrast, El Salvador and Honduras have been able to approve three fiscal reforms over the last decade, increasing indirect and direct tax collection. In El Salvador, the FMLN protagonism meant a great number of reforms which aimed at fighting against tax evasion, and a more progressive tax structure.[23]

Table 5. Fiscal Reforms Attempted and Approved between 2008 and 2019 in El Salvador, Guatemala and Honduras

Year	El Salvador		Guatemala		Honduras	
	Governing Party	Fiscal Reform	Governing Party	Fiscal Reform	Governing Party	Fiscal Reform
2008	ARENA		UNE	Approved	PLN	
2009	FMLN	Presented to legislature and waiting for approval	UNE	Relevant reform project, pending submission to the legislative body	PLN	
2010	FMLN		UNE	Relevant reform project, pending submission to the legislative body	PNH	Presented to legislature and waiting for approval
2011	FMLN	Approved	UNE		PNH	
2012	FMLN		PP	Approved	PNH	
2013	FMLN		PP		PNH	Approved
2014	FMLN	Approved	PP		PNH	
2015	FMLN		PP		PNH	
2016	FMLN		FCN	Relevant reform project, withdrawn by the executive	PNH	Approved
2017	FMLN		FCN		PNH	Approved
2018	FMLN	Approved	FCN		PNH	
2019	NI		FCN	Approved	PNH	

Source: Authors' elaboration. Data for 2008 to 2011 from ICEFI (2012).

The private sector has also actively lobbied in international trade, even coordinating transnationally, to protect production and increase their market shares. The opening of Central American markets represented an opportunity for economic elites. First, it reduced fixed costs of importing new and high-quality equipment, helping to streamline the production process. Even with protections for national industry, local businesses were already acquiring

[23] See for example, Rentería, Nelson. 2014. "El Salvador passes tax bill aimed at closing loopholes", available at: n https://www.reuters.com/article/el-salvador-taxation-idUSL2N0Q62VV20140731, July 31st, 2014.

high-quality machinery from the United States, Germany and some South American countries. Therefore, reducing tariffs on imports of machinery was a win-win agreement for both Central American business owners and their respective partners who were exporting the machinery.

Moreover, different economic sectors and business groups exercised a significant influence on new free trade agreements (FTAs) with other countries. Some groups benefited from the high tariffs that remained on certain goods and products aimed at local markets (particularly in agro-industry), at least at the outset of the negotiations, giving them time to adapt to new competition or diversify.

Table 6 shows three different FTAs. Restrictions and tariffs from older agreements eased, while the most recent agreements exhibit more restrictions on certain products. In the case of the EU FTA, animal products, such as chicken, were either excluded from the agreement (e.g., Guatemala) or were subject to a tariff of 164 percent (e.g., El Salvador and Honduras). Similarly, other agro-industrial products such as sugars, alcohol and tobacco were excluded or subject to high tariffs. Thus, while the FTAs allowed these sectors to import better and cheaper equipment, high tariffs helped them to reach dominant positions in the market.

Table 6. Free Trade Agreements and Tariffs in El Salvador, Guatemala and Honduras

	El Salvador			Guatemala			Honduras		
Products	CAFTA 2006	Colombia 2009	EU 2013	CAFTA 2006	Colombia 2009	EU 2013	CAFTA 2006	Colombia 2009	EU 2013
Chicken	0	164	164	0	Excluded	Excluded	82.5	Excluded	164
Bovine meat	0	40	40	0	Excluded	Excluded	0	Excluded	15
Porcine meat	0	40	40	0	Excluded	Excluded	0	Excluded	15
Dairy products	0	40	40	7.5	Excluded	Excluded	7.5	Excluded	35
Sugars	0	40	40	0	Excluded	2	0	Excluded	40
Alcohol and liquors	0	30	40	0	Excluded	Excluded	0	Excluded	15
Grain	0	30	40	14.7	Excluded	Excluded	22.7	Excluded (some with 4)	45
Cigarettes	0	30	30	0	Excluded	Excluded	0	Excluded	55
Leather	0	2.7	3	0	10.5	3	0	Excluded	3
Tuna	0	0	3	0	13.5	3	0	0	3
Wood figurines	0	0	3	0	10.5	3	0	0	3
Flowers	0	10	0	0	10	0	0	10	0
Various vegetables	0	0	7	0	9	3	0	0	3
Shoes	0	15	3	0	9	3	0	0	3
Vehicles	0	30	Excluded	Excluded	Excluded	Excluded	0	Excluded	Excluded

Stainless steel sinks and basins	0	0	3	0	7.5	3	0	2.6	3
Pineapple	0	9	15	0	9	Excluded		9	15
Vegetal textile	0	4.5	2	0	4.5	2		4.5	2
Papaya	0	6	3	0	6	3		6	3
Crustaceans	0	4	3	0	0			4	3
Machinery for dairy industry	0	0	0	0	0	0		0	0

Source: Authors' elaboration.

7. The Justice System as a Last Resort

The preceding section shows the considerable extent to which business associations exercise influence in the policy process. However, when elected officials decide against their preferred policies, these organizations have another recourse: they can use the justice system to delay or stop decisions that might affect their interests. They ensure access through two main strategies: influencing nominations to the high courts and investing significant resources in judicial activism. Influencing the high courts' composition and use of judicial review is useful to veto unfavorable policies, settle disputes to their advantage, or avoid financial or punitive penalties. Table 7 summarizes the composition and selection process of justices in El Salvador, Guatemala and Honduras.

Table 7. Composition and Selection of Constitutional Justices

	El Salvador	Guatemala	Honduras
Composition	Constitutional Chamber: 5 justices 9-year terms; alternate elections	Constitutional Court: 5 justices 5-year terms; simultaneously	Constitutional Room: 5 justices 7-year terms
Nominated and elected by	Elected by Congress Nominated by CNJ and Bar Association	Appointed by: President (1), Congress (1), Supreme Court (1), National University (1) and National Bar Association (1)	Elected by Congresses Nominated by Nomination Board (seven organizations represented)
Jurisdiction	No area is excluded from human rights protections	No area is excluded from human rights protections	No area is excluded from human rights protections

Source: Authors' elaboration.

Guatemala differs from the other two countries, as its 1985 Constitution created a separate Constitutional Court to protect citizens' rights from abuse by the executive branch.[24] However, the court has also provided a safeguard for the economic elites that participated in the

[24] This intention is reinforced by further restrictions to limit military force in the 1996 Peace Agreements (United Nations Verification Mission in Guatemala, 1997, Art. 63).

constitution-making process. This unique design has led to different strategies by business groups to gain influence in negotiating policy outcomes.

In Guatemala, the Constitutional Court is composed of five principal justices and five deputy justices. Each justice, and their respective deputy, is appointed by a different institution: the president, Congress, the Supreme Court, the national public University of San Carlos, and the National Bar Association (Constitución Política de la República de Guatemala, Art. 269). The private sector can leverage its influence through the executive and legislative branches, and partially through the bar association, to compete in the process of selecting justices. Francisco Flores, a former magistrate, points out that the private sector has "an obvious influence" in the selection process, although it must compete with other interest groups (Barreto, 2016).

In El Salvador, the Supreme Court is composed of 15 chief justices, organized in four divisions (See Table 7). The constitutional division has five justices, and its jurisdiction covers the constitutionality of laws, decrees, regulations, human rights protections, habeas corpus, and disagreements between the legislature and the executive (Constitución de El Salvador, Art. 174).

Constitutional chamber justices are selected separately from other Supreme Court justices (but using the same process), which leaves little space for the private sector to intervene directly. Each justice is elected for a period of nine years, with the option for one additional term. Congress chooses them from a list of 30 candidates, with half of them nominated by the National Council of the Judiciary (CNJ) and the other half by the Federation of the Association of Attorneys of El Salvador (FEDAES).[25]

Similar to El Salvador, the Supreme Court of Honduras is composed of 15 chief justices, organized in five divisions. The constitutional division has five justices, who rule on the constitutionality of laws, decrees, regulations, human rights protection processes, habeas corpus, and disputes between the legislature and the executive (Constitución de Honduras, Art. 316).

However, the selection process and tenure of justices can compromise their independence, and here the private sector participates directly. Supreme Court justices in Honduras are elected for a seven-year period. The Congress chooses candidates selected by a nomination commission, similar to that of Guatemala, but much smaller. The commission includes representation from seven organizations: the incumbent Supreme Court, the National Bar Association (Colegio de Abogados), the organized private sector (COHEP), law schools of the national public university (UNAH), civil society representatives, the Ombudsman, and workers unions (Constitución de Honduras, Art. 311).

Another feature of Honduran judicial selection is that all 15 justices are appointed at the same time. Seating all justices at once threatens judicial independence, since the majority party has the advantage of selecting them. Moreover, legislators' confirmation votes are secret, obscuring the link between representatives and appointed justices (Asociación para una Sociedad Más Justa [ASJ], 2016).

[25] The influence of FEDAES in the judicial system is noteworthy, combining the nominations and self-regulating activities related to law (Beltrán & Amaya, 2018).

7.1. Illustrating Private Sector Influence over Judicial Review

Over time, business groups have learned to choose new venues to influence policy outcomes. Besides trying to influence executive and legislative stakeholders, economic elites in El Salvador, Guatemala, and Honduras use judicial review to block or delay unfavorable policies and avoid legal and economic sanctions.

There are several examples of how the private sector has attempted to influence judicial review. In Guatemala, the Constitutional Court has long been one of the main arenas for debating fiscal policy. Most notably, the private sector can influence the appointment of justices through the president and the legislature, and less visibly through the National Bar. This appointment power has been beneficial, as the Constitutional Court has systematically vetoed fiscal reforms intended to increase taxation. Between 2012 and 2013, business associations lobbied the Constitutional Court to block 168 measures across two tax reform bills, and the court struck down 81 of them (See Table 8).

Similarly, COHEP filed an appeal against Decree 278 of 2013 (Central America Data, 2014). In 2013, the legislature approved this reform, which introduced a 1.5 percent tax on gross income above 10 million lempiras and a 0.75 percent tax on revenue obtained from the distribution of cement and public services by public companies.

Business representatives opposed the measure, arguing it was unconstitutional because the tax legislation did not cover early collection of future earnings, and that it would be a “confiscatory tax” because it would be applied to companies in advance rather than applied to earnings (Proceso Digital, 2015). However, in 2015 the Supreme Court of Justice rejected COHEP’s appeal and ratified the collection of the 1.5 percent tax. For the court, this was not a confiscatory tax or double taxation (Central America Data, 2015). In 2018, President Juan Orlando Hernandez enacted the reform as an attempt to control tax evasion (El Heraldo, 2018).

In El Salvador, despite legislative efforts to de-institutionalize private sector influence on a great number of governing boards of autonomous public entities, they have been able to regain representation after the judicial review by the Constitutional Chamber of the Supreme Court of Justice. In 2012, the legislative assembly approved reforms to the internal regulation of 19 autonomous public entities, replacing the representative from ANEP with one appointed by the president (Carías, 2012). These entities (including the Social Housing Fund, the Social Security Institute, the state-run Technical Training Institute of El Salvador, and the Central Bank) were critical points of influence for the private sector. However, in November 2016, the Constitutional Chamber resolved that the reforms were unconstitutional and restored ANEP’s representation (La Noticia SV, 2016).

Another example of private sector groups’ influence is how the decisions of competitiveness agencies—mandated to ensure fair competition across the private sector—are subject to judicial review. El Salvador and Honduras created their competitiveness agencies in 2004 and 2006 respectively; Guatemala remains without one, despite numerous legislative initiatives to create one (Russell & Irizarry, 2011).[26]

[26] Legislation has been pending in Guatemala for over twenty years, but has yet to pass in Congress. (Russell & Irizarry, 2011). In 2016, the Ministry of Economy introduced the 5074 initiative “competition law” in response to pressure from the European Union and the United States, but this bill, too, has been delayed by numerous amendments.

Table 8. Constitutional Court Rulings against Tax Reforms in Guatemala

Reform Attempt	Number of Articles not Approved	Number Filed	Solicitors
Anti-Evasion Law II (*Decree No. 4-2012*)			
Tributary Code	6	12	Chamber of Agriculture, CCG
	5	22	Chamber of Agriculture, CIG
			Others
VAT	2	4	CCG, Chamber of Agriculture
	7	15	CIG
			Others
ISR	5	11	Others
Anti-Evasion Law I	3	4	Others
Vehicles	1	1	Others
Subtotal Decree 4-2012	29	69	
Tax Update Law (Decree No. 10-2012)			
ISR	15	30	Anacafé, CG Education
	5	25	CCG, Chamber of Agriculture
			Anacovi, CIG, others
Iprima	1	1	CG Education
	3	7	Others
Stamps	1	2	CCG, Chamber of Agriculture
Vehicles	11	13	Others
Other waivers	1	1	Others
Subtotal Decree 10-2012	52	99	
Total	81	168	

Source: ICEFI (2015).

In El Salvador, the Superintendency of Competition (SC) has investigated, sanctioned, and brought cases against firms that colluded, engaged in anticompetitive conduct, or entered into anticompetitive agreements in different market sectors (OECD, 2013). Several of these anticompetitive practices have occurred in the food and fuel markets.[27] Each time a business has been sanctioned, it has filed suit before the Administrative Chamber of the Supreme Court of Justice (CSJ), alleging the illegality of the decision (USAID, 2015).

[27] The Superintendency of Competition (SC) has sanctioned anticompetitive practices and ordered market studies in the following markets: wheat flour, sugar, rice, gas and other fuels, and the electric sector (OECD, 2013).

The sugar market presents an excellent example of the private sector using judicial review as an instrument to delay or override SC actions. In 2010, the SC initiated an ex officio procedure against Dizucar (a distributor of white sugar with a market share of 75 percent). After two years of investigation, in October 2012, the SC released a detailed study and resolution concluding that Dizucar abused its dominant position in the market,28 and levied a fine of US$1 million. Dizucar alleged irregularities in the investigation and took the case to the Administrative Chamber of the CSJ. The Chamber took six years to rule in favor of the SC, acknowledging that Dizucar's anticompetitive conduct created barriers to entry and expansion and shielded the company from competition. However, the court ruled that the SC had to recalculate the amount of the fine.

Similarly, in 2008, the SC found that wheat millers Molinos de El Salvador, S.A. (MOLSA), and HARISA S.A. colluded to fix the price of milled wheat. They found direct evidence of a conspiracy, and MOLSA and HARISA were fined US$1 million and US$ 2 million respectively. Both companies appealed the decision to the Supreme Court; after nine years, the Court confirmed the legality of the resolution issued by the SC.

Thus, despite achievements in the detection and punishment of anticompetitive practices in the market for essential goods and services, the private sector continues to use judicial review as another avenue to protect their interests. According to USAID (2015), the Supreme Court of El Salvador takes on average around three years to decide on a competition case.

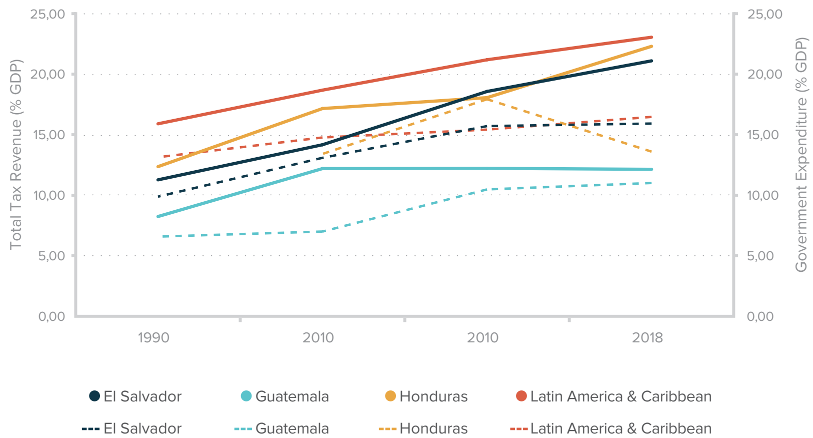
8. Suboptimal Outcomes: The Fiscal Policy Trap

The preceding sections show how the private sector lobbies decision makers. But what are the aggregate consequences of these actions? Overall, economic elites have been successful in establishing macroeconomic stability as a priority to shape tax policies (Barrientos & Garita, 2015; Schneider, 2012).

This active lobby is most evident in Guatemala, where business associations have been perhaps the most successful at shaping policies. Even though tax revenue as a percentage of GDP has increased over the years, it is still well below the average for Latin America. Average total tax revenue in the region has been around 21 percent of GDP since the 1990s, but Guatemala has averaged just 12 percent, while Honduras and El Salvador average 19 percent and 18 percent respectively (See Figure 6). The prioritization of economic stability over social spending is clearly reflected in government expenditure as well. All countries in Latin America have increased government expenditure as a percentage of GDP since the 1990s, to about 15 percent on average. Guatemala, however, is well below the regional average at 8.77 percent.

[28] The SC has estimated that these practices led to Salvadoran households overpaying an estimated $12,483,372.32 for sugar.

Figure 6. Total Tax Revenue and Government Final Consumption Expenditure (% GDP) in Latin America, 1990-2018

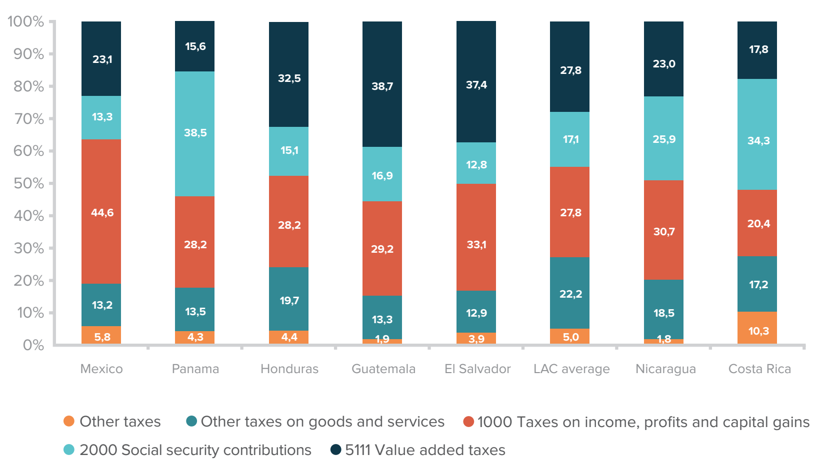


Source: Authors' elaboration. OECD Revenue Statistics and World Bank (2020).

When comparing tax structures by type of fiscal revenue in El Salvador, Guatemala, and Honduras taxes on property, rents and income are proportionally low, creating an additional challenge to redistributing resources. In Latin America, on average, value added taxes contribute 28 percent of total fiscal revenue; Guatemala, Honduras and El Salvador are the most dependent on indirect taxation, which represents 38 percent, 37 percent, and 32 percent of their total fiscal revenue respectively (See Figure 7).

Table 9 shows that, between 2007 and 2009, in Chile and Mexico there was a decrease in tax expenditures of around 2 percent and 3 percent respectively. Guatemala also saw a reduction in tax expenditures from 6 percent in 2009 to 2.3 percent in 2019. However, El Salvador and Honduras have seen increases over time.

Figure 7. Tax Structure in Selected Countries in Latin America 2018



Source: OECD (2020).

To demonstrate which sectors benefit most from tax incentives, Table 4A in the Appendix displays the main tax incentives to companies over income tax in 2018. In El Salvador, Guatemala and Honduras, both the renewable energy sector and the international services sector benefit from this type of exemption. Guatemala is the only one of the three countries with tax exemptions for the industrial sector, which are relatively uncommon in Latin America.

Myriad examples exist of business groups using their influence to quash tax measures, including income tax increases, new taxes on businesses and changes to property and vehicle taxes. In 2009, the Guatemalan government withdrew a vehicle tax reform from Congress after a plethora of legislative amendments. The bill was intended to increase tax revenues, but the final draft reduced them. The then-finance minister said the bill "used to be a horse, first became a camel, and now was turning into a Frankenstein" (Corbacho, Fretes & Lora, 2013, p. 31).

Similarly, in Honduras, COHEP has actively tried to limit the capacity of local government to propose any tax initiative, arguing that increased taxation would hurt businesses (e.g., La Prensa, 2019).

Table 9. Evolution of Tax Expenditures in Latin America (2007-2019)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Argentina	2.1	2	2	2.2	2.3	2.4	2.5	2.5	2.7	2.9	2.8	2.5	2.3
Bolivia	1.6	1.6	1.4	1.1	1	1.2	1.2	1.5	1.4	1.2	...	...	...
Brazil	4	3.8	3.7	3.6	3.5	3.8	4.2	4.5	4.6	4.3	4.1	4	4.1
Chile	4.9	5.3	5.1	5	5.1	4.4	4.5	4.3	4.5	3.5	3.1	3.2	2.9
Colombia	1.2	1.4	1.4	1.4	0.9	0.9	0.9	1.2	1.3	1.3	1.3	...	...
Costa Rica	...	...	...	5	5	5.1	5.3	5	4.9	5.3	5.5	5.5	5.5
Ecuador	4.5	4.4	...	5	5.5	4.9	4.8	4.1	4.7	4.6	4.7	...	...
El Salvador	...	...	2.7	3.9	3.5	3.3	3.2	3.1	3.9	3.8	...	...	...
Guatemala	...	...	6	6.3	6.7	6.9	2.8	2.7	2.6	2.3	2.3	2.3	2.3
Honduras	...	...	...	...	...	...	...	...	5.8	6.4	6.2	6.2	6.2
Mexico	5.9	7.4	3.9	4	5.1	5	3.6	2.9	2.9	3.5	3.9	3.7	3.1
Nicaragua	6.5	7.4	5.6	5.1	...	...	...	...	...	...	...	...	...
Panama	...	...	...	...	...	4.9	4.5	4.3	4.2	3.6	...	...	...
Paraguay	...	...	...	...	...	...	1.7	1.9	1.7	1.7	1.6	1.5	1.4
Peru	2.2	2.1	1.8	2.2	2	1.9	1.9	2.1	2.2	2.1	2.2	2.2	2.1
Dominican Republic	...	6.6	5.9	5.8	5.2	5	5.9	6.6	6.7	6.6	6.2	5.1	5.1
Uruguay	4.3	5.7	5.7	6.3	6.1	6.6	6.4	6.2	6.5	6.4	6.4	...	...

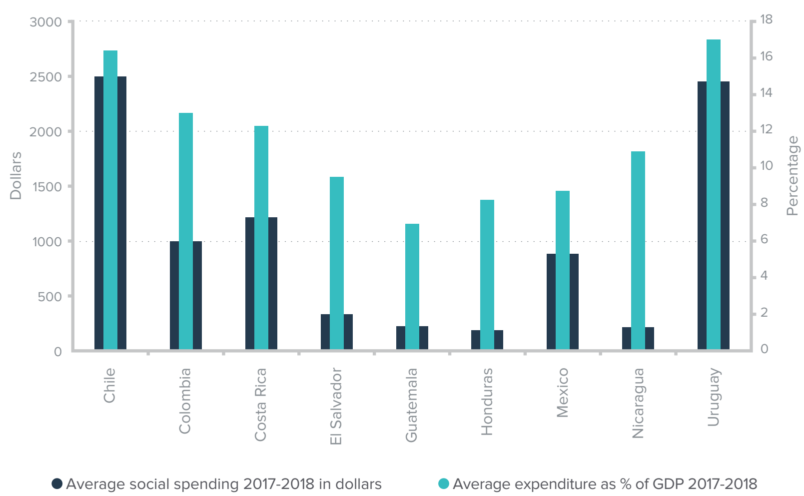
Source: ECLAC (2020).

Lobbying thus leads to low tax collection, which in turn reduces the progressivity of the tax regime and the redistributive capacity of public spending. Low tax revenues constrain government capacity to provide essential public goods, including necessary social and infrastructure spending. Low revenues also limit the redistributive capacity of public spending, as these investments are inadequate to lift people out of pervasive poverty and reduce inequality.

Figure 8 plots social expenditure per capita (2010 constant $US) in Latin America for 2017 and 2018. Honduras and Guatemala spend much less per capita compared to other countries in the region. On average, these two countries spend $188.50 and $225 respectively, while Chile and Colombia spend $2497 and $995 per capita.

More taxes are paid today than 20 years ago; overall, taxation has indeed improved and and goverments in El Salvador, Guatemala, and Honduras have made some efforts to reduce poverty. However, despite these advances, revenues continue to fall well short of regional averages, and remain insufficient to finance the public spending necessary to confront vast needs.

Figure 8. Dollars per capita and % of GDP in Social Spending in Selected Countries in Latin America



Source: Authors' elaboration. ECLAC (2020).

8.1. Leaving Social Spending Unattended: The Case of Education

The case of education in El Salvador, Guatemala, and Honduras illustrates how meager tax collection has led to inadequate social spending and a significant lag in human development indicators.

In comparative terms, most analyst rate the budgetary allocation for education and health as inefficient (ICEFI 2007; Empresarios por la Educación, 2015). While teachers' unions enjoy enormous advantages in yearly budgetary negotiations, investment in education is stagnant.[29]

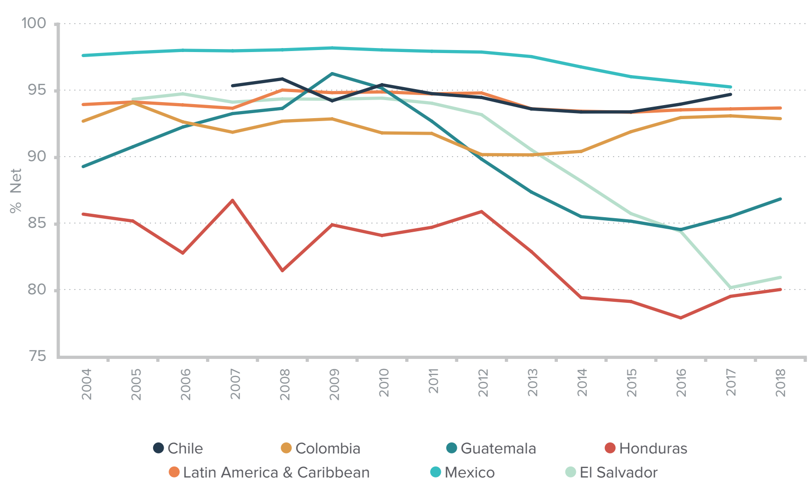
[29] In the case of Guatemala, Empresarios por la Educación (2015) reported that 99.8 percent of the budget for

Average expenditure on education contrast significantly: while in Guatemala it averages 2%, in El Salvador it is almost twice as much, with 3.7 percent respectively. Nonethelss, both are lower than the Latin American average of 4.5 percent. Honduras and Guatemala have the lowest average levels of educational attainment in Latin America. Of the population 25 years or older, 67 percent of Hondurans and 63 percent of Guatemalans have not advanced beyond primary education (ECLAC, 2020), and only 13 percent of Hondurans and16 percent of Guatemalans have completed upper secondary school. The tertiary education completion rate averages just 9 percent across El Salvador, Guatemala and Honduras.

Figure 9 plots the net enrollment rate in primary education for the three countries compared to the Latin American average. While enrollment rates in the region have averaged 94 percent for the last 15 years, primary enrollment in El Salvador, Guatemala, and Honduras fell by almost 10 percentage points over this period. Today, El Salvador and Honduras have a rate of around 80 percent, and Guatemala of 87 percent.

In Guatemala, inequality is further marked by differences between indigenous and non-indigenous populations. Indigenous children attend school less and have lower educational attainment (UNICEF, 2010). Given lower incomes among indigenous populations, children have fewer instructional materials, attend schools in worse physical shape, and have less-qualified teachers. Linguistic diversity is an additional barrier that the public-school system rarely addresses (McEwan & Trowbridge, 2007).

Figure 9. Primary School Enrollment in Latin America (2004-2018)



Source: Authors' elaboration. Data from UNESCO (2020).

The indicators for secondary education are even more worrisome. Guatemala and Honduras have the lowest enrollment rates for secondary education in Latin America. While regional net school enrollment over the last 15 years has averaged 71.7 percent, both Guatemala and Honduras have held steady at approximately 40 percent (See Figure 10). Additionally, completion rates for lower high school in Honduras and Guatemala are among the lowest in the region, with graduation rates of 45 percent and 56 percent respectively.

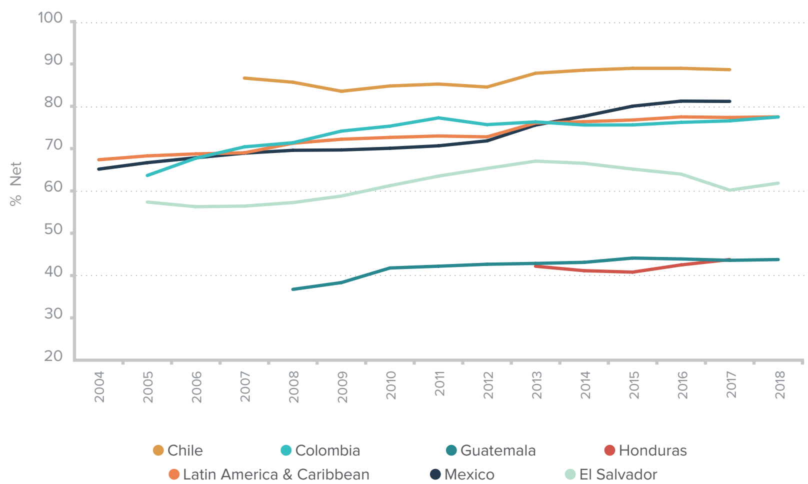
education was operational, and only 1.2 percent was for investments.

El Salvador has a higher secondary school enrollment rate than Honduras and Guatemala, but is still below the Latin American average. Between 2013 and 2018, the net secondary education rate in El Salvador fell from 67 percent to 62 percent, while other countries in the region held constant.

The slow pace of increasing coverage and opportunity for children to enter primary school illustrates a state capacity problem (Adelman and Székely, 2017), but the worst indicator is the high dropout rate for both primary and high school in Guatemala and Honduras. Analyzing the complicated situation for children and adolescents in Guatemala after the 2009 economic crisis, UNICEF (2010) examined the high dropout rates for both primary and secondary enrollment. Asked to explain primary school dropout decisions, most respondents cited: "lack of interest" (31.4 percent) and "health" (27.5 percent). For high school dropouts, respondents indicated "economic conditions" (over 60 percent) and "lack of interest" (27.3 percent).

El Salvador presents a different scenario. When asked about their reason for dropping out, families have two modal responses: "change of residence" and "left the country" (Montes, 2018). In 2015, these accounted for more than 40 percent of responses. In 2016, this percentage increased to 52 percent. Lack of opportunity, coupled with violence resulting from high levels of insecurity (See Annex 1), drives high dropout rates.

Figure 10. Secondary School Enrollment in Latin America (2004-2018)

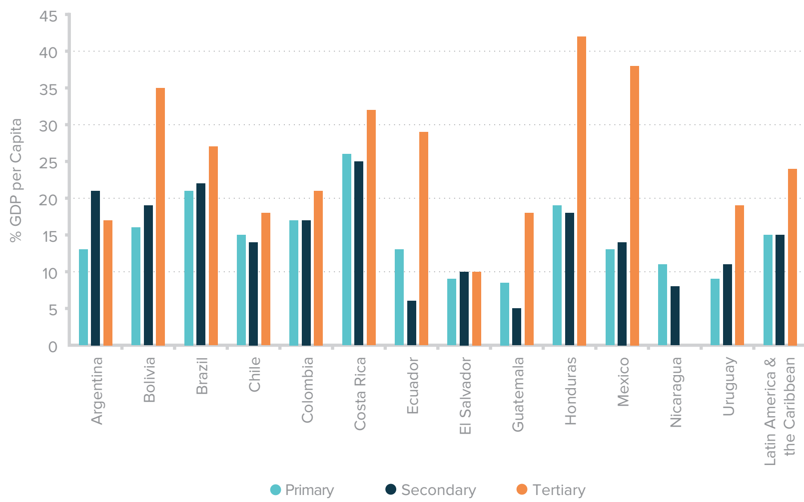


Source: Authors' elaboration. Data from UNESCO (2020).

In Honduras, the country with the highest illiteracy in the region, primary school dropout rates have averaged approximately 24 percent over the last five years (UNESCO, 2020). Net enrollment rates for secondary education are low—42 percent on average. For upper secondary education, enrollment falls to 25 percent. That means that only one in four adolescents ages 16-18 attends school. Studies of child and adolescent migration find that these minors often report violence in their neighborhoods and families as a motivation to leave.

Figure 11 shows public education expenditure as a percentage of GDP per capita, differentiated by primary, secondary and tertiary education. In Guatemala and Honduras, the proportion of expenditure dedicated to tertiary education is twice the amount spent in primary and secondary. Meanwhile, El Salvador spends proportionally on primary, secondary and tertiary education, perhaps consistent with its higher enrollment rates in secondary education. Overall, only 20 percent of the population will complete tertiary education and be able to aspire to more skilled jobs (Orozco &Valdivia, 2017).

Figure 11. Public Education Expenditure (% GDP per capita) in Latin America



Source: Orozco & Valdivia (2017).

The low-skill trap (Schneider, 2013) appears clearly in these cases. Workers, or future workers, lack both incentives to invest in human capital and opportunities to do so, because of the existence of a low-complexity economy that does not demand high-skilled jobs. In turn, given the lack of human capital, firms lack the incentives to invest in more sophisticated production processes.

Box 1: Building Technical Capacity in Unpromising Circumstances

Some exceptions exist to this bleak picture of underinvestment in education. Bogliaccini and Madariaga (2019) analyze the consolidation of Guatemala's Instituto Técnico de Capacitación y Productividad (INTECAP), a public technical secondary institution founded in 1972. The Institution is protected constitutionally and funded directly by a 1 percent payroll tax contribution, through the Instituto Guatemalteco de Seguridad Social. This state-of-the-art institution, managed by an executive board comprised of private sector leaders, only admits 1.6 percent of potential students, but receives preferential treatment and resources; "in per capita terms, INTECAP's budget is more than three times that of the Ministry of Education and counts with reserves amounting to 10 percent of the total annual educational budget" (Bogliaccini and Madariaga, 2019, p. 23).

Thus, authors use this exception to prove the rule: education is only a priority when it accords with the agenda of private interests. It would be interesting to observe whether institutions like this, inherited from the non-democratic era, have the same preferential treatment in both Honduras and El Salvador. To this day, by constitutional mandate, the Universidad Nacional Autónoma de Honduras (art. 161, CNH) receives no less than 6 percent of the annual national budget, excluding all loans and donations. In Guatemala, the constitution assigns no less than 5 percent of the annual budget to the Universidad de San Carlos, mandating an increase if possible. No similar provision exists in the Salvadorean constitution.

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[1] "In the 2014 Latin American World Skills competition, an Olympics of technical skills organized by a private corporation with presence in 82 countries in the world (17 in Latin America), INTECAP's students representing Guatemala came third in the overall medal board, after Brazil and Colombia, and above the countries with better scores in cognitive tests like Chile, Uruguay and Costa Rica. Medals won by INTECAP included not only service sector skills (tourism) but also mechanical engineering design, mobile robotics and computerized industrial control" (Bogliaccini and Madariaga, 2019, p.24)

9. Considerations for Further Discussion

This paper has addressed the paradox of economic stability coinciding with persistent inequality in Guatemala and Honduras, in high contrast with the Salvadorean case. In particular, it proposed that part of the explanation for this contradiction lies in the selective way in which these governments respond when determining priorities and building institutional capacity.

Given limitations on data, it provides examples to illustrate some avenues through which the private sector is able to gain privileged and strategic representation: elections, the executive and legislature and through the courts. It also shows how this access has resulted in decisions that are responsive to the priorities of the private sector, while leaving others unattended. As was clearly shown, private sector interests have resulted in the consolidation of state apparatuses which are able to deliver on macro-economic stability, which has entailed the institutionalization of technical expertise, as well as dense networks of institutions that support that capacity. Further research should evaluate and measure the effects of private interests in other key policy areas – financial markets to give an example – to ensure a safe market to exchange and grow, while leaving other policy areas unattendend as representation for the unorganized interests is less prominent and effective.

One of the insights from contrasting the cases of El Salvador, Guatemala and Honduras is that, despite their geographical proximity and similar institutional, social and historical features, they have important differences regarding how the political system mediates private sector influence. In particular, the ideologically polarized political system in El Salvador seems to introduce more competition to the policies the private sector may wish to advance. Equally, a more social policy-oriented agenda has an impact on fiscal efforts and educational attainment. While change is incremental, El Salvador, over a decade, turned its trajectory to have a more inclusive development strategy.

While lobbying strategies are commonly studied to observe its influence in the executive and legislative branches, the use of judicial review is also key to understand how different private interests defend their economic interests, In this paper, we show for example, that particularly, in the case of Guatemala, CACIF effectively preserves the status quo by using the Courts as a counter-majoritarian strategy. The same tactic is used in El Salvador, making it harder for unfavorable decisions to take effect.

Another insight is that economic interests in low-complexity economies may be difficult to reconcile with the need for investments in human capital. The low tax revenue as a proportion of GDP in Guatemala, and the extensive tax exemptions in Honduras, which help keep production costs down, come at the cost of limiting the states' capacity to invest in public services. The challenge of balancing these competing interests without a fair system of representation and a professional public administration is certainly daunting.

Providing recommendations without access to more systematic data and analysis is risky. However, it is possible to suggest a few reflections for further discussion. On the one hand, the highly structured organization and efficiency of the private sector in El Salvador, Guatemala and Honduras, suggests that there are few groups able to provide alternatives. Policymakers and other stakeholders might consider opportunities to empower social actors who can learn from the success of the private sector's policy expertise. Promoting public discussion of government decisions might also help balance interests among different actors.

On the other hand, rather than competing with social policy, private sector actors could use their privileged position to advance it. After all, the private sector is an integral part of society and its interests cannot be simply ignored. More effort is needed to explore innovative policy proposals that reduce inequality and are compatible with the promotion of economic activity, exploring the links between effective social spending and economic performance.

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Appendix A

Table A1. Key Executive Offices in El Salvador

Year	Office	Name	Party	Relevant position before office
2019-2024	President	Nayib Armando Bukele Ortez	Nuevas Ideas (NI)	Proprietary of the distribution of Yamaha motorcycles. President of media agency Obermet
2019-2024	Vice-president	Félix Augusto Antonio Ulloa Garay	Gran Alianza por la Unidad Nacional (GANA)	Leader of Sindicato de Trabajadores del Instituto Salvadoreño del Seguro Social (STISSS) and Unión Nacional de Trabajadores Salvadoreños (UNTS)
2019-2024	Minister of Commerce (Economía)	María Luisa Hayem Brevé	Frente Farabundo Martí para la Liberación Nacional (FMLN)	-
2019-2024	Minister of Finance (Hacienda)	Nelson Eduardo Fuentes Menjívar	Frente Farabundo Martí para la Liberación Nacional (FMLN)	Adviser of Asociación Nacional de la Empresa Privada (ANAM), worked at Fundación Nacional para el Desarrollo (FUNDE)
2014-2019	President	Salvador Sánchez Cerén	Frente Farabundo Martí para la Liberación Nacional (FMLN)	Signed Peace Accords as member of FMLN guerrilla group
2014-2019	Vice-president	Oscar Samuel Ortiz Ascencio	Frente Farabundo Martí para la Liberación Nacional (FMLN)	President of COMURES, and President of the Consejo Nacional de Desarrollo Territorial y Descentralización CONADES
2018-2019	Minister of Commerce (Economía)	Luz Estrella Rodríguez De Zúñiga	Frente Farabundo Martí para la Liberación Nacional (FMLN)	Vice-presidenta of Alba Alimentos de El Salvador S.A.
2014-2018	Minister of Commerce (Economía)	Tharsis Salomón López Guzmán	Frente Farabundo Martí para la Liberación Nacional (FMLN)	President of Organización Internacional del Azúcar (OIA), Adviser of Asociación Nacional de la Empresa Privada (ANEP), Founder of Fundación Salvadoreña para el Desarrollo Económico y Social (FUSADES)
2018-2019	Minister of Finance (Hacienda)	Nelson Eduardo Fuentes Menjívar	Frente Farabundo Martí para la Liberación Nacional (FMLN)	Member of Fundación Nacional para el Desarrollo (FUNDE)
2014-2018	Minister of Finance (Hacienda)	Juan Ramón Carlos Enrique Cáceres Chávez	Frente Farabundo Martí para la Liberación Nacional (FMLN)	Executive Director of Asociación Bancaria Salvadoreña (ABANSA)
2009-2014	President	Carlos Mauricio Funes Cartagena	Frente Farabundo Martí para la Liberación Nacional (FMLN)	-

2009-2014	Vice-president	Salvador Sánchez Cerén	Frente Farabundo Martí para la Liberación Nacional (FMLN)	Signed Peace Accords as member of FMLN guerrilla group
2012-2014	Minister of Commerce (Economía)	José Armando Flores Alemán	Frente Farabundo Martí para la Liberación Nacional (FMLN)	-
2009-2012	Minister of Commerce (Economía)	Héctor Miguel Antonio Dada Hirezi	Frente Farabundo Martí para la Liberación Nacional (FMLN)	-
2009-2014	Minister of Finance (Hacienda)	Juan Ramón Carlos Enrique Cáceres Chávez	Frente Farabundo Martí para la Liberación Nacional (FMLN)	Executive Director of Asociación Bancaria Salvadoreña (ABANSA)
2004-2009	President	Elias Antonio Saca González	Alianza Republicana Nacionalista (ARENA)	Owner of radio stations
2004-2009	Vice-president	Ana Vilma de Escobar	Alianza Republicana Nacionalista (ARENA)	-
2008-2009	Minister of Commerce (Economía)	Ricardo Esmahan d'Aubuisson	Alianza Republicana Nacionalista (ARENA)	President and Executive Director of Cámara Agropecuaria y Agroindustrial de El Salvador (CAMAGRO)
2004-2008	Minister of Commerce (Economía)	Yolanda Mayora de Gavidia	Alianza Republicana Nacionalista (ARENA)	Director of Banco Multisectorial de Inversiones and Founding Director of Asociación INFOCENTROS
2006-2009	Minister of Finance (Hacienda)	William Jacobo Hándal	Alianza Republicana Nacionalista (ARENA)	Vice-president of TACA International Airlines
2004-2006	Minister of Finance (Hacienda)	José Guillermo Belarmino López Suárez	Frente Farabundo Martí para la Liberación Nacional (FMLN)	President and Director of Grupo Avícola Salvadoreño and Grupo Pollo Campero

Source: Authors' elaboration.

Table A2. Key Executive Offices in Guatemala

Year	Office	Name	Party	Relevant position before office
2020-2024	President	Alejandro Eduardo Giammattei Falla	Vamos por una Guatemala Diferente (Vamos)	Shareholder of companies in the United States and Mexico
2020-2024	Vice-president	César Guillermo Castillo Reyes	Vamos por una Guatemala Diferente (Vamos)	Executive Director of Cámara de Comercio de Guatemala (CCG) and Manager of Instituto Técnico de Capacitación y Productividad (INTECAP)
2020-2024	Minister of Commerce (Economía)	Roberto Antonio Malouf Morales	Unión del Cambio Nacional (UCN)	President of Asociación Guatemalteca de Exportadores (AGEXPORT), President of Comité Coordinador de Asociaciones Agrícolas, Comerciales, Industriales y Financieras (CACIF)
2020-2024	Minister of Finance (Finanzas)	Álvaro González Ricci	-	Vice-president of Citibank
2016-2020	President	Jimmy Morales Cabrera	Frente de Convergencia Nacional (FCN)	Entertainment business
2016-2020	Vice-president	Jafeth Ernesto Cabrera Franco	Frente de Convergencia Nacional (FCN)	Director of Universidad de San Carlos de Guatemala, Board Member of Instituto Guatemalteco de Seguridad Social (IGSS)
2018-2020	Minister of Commerce (Economía)	Acisclo Valladares Urruela	-	Business in telecommunications
2017-2018	Minister of Commerce (Economía)	Víctor Manuel Asturias Cordón	-	General Manager of Grupo Tekno Energy, S.A.
2016-2017	Minister of Commerce (Economía)	Rubén Estuardo Morales Monroy	-	Director at Asociación Guatemalteca de Exportadores (AGEXPORT)
2018-2020	Minister of Finance (Finanzas)	Víctor Manuel Alejandro Martínez Ruiz	Partido Unionista (PU)	Executive Director of Fundación para el Desarrollo Integral and Manager of Grupo de Desarrollo Palo Blanco S.A.
2016-2018	Minister of Finance (Finanzas)	Julio Héctor Estrada Domínguez	Unidad Nacional de la Esperanza (UNE)	Executive Director at Agencia de Desarrollo de Infraestructura Económica (ANADIE) and Founder of Desarrollos Palo Blanco, S.A.
2015-2016	President	Alejandro Maldonado Aguirre	-	-
2015-2016	Vice-president	Juan Alfonso Fuentes Soria	-	Director at Universidad de San Carlos de Guatemala, former President of the Human Rights Legislative Commission
2015-2016	Minister of Commerce (Economía)	Jorge Méndez Herbruger	-	-

2015-2016	Minister of Finance (Finanzas)	Dorval Carías	-	-
2012-2015	President	Otto Pérez Molina	Partido Patriota (PP)	Army General, represented the Army during the Peace Accords
2015	Vice-president	Alejandro Maldonado Aguirre	Partido Unionista (PU)	-
2012-2015	Vice-president	Ingrid Roxana Baldetti Elías	Partido Patriota (PP)	-
2015	Minister of Commerce (Economía)	Ricardo Sagastume	-	Executive Director at Cámara de Industria, President at Gremial de Industriales Exportadores, and President of Colegio de Abogados y Notarios de Guatemala (CANG)
2012-2015	Minister of Commerce (Economía)	Sergio De la Torre Gimeno	-	President of Cámara de Industria (CIG) and Member of Comité Coordinador de Asociaciones Agrícolas, Comerciales, Industriales y Financieras (CACIF)
2014-2015	Minister of Finance (Finanzas)	Dorval Carías	-	-
2012-2013	Minister of Finance (Finanzas)	Pavel Centeno	Partido Patriota (PP)	Director of Banrural
2008-2012	President	Álvaro Colom Caballeros	Unidad Nacional de la Esperanza (UNE)	Prominent textile businessman
2008-2012	Vice-president	José Rafael Espada	Unidad Nacional de la Esperanza (UNE)	-
2011-2012	Minister of Commerce (Economía)	Luis Antonio Velásquez Quiroa	Unidad Nacional de la Esperanza (UNE)	Executive Director of Asociación de Industriales Farmacéuticos de Guatemala (ASINFARGUA)
2010-2011	Minister of Commerce (Economía)	Erick Coyoy Echeverría	-	-
2009-2010	Minister of Commerce (Economía)	Rubén Estuardo Morales Monroy	-	Affiliated with Asociación Guatemalteca de Exportadores (AGEXPORT)
2008-2009	Minister of Commerce (Economía)	Rómulo Alfredo Caballeros Otero	-	-
2008	Minister of Commerce (Economía)	José Carlos García Macal	-	-
2010-2012	Minister of Finance (Finanzas)	Rolando Del Cid Pinillos	-	-

2010	Minister of Finance (Finanzas)	Edgar Alfredo Balsells Conde	-	Director at Asociación para el Desarrollo Empresarial (ADAM) and Executive Director of Fundación para el Desarrollo Empresarial y Agrícola (FUNDEA)
2008-2010	Minister of Finance (Finanzas)	Juan Alberto Fuentes Knight	-	Founder and Director of Instituto Centroamericano de Estudios Fiscales (ICEFI)
2004-2008	President	Óscar Berger Perdomo	Gran Alianza Nacional (GANA)	Family business of coffee and sugar
2004-2008	Vice-president	Eduardo Stein	Gran Alianza Nacional (GANA)	-
2007-2008	Minister of Commerce (Economía)	Luis Oscar Estrada Burgos	-	-
2004-2007	Minister of Commerce (Economía)	Marcio Ronaldo Cuevas Quezada	-	-
	Minister of Finance (Finanzas)	Mefi Eliud Rodríguez García	-	-
	Minister of Finance (Finanzas)	Hugo Eduardo Beteta Méndez-Ruiz	-	-
2004-2006	Minister of Finanzas	María Antonieta del Cid	-	President of Guatemalan Central Bank

Source: Authors' elaboration.

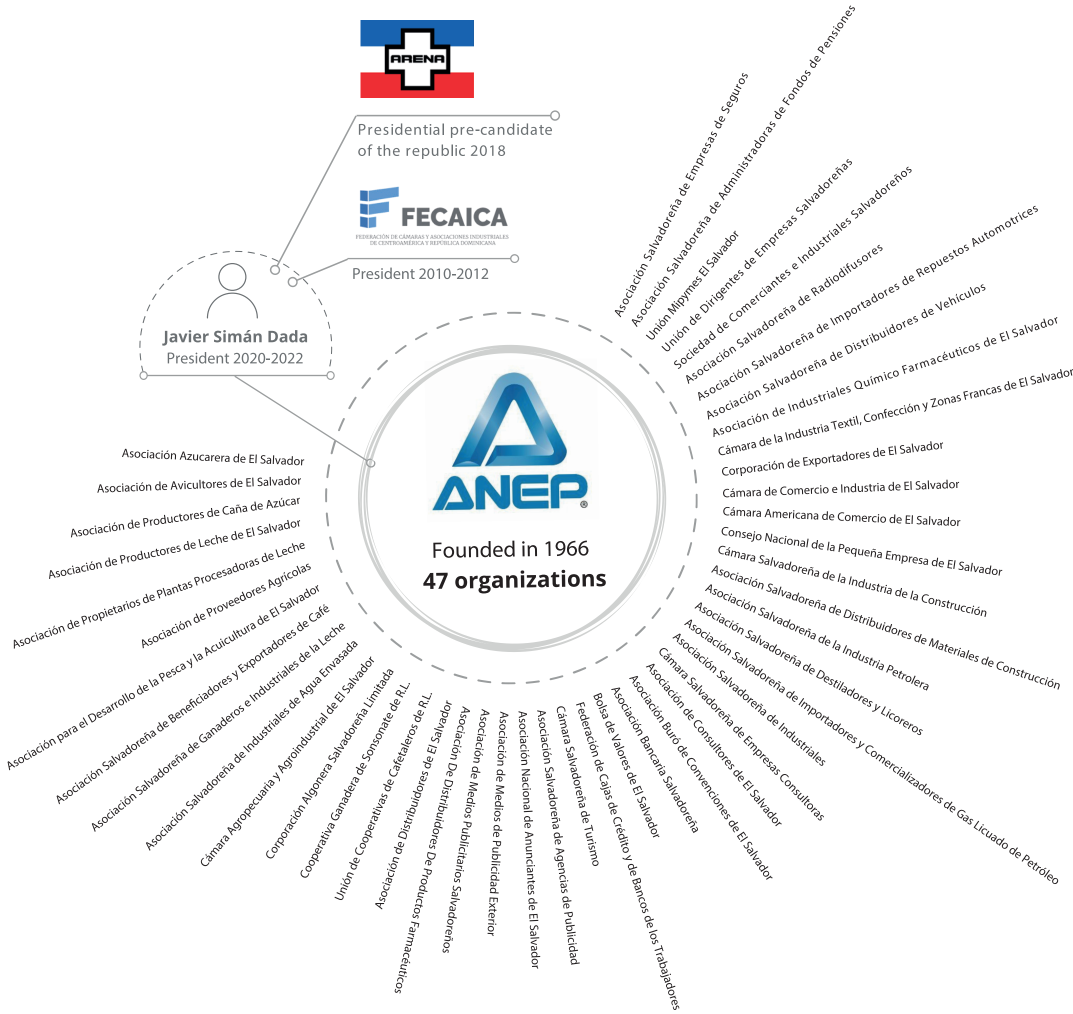
Table A3. Key Executive Offices in Honduras

Year	Office	Name	Party	Relevant position before office
2018-2022	President	Juan Orlando Hernández Alvarado	Partido Nacional de Honduras (PNH)	-
2018-2022	Vice-president	Ricardo Antonio Álvarez Arias	Partido Nacional de Honduras (PNH)	Vice-president of financial group Ficohsa
2018-2022	Minister of Commerce (Desarrollo e Inclusión social)	Reinaldo Antonio Sánchez Rivera	Partido Nacional de Honduras (PNH)	Prominent rancher/businessman
2018-2022	Minister of Finance (Finanzas)	Rocío Izabel Tábora Morales	Partido Nacional de Honduras (PNH)	Executive Director of Centro de Comunicación y Capacitación para el Desarrollo (COMUNICA)
2014-2018	President	Juan Orlando Hernández Alvarado	Partido Nacional de Honduras (PNH)	-
2014-2018	Vice-president	Ricardo Antonio Álvarez Arias	Partido Nacional de Honduras (PNH)	Vice-president of financial group Ficohsa
2015-2018	Minister of Commerce (Desarrollo e Inclusión Social)	Ricardo Cardona	-	-
2014-2015	Minister of Commerce (Desarrollo e Inclusión social)	Lisandro Rosales	-	-
2014-2018	Minister of Finances (Finanzas)	Wilfredo Rafael Cerrato Rodríguez	-	Director of Commission to Promote Public-Private Alliances (COALIANZA)
2010-2014	President	Porfirio Lobo Sosa	Partido Nacional de Honduras (PNH)	Founder of Consejo Nacional de Productores para la Política Agrícola de Honduras (CONPPAH) and Asociación de Ganaderos y Agricultores de Olancho (AGAO)
2010-2014	Vice-president	María Antonieta de Bográn	Parido Nacional de Honduras (PNH)	-
2010-2014	Minister of Commerce (Desarrollo e Inclusión Social)	-	-	-
2012-2014	Minister of Finances (Finanzas)	Wilfredo Rafael Cerrato Rodríguez	-	Director of Commission to Promote Public-Private Alliances (COALIANZA)
2012	Minister of Finances (Finanzas)	Hector Gullién	Partido Nacional de Honduras (PNH)	-

2010-2012	Minister of Finances (Finanzas)	William Chong Wong	Partido Nacional de Honduras (PNH)	-
2009-2010	President (de facto)	Roberto Micheletti Bain	Partido Liberal de Honduras (PLH)	-
2009-2010	Vice-president	-	-	-
2009-2010	Minister of Finance (Finanzas)	Gabriela Núñez Ennabe	-	Member of Asociación de Instituciones Bancarias de Honduras
2006-2009	President (deposed)	Manuel Zelaya	Partido Liberal de Honduras (PLH)	Director of Consejo Hondureño de la Empresa Privada (COHEP) and President of Asociación Nacional de Empresas Transformadoras de la Madera (ANETRAMA)
2008-2009	Vice-president (appointed)	Arístides Mejía Carranza	Partido Liberal de Honduras (PLH)	-
2006-2008	Vice-president	Elvin Ernesto Santos Ordóñez	-	-
2006-2009	Minister of Finances (Finanzas)	Hugo Noé Pino	-	-
2002-2006	President	Ricardo Maduro Joest	Partido Nacional de Honduras (PNH)	From a prominent business family. Executive Director of Inversiones la Paz.
2002-2006	Vice-president	Vicente Williams Agasse	Partido Nacional de Honduras (PNH)	Prominent businessman in construction and finances
2004-2006	Minister of Finances (Finanzas)	William Chong Wong	Partido Nacional de Honduras (PNH)	-
2002-2004	Minister of Finances (Finanzas)	José Arturo Alvarado	-	-

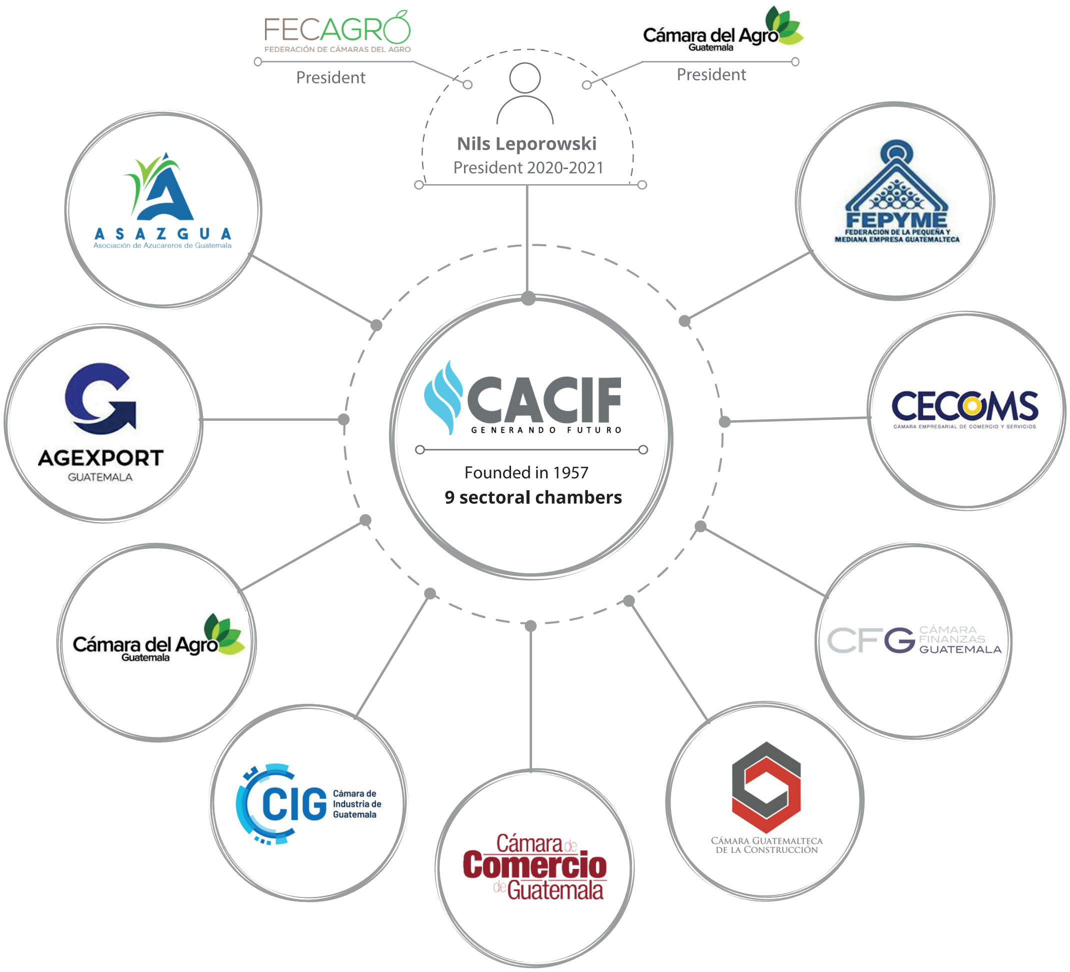
Source: Authors' elaboration.

Figure 1A. Members of the National Association of Private Enterprise (ANEP)



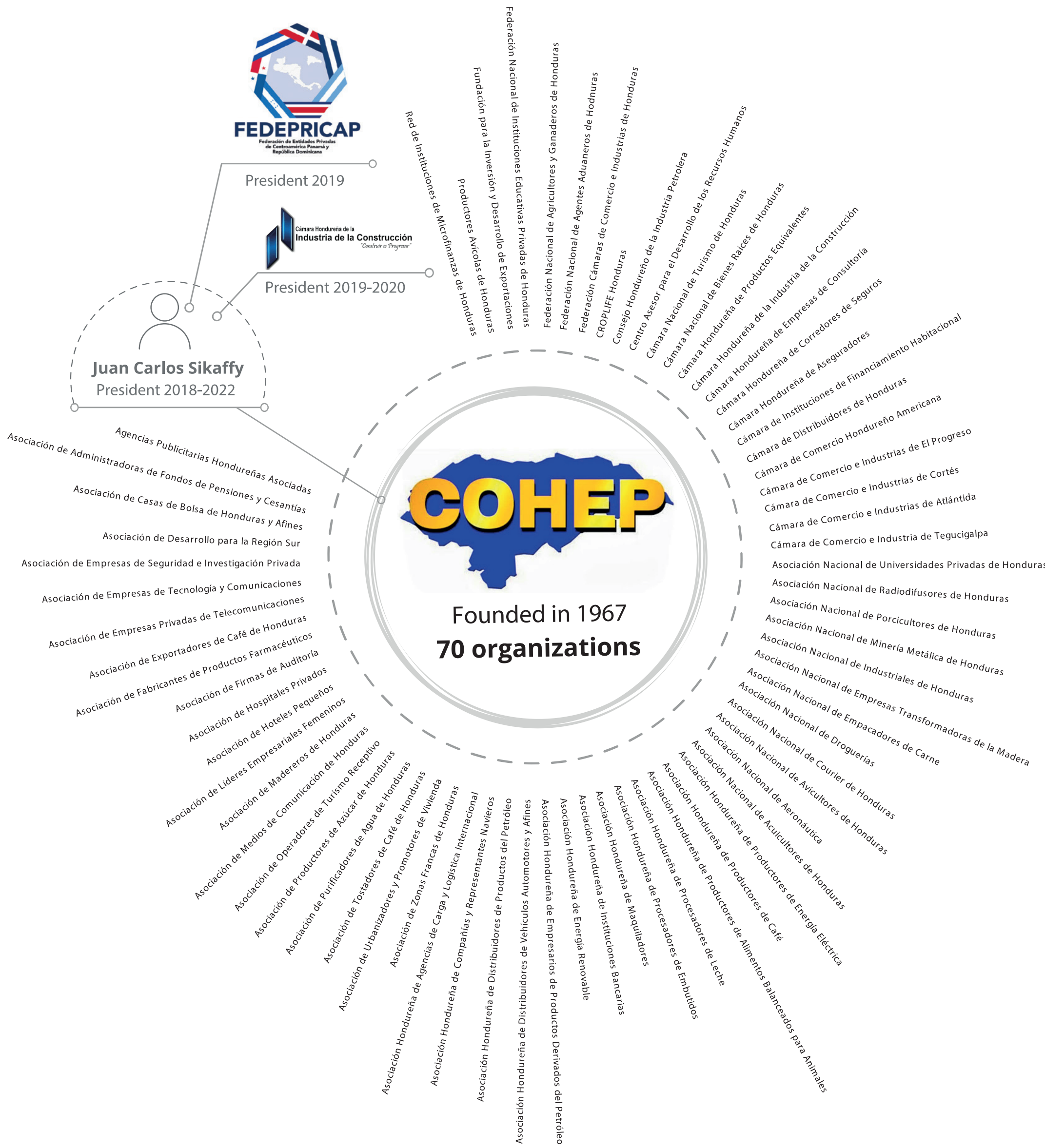
Source: Authors' elaboration.

Figure 2A. Members of the Coordinating Committee of Agricultural, Commercial, Industrial and Financial Associations (CACIF)



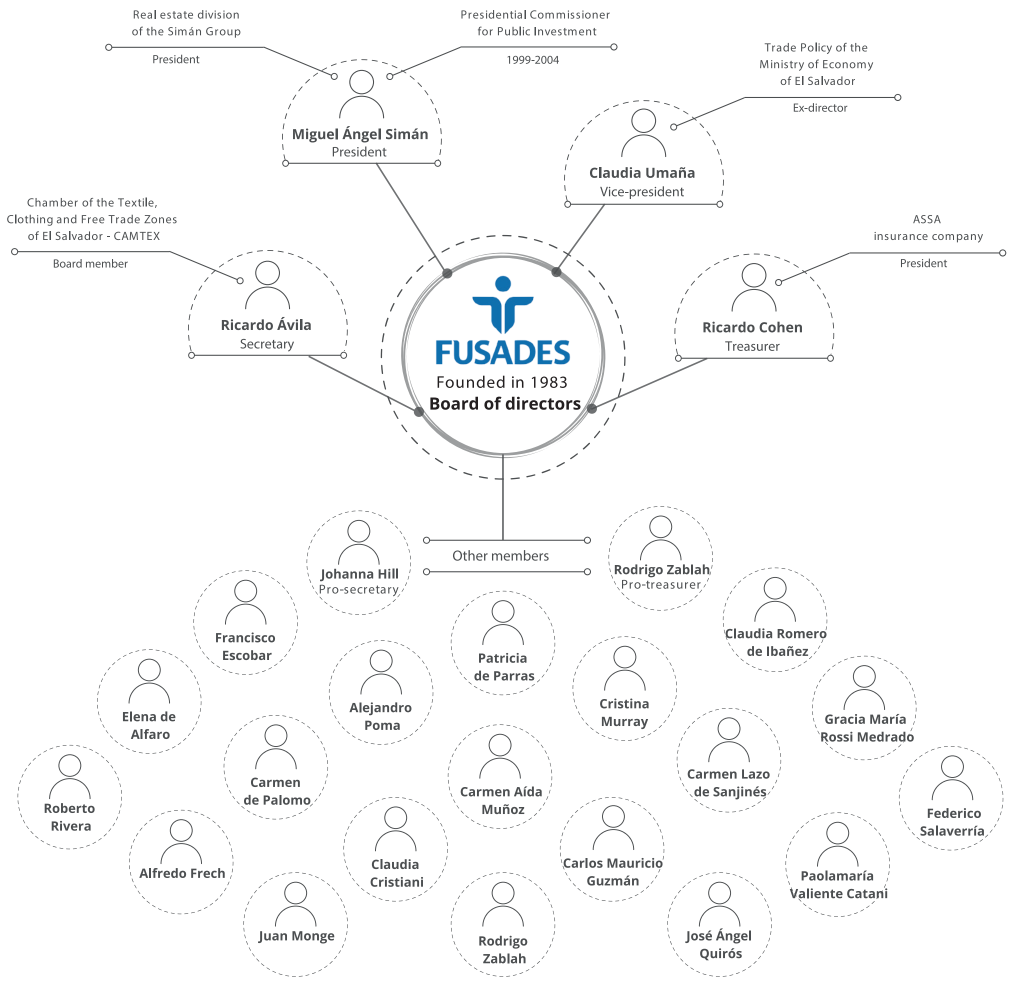
Source: Authors' elaboration.

Figure 3A. Members of the Honduran Council of Private Enterprise (COHEP)



Source: Authors' elaboration.

Figure 4A. Board of Directors of the Salvadoran Foundation for Economic and Social Development (FUSADES)



Source: Authors' elaboration.

Figure 5A. Board of Directors of the Foundation for the Development of Guatemala (FUNDESA)

Source: Authors' elaboration.

Table A4. Fiscal Expenditures, by types of taxes in Latin America (2018)

Corporate Income Taxes

Country	Tax holidays (years)	Reduced Rates	Deductions or credits for investment	Accelerated depreciation	Tax stability contracts	Incentives by sector										Location incentives	Free trade zone	Indirect tax / duty exemptions
						Agricultural, fishing	Forests	Mining	Renewable energy	Industry	Tourism	International Services	Culture	R+D/ R+D+i	Others			
Argentina		No	Yes, both	Yes (some sectors)	Yes (some sectors)		X	X	X	X				X	X	Yes	Yes	Free trade zones, Tierra del Fuego and certain sectors
Bolivia	10 (some areas)	No	No	No	-			X	X				X		X	Yes	Yes	Free trade zones, certain sectors
Brazil	10 (north and northeast)	Yes (some sectors)	Yes, both	Yes	No					X			X	X	X	Yes	Yes	Export sector, free trade zones, certain sectors and certain imports of machinery and equipment
Chile	44, 50 (south)	Yes (some sectors)	Yes, credits	Yes	Yes		X		X					X	X	Yes	Yes	Export sector, free zones, XII Region, goods imports, capital
Colombia	No	Yes (some sectors)	Yes, both	Yes (some sectors)	Yes (not new ones)		X		X		X		X	X	X	-	Yes	Temporary importation, machinery and supplies certain sectors, border
Costa Rica	8, 12 (depending on location)	Yes (small businesses, FTZ)	Yes, credits	Yes (some sectors depending on tax administration)	-						X					Yes	Yes	Export sector: machinery, equipment and supplies in certain sectors; free deposit
Ecuador	3, 5, 8, 10, 12, 15, 20 (depending on location)	Yes (reinvestment and ZEDE)	Yes, both	Yes (depending on tax administration)	Yes	X	X	X	X	X	X	X	X	X	X	Yes	Yes	Exporters, machinery and supplies, certain sectors
El Salvador	5-20 (depending on location and sector)	Yes (small businesses)	No	No	Yes (some sectors)				X		X	X	X			Yes	Yes	Import machinery, equipment and supplies for certain sectors, free zones
Guatemala	10 or 15 (depending on sector)	No	No	No	No				X	X		X				-	Yes	Maquila, free zone; Import machinery, materials in certain sectors
Honduras	10, 12, 15, 20 (some sectors)	Yes (ZEDE)	-	No	Yes (some sectors)	X			X		X	X				Yes	Yes	Free zones; certain sectors; Imports of capital goods, etc. for the temporary import regime
Mexico	10 (SEZ)	No	Yes, both	Yes (sectors and areas)	-	X	X	X	X	X	X		X	X	X	Yes	Yes	Exporter sector maquila, some sectors
Nicaragua	7, 10, 15 (depending on sector)	Yes (small businesses)	Yes, both	Yes (exporters)	Yes (Mining)		X	X	X		X					Yes	Yes	Export sector, maquila, certain sectors
Panama	2-7; 15 (tourism, film)	Yes (MHQ)	Yes, both	Yes (hotels)	Yes	X	X		X	X	X	X	X	X	X	Yes	Yes	Export sector, free trade zones and other sectors
Paraguay	10 (approved projects)	No	No	No	Yes					X				X	X	-	Yes	Export sector, free zones, maquila, other sectors, capital goods for certain investments
Peru	-	Yes (some sectors)	Yes, both	Yes (some sectors)	Yes	X		X	X	X			X			Yes	Yes	Export sector, free zone, SEZ
Dominican Republic	10, 15, 20 (depending on location and sector)	No	Yes, both	No (until 2017)				X		X	X		X			Yes	Yes	Export sector, free and special zones, others / certain machinery, equipment and materials
Uruguay	5, 10, 15 (depending on sector)	No	Yes, both	Yes (some sectors)			X	X		X		X		X	X	Yes	Yes	Export sector, free zones, free ports, others / machines, equipment, etc. for certain sectors

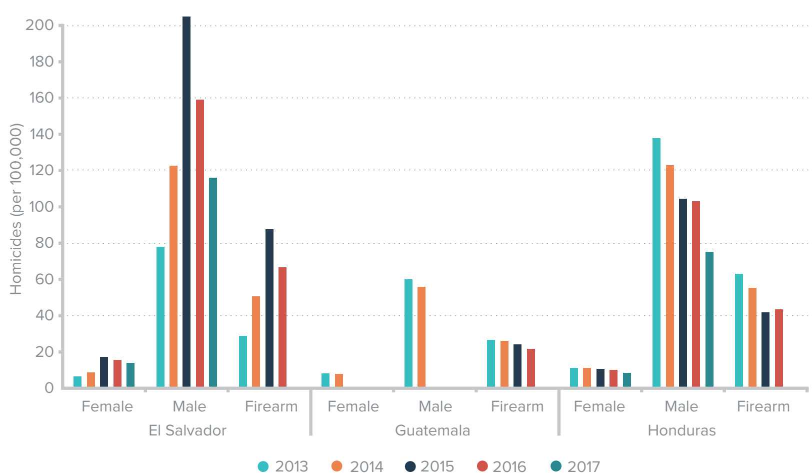
Source: ECLAC (2019).

Annex 1: The Cost of Violence for Vulnerability and Inequality

In addition to the challenges of low human capital accumulation and high inequality, the subset of countries comprising El Salvador, Guatemala, and Honduras some of the highest homicide rates in the world, driven by organized crime and gang violence. As a corridor for cocaine from Andean countries going to the United States, its informal networks and businesses are permeated by illegal markets. Given the lack of territorial control, the politicization of armed forces, and turmoil due to civil and political conflict, many took advantage of the opportunity that illegal markets offered. With a booming Colombian cocaine market, new transportation firms and small cartels formed, criminal forces acquired greater capacity, and the subregion was inundated with weapons. Levels of violence increased as economies failed to create growth and opportunity. Moreover, in the 1990s, massive deportations from the United States drove an increase in gang violence, especially in El Salvador. Outcomes oscillate from confrontation to state capture in an unstable equilibrium, which has resulted in more violence.

Figure 1-1 shows homicide rates for Central America. The numbers are evidence of a deeper structural problem in which insecurity, crime and widespread impunity affect individuals, families, government structures and businesses. These levels of violence restrict citizens' rights and freedoms, and have led to massive loss of life and an estimated annual cost of approximately 3 percent of GDP for Guatemala, 6.2 percent of GDP for El Salvador, and 6.5 percent of GDP for Honduras (Raderstorf et al., 2017).

Figure A1.1 Female vs. Male and Firearm Homicide Rate in Central America (2013-2017)



Source: Authors' elaboration. World Bank (2020).

LAPOP Americas Barometer surveys in Honduras and El Salvador show that crime affects young adults with educational attainment through high school or higher. Nonetheless, most citizens feel threatened. More than 60 percent of survey respondents said they would not allow their children out on the street for fear of violence, and more than 50 percent responded that they would not leave their homes at night due to their fear of crime. Violence is also one of the explanations for migration to the United States, as insecurity and lack of opportunity are widespread, limiting alternatives for a better life.

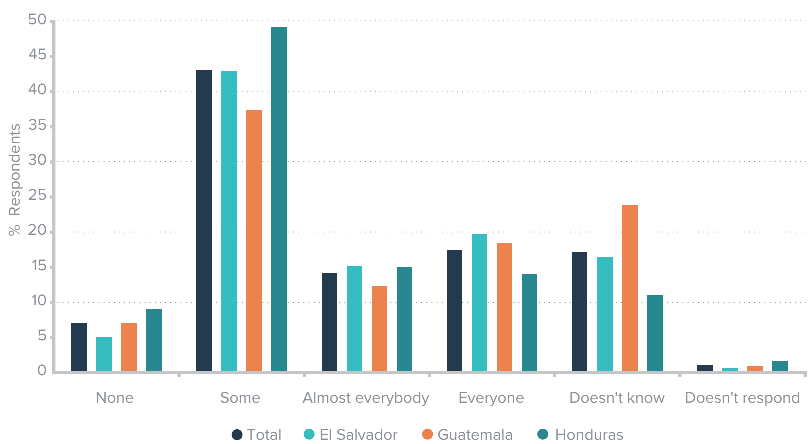
Structural problems with insecurity, crime and impunity affect both individuals and businesses. However, those without the means to protect themselves are especially vulnerable. Not only do they struggle to achieve a decent standard of living with sufficient access to health and education, but they also need to defend their lives and possessions.

Annex 2: Moving Beyond the Perception of Corruption

For a considerable portion of the population in El Salvador, Guatemala and Honduras, the influence of the private sector is perceived as corrupt. According to the LAPOP Americas Barometer survey, in 2018 less than 18 percent of people in El Salvador, Guatemala and Honduras believed that corruption had decreased. Guatemalans had the least favorable outlook; only 12 percent believed corruption had decreased.

This perception of corruption permeates the private sector. In 2018, only 7 percent of respondents from El Salvador, Guatemala and Honduras considered businesspeople free from corruption (Figure 2-1). Most notably, one in every five Salvadorans feels that every person in business is corrupt.

Figure A2.1 Perception of Businesspeople Involved in Acts of Corruption in Central America



Source: LAPOP Americas Barometer survey (2018).

Several corruption investigations have reached prominent figures from the private sector. Antonio Saca governed El Salvador between 2004 and 2009 and was a major owner of radio stations. In 2018, he was sentenced to 10 years in prison for corruption and money laundering and received an additional conviction in 2019 for bribing the courts. In Guatemala, eight prominent business leaders publicly apologized for not reporting campaign financing after the Comisión Internacional Contra la Impunidad (CICIG) published its investigation. In Honduras, the Misión de Apoyo contra la Corrupción y la Impunidad in Honduras (MACCIH) investigated the company Desarrollos Energéticos (DESA), linked to the Atala family, for irregularities in the Agua Zarca hydroelectrical project.

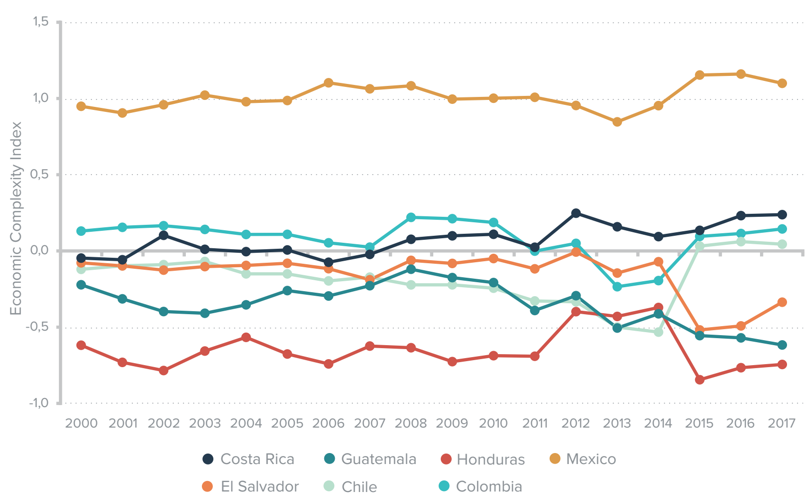
However, corrupt practices are not exclusive to the relationship between the public and the economic sector. Corruption can also involve political, foreign and criminal groups that are outside the control of local business elites. Although corruption and the attendant diversion of resources can partially explain the lack of state capacity, it is insufficient to explain why some public policies are aligned with the interests of the private sector, and not just that of particular individuals. Moreover, corruption is linked to private individual gain, mostly by extracting resources, whereas public policy generates public goods, even if they are not the ones prioritized by the majority.

Annex 3: Economic Complexity and Informality in El Salvador, Guatemala, and Honduras

Figure 3-1 shows the evolution of the economic complexity index over time for some countries in Latin America. Compared to other economies in the region, such as Chile, Colombia, Costa Rica and Mexico, these three Central American countries have a lower score. Less productive activities, such as agriculture, manufacturing and commerce, continue to be the countries' main economic sectors.

These sectors combined represented 56 percent of El Salvador's GDP in 2016, 42 percent of Guatemala's in 2019, and 50 percent of Honduras's in 2018. This mix of products can be seen as an expression of each countries' institutions, as well as the knowledge and know-how embedded in its society (Hartmann et al., 2017; Sokoloff and Engerman, 2000). However, in El Salvador, there have been shifts towards an economy dependent on services and remittances, where regional capital introduced competition to the traditional economic elite (Bull, 2014).

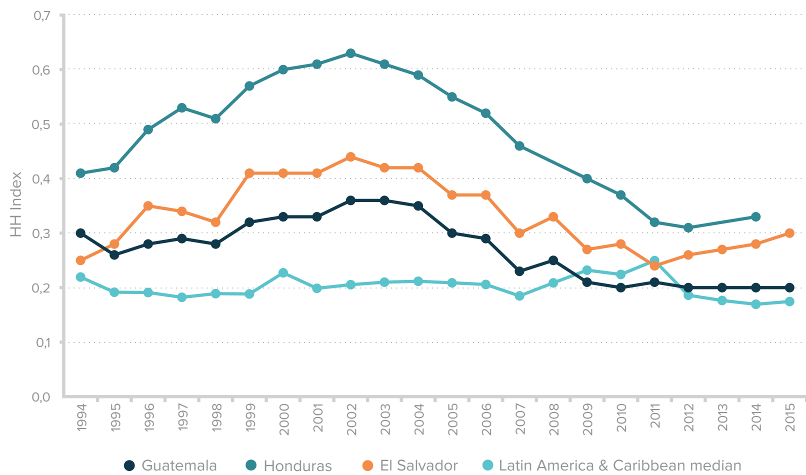
Figure A3.1 Economic Complexity Index for Selected Countries in Latin America (2000-2017)



Source: Authors' elaboration. Data from the Observatory of Economic Complexity (2020).

Also, in Figure 3-2, the Herfindahl-Hirschman Index shows that, although competition has improved since 2002, markets are highly concentrated, especially in El Salvador and Honduras.

Figure A3.2 Herfindahl-Hirschman Market Concentration Index in Latin America



Source: Authors' elaboration. World Bank (2020).

Additionally, the World Development Indicators illustrate sizeable informal economies: 71 percent in El Salvador, 81 percent in Guatemala and 84 percent in Honduras. This informality is also reflected in the fact that El Salvador is the only one of these countries with a degree of market capitalization; companies in Guatemala and Honduras do not participate in the stock market.

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