

# Elites, power networks and political regime in Honduras

## EXECUTIVE SUMMARY

**Marvin Barahona**  
Principal Investigator



Equipo de Reflexión,  
Investigación y Comunicación



Compañía de Jesús



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## INTRODUCTION

The revelations made in United States courts by leaders of illegal organizations that protect drug trafficking and organized crime herald the closing of a cycle in the reconfiguration of Honduran elites. This cycle began in the 1980s and its upward trend has been accentuated since 1990.

This study deals with the way these elites' strategies were taken on, the political, economic, and social consequences of their actions on the nation. One of these consequences is the construction of an atypical model of the rule of law and democracy, as well as a model of exploitation of natural, State and social resources, in which it is difficult to distinguish between the lawful and the illegal, between the legal and the illegal, the legitimate and the illegitimate.

The political and economic transitions that Honduras began in 1982 were decisive in this process and since 1990 in economic terms. These transitions provide the backdrop for understanding the mechanisms and strategies used by elites to appropriate the country's political and economic resources. And, to make it clear that the building of a true state of law, a democracy worthy of the name and a society of citizens was never the primary interest of those who led these transitions.

This study is divided in five chapters. The first is devoted to the political and economic transitions that took place in the 1980s and 1990s.

In the second, the Honduran political space is characterized as a field in which private interests are over-represented, to the detriment of the public interest.

The third chapter presents a general characterization of the financial, industrial and agro-industrial groups with the greatest influence and decision-making power.

The fourth deals with three fundamental aspects of the concentration of economic power, and the fifth chapter outlines several previous studies, with the aim of enriching the analysis and providing a broader perspective on the budgets with which this topic has been addressed.

Finally, the conclusions are presented, which are considered fundamental to explain the historical process of building the new ruling elites.

## I

### TRANSITIONS IN POLITICS AND ECONOMICS

When civilians resumed control of the government at the end of January 1982, the two traditional parties (Liberal and National) had little room for maneuver with the military returning to their barracks. That way, the political transition of 1982 was marked by the paradoxical asymmetry of power that occurred between the results at the polls after a massive vote in 1981, and the effective control of decisions on the direction that the transition would take, determined by the Armed Forces.

The political and social militarization of that decade found in the doctrine of the national security the ideological justification for it, with the approval of the traditional political parties, at least until the signing of the regional peace agreements in the 1990s.

The 1990s saw an economic transition that sought to replace the economic model that had prevailed since the 1950s (import substitution, national and Central American market-oriented production). Its main objectives were to reorder the economy and promote its structural transformation. The original matrix of the current economy of Honduras was formed at that stage and its main key is the way in which the country assumed its role in the new international division of labor.

This stage, which continues until today (2017), records a significant increase in the presence of foreign capital in the essential areas of the new economic model, particularly in the maquila industry, mining, telecommunications and the financial sector. While

national capital assumed a more representative share in export agribusiness, electricity generation and tourism.

This dynamism has generated two phenomena: the first is the progressive displacement of traditional sectors such as bananas, wood and meat, and the second is that social conflicts between foreign and domestic companies with some of the populations where they have sought to exploit natural resources have multiplied and become more visible.

As can be seen from various facts, the network of relations that has been woven between national capital and transnational capital is reflected in the creation of influential power networks that permeate state institutions, from which they strengthen their presence and economic and social domination.

In short, the material base that enabled the economic transition led to a new process of concentration of capital, productive resources, labor force, profits and economic power in a new and small group of industrial, agro-industrial and financial enterprises. And the common denominator between the 1980s and the present moment is militarism as an instrument to guarantee the fusion of the political project with the economic project.

## **II**

### **SPHERES OF POLITICAL POWER AND MECHANISMS OF OPERATION**

**I**n the Honduran political space, actors not only occupy the place reserved for politics, but also display multiple representations ranging from public figures to private businesses.

Since the transition of 1982, the political space presents a high concentration of power in the Liberal and National parties. The bipartisanship has been, in fact, a duopoly that has submitted the other parties to its discretion.

Another characteristic is a scale through which political institutions are concretized at several levels, which are differentiated by the role they play in the administration and sustain of power at the national, regional and local levels. In this way, the elites monopolize control of the spaces of power at all levels.

Another characteristic is the fluent rotation that occurs between political agents and the institutions in which they act, through which an actor can move from the Legislative to the Executive or the Judiciary branch.

The rotation of political personnel in State institutions thus represents an instrument of power by which the leading groups are reaffirmed at the various levels, while the hierarchical character of the power pyramid is consolidated.

These characteristics are manifested in the information on the proprietary deputies re-elected in the general elections that took place between 1989 and 2013. During this period, the National and

Liberal parties took over 94.7% of the elected members of Congress, compared to an insignificant 5.3% of other parties.

PERCENTAGE WEIGHT OF RE-ELECTED DEPUTIES  
IN THE NATIONAL CONGRESS (1989-2013)

Party	Percentage of reelected deputies
National party	50.6
Liberal party	44.1
Democratic Unification party	2.1
Christian Democratic party	1.8
Innovation and Unity party	1.4
<b>Total</b>	<b>100</b>

This disproportional distribution of re-elected deputies illustrates the absolute power that the two traditional parties have had during the process initiated in 1982, until the bipartisanship became a hegemonic alliance in the leadership of the three branches of government.

At the top are the deputies who have been re-elected five or more times; these include some who have reached top positions in all three branches of government: Roberto Micheletti Baín (liberal, president of the National Congress in 2006-2009 and de facto president of the Republic in the second half of 2009, deputy for five terms); Rodolfo Irías Navas (nationalist, president of the National Congress during 1990-1992, deputy for five terms).

An additional feature is that, of the nine members re-elected five or more times, almost all of them represent departments located in the “central development corridor” (Francisco Morazán, Comayagua, Cortés, Yoro, Atlántida and Colón). Six of them appear in other spaces as businessmen. And, except for one woman, the remaining eight are men.

Similar features can be seen in the 17 members re-elected to four terms. In this group, the majority are men belonging to the National Party, and only one woman is part of this group, as in the previous one.

A total of 36 deputies were re-elected for three terms, and two of them became President of the Republic: José Manuel Zelaya Rosales and Porfirio Lobo Sosa, both businessmen and rich owners in the department of Olancho. In this group, the increase in the number of women stands out, with seven women re-elected in three terms.

From these samples, several characteristics of the behavior of political actors in the most representative instance of power of the popular vote can be deduced. The first is that, for the last twelve years, there has been a tendency for the President of the Republic to leave the ranks of the deputies in the National Congress (Zelaya Rosales, Lobo Sosa and Hernández Alvarado; even the de facto President Micheletti Baín).

The second is that deputies have achieved a certain degree of autonomy from their parties, replacing party authority with the political consensus that is established in the lobbies and negotiations that take place in the Legislative Branch.

The convergence of politicians and businessmen in the Legislative and in the secretariats of State shows that the institutions created by the transition of 1982 slowly became the intermediary of a process that has led to the reconfiguration of the elites and of a political class organized around economic interests.

## **1. The representation of groups with economic power in the Legislative Branch**

When the legislative space has not existed for the case during military governments, businesspeople have expressed themselves through their corporate organizations (Cohep, chambers of commerce), which issue public pronouncements to establish their position.

Considering this background, the 1982 transition legitimized and made viable the habit of businessmen to be the first to give their opinion and guide any government decision that affects the course of the economy in general and their interests in particular. This can be seen in the high degree of representation they obtained in the governments elected between 1982 and 2013.

In the Legislative, the business presence has been permanent, considering that in certain periods the entrepreneurs have been represented by people they trust, who are not necessarily entrepreneurs.

But the representation of the most powerful economic groups has not always been delegated. On several occasions, those who lead the group have directly exercised representation; these are the cases of Jaime Rosenthal (Grupo Continental), Carlos Kattán (maquiladora textile industry), Manuel Zelaya and Porfirio Lobo (agricultural and livestock sector), Gilberto Goldstein (Grupo Atlántida) and Ángel Botazzi and Nazry Asfura Zablah (construction industry).

Depending on the importance they attribute to a certain situation, businessmen can also be represented by their sons and daughters, for whom the legislative tribune serves as a space to make themselves visible, to accumulate experience, and even to keep the relevance of the patronymic they represent in public opinion alive.

## **2. Representation of the groups with economic power in the Executive Branch**

Seven of the nine elected presidents are recognized businessmen or politicians with close ties to the business sector: José Azcona (1986-1990, construction industry); Rafael Callejas (1990-1994, private banking); Carlos Flores (1998-2002, publishing industry and media); Ricardo Maduro (2002-2006, Grupo Unimer and Grupo Roble); Manuel Zelaya (2006-2009, agriculture and livestock); Roberto Micheletti (June 2009-January 2010, transport); Porfirio Lobo (2010-2014, agribusiness and livestock) and Juan Orlando Hernández (2014-2018, various family businesses and close links with private banking and the export sector).

In addition, the representation of economically dominant groups is placed in key positions in the government cabinet; some of the most desirable are the presidency of the Central Bank, the ministry of Economy, Industry and Trade (or whatever name it assumes), the ministry of Finance, the ministry of the Presidency and other positions very close to the president, such as presidential advisor, although they occasionally fail to do so.



Since the 1990s, the Secretariats of Natural Resources, Environment, Agriculture and Livestock have also been highly sought after for their close relationship with new areas of exploitation such as mining, offshore platforms and power generation.

This market, in which key positions are negotiated, determines the configuration of the government cabinet without other considerations about the suitability of the chosen person, and facilitates the creation of networks that favor the conjugation of interests between the president, his party and the most influential groups of power.

Most of these networks are not visible and do not act with the transparency expected from a government that has emerged from free elections. On the contrary, they are the result of the weight acquired by the financiers of the electoral campaigns which, until 2017, were not subject to supervision and monitoring by the State's control bodies.

The mechanism of selection and distribution of key positions in the Executive also generates nepotism and a more direct participation of the presidential family in the networks that are woven to favor private or sectorial interests. The most recent governments, without exception, have been accused of nepotism.

In accordance with the above, a twisted modality of circularity of the personnel who exercise political power through a reduced number of members of the elites emerges. These are in the national, regional and local space of power, where the elite "recruits" its members, trusted representatives, employees and servants.

This matrix translates into a constant repetition in the exercise of the positions, according to the party and the faction of the capital that has triumphed in the elections. The predominance of bipartisanship is absolute in this process of circularity of the civil service.

### **III**

## **MAJOR FINANCIAL, INDUSTRIAL AND AGROINDUSTRIAL GROUPS**

**T**he main economic groups have diverse origins and have been constituted following different patterns of capital accumulation. However, they all converge in the fact that their activities are part of the dynamics generated by the economic policies promoted by the State since the 1950s.

This particularity helps to explain the close relationship of most economic groups with the State, and that the processes of growth, consolidation, expansion, concentration and trans nationalization of their capitals have been determined, significantly, by this relationship.

The economic groups included in this study represent the most relevant of the financial, industrial, agro-industrial and commercial sectors of the country in the 21<sup>st</sup> century. The specific weight attributed to each group considers, mainly, the indicators that stand out in their own reports, as well as the general information they make available to the public.

### **1. The most important financial groups**

The financial sector represents the highest degree of capital concentration, and its activities cover the broadest spectrum of tasks that ensure the functioning of the economy. This is the group with the greatest economic weight, the one that grows the most, the most

protected, the one that captures the greatest number of transactions with the State to capture its resources, and the one that benefits most from privatization policies.

**For the same reasons, the financial sector is the most firmly linked to the State and to the political dimension of public power.**

The Ficohsa and Atlántida banks have a broad profile in this sector and occupy leading positions in private banking due to their assets and the dynamism of their activities.

As of May 31<sup>st</sup>, 2016, according to official figures issued by the National Commission of Banks and Insurance Companies (CNBS) [www.cnbs.gov.hn], the banks of the National Financial System administered a total of 79,938,077 thousand lempiras as equity in their trust departments, of which Banco FICOHSA administered a total of 21,827,031 thousand lempiras, which, in percentage terms, represented 27.3% of the total administered by the banks of the National Financial System<sup>1</sup>.

In 2015, Banco Atlántida reported assets of L 70,156 million, equity of 6,121 million and profits of 704 million lempiras; with these figures, it ranks second as the most solid financial institution in Honduras<sup>2</sup>.

Like Ficohsa, Banco Atlántida's largest credit amounts were directed to consumer, service, real estate and commercial items, although in a different order. This reveals that the fundamental investments of the Honduran economy in the analyzed years, are not mainly directed to production, but to consumption and services.

## **2. Most representative groups of the industrial and agro-industrial sector**

Although there are various groups involved in industrial production, particularly in the textile industry and the maquiladora in-

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1. See: <http://test.ficohsa.451.com/hn/banca-corporativa-y-empresarial/fideicomisos/>

2. Banco Atlántida, Annual Report 2015, at: <https://www.bancatlan.hn/nuestro-banco/memorias-corporativas.php>

dustry on the North Coast, in this study the Terra Group is taken as the most representative sample. This is one of the most recent and best positioned among the groups that invest in the strategic areas of the economy and is therefore a relevant example of the change that is taking place among contemporary economic elites.

Of the agro-industrial groups, only the case of the Dinant Corporation is presented, whose background goes back to the business of Miguel Facussé Barjum, with Químicas Dinant, since the 1970s. The links between this businessman and the State date back to the time of the reformist military governments (1972-1979), when he managed to consolidate his power.

One of the most recent, innovative and globalised groups is Karim's Group, established in San Pedro Sula. Its president is Mohammad Yussuf Amdani Bai, a Pakistani textile manufacturer and exporter by family tradition in his home country. In recent years, Amdani has been mentioned among the richest men in Central America and at one point was pointed out as the richest man in Honduras.

### **3. Family groups in the concentration of economic power**

The most striking trend in the reconfiguration of economic power initiated in 1990 is the concentration of this power in a handful of families. The basic cell that assumed the leadership of the modernization of the Honduran economy that was inserted in the global circuits, was the export company based on a family structure.

In the past there were also families with businesses and economic power but, at least until the 1970s, they never achieved the power that the new family emporiums have today, particularly in the export economy.

Most of the families that run the companies and emporiums created in recent decades are of Arab origin, heirs to a tradition forged in Honduras by several generations. The distinctive feature of these families is that they defined the potential of their businesses based on a close relationship with the State, from which they have obtained significant benefits.

As for the hierarchy that prevails in these groups, the top is occupied by the family emporiums Atala Faraj, Nasser, Amdani Bai, Facussé, Larach, Canahuati-Larach, Goldstein, Kafie, Villeda Toledo Ferrari, Kafati, Bueso Arias and Maduro. Their essential characteristic is to be linked to import and export activities, so they are in the most lucrative areas of the global economic circuits. In addition, they are the most dynamic and powerful in the financial sector, services and trade.

Despite the hegemony exercised by the groups identified above, with the stimulus of globalization, economic diversification and the growth of the domestic market, other smaller groups have been formed, but they are located in areas that provide them with an increasingly solid profile; among these are coffee, select vegetables, shrimp and table fruits.

#### IV

### THE PRIVATIZATION OF PUBLIC SERVICES, THE CONCESSION OF NATURAL RESOURCES AND POWER GROUPS

The model established since the economic transition of 1990 put in place a series of mechanisms conducive to achieving its objectives; among these, perhaps the most important was to move resources from the public sector to the private sector, and to ensure that the private sector maximized its profits and benefits.

These mechanisms could not be consolidated without putting in place other devices. These include strict control over tax policy, the main thrust of which is to ensure that contributions to the treasury of large capitals are reduced to the minimum possible, by means of generous incentives and exemptions.

Another important device has been the creation of groups that generally assume the name of Foundations. These are responsible for looking after the public image of the emporiums and their owners; they are their visible face through the so-called Corporate Social Responsibility (CSR).

**Behind the imposition of these mechanisms lies a strategy of capture and control of the state and its institutions by large companies and the elites that represent them, which, since 1990, have not limited themselves to conquering economic markets, but also political markets.**

This is evident when political parties, which have traditionally been perceived as intermediaries between social demand and the

state, are now under the control of these elites and capitals. This fact is an indicator of the progress of privatization and commodification of the most precious public goods in a democratic society.

In other words, the actors involved in the plundering of State resources have no scruples when it comes to deciding whether the mechanism to be used to achieve their purposes is licit or illicit, legitimate or illegitimate. This has a profound effect on the rule of law because, in most cases, the elites involved have resorted to corruption to secure state resources that they might otherwise lose, or for which they would have to pay a higher cost.

The core of the plundering effort lies in the willingness of the elites to “exploit” a resource, in this case natural resources (land, water, subsoil), public infrastructure (roads, ports, airports), as well as the sale of inputs and services to the State (medicines, equipment, technology, advice).

Ultimately, these mechanisms are a valuable instrument for explaining why poverty exists in Honduras and the apparent institutional weaknesses of the state in addressing it. Contributing to this is the fact that the elites have adopted the role of intermediaries between the national state and the global economy, while assuming an indifferent attitude to social demand. This also distorts the behavior of political parties, which, by becoming intermediaries of the elites’ demands to the state, effectively renounce being the intermediaries of social demand.

The mechanisms described below have in common the link between economic agents and political agents, having the State as the main scenario of their actions. These are public-private alliances, fiscal policy and the social representation of the image of the elites.

### **1. The privatization of public resources: the Coalianza case**

The Commission for the Promotion of Public-Private Partnerships (Coalianza) was created in 2010. Its mission is to design and manage a co-investment model to increase the competitiveness of

the Honduran economy through mixed capital projects to implement public works and services. It is a “deconcentrated” body of the Presidency of the Republic, with legal personality and its own assets.

The five strategic sectors in which it focuses its interest are: infrastructure, energy, natural resources, services, economy and tourism. These sectors are divided into 28 sub-sectors, although most of the projects are concentrated in the areas of infrastructure and natural resource exploitation.

Even though its projects are widely publicized in the media, since its creation, Coalianza has provoked reasonable doubts, critical remarks and suspicions regarding its real objectives and purposes.

**The disguised privatization of public resources has been the most frequently denounced mechanism, since this is the one that best reveals the real objectives of the concessionary policy that was consolidated with the creation of Coalianza.**

Furthermore, Coalianza is a by-product of the coup d'état and, consequently, a factor in the polarization of Honduran society. In fact, its creation gave rise to a systematic process of approving laws and legislative decrees focused on the concession and exploitation of natural resources and national assets, granted urgently and for long periods to foreign and national big capital.

Two main consequences derived from this process. The first is the radicalization of the economy based on neoliberal principles, with a growing concentration of wealth. The second led to an evident primacy of financial capital, through the trusts granted to private banks.

It can be concluded that with Coalianza the concessionary regime established since the last decades of the 19th century and the first decades of the 20th century was re-established, which coincides with the absence of a definition of national priorities, as shown by the construction projects of the Government Civic Center and the international airport in Palmerola, which were granted in concession in 2016.

Neither the international airport nor the new government building represents a priority for the more than six million Hondurans



in poverty, extreme poverty or misery. On the contrary, in both projects, the features of urgency and voluntary ignorance of the risks involved reappeared, in addition to the transgression of the foreseeable limits of the internal and external public debt.

Domestic debt doubled in the short period from 2010 to 2015, while external debt suffered the same fate in an even shorter period between 2010 and 2013. The total public debt would amount to 226,391.81 million lempiras in 2016, according to Icefi's projections, far exceeding the 91,070.04 million lempiras in 2010.

## **2. Tax exemptions and state tax policy**

In 2013, as a result of criticism from various sectors against the abundant and excessive tax exemptions granted by the state to large companies in the maquila, agro-industrial, energy and other sectors, the government of Porfirio Lobo appointed a commission to review the tax exemption figures. The commission presented a report that provided significant data by focusing its investigation on the twenty companies that received the most tax incentives in the period 2008-2013.

**In those years, commercial companies represented 90.63% of all companies exempted from tax burdens and received more than 74 billion lempiras. NGOs represented 7.83% of the total number of benefited entities, with L 5.821 billion. While cooperatives, social interest companies and municipalities received less than 1% of the total exempted.**

Exemptions for trading companies fluctuated upwards: L 10.6 billion in 2008 and peaked in 2011, when they exceeded 13 billion, to fall to 8.3 billion in 2013.

Of the 1,025 companies exempted, the Special Commission only published the names of the 20 companies that received the highest proportion of profits. Since 2008, these twenty companies represented about 67% of the reported exonerations and were in areas such as the banana agro-industry, textile and automotive maquila, mining, oil industry, dairy products, publishing and telecommunications.

**In first place was the Standard Fruit of Honduras, exonerated in 2008 from the payment of L 3323 million. In second place was Olam Honduras (raw materials and agricultural products), exonerated for L 720 million.**

Other highly benefited companies were the automotive company Noven Car Interior Design (over L 474 million); the textile companies Caracol Knits (over L 262 million) and Coral Knits (over L 255 million); Honduras Container Services (over L 218 million) and Minerales de Occidente (over L 205 million).

**The companies that benefited most in the period 2012-2016 were those in the maquila industry, electricity generators and the agro-industrial sector; the industrial sector accounts for the largest proportion of the tax benefits.**

Between 2012 and 2016, companies in the maquila industry received waivers worth L 8,599.6 million; the agro-industrial sector received L 1,582.2 million. This dynamic did not change in the renewable energy generation sector, which received waivers for a total of L 1,821.9 million and an additional value of US\$ 1,763.31 million. On the other hand, the thermoelectric power generation sector received exemptions for L 281.4 million.

Exemptions, exemptions and duty-free allowances distort tax policy, since they involve a fiscal sacrifice that affects the quality of life of most of the population. Moreover, it introduces an essential difference in the economic actors in the main circuits of the national economy. Thus, the constitutional principle of equality before the law is violated.

Underlying this dynamic is a close link between the economic dimension and the political dimension, which takes shape in the alliance established between the most powerful economic groups and the bipartisan political elites.

**The most outstanding feature of this fiscal policy is its anti-social character which, while providing vast additional resources to big capital, denies most of the population access to resources**

**indispensable to survive or improve their quality of life. Moreover, it distorts the rule of law, making some more equal than the majority before the law.**

When fiscal privileges are granted in such a high proportion -equivalent to 17.4% of the General Budget of the Republic-, as happened in 2008, a tax policy is imposed that agencies such as Icefi and Fosdeh have described as “regressive”, since it sustains tax revenues in indirect taxes such as sales tax (ISV).

In 2015, ISV contributed 41.5% of the country's tax structure. The former president of the Central Bank of Honduras and former Secretary of Finance, Hugo Noé Pino, believes that the weight of the ISV reduces the purchasing power of 70% of taxpayers. And he says that, although Honduras has the highest tax burden in Central America, this is not reflected in better health, education and infrastructure services.

Ultimately, the official justification that tax benefits serve to energize the economy is unfounded, when one compares the more than three billion lempiras granted to Standard Fruit in 2008, with the scant dynamism observed in the agricultural sector, even in the agro-export sector.

This difference is even greater when compared to the contribution of migrants to the national economy through remittances, which help to energize the economy, economic growth and the strengthening of international monetary reserves.

However, for this fundamental contribution the State has not decreed benefits - much less privileges - of any kind; on the contrary, it has always allowed the sending and payment of remittances to be exposed to various charges that reduce their original value.

**By the end of 2016, no export product, industrial or agricultural, exceeded the family remittance income indicator.** And, despite the diversity of problems faced by migrants since their departure from Honduras and the absence of incentives or rewards from the State, remittances showed sustained growth during the period.

### **3. The foundations and the benefactor image of the elites**

Economic groups are inserted into Honduran society through mechanisms and activities that go beyond the strictly economic, with two fundamental objectives. The first is to build a positive image before society, and the second is to create a “clientele” in the lower income segments, to appear before them as socially responsible and sensitive economic agents.

Critics of this form of insertion and promotion point out that companies carry out these activities with the purpose of evading payment of taxes and justifying the exorbitant tax exemptions. It is also claimed that philanthropic activities serve as a deterrent to any attempt to establish genuine social policies from the State.

The institutions created by the most powerful economic groups function under the name of “foundations”, which follow several lines of action in education, health, environment, assistance to disabled people, use of technologies, scholarships, distribution of school supplies and improvement of educational infrastructure.

These entities share the feature of serving their sponsors as an instrument of articulation with other power groups, including political parties, media powers and social institutions.

And all philanthropic action by these foundations also leads to strengthening the social compensation policies that neoliberal governments implement to evade their responsibility to apply public policies for social development.

## V

### DISCUSSION ON POWER GROUPS IN HONDURAS

#### 1. The CEDOH study on factual powers

Several studies have been carried out on this subject, both inside and outside the country, from different perspectives that enrich the analysis. At the end of 2007, the Honduran Documentation Centre (CEDOH) published a collective work dedicated to the study of economic power groups<sup>3</sup>. Its main objective was to answer the question: “Who is in charge in Honduras?” The research therefore focused on the political system, the parties and their relationship with the factual powers.

This work already points out the participation of the main families that make up the financial groups in the two traditional political parties. It indicates, for the case, that the families of liberal affiliation were the Bueso, Ferrari, Kafati, Rosenthal, Bográn and Villeda Toledo. The Goldstein, Callejas, Kattán, Rivera López and López Arellano families were of nationalist affiliation. The Agurcia, Atala and Facussé families shared their political affinities in both parties.

#### 2. Corruption networks in the neoliberal era

Harald Waxenecker studied three cases of corruption networks in Honduras, focusing on the malicious relationships between politicians and businessmen. Among the questions he developed to guide

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3. Honduras Poderes Fáticos y Sistema Político, CEDOH, Tegucigalpa, 2007 (4ª ed., 2014).

his research, three stand out: 1) How does undue power manifest itself in contemporary Honduras? 2) Is there a systematic interdependence between networks and undue power? and 3) Are, therefore, *undue networks* a conditioning factor in the Honduran context?

The case studies are: 1) an analysis of the case of corruption in the IHSS, 2) an outline of the links between the economic elite and drug trafficking (Rosenthal case) and, 3) the approach to the areas of political financing and remilitarization.

Regarding the network of corruption in the IHSS, Waxenecker maintains that “an interdependent circuit was formed that contains mutual benefits, shared interests and improper actions by the central actors in the network. In the courts of justice, the individualization of the criminal responsibilities of Mario Roberto Zelaya Rojas and his accomplices is required. But, from a sociological point of view, the individualized account does not manage to reflect the complexity of the case. Without the political-military links of this character, without the post-coup struggle for political power, without the institutional scaffolding of the IHSS and its business links -among other factors- it would be impossible to approach the image of a network capable of mobilizing not only financial (illicit) resources, but also high-level political influence and threads of impunity in the security forces and the judicial body”<sup>4</sup>.

To analyze the case of the Rosenthal group, it relies on information from the U.S. Department of The Treasury. This agency described the Rosenthal family economic group as a network of companies whose head was the holding company Inversiones Continental founded in Panama, the parent company of the Continental Group, which brought together a conglomerate of companies in Honduras in the banking, financial, services, real estate, agriculture, construction, tourism and media sectors. The group also includes three offshore companies in the British Virgin Islands (Shelimar Investment Ltd., Desland Overseas Ltd. and Preyden Investments

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4. Harald Waxenecker, «Honduras: ¿Redes indebidas de poder, impunidad y enriquecimiento? Un bosquejo de una realidad compleja», Guatemala, julio de 2016, pp. 18-19.

Ltd.) and three U.S. entities in Florida (Inversiones Continental USA Corp. (sic), Shelimar Real Estate Holdings II Inc. and Shelimar Real Estate Holdings III Inc.)<sup>5</sup>

The Continental Group is accused by the same agency of carrying out illegal transactions through the bank and the group's international subsidiaries on behalf of the Maradiaga-Rivera family, which is also accused of "having been, until 2013, one of the largest and most consolidated groups in the illicit drug trade at the Central American level, building its own criminal-business empire in the Atlantic zone of Honduras. Among the companies denounced in the *kingpin designation act* is Inmobiliaria Rivera Maradiaga S.A. (INRIMAR), Palma del Bajo Aguán S.A. (PALBASA), Inversiones Turísticas Joya Grande S.A., Ganaderos Agricultores del Norte (GAN) and Minera Mi Esperanza S.A."<sup>6</sup>

In 2016, the Honduran authorities, in response to demand from the United States, decided to close down the activities of Grupo Continental in Honduras and to intervene in all of its companies, which were soon acquired by other groups and banking entities in the country.

Regarding political financing, the author cited considers that "... political financing is one of the areas of interface between de facto powers and democracy, and therefore cannot be separated from the networks analyzed, since these exemplify at least three of the routes indicated as illicit practices: i) financing with State resources, extracted through corruption networks (for example, the IHSS case), ii) the anonymous financing, and iii) financing via resources obtained from illicit activities (e.g. Rosenthal case)<sup>7</sup>.

In the final conclusions, he maintains that **"... the realization of the undue has become the parallel normality; and precisely there, the purposes of the (inter)relations between the predominant powers acquire content: looting, overvaluation, laundering,**

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5. *Ibid.*, p. 26.

6. *Ibid.*, p. 28.

7. *Ibid.*, p. 44.

**extraordinary income, illicit financing, impunity, perpetuation in power, concealment...”**

These successes lead us to think that, if the realization of the undue has become a parallel reality, and if this has so much weight in the reconfiguration of social relations, then democracy and the rule of law end up playing the role of impostors, who must face, on a daily basis, the onslaughts of the parallel reality.

Steven Dudley, co-director of InSight Crime, also spoke about this other reality when he addressed the Central America Caucus in the United States Congress on July 6, 2015. In his speech, he described how drug trafficking organizations operate in the Central American isthmus and what the consequences are for order and security.

Dudley pointed out some of the mechanisms used by drug traffickers to influence local and national policy, taking as an example the activities of the Rivera-Maradiaga family (Los Cachiros). He explained that “... trafficking in a country like Honduras can generate some US\$700 million a year, which represents 4 percent of the GDP, or about half of the exports of the country’s main product, coffee”. And he made a statement that, in the case of Honduras, has been obvious for the last decade:

Money is more than economic capital. It is also political and social capital. The profits from these transport networks go into legitimate and illegitimate businesses, which provide thousands of jobs and are a key driver of the economy in many areas.

Carriers finance political parties and candidates, which gives them a voice in security... They fund social causes, religious events and soccer clubs (...) And in our meetings with various social networks working with Los Cachiros, we at InSight Crime discovered that the soccer team was the most important place where the country’s elites, politicians and traffickers met and socialized.

The narrative about elites, groups and networks of power was nourished by new ingredients published in 2017 by InSight Crime



and Sarah Chayes. These contain valuable analysis and detailed information, based on consultations with key actors about their location in legal and illegal networks in Honduras, as well as primary sources in the United States.

The report typifies the organized crime that acts in Honduras as the fuel that causes the violence and corruption that are dominant in the country. According to Insight Crime, the links of the Honduran elites with the representatives of organized crime are established through “social, commercial and political interactions in the multiple spaces where politics and business take place in Honduras. The result is an organic relationship with organized crime, which helps some members of the elite reach the top, and others stay there”<sup>8</sup>.

The report attributes great importance to the bureaucratic elite that controls the public institutions and the fundamental levers of the State, which also appears to be the oldest of the three identified elite modalities, and whose emergence is located in the last years of the transition from military to civilian governments. Currently, according to the report, President Hernández Alvarado would be the “representative par excellence” of this elite, given that he was educated in a military school, that he has always surrounded himself with military officers and that one of his brothers is a colonel in the Armed Forces.

As a result, he has appointed “senior military officers to positions that have traditionally been occupied by civilians, and under his presidency has centralized control of the security and intelligence forces. The hybrid group controlled by Hernández, known as Grupo Colobri (sic), brings together both military and local political commanders and landowners, and cooperates closely with the state at the regional and national levels<sup>9</sup>.

He also identified three criminal groups operating in Honduras; he calls the first one Transnational Organized Crime (TOC), articu-

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8. Insight Crime report, «Élites y crimen organizado en Honduras», p. 5.

9. *Ibid.*, p. 11.

lated with groups from Colombia or Mexico, which use Honduran territory as a place of transit and storage for shipments of cocaine leading to the United States or other markets<sup>10</sup>. Secondly, he located the local groups of “transporters”, “formed by Honduran families or very narrow business networks that transport legal and illegal goods throughout the country”. The third contingent is made up of local criminal groups and street gangs engaged in local drug distribution, extortion, kidnapping and human trafficking.

The report assigns more interaction with the elites to the first two groups, because “... these organizations need the judicial authorities to mobilize illegal merchandise through dangerous terrain. Their interaction with the security forces and with powerful businessmen to launder and legitimize their illicit capital is necessary. In this process, they establish political contacts and finance candidates for public office, to obtain high-level protection and greater business opportunities.”<sup>11</sup>

As for the specific actors of the traditional and transnational elites, the report indicates that the sale of land “was the beginning of a large-scale change in the northeastern elites. The power of the traditional import-export elites and landowners in the area declined to some extent, while the transnational elite, in particular Facussé, entered the area in force. (...) Traditional elites are important actors in the region. Ramon Lobo, a former congressman and brother of former president Porfirio Lobo, is at the head of them, but others, such as Oscar Nájera -another congressman- are also large landowners in Bajo Aguán<sup>12</sup>.

For her part, from the introduction to her investigation<sup>13</sup>, Sarah Chayes makes it clear that in Honduras, as in other countries, “corruption is the operating system of sophisticated networks that link the public and private sectors with criminals - including murderers

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10. *Ibid.*, p. 12.

11. *Ibid.*, p. 13.

12. *Ibid.*, p. 64.

13. *When Corruption is the Operating System. The case of Honduras*, Carnegie Endowment for International Peace, 2017.

- and whose main objective is to maximize profits for members”.

The author not only gives a high specific weight to the role that corruption plays in the articulation of the different networks that are woven around it, but also to the multiple and dramatic consequences that derive from this fact. Among others, urban violence and emigration, which she considers to be “byproducts of the corruption of the government itself, which enjoys the support of the United States (and the European Union) to combat these evils”. And his most important conclusion, the one that ties together all the threads that lead to the dominant networks in the operating system of corruption, is the one that states that:

In the last decade, both public and private sector elite circles have been establishing increasingly close links with criminal networks operating drug trafficking and other types of smuggling, such as human trafficking. Individuals and families who have linked their wealth to public service provide legal or other assistance to criminal organizations or ensure protection and impunity for their activities. In several cases, members of famous drug trafficking families have held local positions, thus constituting a node connecting these two sectors. For their part, members of the economic elite connect with criminal organizations by providing money-laundering services or participating in joint ventures.



## KEY CONCLUSIONS

1. The economic opening and the legal and institutional reforms introduced in the 1990s followed an elitist pattern, modeled on the oligarchic matrix that predominated in Honduras in the 19th and 20th centuries. This scenario was conducive to the emergence, consolidation or reorganization of major groups of economic and political power that took over the running of the state.

This process was consolidated with the almost total abandonment of the State's commitment to social development, so the political and social consequences have been serious for the State and the population. **Thus, it can be concluded that this oligarchic matrix is the original source of the country's essential problems.**

2. Over the past 25 years, the leading economic fraction has been entrenched in the industrial and agricultural export sectors and in the financial sector. The original matrix that was reproduced in the economic and political was based mainly on ties of kinship, ethnic origin, class identification and political solidarity around a common project: to merge political and economic interests.

**Another feature of big capital in Honduras is that it assumes the role of an economic enclave, anchored in the most modern export sector, but whose axes of accumulation do not presuppose an effective insertion in the economy, nor a diversification that energizes the national productive apparatus.**

In this process notorious incongruities appear: the main one is that presented by neoliberalism between its eagerness to modernize the strategic areas of the economy, and the unconditional support it gives to an anachronistic political regime, whose behavior tends to weaken it in the long term.

3. This is the context in which the action of the networks of power that were configured to act in the political and economic sphere, having the State as the main scenario, was inscribed. These networks may be legal, act publicly in recognition of political or economic affiliation, or be completely illicit or undue. In the first case, the formal policy has served as a favorable cover to legitimize the defense of private interests.
4. Illicit networks have not been immune to the political and economic paradigm shift. On the contrary, they have innovated their methods of organization and action, they have taken advantage of the new spaces opened by the relative modernization of state structures, and they have successfully inserted themselves into these.
5. In fact, there has been a “parity” between traditional and illicit factual powers, helping to transform the power structure at national, regional and local levels. These factors are the key links that explain the transition from the 20th to the 21st century, within the framework of a growing complexity in which globalization also plays a role, since organized crime and the various illegal traffics from Honduras have an important reference point in globalized economic and financial exchanges, as well as in the flows of migration, movement of people, arms and capital.
6. To date, the elites have not been perceived as the main actor in the generation of violence, insecurity and public anxiety, but in fact they are, and to a greater degree than might be thought.  
**Violence and insecurity - besides being a business - have become the simplest form of government for elites and only for them.**

7. The fight against organized crime, drug trafficking and other illicit trafficking, from a militarized approach, has barely begun and lacks the social foundation indispensable to ensure its sustainability and success in the long term. At the opposite extreme, social movements that defend natural assets, human rights, women, indigenous peoples and Afro-descendants suffer all the attacks of the established power and parallel powers, which weaken their organism and reduce them to their minimum expression, or exclude them from any possibility of influencing the institutions that determine their present and future.
8. An additional ingredient is that ideological neoliberalism is at the root of such phenomena. In order to achieve the high indicators that Honduras shows in terms of violence, a previous process of devaluation of life, of neglect of youth, women and marginalized sectors was required, as well as explicit messages of war and institutional violence.

**All this led the country to the impasse in which it now finds itself. This is the culmination of a failed transition from one century to the next.**







*Elites, Power Networks  
and the Political Regime in Honduras*  
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The revelations made in United States courts by leaders of illicit organizations announce the closing of a cycle in the reconfiguration of the Honduran elites, whose scenario has been the transitions that Honduras began in 1982 in its political dimension, and since 1990 in the economic sphere.

This study deals with the way in which these elites assumed the strategies to appropriate the country's economic and social resources and assesses the consequences of their actions on the nation. One such consequence is the construction of an atypical model of the rule of law and democracy, in which it is difficult to distinguish between the licit and the illicit, the legal and the illegal, the legitimate and the illegitimate.

This process was consolidated with the almost total abandonment of the State's commitment to social development, so it can be concluded that this oligarchic matrix is the original source of the country's essential problems. All this led Honduras to the impasse in which it now finds itself. Thus, ends the failed transition from one century to the next.

