

# **Honduras Elites and Organized Crime**

## **Table of Contents**

<b>Introduction .....</b>	<b>3</b>
<b>Elites in Honduras .....</b>	<b>6</b>
<b>Organized Crime in Honduras .....</b>	<b>12</b>
<b>Juan Ramón Matta Ballesteros .....</b>	<b>22</b>
<b>Background - the Honduras Military's Emergence as a Bureaucratic Elite .....</b>	<b>24</b>
<b>Matta Ballesteros: A Life of Crime .....</b>	<b>28</b>
<b>Matta Ballesteros, the Military and the CIA .....</b>	<b>32</b>
<b>The Murder of an Agent, the End of a Relationship .....</b>	<b>35</b>
<b>Conclusions - A Mutually Beneficial Relationship .....</b>	<b>39</b>
<b>Epilogue: The New Bureaucratic Elite and Organized Crime .....</b>	<b>44</b>
<b>The Cachiros .....</b>	<b>59</b>
<b>Background – Northeastern Honduras and Development in Isolation .....</b>	<b>61</b>
<b>The Cachiros .....</b>	<b>64</b>
<b>The Cachiros and Transnational Elites .....</b>	<b>69</b>
<b>The Cachiros, and Traditional and Bureaucratic Elites .....</b>	<b>75</b>
<b>The Cachiros and Social Elites .....</b>	<b>78</b>
<b>Conclusions - A Dangerous Game .....</b>	<b>80</b>
<b>Project Description .....</b>	<b>93</b>
<b>Disclaimer .....</b>	<b>93</b>
<b>Team .....</b>	<b>93</b>
<b>The InSight Crime Foundation .....</b>	<b>94</b>
<b>Copyright .....</b>	<b>95</b>

## Introduction

By Steven Dudley\*



**H**onduras is currently one of the most violent countries on the planet that is not at war. The violence is carried out by transnational criminal organizations, local drug trafficking groups, gangs and corrupt security forces, among other actors. Violence is the focal point for the international aid organizations, governments and multilaterals providing Honduras with assistance, and it is the central theme of media coverage inside and outside of the country.

There are good reasons for this focus. Violence disproportionately impacts people in poor and marginal areas and tends to remain concentrated in those communities, closing the circle on a vicious cycle that impoverished nations find hard to break. In addition, violence impedes economic development and disrupts lives across a wide socio-economic spectrum. It can lead to major demographic shifts and crises as large populations move to urban areas or try to migrate to other nations. It can undermine governance and democracy, and it can serve as a justification for repression and

hardline security policies that divert resources away from much-needed social and economic programs, thus perpetuating the problem.

Organized crime plays a role in this violence, but it is more like the gasoline than the engine: it provides an already corrupt system with the fuel it needs to run. That corrupt system is the focus of this study on Honduras. Its most visible manifestation is an inept and criminalized police force that a former security minister once called “air traffic control men” for drug flights coming into the country.<sup>1</sup> Parts of this police force also work as custodians and assassins for criminal groups; rob drugs and resell them to the underworld; and, for a price, they can attack client's rivals and disrupt criminal investigations.

But beneath this most obvious form of criminal connection to state officials is a more insidious brand of corruption. This is further from the headlines and much more difficult to tackle since it is embedded in the country's political, economic and social systems. It operates in a gray area, mixing legal and illegal entities, paper companies and campaign contributions, and sweeping its illicit acts under the rug using co-opted members of the justice system and security forces.

What we are talking about, of course, is the elite connection to organized crime that this investigation exposes. The elites in Honduras are not like those in the rest of the region. The traditional, agro-export and industrial elites who rule in places like Guatemala, El Salvador and Nicaragua are less prominent in Honduras, mostly because of the country's long history as an enclave economy dominated by multinational companies: the original Banana Republic. Instead, the country's most powerful economic elites have emerged from the service, banking, media, and telecommunications sectors. They are called transnational elites since many of them are first or second generation immigrants from the Middle East and Eastern Europe and depend on international business dealings to accumulate capital. Traditional, land-based elites are present in Honduras. But they have long been relegated to a second tier, forced to seek power through control of government posts, rather than using financial leverage.

While the ruling elites in Honduras do not share the same origins or economic base as their counterparts elsewhere in the region, they do share their neighbors' penchant for employing the state for their own ends and systematically impoverishing it. Both the traditional and transnational elites have for years used the military and police to protect their personal land holdings and businesses. They have benefitted from the sale of public companies and lands, and they have enjoyed tax exonerations for their multitude of businesses. They have also pillaged its resources, and, as the government's importance to the economy has grown, relied on it to generate more capital. Their dependence on the state has opened the way for a third set of what we are calling

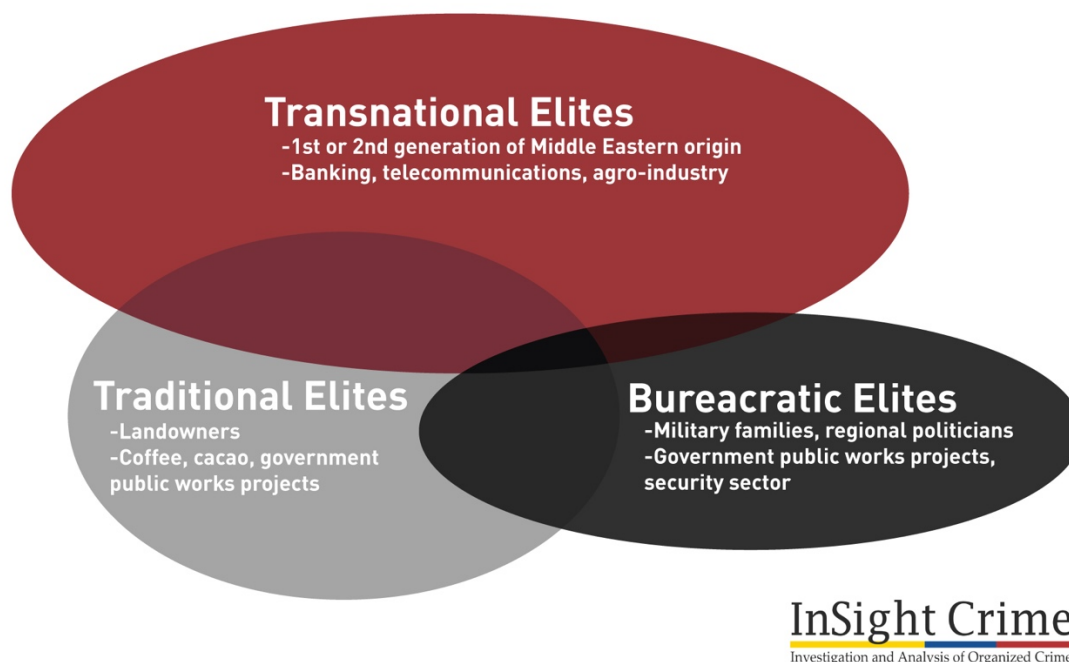
bureaucratic elites, who have developed a power base of their own because of the government positions they occupy.

Honduras, meanwhile, has become one of the poorest, most unequal and indebted countries in the world. Any attempts to change this system have been met with stern and often unified opposition from elites of all stripes. And attempts to exert more regulatory control over the activities of the elites are smothered before they begin. It is little surprise then that the country offers criminals, large and small, one of the most propitious environments from which to work. On one side, an ineffective justice system and corrupt security forces, long exploited by these elites, opens the way for large criminal groups to operate with impunity. On the other side, an impoverished populace -- which sees and understands exactly how elites abuse a broken system -- seeks to get its share by working directly with criminals in the illegal and legal enterprises these criminals operate. Crime, as it turns out, is one of the few forms of social mobility.

It is within this gray area that the elites themselves also interact with organized crime. Far from being distant from illegal activities, the elites have long operated in this realm. From dealing in contraband goods and services to buying permission for their illegal dealings and “get-out-of-jail-free cards,” those who do politics or business in Honduras understand that the laws governing the nation of eight million people are but a means to make money. Their connection to the underworld therefore is about societal, commercial and political interactions in the multiple spaces where business and politics happen in Honduras. The result is an organic relationship with organized crime that helps some elites reach the top and others stay there.

## Elites in Honduras

*Figure 1: Honduras Elites*



Honduran elites have a peculiar history compared to other elites in the region.<sup>2</sup> The country's economy was built on exports, like its neighbors. Unlike them, however, Honduras' principal export industries -- first mining and then bananas -- were almost wholly foreign owned. Local economic elites were enmeshed in cattle and other agro-industrial projects and formed the backbone of the traditional political groupings, the National and Liberal Parties. But a strong, local elite based on the control of land and agro-exports, of the type found in the other countries in the region, did not materialize.

"The root ... of Honduran exception was the country's insertion into the world market and the development of its domestic political apparatus under the aegis not of a national agro-exporting oligarchy, but of US monopoly capital," writes Rachel Sieder.<sup>3</sup>

The most famous of these monopolies was United Fruit Company, which Sieder argues "consolidated its hegemony" over local politics in the 1930s and 1940s during a military dictatorship.<sup>4</sup> Meanwhile, a smaller more traditional, landed elite shared power -- first



with these foreign companies and later with foreign settlers who concentrated their efforts on facilitating foreign-owned businesses and controlling the influx of foreign capital.<sup>5</sup> These immigrant communities arrived from Europe and the Middle East throughout the 20<sup>th</sup> century. They have since been dubbed the “transplant” or “transnational” elites (or “Turcos,” a broad-sweeping and quasi-racist reference to their Middle Eastern origins).

These transnational communities established control over what have become the dominant industries in Honduras: the financial and service sectors, telecommunications and media. They also acquired land, competing with and eventually overtaking the traditional elite’s hold on the agrarian economy as it shifted towards non-traditional exports. This traditional elite was largely land-based, depending on activities such as cattle, coffee and cacao to exert its influence. But it never coalesced the way landed elites did in neighboring Guatemala, leaving it largely sidelined, even as US capital slowly exited the country when commodity prices slipped because of increased, worldwide competition. Today, it can be difficult to differentiate between the traditional elites and the transnational elites. Although crossover is more commonly associated with the transnational than the traditional elites, both have diversified their economic portfolios, and both are deeply involved in politics.

What is clear, however, is that Honduras’ top economic groups are run by relatively recent transplants that accumulated capital over the past half-century. The biggest business conglomerates in Honduras carry distinctly foreign names like Facussé, Maalouf and Rosenthal.<sup>6</sup> Meanwhile, traditional, landed elites have shifted their focus to controlling government posts and elected offices. Two of the last three presidents come from cattle ranching families, and current President Juan Orlando Hernández is from a coffee family. For both the traditional and transnational elites, their business and political prospects are intertwined with a government that was, for most of its existence, less of an enforcer than an enabler.

Throughout Honduras’ history, the state has been a source of both legal and physical protection for this export economy, the traditional landholding and transnational commercial classes. The public sector was seen, as Hugo Noé Pino notes, as a “concessionary state,” one that “stimulates investment but does not collect taxes.” The government was also a means through which the elites could expand their interests. The political parties represented, for many years, a manifestation of these elite interests.

What came first for the transnational elite -- economic or political power -- is a matter of some debate. As Noé Pino says, there are two visions of the political-economic nexus at the apex of power in Honduras: 1) that the accumulation of capital was intimately related to the political connections throughout; 2) that the accumulation of capital was

## ***Honduras Elites and Organized Crime***

what led to these close political connections. Certainly elements of both were at play. And as the country's traditional exports declined, particularly in the 1970s, and therefore the power of the traditional elites waned, the transnational elites surged to take more direct control of the traditional political parties.

Indeed, the state's evolution during this period was intimately related to the development of the transnational economic elites. This class tied themselves to the traditional political parties, often making contributions to both parties during elections, ensuring their influence would remain intact whoever won. Noé Pino argues this group created business associations to channel their needs and influence, and that many of its members have been part of the revolving door between government ministries and the private sector that has characterized Honduras for at least the last half century.



For the transnational elites, the state's role was simple: to create and enforce rules that favor their continued power over key industries and the capital accumulation that accompanies it. Along the way, they managed public discourse as well: they bought newspapers, radio and television stations, and have steered popular sentiments and political messages towards their favored candidates and in support of their modus



vivendi. Since the 1970s, the media has largely become an instrument of this elite, and a source of its revenue.<sup>7</sup>

The dependence of the elites on the state security forces to protect their enterprises led to the emergence of the military as a political and an economic player. This growth was aided by the United States, which, fearing the rise of communism in the region, began training Honduran officers en masse and supplying greater amounts of aid,<sup>8</sup> a process that would accelerate in the 1980s and help transform the institution forever. Members of the armed forces became what we are calling a “bureaucratic elite,” something we will cover in more detail in the first Honduras case study. Some of their offspring are the political and economic elite of Honduras today and the institution is at the center of the changing dynamics of power in the country.

The influx in US aid came as traditional exports continued a steep decline, and the country tried to diversify its economy. At the behest of its largest donor nation, the United States, Honduras expanded its export portfolio, lowered tariffs, sold state-owned businesses, and gave financial incentives for local and foreign investment, mostly in the form of reduced taxes. In the 1990s, as US aid dropped precipitously, multilateral banks filled the void and pushed for further liberalization policies.

The efforts to diversify the economy, however, largely failed. Lacking a solid revenue base, and with a state that was unwilling or unable to extract tax revenue from the traditional and transnational elites, the government relied on outside sources to motor the economy. Loans from multilateral banks and others have since made Honduras a perennial pariah in the global banking community, further hampering economic growth. (In March 2014, Honduras had a \$7 billion debt, up from \$2.7 billion in 2007.<sup>9</sup>) And while the central idea was to reduce government’s role in the economy, as GDP sputtered, the state assumed an increasing burden to keep the economy afloat. Since 1980, the percentage of GDP that public administration, defense and other state services represent have gone from 16 percent to 22 percent.<sup>10</sup>

Despite these broad failures, both the traditional and the transnational elites have found ways to keep making money at the expense of the vast majority of Hondurans. For their part, the transnational elites took advantage of the market liberalization policies that began in the 1980s, and dominate the textile industry as well as tourism and telecommunications. They have become particularly powerful in the service sector, financing and constructing malls, buying into international food franchises and profiting from one of the country’s largest sources of revenue: remittances. Remittances represent some 18-20 percent of the country’s current GDP, powering the internal consumption that drives the service sector’s growth.

*Table I: Honduras Productive Sector (1980, 2000, 2010) - Percentage of GDP*

Industry		1980	2000	2010
Agriculture, cattle, fishing, forestry		21	14	12
Mining and quarrying		2	1	1
Manufacturing		13	21	17
Service industry		64	65	71
	Businesses, hotels, restaurants	14	15	17
	Transport, storage, communications	6	8	7
	Financial services, insurance and other	11	14	17
	Public administration, defense and other state services	16	15	22
	Other services	17	14	9
Total		100	100	100

*Source: ICEFI 2012*

There were other new sources of licit and illicit revenue besides remittances, foremost among them are non-traditional agriculture projects such as African palm plantations and proceeds from the trafficking of drugs through the country. Drug trafficking money can itself be considered as a form of remittances, as the illicit capital resulting from this trade enters the Honduran economy, passing through the financial sector and fueling growth in the agro-industrial sector, construction and tourism industries. It is through this financial flow that the elites interact with illicit actors. As we shall discuss in more detail later, all forms of elites can benefit from this illicit economic activity, both directly and indirectly.

Meanwhile, the traditional, landed elite has experienced a resurgence of sorts by regaining control of the traditional political parties, capturing the increase in state expenditures and controlling more of the flow of foreign capital via their hold on public offices. Like the transnational elite, this group sees the state as an enabler of business enterprises, although in their case the opportunities frequently come via publicly funded projects. The corruption in this system is endemic, widespread and infused.<sup>11</sup> They use these monies to maintain their grip on power, undermining or ignoring the rule of law when it suits them.

The battle for these resources is at the center of many political disputes and, in some ways, shapes the country's government and political parties. The deal-making around these resources can get messy, as it involves billions of dollars. It is, in the end, seen by the elites as a zero-sum game: those who control the government levers control the spoils in this system; those who are separated from these levers, risk getting marginalized. As the dependence on these government resources increases, so does the need to control the government filters for these resources.

The result of this growing dependence on state resources has been the emergence of the aforementioned bureaucratic elite. As illustrated in our first case study, the beginnings of these elites can be traced to the military rule of the 1960s and 1970s, and the de facto military control that continued through the 1980s. But it is in the last decade that these bureaucratic elites have become a force on their own and in conjunction with members of the traditional elites.

This new hybrid elite's most prominent representative is President Juan Orlando Hernández himself. Educated in a military school, Hernández has surrounded himself with military officers, including his brother who is a colonel in the army. He has placed military personnel in posts traditionally reserved for civilians, and has centralized control of the security forces and intelligence gathering under the presidency. The hybrid group under Hernández's control, often referred to as the Colobrí Group, combines military personnel, local politicians and the landed gentry, and works closely with the state at the regional and national levels. Colobrí is Spanish for hummingbird.

The resurgent traditional landed elites and bureaucratic elites have centered their capital growth on the control of government resources, and of key government posts that give access to various income streams. Those who control these posts use them to block other elites' access to these income streams, and to penalize rivals. Their dependence on these government posts and funds is what drives these elites to create their own political movements or develop factions within larger parties, as well as establish private companies that service the government's needs.

Obtaining and maintaining these political posts is of the utmost importance, and it is within this context that the darkest alliances occur. The elites must gain public and private backing for their bids for government office. This backing comes via direct financial contributions, media coverage and support, as well as networking, and local political and economic alliances. The candidates constantly jockey for position, and their various suitors are ever-changing. Among them are the powerful actors of the Honduran underworld.

## Organized Crime in Honduras

Strong, organized criminal groups in Honduras date back almost 50 years. At their highest levels, they have centered on facilitating the movement of illegal drugs such as marijuana and cocaine from the southern production regions to the northern consumer nations. More recently they have also facilitated the entry of precursor chemicals used to mass-produce synthetic drugs. The money garnered from this trade dwarfs many traditional businesses and has the ability to upset the balance of power on a local, national and even a regional scale.

There are three basic categories of criminal groups present in Honduras. First, there are transnational criminal organizations (TCOs), such as those from Colombia or Mexico, who use the country as a transport bridge and as a storage facility for cocaine that they are moving wholesale to the US or other markets. They tend to operate in small teams. Usually their emissaries seek to ensure that drug loads are secure, that officials are in line and that transactions go as planned. Honduras' status as a safe haven for TCOs has grown in recent years, making it a good base of operations for increasingly high-level figures in these groups. There have been reports of members of the "board of directors" of the Sinaloa Cartel, for instance, having a base in San Pedro Sula.<sup>12</sup>

Second, there are local transport groups -- or *transportistas* -- that operate in Honduras. These are mostly Honduran families or tight business networks from the country that move legal and illegal goods through Honduras. They work closely with wholesale sellers and purchasers, as well as with other transport networks in Central America and elsewhere. They move shipments and can also store them for long periods of time. Neither job is easy. There are numerous rival organizations that steal and resell illegal goods. These include members of the security forces, which very often include the police. The transport groups also have to deal with multiple officials from border to border. However, if done well, transportation can be a highly lucrative venture.

Finally, there are local criminal groups and street gangs operating in Honduras. These groups focus on less lucrative business ventures such as local drug distribution, extortion, kidnapping, and human smuggling. The competition for these criminal markets, in particular for local drug dealing and extortion, is what makes Honduras one of the most violent countries on earth. Gangs routinely eliminate rivals and have internal purges. They also deploy corrupt security officials to attack rival groups. Their territorial control in some areas is absolute, although their interaction with elites is minimal.

The criminal groups that have the most interaction with elites in Honduras are the *transportistas* and the TCOs. As we shall see in our case studies, these organizations

need authorities to help them move illicit goods through a difficult terrain. They interact with security forces to ensure safe passage, and interact with powerful businessmen to launder proceeds and legitimize their illicit capital. Throughout, they establish political contacts, funding candidates for public office in an effort to obtain high-level protection and more business opportunities.

The money garnered from this trade dwarfs that made from many traditional businesses and has the ability to upset the balance of power on a local, national and even a regional scale. This was best illustrated in Latin America during the late 1980s, when Colombia's infamous trafficking organization, the Medellín Cartel, began kidnapping elites, assassinating judges and policemen, and detonating bombs in public places. However, the roots of this dynamic can be found many years previously when Colombian, and later Central American and Mexican criminal organizations, began to move cocaine and other drugs to the US market.

The pioneer for this transport activity in Honduras was a man named Juan Ramón Matta Ballesteros, the subject of one of our Honduras case studies.<sup>13</sup> In the 1970s, when Matta Ballesteros emerged as a prominent trafficker, Honduras already had criminal groups that were involved in this transport business.<sup>14</sup> Matta Ballesteros' distribution network eventually stretched from Colombia through Mexico. His allies in Mexico became known as the Guadalajara Cartel, which would later spawn some of the most important criminal groups in that country: the Sinaloa, Juárez and Tijuana Cartels. His allies in Colombia were members of what would become the Medellín Cartel.

As we shall see, Matta Ballesteros' Honduran network included members of the military, an institution on the ascent thanks in large part to US aid stemming from the Contra War in neighboring Nicaragua.<sup>15</sup> It was during this era that Honduras earned the moniker USS Honduras. A US government document from 1988 described Matta Ballesteros as "a class I DEA violator."<sup>16</sup> His legitimate businesses in Honduras were also growing. By one count, he had coffee, tobacco, spice, dairy and cattle holdings, and founded construction and agro-industrial companies in Honduras.<sup>17</sup>

In 1985, everything changed when the Guadalajara Cartel, seemingly angered by a US Drug Enforcement Administration (DEA) operation to seize large tracts of its marijuana crops in Mexico, kidnapped and killed Enrique Camarena, a DEA agent. With Camarena's death, the United States government began a law-bending quest for justice. Over the next several years, numerous Guadalajara operatives and leaders were arrested and convicted in Mexico. Matta Ballesteros was arrested in Colombia, but with the Medellín Cartel's help, he escaped and made his way back to Honduras, where he felt protected by his vast network and wealth.



In 1988, capitulating to US concerns about Matta Ballesteros' increasing influence, the military and US Marshals intercepted him following his morning jog, bundled him up and transported him to the Dominican Republic where US marshals officially arrested and charged him with participating in the murder of Camarena, among other criminal acts. From there, he was taken to the US. Up to 2,000 two of Hondurans, mostly students angered by the move, attacked the US embassy, setting fire to several annex buildings and burning vehicles. At least four of the protesters were killed, and US officials said it took two hours for the Honduran authorities to respond their their call for help.<sup>18</sup> Matta Ballesteros was later convicted in a Los Angeles court of kidnapping<sup>19</sup> and drug trafficking, and remains in a US federal prison.

Following Matta Ballesteros' dramatic fall, the country continued to be a bridge for traffickers to move illicit goods.<sup>20</sup> The list goes beyond drugs: weapons, money, people, and all types of contraband move in and out of Honduras. A group of Salvadoran smugglers, for instance, moved dairy products from Honduras to El Salvador during the civil war in that country. The so-called "Cartel de los Quesos" (Cheese Cartel) would later be dubbed the "Perrones," and would develop a drug trafficking network that still stretches from Panama to Guatemala. One of their chief operators, José Natividad Luna Pereira, alias "Chepe Luna," operated his network from San Pedro Sula where he had close contact with elites until he was assassinated in 2014.<sup>21</sup>

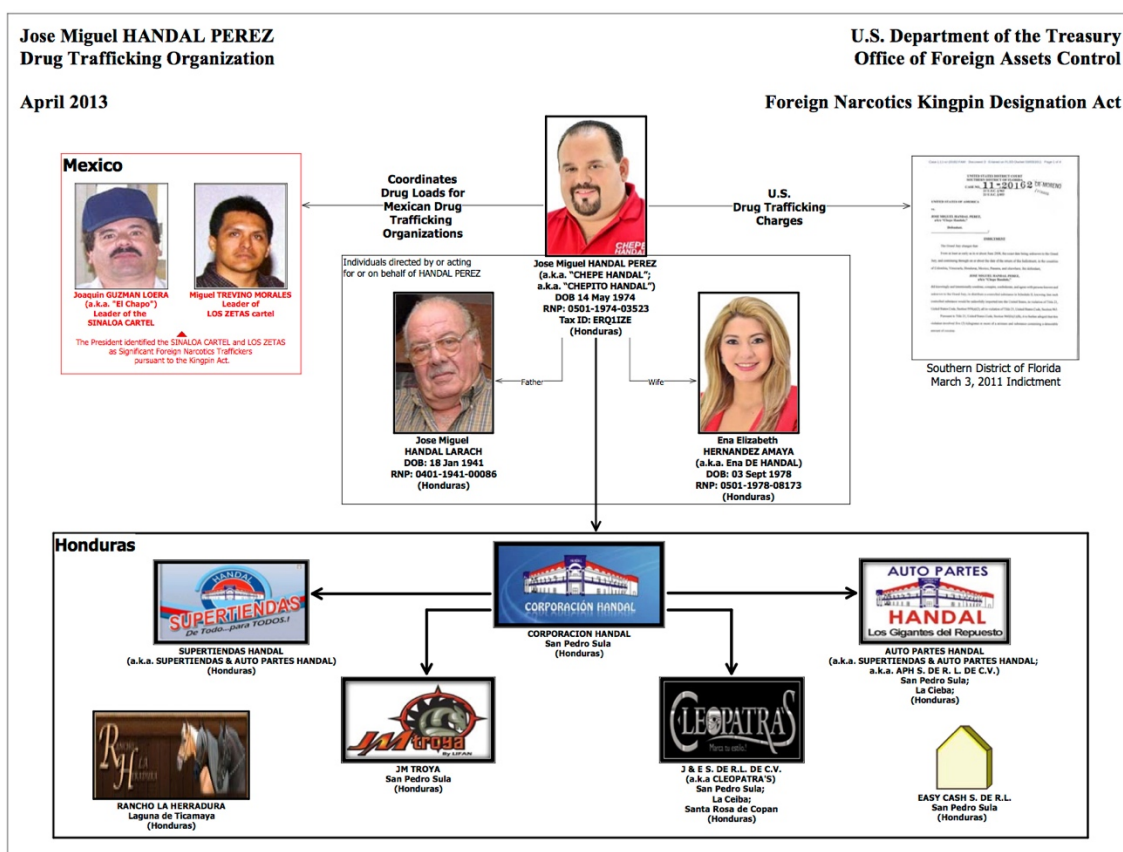
In the early 2000s, Honduras experienced another surge of drug trafficking activity. At the time, Mexican criminal organizations that had emerged after the demise of the Guadalajara Cartel were establishing more control over the distribution chain, and began using Central America as their primary bridge. Several local transport groups emerged. Among them were Chepe Luna's in El Salvador and Honduras, José Miguel "Chepe" Handal Pérez's group in San Pedro Sula, the Valle Valle family in Copán, the Zelaya clan in Atlántida, and the Cachiros organization in Colón.<sup>22</sup> The Cachiros are the subject of one of our Honduras case studies. These groups' main function was moving cocaine through the region, but they also had numerous side businesses such as human smuggling and local drug distribution.

The size of this criminal industry is massive when compared to Honduras' economy. The US State Department estimates that 95 percent of cocaine transported from South America to the United States moves through the Mexican and Central American corridor; 80 percent of this stops in Central America.<sup>23</sup> The price charged for moving this cocaine is normally the difference between the wholesale price where the drugs are received and where they are dropped. In the case of Honduras, this difference in price is somewhere in the range of \$2,000 to \$2,500 per kilo from the time it enters to the time it leaves the country.<sup>24</sup> The price of cocaine varies, of course, but this price difference has remained steady for several years. This means the transport market alone is valued

at between \$600 million and \$750 million per year, or somewhere between 3 and 4 percent of the country's GDP.<sup>25</sup> By our estimates, drug proceeds amount to more than half of those generated by the country's top export, coffee, does.<sup>26</sup>

All five groups mentioned above had strong political and economic connections that helped them develop close relationships with the authorities, as described above in the case of Matta Ballesteros and the military. One of them, Handal, was an aspiring congressman before the US Treasury Department added him to its "Kingpin List" in April 2013.<sup>27</sup> He denied being involved in drug trafficking before going on the run.<sup>28</sup> Handal was captured in March 2015.<sup>29</sup>

**Figure 2: Handal Organizational Chart**



*Source: Taken from US Treasury*

For his part, Francisco Zelaya Fúnez had various construction companies and had signed a number of public works contracts with the municipality of La Ceiba before he was captured in Mexico in 2013. A newspaper described him as being connected to a

“high level official in the previous administration.”<sup>30</sup> For their part, the Valle Valle family had strong connections to Alexander Ardón, mayor of a town on the Guatemalan border named El Paraíso. Ardón’s brother, Hugo, ran the central government’s road construction and maintenance fund known as Fondo Vial. The core of the Valle Valle family was captured and extradited to the US in 2014.<sup>31</sup>

This type of connection between criminals and political actors has become commonplace over the years. In 1987, congressman Félix Cerna Salgado admitted having a close relationship with Matta Ballesteros. In the early 2000s, three congressmen were captured for transporting drugs. In July 2014, Honduran authorities arrested Arnaldo Urbina, the mayor of Yoro, and charged him and numerous others of running a drug trafficking and assassination ring that was responsible for the murder of 137 people and the disappearance of 45 others.<sup>32</sup>

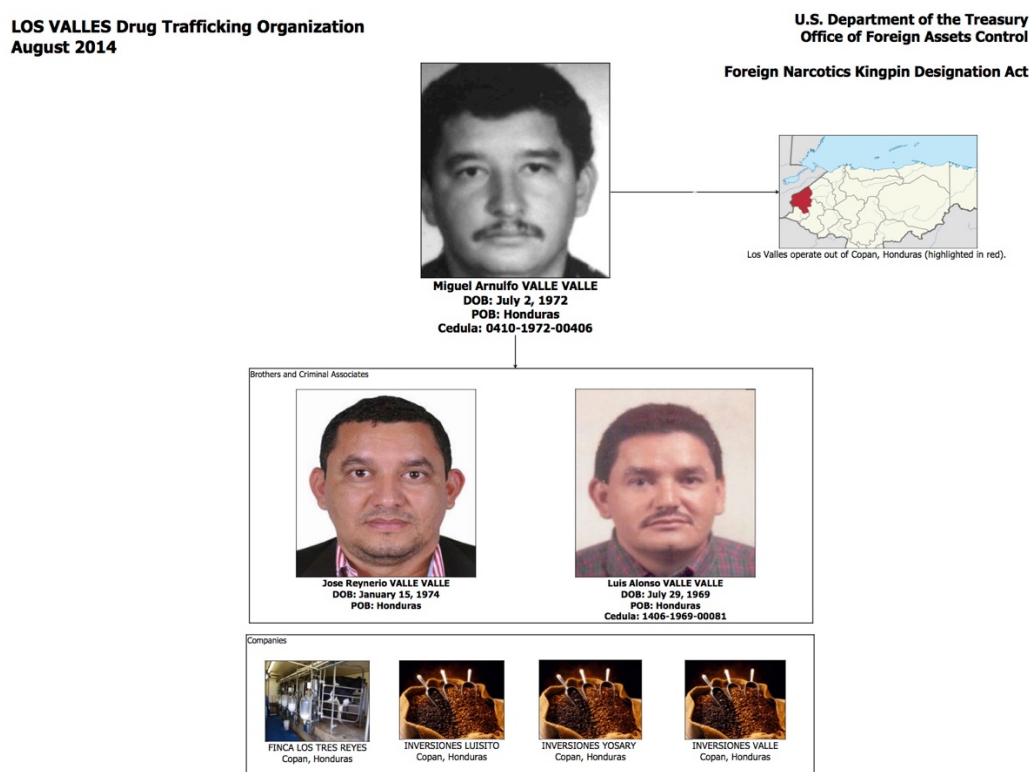
The criminal organizations’ ability to accumulate capital and wield this economic power to their advantage is largely hidden from view, since Honduran authorities have developed few strong judicial cases against them and there is not a vibrant local media. What’s more, public officials threaten these interests at their own peril. In December 2009, police assassins killed Honduran drug czar Julián Arístides González, and two years later his outspoken one-time advisor, Alfredo Landaverde was gunned down. Investigating detectives quickly determined that the triggermen were police officers operating under orders of top police brass. But the detectives just as quickly buried those investigative reports, and they did not come to light until years later. In April 2013, gunmen assassinated Orlán Chávez, the country’s top money laundering prosecutor.<sup>33</sup> The day before his death, Chávez had led a raid on several of aforementioned Chepe Handal’s suspected properties and seized them. Suspicion fell on Handal, but the case remains unresolved.

The economic might of these groups only began to come into view when the United States deemed Handal, and then the Cachiros, as specially designated narcotics traffickers, and placed them on the so-called “Kingpin List.”<sup>34</sup> Handal’s business holdings included various auto parts stores, a motorcycle distributor, and a clothing store. A US indictment, issued in the Southern District of Florida, called for him to forfeit \$38 million in proceeds from his illicit business dealings.

After authorities began raiding the Cachiros’ properties in September 2013, however, it was clear that Handal was small by comparison. The US Treasury, in its “Kingpin” designation, named five businesses that it said belonged to the organization,<sup>35</sup> and officials from both countries estimated the group’s assets were in the hundreds of millions of dollars.

In later part of 2014, US and Honduran authorities also targeted the Valle Valle family organization. That family's assets, the US Treasury said in an August 2014 "Kingpin" designation, included several coffee plantations and a cattle ranch. The group, the US Treasury declared, was moving upwards of 10 tons of cocaine through Honduras per month. Rough calculations by InSight Crime put the group's annual earnings near \$300 million or about 1.6 percent of Honduras' GDP.

**Figure 3: Valle Family Organizational Chart**



*Source: Taken from US Treasury*

Perhaps more important than their coffee and cattle holdings was the group's direct link to Ardón, the mayor of El Paraíso, and to his brother, Hugo.<sup>36</sup> Between the two of them, the Ardóns managed dozens of state contracts which facilitated the movement of money between themselves and their legitimate and illegitimate partners. The merry-go-round created by this type of money flow is a critical part of understanding how corruption and crime work in places like Honduras. Money moves from state coffers into licit and illicit businesses whose owners then bankroll the candidates who are financing their projects or facilitating their money laundering activities. In the process, the Honduran public is

left out of the loop. The Ardón brothers had the perfect machine to keep this merry-go-round spinning.

But by late 2014, the Honduran government appeared to have them in its sights, making veiled references to the network in the press (calling it the “Cartel de Alex”). The network had created a powerful group that reached the highest echelons of power in Honduras. This, as our case studies illustrate, is the norm in the country rather than the exception, and it is changing the entire complexion of Honduras' ruling elite.

*\*This report was written by Steven Dudley. Dudley, Javier Meléndez -- who acted as coordinator for research for this project -- along with researchers from the Centro de Investigación y Promoción de los Derechos Humanos (CIPRODEH) and the Asociación para una Sociedad más Justa (ASJ), assisted in the investigation and production of this report. Jorge Mejía Galindo developed the maps. Andrew J Higgins did all the graphics.*

## Endnotes

[1] Geoffrey Ramsey, “Departure of Honduras security minister a victory for corrupt cops,” InSight Crime, 12 September 2011. Available at: <http://www.insightcrime.org/news-analysis/departure-of-honduras-security-minister-a-victory-for-corrupt-cops>

[2] This section is based mostly on the research done by Honduran historian Jorge Amaya. It also draws heavily from Hugo Noé Pino, “Elites, Estado y la reconfiguración del poder en Honduras, 1990-2011: El ámbito de la política fiscal,” and Manuel Torres Calderón, “La élite, su orientación y fundamentos geográficos en Honduras,” both of which will be published in a forthcoming FLACSO-Costa Rica book edited by Eric Hershberg entitled, “Elites y la configuración del poder en Centroamérica: Dinámicas de acumulación y sus consecuencias, Vol. 2.”

[3] Rachel Sieder, “Honduras: The Politics of Exception and Military Reformism (1972-1978),” *Journal of Latin American Studies*, vol. 27, no. 1 (1995), p. 106.

[4] Ibid.

[5] José Edgardo Cal Montoya, “Estado y elites en la historia de Honduras: reflexiones sobre su situación actual (1980 - 2009),” in “Memorias del III Congreso de Investigación Científica,” Instituto Universitario en Democracia, Paz y Seguridad (IUDPAS), National Autonomous University of Honduras (UNAH), 2009.

[6] Manuel Torres Calderón, “La élite, su orientación y fundamentos geográficos en Honduras,” to be published in forthcoming FLACSO-Costa Rica book edited by Eric Hershberg entitled, “Elites y la configuración del poder en Centroamérica: Dinámicas de acumulación y sus consecuencias, Vol. 2.”

[7] Rockwell, Rick. “La concentración de los medios de comunicación y la perpetuación de los sistemas elitistas en Centroamérica,” to be published in a forthcoming FLACSO-Costa Rica book edited by Eric



Hershberg entitled, “Elites y la configuración del poder en Centroamérica: Dinámicas de acumulación y sus consecuencias, Vol. 2.”

[8] Rachel Sieder, “Honduras: The Politics of Exception and Military Reformism (1972-1978),” *Journal of Latin American Studies*, vol. 27, no. 1 (1995), p. 107.

[9] World Bank data. Available at: [http://www.worldbank.org/en/publication/global-economic-prospects/data?variable=BNCABFUND\\_CD\\_&region=LAC](http://www.worldbank.org/en/publication/global-economic-prospects/data?variable=BNCABFUND_CD_&region=LAC)

[10] Hugo Noé Pino, “Elites, Estado y la reconfiguración del poder en Honduras, 1990-2011: El ámbito de la política fiscal,” to be published in a forthcoming FLACSO-Costa Rica book edited by Eric Hershberg entitled, “Elites y la configuración del poder en Centroamérica: Dinámicas de acumulación y sus consecuencias, Vol. 2.”

[11] In 2014, Transparency International ranked Honduras 140 of 177 countries in its corruption perceptions index, noting that it has “scarce” or no budget openness. Available at: [http://transparency.org/country#HND\\_DataResearch](http://transparency.org/country#HND_DataResearch)

[12] Steven Dudley, “US ‘Kingpin’ Designation Exposes Sinaloa Cartel Head in Central America,” *InSight Crime*, 7 January 2015. Available at: <http://www.insightcrime.org/news-analysis/us-kingpin-designation-exposes-sinaloa-cartel-head-central-america>

[13] Matta is also frequently written as “Mata.” See: Proceso Digital, “A 12 ascienden los bienes asegurados a Ramon Mata Ballesteros,” *Proceso*, 31 July 2014. Available at: <http://www.proceso.hn/component/k2/item/85914.html>

[14] Julie Marie Bunk and Michael Ross Fowler, “Bribes, Bullets, and Intimidation: Drug Trafficking and the Law in Central America” (University Park, PA, 2012).

[15] James LeMoyne, “Military Officers in Honduras Are Linked to the Drug Trade,” *New York Times*, 12 February 1988. Available at: <http://www.nytimes.com/1988/02/12/world/military-officers-in-honduras-are-linked-to-the-drug-trade.html>.

[16] US Senate, “Drugs, Law Enforcement and Foreign Policy: A Report Prepared by the Subcommittee on Terrorism, Narcotics and International Operations of the Committee on Foreign Relations” (aka the Kerry Committee Report), December 1988, p. 77.

[17] Julie Marie Bunk and Michael Ross Fowler, “Bribes, Bullets, and Intimidation: Drug Trafficking and the Law in Central America” (University Park, PA, 2012), p. 276.

[18] Associated Press, “Honduran leader acts to put down anti-U.S. protests,” 8 April 1988. Available at: <http://www.nytimes.com/1988/04/09/world/honduran-leader-acts-to-put-down-anti-us-protests.html>

[19] John H. Lee, “Camarena Figure Gets 3 Life Terms,” *Los Angeles Times*, 9 May 1991. Available at: [http://articles.latimes.com/1991-05-09/local/me-1914\\_1\\_honduran-juan-matta-ballesteros](http://articles.latimes.com/1991-05-09/local/me-1914_1_honduran-juan-matta-ballesteros)

[20] This section and the following is based on numerous interviews by InSight Crime investigators with Honduran, Guatemalan, Salvadoran and US intelligence and anti-drug agents between 2010 and the present. The agents spoke to InSight Crime on the condition their names do not appear in print. It is a condition that is limiting but necessary in order to obtain at least a broad sketch of the organizations and activities in question.

[21] InSight Crime interviews, Honduran and US anti-drug agents who requested anonymity, 2013.

[22] Ibid.

[23] Bureau of International Narcotics and Law Enforcement Affairs, “2012 International Narcotics Control Strategy Report (INCSR),” 7 March 2012.

[24] InSight Crime interview with a member of a drug trafficking organization who requested anonymity, Tegucigalpa, Honduras, 3 May 2013.

[25] The World Bank estimates Honduras’ GDP at \$18.5 billion. Available at: <http://data.worldbank.org/country/honduras>

[26] Coffee, according to the MIT Observatory of Economic Complexity, is worth \$1.38 billion. See: <http://atlas.media.mit.edu/profile/country/hnd/>

[27] US Treasury, “Treasury Designates Honduran Drug Traffickers,” press release, 9 April 2013. Available at: <http://www.treasury.gov/press-center/press-releases/Pages/jl1888.aspx>

[28] AFP, “‘Chepe’ Handal niega que sea narcotraficante,” 10 April 2013. Available at: <http://www.elheraldo.hn/sucesos/622110-219/chepe-handal-niega-que-sea-narcotraficante>

[29] David Gagne and Kyra Gurney, “What’s Behind Honduras’ Arrest of ‘Narco’ Politician,” InSight Crime, 13 March 2015. Available at: <http://www.insightcrime.org/news-analysis/whats-behind-honduras-arrest-of-narco-politician>

[30] La Tribuna, “Cae supuesto narco hondureño y es extraditado hacia los EE UU,” 6 July 2013. Available at: <http://www.latribuna.hn/2013/07/06/cae-supuesto-narco-hondureno-y-es-extraditado-hacia-los-ee-uu/>

[31] David Gagne, “Completing Chapter, Honduras Extradites Valle Brothers to US,” InSight Crime, 19 December 2014. Available at: <http://www.insightcrime.org/news-briefs/honduras-extradites-valle-drug-clan-brothers-to-us>

[32] Marguerite Cawley, “Honduras mayor accused of running murderous drug running gang,” InSight Crime, 29 July 2014. Available at: <http://www.insightcrime.org/news-briefs/honduras-mayor-accused-of-leading-murderous-drug-running-gang>

[33] El Heraldo, “Asesinan a fiscal y coordinador de la unidad Contra el Lavado de Activos,” 19 April 2013. Available at: <http://www.elheraldo.hn/csp/mediapool/sites/ElHeraldo/Sucesos/story.csp?cid=622187&sid=293&fid=219>

[34] US Treasury, “Treasury Targets ‘Los Cachiros’ Drug Trafficking Organization in Honduras,” 19 September 2013. Available at:<http://www.treasury.gov/press-center/press-releases/Pages/jl2168.aspx>

[35] Ibid.

[36] For more on Alexander Ardón, see: Douglas Farah and Carl Meacham, “Alternative Governance in the Northern Triangle: Finding Logic within Chaos,” Center for Strategic and International Studies, September 2015. Available at:[http://csis.org/files/publication/150911\\_Farah\\_AlternativeGovernance\\_Web.pdf](http://csis.org/files/publication/150911_Farah_AlternativeGovernance_Web.pdf)

## Juan Ramón Matta Ballesteros

By Steven Dudley\*



On the morning of April 5, 1988, Juan Ramón Matta Ballesteros left his palatial Tegucigalpa estate for a jog. Matta Ballesteros was wanted for murder, drug trafficking and other crimes in several countries, but in Honduras he felt safe. He regularly hosted parties for high-level officials at his home and had connections to military officers.<sup>1</sup> He employed thousands of locals at his legitimate businesses, who sang his praises for providing medicines, building schools and donating to charitable causes.<sup>2</sup> Legend has it that he once offered to pay the government's mounting foreign debt, which at least one politician appeared to take seriously.<sup>3</sup>

Matta Ballesteros had also assisted the Honduran military and the United States in their battle against communism in the region. Using an airline he had set up, the United States shuttled supplies to the Contras, a Nicaraguan counter-revolutionary group, for Washington's proxy war against the Sandinista government that had taken power after overthrowing Nicaragua's corrupt, US-backed dictatorship in 1979. The US government paid his airline for this assistance, in spite of the fact that its own Drug Enforcement Administration (DEA) once categorized Matta Ballesteros as a "Class I DEA violator."<sup>4</sup>

When Matta Ballesteros returned from his jog, he was surprised to find Honduran military and police, as well as four US Marshals, waiting for him. A US Marshal who was at the scene said Matta Ballesteros tried to run away but was captured. A struggle ensued. “During the struggle, punches and kicks were thrown by both Matta Ballesteros and the Honduran officers,” the marshal wrote later in an affidavit.<sup>5</sup> “At one point, I observed Matta Ballesteros being wrestled to the ground, in an effort to detain him.”

Honduran authorities finally corralled Matta Ballesteros near the vehicle the marshal was driving, handcuffed him, placed a black hood over his head and forced him to the floor of the car. Matta Ballesteros continued to struggle, pleading for mercy and kicking the car door as they shut it. “Don’t do this to me please,” he screamed. “Don’t turn me over to the gringos.”<sup>6</sup>

Matta Ballesteros had reason to be worried. In Honduras, he might have been a kingmaker, but the US wanted him for the death of a DEA agent in Mexico, and there he faced the death penalty. “I didn’t have anything to do with it,” he screamed, presumably referring to the death of the agent. “Let me see my kids one last time. They are going to kill me.”<sup>7</sup>



With two Honduran police in his car and a military escort, the marshal drove Matta Ballesteros to a Honduran Air Force base about an hour away. There US and Honduran authorities placed him on an airplane and flew him to the Dominican Republic. Less than 24 hours later, he would find himself in a US prison facing kidnapping, murder and various drug trafficking charges.<sup>8</sup>

When the news broke of Matta Ballesteros’ extraordinary rendition, Honduras erupted. The military was silent on the arrest and the president spoke of “expelling” the accused murderer and drug trafficker,<sup>9</sup> but on April 6, about 300 protestors marched to downtown Tegucigalpa; that night, students burned a US flag and a copy of the Honduran constitution in front of congress.<sup>10</sup> Various congressmen and legal experts vilified the military and police for the “kidnapping,” and the courts that ordered the search and seizure of Matta Ballesteros’ properties.<sup>11</sup> On April 8, at least 1,000 protestors marched on the US Embassy.<sup>12</sup> In the melee that followed, a US Embassy annex -- which housed the US Agency for International Development and the US Consulate -- was burned along with about 20 vehicles;<sup>13</sup> shots were fired, and five people died. Days later, local media called the marches the “the most violent anti-US protests in Latin America.”<sup>14</sup>



The incident at the embassy was the culmination of a twisted, blood-soaked relationship between Matta Ballesteros, the military and the United States government. It touches the core of an incredibly important development in Honduras, one that involves the evolution of a relatively new class of elites. The group was not part of the traditional or transnational elites that had for so long controlled the country's economic resources and held its political reins. It emerged, instead, from the armed forces, an institution traditionally thought of as the elite's muscle rather than its brain. And that is where we need to start this story.

## **Background - the Honduras Military's Emergence as a Bureaucratic Elite**



The Honduran Armed Forces have always been at or near the top of the government pyramid, but they did not always hold power directly. For over a hundred years after its founding in 1825,<sup>15</sup> the military took part in civil wars and political upheavals, sometimes on the margins and sometimes leading events later characterized as “revolutionary uprisings.” On various occasions, generals became presidents following their victories on the battlefield.

The most notable of these was General Francisco Morazán. Considered to be Central America's equivalent of Simon Bolívar, the independence hero of South America, Morazán became president of the Central American Federation of nations before it fell to pieces in the late 1830s. Morazán is still present in the names of provinces, parks, streets and a military academy in Honduras. Politicians of the time were, in essence, forged on the battlefields, but the military did not necessarily hold the reins of power. It would be better described during this period as the protector of others' interests rather than as a political and economic actor in its own right.

Indeed, throughout its first hundred years, the military was organized in small enclaves, a disparate force with little centralized structure or national reach. These disparate forces at first protected the interests of the traditional elites -- those growing cacao and coffee, and running cattle ranches -- in these enclaves. Over time, their list of clients grew to include multinationals growing fruit and other products,<sup>16</sup> but their role remained largely the same. And although the armed forces provided a means for social mobility, the military were not part of the economic activities it protected.

Beginning in the 1930s, this began to change. In 1932, Honduras elected a military officer as its president -- General Tiburcio Carias Andino. Carias' government -- which lasted 16 years -- is key to understanding how the armed forces began to establish themselves as an independent interest group and, eventually, as a bureaucratic elite. In part this is because Carias started the process of institutionalizing the military. He centralized the military's structure and expanded its reach. His administration also created the Military Pension Regime in 1935. This would be the foundation for what was later called the Military Pension Institute (Instituto de Previsión Militar - IPM), which pre-dated even the national social security system and would later usurp various other important state-run companies.<sup>17</sup>

Carias' presidency also marked the beginning of a period in which military personnel were more politically active. The general was a National Party militant who acted in his own interest and that of his party.<sup>18</sup> This included incarcerating, deporting and possibly murdering political opponents, particularly in the Honduran Communist Party and the rival Liberal Party. His government also censored parts of the media. Carias was, in essence, constructing a caste within the military, one that transcended its military identity and would soon be capable of regularly influencing national decision-making and asserting itself economically.



By the late 1950s, the military was ready to take the next step. It started by absorbing the civilian police and transforming it into a national guard. Then, in 1963, just prior to

the general elections in which the Liberal Party presidential candidate seemed on his way to victory, General Oswaldo López Arellano (pictured right) led a military coup. The coup was the start of a period of almost uninterrupted military rule that lasted until 1982, much of it under López Arellano. As its political alliances blossomed and it became increasingly aware of its own interests, the military stopped being just a placeholder for the elites. It focused on strengthening and securing its own *modus vivendi*.

This shift was evident in various ways. To begin with, the military expanded its control over civilian sectors of the government. The armed forces effectively took control of the National Agrarian Institute (Instituto Nacional Agrario - INA) under the guise of a land reform effort. It took over the running of the customs and border patrol services, the airports and other vital infrastructure. Control of these posts gave the military access to resources, both licit and illicit, as we shall see through some military officials' relations with smugglers. In addition, the military increased its stake in a number of public entities. From transport to telecommunications companies, arms dealerships to banks, the military's economic portfolio expanded. Being in the military also came with economic advantages. The companies do not pay the same import or earnings taxes giving them a competitive advantage.

*Table 1: Major Business Interests of the Honduran Armed Forces*

Industry	Companies/ Institutions	Year founded/ acquired by military
Airlines	TAN (Transportes Aéreos Nacionales S.A.)	1947
	SAHSA (Servicio Aéreo de Honduras, S.A.)	1945
Social security	Military Pension Institute (Instituto de Previsión Militar - IPM)	1971
Weapon sales	The Armory (La Armería)	1973
Food retailing	Commissary of the Armed Forces (COMFFAA)	1975
Supplying provisions to the armed forces	INFFAA (Industria Militar De Las Fuerzas Armadas)	1979
Banking	The Bank of the Armed Forces (BANFFAA)	1979
Cement production	Incehsa (Industria Cementera Hondureña, S.A.)	1991

Throughout this period, former and active military officers continued to strengthen their ties to the traditional political establishment. Most of these officers worked with the conservative National Party, but others began to work with the more centrist Liberal Party. Both parties supplied cabinet members to the military governments in the 1960s and 1970s. Among them was Ramón Lobo Sosa, a large landowner and National Party strongman who was the Minister of Communications and Public Works between 1965 and 1971, under the administration of López Arellano. (He would later serve in congress where he was connected -- along with parts of this family -- to organized crime.)

The relationships between officers and politicians started a process whereby it became harder to distinguish between these various elites. Their interests increasingly overlapped at crucial junctures in politics, business and society. On the private side, senior officers bought funeral homes, cemeteries, car dealerships, gas stations, sawmills, bus services, and private security companies. Some became partners in major financial institutions. In 1974, for example, López Arellano founded the bank Ficensa, and later he became a partner in Credomatic, a financial services company that manages international transactions.

Operating from within the country's elites opened the way for other means of social ascension. Political power, coupled with more economic power, meant more social interaction amongst these elites. Soon military children were marrying children of the traditional elite, establishing new political-military lineages that are today marking their own path to power.

In 1981, under pressure from the United States, the military announced that it would oversee a return to civilian control of the government. The military had, by then, firmly established itself as a bureaucratic elite, and it would remain an immensely important actor in Honduran politics and economic life throughout the next decade, in part because of the US interest in funding proxy wars against its enemies in the region. US military aid to Honduras totaled \$333 million from 1980 to 1989 (in constant 2011 dollars), second only to El Salvador in the region.<sup>19</sup> US general assistance to Honduras also soared, topping out at \$289.1 million in 1985 -- most of it non-military<sup>20</sup>; and for the decade, the United States provided close to \$2.5 billion (constant 2011 dollars) in total assistance.<sup>21</sup>

For Honduras, this money was its lifeblood. It powered the government and the economy while traditional exports were waning and economic initiatives to modernize the economy were failing. The foreign assistance gave the military incredible power and leverage, which, as noted above, it used to enter the circles of other elites.

Perhaps the single most important symbolic illustration of the military's reach came when the head of the armed forces, Gustavo Álvarez Martínez, created the Asociación para el Progreso de Honduras (APROH) in 1983. APROH was an arch-conservative -- some say fascist<sup>22</sup> -- business association.<sup>23</sup> Among its founding members was Miguel Facussé, arguably the most powerful member of the country's elite. Facussé was the economic adviser to the newly elected civilian president at the time, and served as APROH's vice president.<sup>24</sup>

Álvarez Martínez, however, was ousted as head of the armed forces in 1984, and left APROH, and the country, in disgrace amid rumors of a possible military coup. The APROH experience would be a lesson for some in the country's elite, who began to distance themselves from the military.<sup>25</sup> While the association continued to be a vehicle for the country's power brokers to channel their political and economic interests, the military was largely sidelined from these alliances and backroom dealings.

It was the beginning of the end of the military's ascent, at least for the moment. The region was changing, but military officials were slow to react. The United States was winding down its efforts to fund proxy wars through Honduras, a policy that had made the Honduran military and government seem weak and coopted by Washington. Marginalized and shamed, the military began a slow withdrawal from politics. It was no coincidence that this retreat came as the US shifted its policies from fighting communism towards fighting drugs in the region. By 1988, the military's loyalties were split between its official patron, the United States, and its unofficial patron, Juan Ramón Matta Ballesteros.

## **Matta Ballesteros: A Life of Crime**

Matta Ballesteros' story is littered with confusing and contradictory claims. By his own account, he was born in Tegucigalpa in 1945, the second of four brothers and sisters.<sup>26</sup> Some say he was a homeless pickpocket;<sup>27</sup> others say he collected the fares on buses.<sup>28</sup> Sources consulted for this report, who asked for anonymity, say Matta Ballesteros' criminal career began in the early 1970s in the "Soto" neighborhood just outside the capital city, Tegucigalpa, where large marijuana dispensaries operated. By the time he was in his mid-twenties, Matta Ballesteros was known as the most powerful distributor in the area.

"I remember we used to call him the 'pusher man' because that was when that song was a hit," one source told InSight Crime. "It was a hymn for a lot of people in the neighborhood who were dealing marijuana and everyone knew that Matta was the best. He lived in a house next to the cemetery and everyone knew 'he was in the game.' There would be lines of poor people who were there asking for money and gifts, everything!"



Everyone loved him and definitely saw him as a benefactor. But it was also clear that the narcs were also going in and out of his house with packages of all sizes.”<sup>29</sup>

Eventually, Matta Ballesteros made his way to Mexico and later the United States, where he reportedly worked as a farmhand in Texas and a grocery clerk in New York City.<sup>30</sup> At some point, he connected with groups moving contraband and illegal drugs. By the late 1960s, this network stretched to Washington DC, where one former DEA agent claimed to have arrested him in 1969, with 50 kilos of cocaine at Dulles International Airport.<sup>31</sup> Another account says he was arrested at Dulles in 1970, with 24.5 kilos of cocaine.<sup>32</sup> In either case, he dodged the drug trafficking charges and was sentenced for immigration violations.

US authorities housed Matta Ballesteros (pictured below) in Eglin Air Force base in Florida, but he escaped and made his way back to Mexico where he began an incredible rise to power and played a key role in the cocaine trade.<sup>33</sup> Although he was arrested on at least two more occasions in the 1970s in Mexico, he managed to secure his release and obtain deeper relations with the growing Mexican underworld.<sup>34</sup> During this period, he reportedly met Alberto Sicilia Falcón, a Cuban trafficker based in Mexico, and Miguel Félix Gallardo. Félix Gallardo, a Mexican from the famed Sinaloa province, was building what would become known as the Guadalajara Cartel.<sup>35</sup> Matta Ballesteros also made his way to Colombia where he connected with those who were forming what would become known as the Medellín Cartel.

Soon Matta Ballesteros became a key broker for everything from cocaine to precious stones to US weapons. He connected the Mexican and Colombian underworlds with each other providing a vital bridge across Central America for the movement of cocaine. He also connected them with his native country, where he became part of an emerald, cocaine and arms smuggling enterprise run by Mary and Mario Ferrari. And later, he connected the CIA to its proxy army in Nicaragua, the Contras.

The emerald network stretched from Colombia through Mexico,<sup>36</sup> and, for a time, business was good. In addition to moving illegal goods north, Matta Ballesteros and Mario Ferrari owned a nightclub together. The Ferraris operated with impunity because of their military connections. They owned car dealerships and a beer company located on the property of the director of the Central Prison, military Colonel Ramón Reyes Sánchez.<sup>37</sup>

The Ferrari network was, it appears, Matta Ballesteros’ first direct connection with the military in Honduras. The military made sure their trafficking partners were not prosecuted, and smoothed their



passage through the airports, borders and customs houses, which the military controlled at the time. As described in detail in Julie Marie Bunck and Michael Ross Fowler's *Bullets, Bribes and Intimidation*, when Matta Ballesteros wanted his judicial records and investigations against him destroyed, for instance, he went to the Ferraris.<sup>38</sup>

At some point, a dispute erupted between the Ferraris and Matta Ballesteros. Some sources say the fight was over a drug deal in which Matta Ballesteros felt he had been cheated.<sup>39</sup> In December 1977, Matta Ballesteros' henchmen kidnapped the Ferraris and flew them to Colombia where Matta Ballesteros personally oversaw their torture, one of the assassins later testified. They were then flown back to Honduras and killed, the same assassin said.<sup>40</sup> Six months later, the Ferraris' bodies were found in a well on a farm on the outskirts of Tegucigalpa.<sup>41</sup>



Subsequent reports on the Ferrari murders by *Tiempo* and *La Prensa* newspapers -- and a later account by reporter Thelma Mejía for the Transnational Institute<sup>42</sup> -- uncovered a cadre of military collaborators in the crime and began a slow process whereby military collusion in drug trafficking and smuggling operations through the country came to light.<sup>43</sup> These collaborators included the aforementioned Colonel Reyes Sánchez; Colonel Leónidas Torres Arias, the head of the "G2" intelligence service that is Honduras' equivalent of the CIA; Lt. Colonel Juan Ángel Barahona, Chief of Interpol; and Colonel

Armando Calidonio, a member of the National Investigative Unit (Dirección Nacional de Investigación - DIN), a special investigative unit. He is also father to Armando Calidonio Jr., a future National Party Congressman, high level official in the Security Ministry and now mayor to San Pedro Sula.

Of those implicated in the killing, Colonel Torres Arias (pictured below) deserves special mention. *Tiempo* said the murder was planned from Torres Arias' G2 intelligence office in conjunction with Matta Ballesteros. But Torres Arias' involvement in Matta Ballesteros' operations appears to have gone much further than just helping to eliminate rivals. The colonel was also the go-between for official contacts in other countries, most notably with a Panamanian colonel named Manuel Noriega. The two colonels connected in the late 1970s, according to Jose Blandón, a former Panamanian official who worked for Noriega and testified before US Congress in the 1980s.<sup>44</sup> (Noriega would later become a military dictator, ruling Panama from 1983-1989, during which time he

facilitated the movement of illegal drugs to the United States, setting the stage for the 1989 US invasion of Panama.) Torres Arias was initially backed by the CIA, which turned a blind eye to his involvement in drug trafficking due to his strong anti-Communist credentials.

Torres Arias was, in other words, the key broker who provided Matta Ballesteros with a way into the military bureaucratic elite in Honduras, as well as Panama. Although he was pushed out of service following revelations of his secret meetings to secure illegal weapons deals for Salvadoran rebels, Torres Arias was said to have remained close to the underworld for years after leaving the military,<sup>45</sup> providing an intimate link between Matta Ballesteros and the Honduran military officer corps well into the late 1980s.

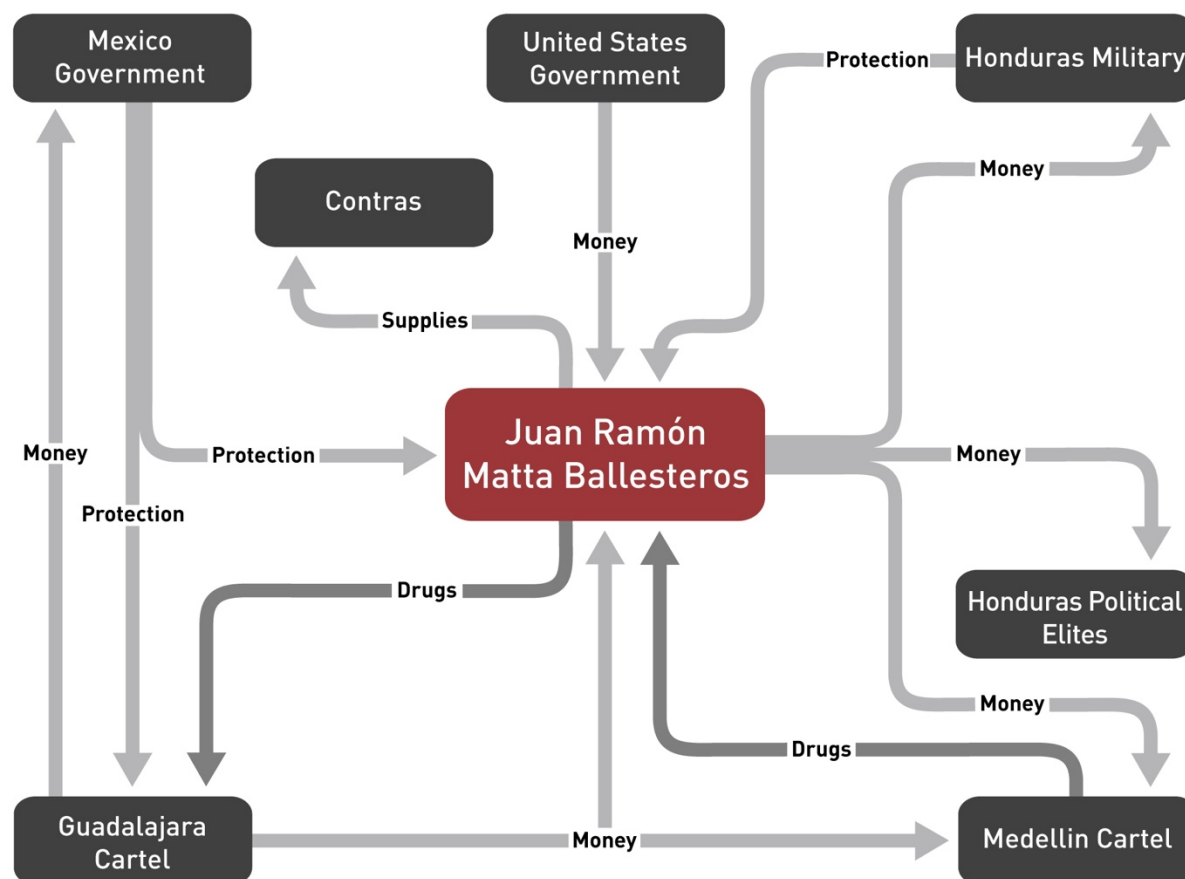
Despite various public statements linking military personnel to the crime, there were no convictions of any of the alleged co-conspirators for the murder of the Ferraris. The most famous declarations came from Interpol Chief Barahona, who, after being publicly linked to the crime, implicated the military in drug trafficking and in the Ferrari murders, saying that “many stars” had been involved -- a reference to the insignias denoting the highest-ranking officers in the armed forces. He also said that the head of the armed forces at the time, General Policarpo Paz García, had buried tape recordings and documents that connected high-level military officials to drug trafficking.<sup>46</sup> Barahona was later detained for slander, placed in solitary confinement, and denied access to his lawyer.<sup>47</sup>

Mario Ferrari’s father also penned a letter to the newspaper *Tiempo* in which he said his son had worked closely with military officials and that they were responsible for his death.<sup>48</sup> But in the years that followed, the government stalled, then buried the investigation. The implicated military officials were never charged. Matta Ballesteros fled, basing himself mostly in Spain for the next several years. He was eventually acquitted of the murder charges after turning himself in to the authorities some years later.<sup>49</sup>

The government also commissioned an internal report on the matter that found no wrongdoing on the part of the military. The military’s press office wrote that: “No military officer inside the armed forces has been involved in drug trafficking, the Ferrari case, or in the bloody incidents that the press is reporting.” Ironically, in the same communiqué, the press office admitted that, “Some members of the Armed Forces could have been involved in irregular acts in the course of their work, directly or indirectly.”<sup>50</sup>

## Matta Ballesteros, the Military and the CIA

*Figure 1: Matta Ballesteros' Drug Trafficking Network*



Drug trafficking continued and, by many accounts, increased in the years after the Ferrari murders. Some said that it was because of the ties traffickers forged during the 1970s with the high ranks of the military, including Matta Ballesteros' alleged link to Armed Forces General Paz García. Paz García became head of state in the so-called "cocaine coup" of 1978, which Matta Ballesteros allegedly helped finance.<sup>51</sup> There are no official documents to back up this assertion, but Matta Ballesteros' key interlocutor with the military, Torres Arias, remained on active duty through Paz García's tenure.<sup>52</sup>

The modus operandi for transporting illegal drugs then was similar to today. Marijuana and cocaine shipments moved through Honduran waters where Colombian "mother ships" would offload onto Honduran shrimp boats, which would then continue the

journey northward to the United States by sea, air, or land.<sup>53</sup> This happened with the knowledge and complicity of the Honduran Navy, a DEA agent testified in 1986.<sup>54</sup> The DEA agent said that when he would notify the navy of suspicious activity, it would stall or say it did not have fuel to chase the traffickers. Torres Arias, the head of the intelligence services, was involved in the drug trade, he added. “It was difficult to conduct an investigation and expect the Honduran authorities to assist in arrests when it was them we were trying to investigate,” the DEA agent said.<sup>55</sup>

These trafficking activities also often took place with the nod from US intelligence officials who were now enmeshed in a full-fledged proxy war against Nicaragua’s Sandinista government. The war, and the fight against communism in general, took precedence for the United States, and as a result they allowed the movement of drugs north and weapons and supplies south, often under the supervision of Matta Ballesteros and his military allies. Blandón, for example, said that by the early 1980s Torres Arias and Noriega were running drugs and trafficking weapons, including many to Salvadoran insurgents. Blandón added that the same clandestine landing strips in Honduras used by planes taking weapons to the US-funded proxy army known as the Contras were also used to traffic narcotics.<sup>56</sup>

At the heart of US assistance to the Contras was SETCO, an airline Matta Ballesteros set up in Tegucigalpa. SETCO connected Matta Ballesteros to the Honduran military and to the US government, which used it to move supplies to the Contras along the Honduran-Nicaraguan border in the early 1980s. Records show that the State Department paid \$185,924.25 to SETCO between January and August of 1986.<sup>57</sup>

“Beginning in 1984, SETCO was the principal company used by the Contras in Honduras to transport supplies and personnel for the FDN [Fuerza Democrática Nicaraguense, a Contra faction] carrying at least a million rounds of ammunition, food, uniforms, and other military supplies for the Contras from 1983 through 1985,” stated the Kerry Report -- named for then Senator and now Secretary of State John Kerry, who led the Senate Foreign Relations Committee’s inquiry into US support for the Contras.<sup>58</sup>

Matta Ballesteros was also using the company to move drugs north to his allies in Mexico. The report adds that other US agencies knew of SETCO’s role in trafficking drugs. “A 1983 Customs Investigative Report states that ‘SETCO stands for Services Ejecutivos Turistas Commander and is headed by Juan Ramón Mata [sic] Ballesteros, a class I DEA violator,’” the Kerry Report said. “According to the Drug Enforcement Agency [sic], ‘SETCO Aviation is a corporation formed by American businessmen who are dealing with Matta and are smuggling narcotics into the United States.’”



The contacts gave Matta Ballesteros and his military allies important cover as they moved cocaine and marijuana to the United States. It also strengthened his contacts with the Honduran military, which was surging with the assistance of the United States. The priority for the CIA was clear: keep the Contras afloat at any cost. To cite one example, the DEA agent who had worked in Honduras said he told the United States about Torres Arias' involvement in drug trafficking, but, he added, the colonel remained a US ally during this period.<sup>59</sup> For its part, the DEA office in Honduras was closed in 1983 for "budgetary reasons."<sup>60</sup>

"Instead of moving decisively to close down the drug trafficking by stepping up the DEA presence in the country and using the foreign assistance the United States was extending to the Hondurans as a lever, the United States closed the DEA office in Tegucigalpa and appears to have ignored the issue," the Kerry Commission wrote.<sup>61</sup>

US assistance also seemed to embolden certain parts of the Honduran military. In 1984, the FBI seized a \$40 million load of cocaine on a south Florida airstrip. The money, the FBI said, was to be used in a plot to assassinate then-Honduran President Roberto Suazo Córdova. One man was arrested in the United States, and the Honduran military attaché to Chile was implicated and extradited to the United States to face charges in the case. Top US intelligence officials, however, intervened on his behalf -- ostensibly because of his "service" to the United States in the Contra war -- and limited his punishment to five years at the Eglin Air Force base's prison camp. The other suspect got 30 years in a US jail for his involvement in the plot.<sup>62</sup>



"It appears that a compelling factor in United States-Honduran relations was support for American policy in the region, especially support for the Contra war," the Kerry Commission added in its scathing assessment of the matter. "As long as the Honduran government provided that support, the other issues were of secondary importance."<sup>63</sup>

These issues included questions swirling around the activities of Matta Ballesteros, who, by the mid-1980s, was one of the most important drug traffickers in the hemisphere. With allies in Colombia and Mexico, as well as a cadre of high-ranking Honduran military officers and the CIA protecting his illicit businesses, Matta Ballesteros appeared relatively untouchable. His connections to the Honduran military intelligence service, or



G2, seemed particularly powerful. According to one former member of the diplomatic service, the G2 requested a passport for Matta Ballesteros in 1982. “I went looking for the then-foreign chancellor,” the ex-diplomat explained. “He came, and he looked into it, and I remember that he shrugged his shoulders and said: give it to him; it’s a high-level request, and it’s part of a negotiation that I’m not familiar with.”<sup>64</sup>

## **The Murder of an Agent, the End of a Relationship**

In 1985, everything changed for Matta Ballesteros when the Guadalajara Cartel, angered by the DEA’s success in seizing large tracts of its marijuana crops in Mexico and cocaine shipments in the United States,<sup>65</sup> kidnapped and killed Enrique Camarena, a DEA agent. Camarena’s murder happened slowly. A year after his death, Mexican authorities turned over audiotapes of an hours-long torture session of the agent and his pilot, who was also killed.<sup>66</sup> In the tapes, Camarena groans in pain and pleads for his life, while giving away confidential information about DEA informants and fellow agents.<sup>67</sup> “With the beating you have given me do you think that I am going to lie to you?” he asks his interrogators.

Camarena and his pilot were found buried in a Guadalajara field, along with a number of other bodies.<sup>68</sup>

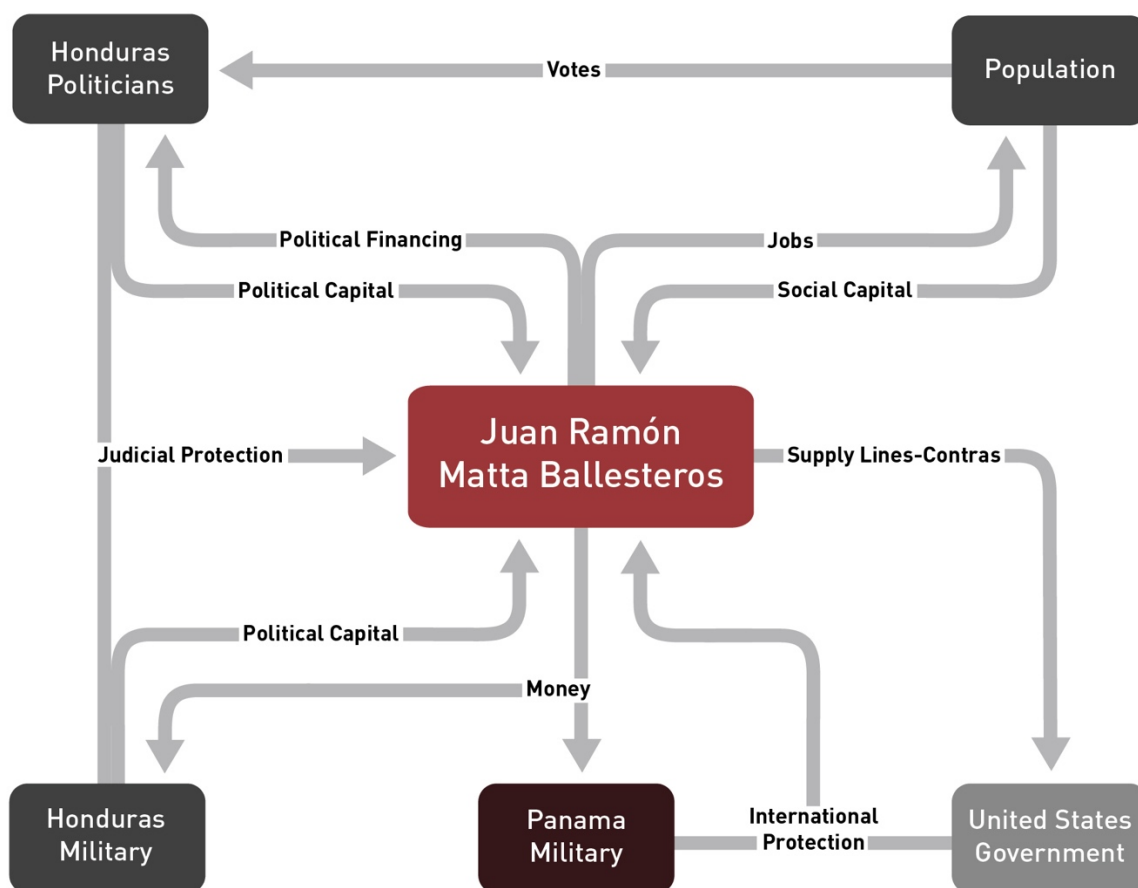
With Camarena’s death, the United States government began to operate on the margins of international law in order to arrest and try several international suspects. Over the next several years, numerous Guadalajara operatives and leaders were arrested and convicted in Mexico. Others were taken illegally from Mexico to face trial in the United States. Matta Ballesteros himself was arrested in Colombia in 1986, but with the Medellín Cartel’s help,<sup>69</sup> he escaped and made his way back to Honduras, where he felt protected by his vast network and wealth.

At first, this protection came in spades. Matta Ballesteros was a public figure in Honduras, known as much as a businessman and philanthropist as he was a drug trafficker. By one count, he had coffee, tobacco, spice, dairy and cattle holdings in Honduras; he also founded construction and agro-industrial companies.<sup>70</sup> He built schools and his businesses employed as many as 4,000 people.<sup>71</sup> He gave cash handouts from his front door and was known to call the pharmacy to secure medicine for the sick.<sup>72</sup> He once reportedly offered \$25,000 during a telethon, which was rejected but garnered him sympathy all the same.<sup>73</sup> He was, according to multiple military sources consulted for this study, humble and down-to-earth -- the type of person who enjoyed eating in the kitchen with his cooks.

Matta Ballesteros also wielded significant political influence. He hosted parties at his mansion where he allegedly entertained politicians, military officials and the then-

Honduran police chief.<sup>74</sup> At one point, like his business partner Pablo Escobar had once done in Colombia, he famously offered to pay off the country's foreign debt. Honduran officials seemed to think the offer might have been more than symbolic, and in 1986, then-Finance Minister Reginaldo Panting mused that Matta Ballesteros' money "would be welcomed in our country because it would help us to improve our balance of payments."<sup>75</sup>

**Figure 2: Matta Ballesteros' Elite Network**



The exchange about the foreign debt represents a glimpse into the mindset of Honduran power holders with regards to illicit capital. Honduras was an enclave economy, dependent on foreign capital for growth and economic development. This intensified in the 1980s when, as traditional exports waned, the country leaned heavily on US assistance and later multilateral banks. Viewed from this perspective, Matta Ballesteros' foreign-earned capital fit in well with the Honduras economic model. He was, in a way, a

new entrepreneur, one that could provide direct foreign investment and supply thousands with jobs. And, contrary to the case of Pablo Escobar in Colombia chronicled in one of our Colombian case studies, his largesse was publicly welcomed.

However, the noose around Matta Ballesteros' neck soon tightened. In part this was due to his involvement in the Camarena case. But it was also due to shifting domestic politics in the United States. In the 1980s, the US was suffering a spate of violence, some of which was related to increasing domestic drug consumption and drug dealing in its inner cities. For US politicians and government officials, foreign traffickers such as Escobar and Matta Ballesteros provided convenient scapegoats. With time, these fears would even supplant the communist threat and lead to the overthrow and jailing of one of Matta Ballesteros and Escobar's many regional partners, Panamanian military ruler Manuel Noriega.

By early 1988, the US government was openly discussing Matta Ballesteros (pictured left) and his high-level connections in the Honduran military. These included his



longtime conduit to the armed forces, former intelligence chief Torres Arias, who had returned to Honduras in 1987, just over a year after Matta Ballesteros himself had arrived.<sup>76</sup> Written questions submitted by US counternarcotics officials to a US congressional committee hearing referenced reports that Torres Arias, the former Honduran intelligence chief and ally of Matta Ballesteros, was an “influential advisor” to

the then-head of the armed forces, General Humberto Regalado, and to the chief of military intelligence.<sup>77</sup>

In the days following, a list of potential Matta Ballesteros collaborators, allegedly drawn up by the United States, was read aloud on Honduran radio. The list included the minister of defense, the director of Military Intelligence, the head of the navy, the armed forces chief of staff, and the former director of the military command school.<sup>78</sup> There was also the suggestion that Matta Ballesteros counted among his backers the chief of police, Leonel Riera Lunati, as well as employed a cadre of ex-Honduran Special Forces to work for him and his security company.<sup>79</sup> In a written response to the question about the relationship between Torres Arias and Regalado, the State Department downplayed this connection. “We do not believe he is an influential advisor,” it said, referring to Torres Arias. “It is normal that Torres would know Regalado and other Honduran military officers with whom he served.”<sup>80</sup>

However, the US government was clearly worried.<sup>81</sup> The congressional hearing on the matter in March 1988 began with congressman Benjamin Gilman of New York outlining the challenges in Honduras. “A member of the Medellín cocaine cartel, Juan Matta Ballesteros, has set up shop in Honduras,” he said. “Already he is extending his corrupting influence in that society. He is attempting to buy off officials in the Honduran government. Ballesteros is a tough and savvy drug trafficker.”<sup>82</sup>

The congressman later noted the Honduran military’s alleged involvement in Matta Ballesteros’ criminal activities. “I am also concerned about recent reports that some of the military officers in Honduras may very well be involved in drug trafficking, and I hope we’re not going to look the other way because of certain other security interests there,” he said, in reference to the ongoing proxy war against the Sandinista regime in neighboring Nicaragua. “I hope that Mr. Ballesteros has not already succeeded in building a drug trafficking network in Honduras, with the cooperation of some of these corrupt military officers.”<sup>83</sup>

While it had downplayed Torres Arias’ ongoing connections to the upper echelons of the Honduran military, the State Department was also worried about what was happening in Honduras. During that same hearing, the State Department’s assistant secretary at the Bureau for Inter-American Affairs, Elliott Abrams, said cocaine trafficking immediately increased after Matta Ballesteros arrived in the country.<sup>84</sup> In February 1988, the US State Department had issued a statement outlining these concerns.

“The department and many Honduran officials, including the senior leadership of the armed forces, became seriously concerned about the possibility of significantly increased drug trafficking when Juan Ramón Matta Ballesteros returned to Honduras from Colombia,” the State Department said. “We believe he is attempting to create a drug-trafficking network in Honduras undoubtedly with the cooperation of some corrupt officials. However, we don’t believe that such corruption has yet become pervasive.”<sup>85</sup>

The message was clear. It was time to cut ties with Matta Ballesteros, and, on April 5, the Honduran Special Forces and police, along with four US marshals, intercepted him following his morning jog, bundled him up and transported him to the Dominican Republic. From there, in what can only be considered an extraordinary rendition, he was taken to the United States to face charges on the Enrique Camarena case, among others.<sup>86</sup> Thousands of Hondurans, angered by the move and allegedly encouraged by the military, later protested and burned an annex of the US consulate.<sup>87</sup> Five died, and US officials said it took two hours for the Honduran authorities to respond to their call for help.<sup>88</sup> Matta Ballesteros was later convicted of kidnapping in a Los Angeles court,<sup>89</sup> and of drug trafficking in a separate trial, and remains in a US federal prison.

## **Conclusions - A Mutually Beneficial Relationship**

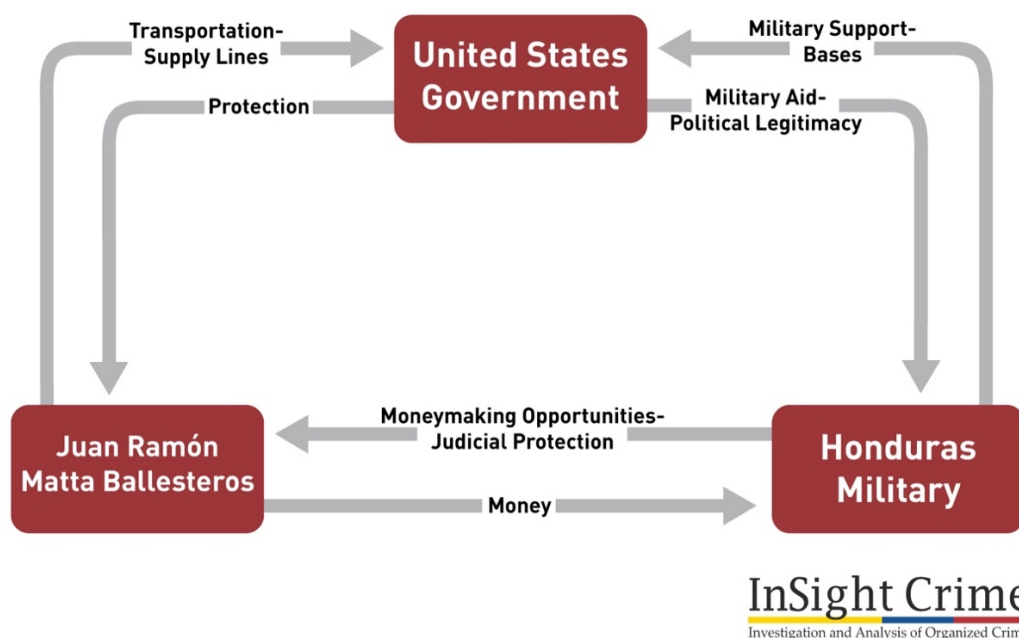
The relationship between Matta Ballesteros and the military-bureaucratic elites was born out of opportunity and circumstance, but it became essential for both sides. The relationship began because Matta Ballesteros and his criminal allies at the time, the Ferraris, needed the military's help to smuggle emeralds and illegal drugs. The military controlled the airports, the borders, and the customs and immigration offices, among other vital government posts. This control of bureaucratic positions made them an obstacle for trafficking illicit goods. Rather than go around this obstacle, the criminal network decided to coopt the military, and make them part of the team. It was a symbiotic relationship at the most basic operational level.

However, the relationship went beyond this basic level to include the highest echelons of the armed forces and even the government. How it permeated so far is not clear. Nor is it clear whether this penetration went from the bottom up or the top down. What is clear is that it reached into the heart of the military intelligence services. Matta Ballesteros' key ally Torres Arias was not a mere border guard or low-ranking soldier when he allegedly participated in the murder of Ferraris; he was the head of the G2 military intelligence service. The distinction is critical -- and the services he offered were vital.

Torres Arias appears to have been both the protector and the conduit through which Matta Ballesteros developed a deep and lasting relationship with the military. While at first he provided protection, over time he became an offensive weapon, giving access to equipment, arms and personnel. Matta Ballesteros most likely used these assets to kill his powerful allies, the Ferraris, once they stopped being useful to him or crossed him. Torres Arias also helped provide conduits through other countries, such as Panama, where his relationship with Manuel Noriega proved equally important.

From that point on, what emerged was nothing short of a partnership between the Matta Ballesteros network and the military-bureaucratic elite. Matta Ballesteros used his contacts in the military to create a vast and lucrative passageway for drugs moving north on behalf of his partners in both Colombia and Mexico. He cleverly intersected his interests with those of the military and the military's other patron, the United States -- a point we shall return to in a moment. The use of the SETCO airline was, for instance, the move of a chess master who understood how to satisfy the needs of local and international political actors at the same time as he was satisfying his own ends. It was, in other words, a win-win-win.

**Figure 3: Matta Ballesteros' Mutually Beneficial Relationships**



Along the way, Matta Ballesteros became one of the most powerful drug traffickers in the world, amassing a fortune that some said reached into the billions of dollars.<sup>90</sup> He used economic capital abroad to keep himself from facing any real prison time, bribing and threatening officials and prison authorities when necessary, in places like Colombia and possibly Spain. And he used his political and social capital to keep himself out of jail in Honduras.

It's tempting to imagine what would have happened to Matta Ballesteros had he taken a slightly different path. His economic, political and social base had positioned him well to transition into a more established elite. (As we shall see, it is a transition that his family has sought to continue, with limited success.) And he had a way of winning over the common people that went beyond his fame as a drug trafficker.

"Birds always keep their nest clean," a retired army colonel told InSight Crime. "And 'Moncho' Matta wanted to live in Honduras. He wanted to help his country. He didn't want to be a trafficker. If you asked me, 'How do the people see the narcos?' The answer is simple: they provide employment, they put food on the table. They help, they protect them. They make them feel that they are one of them. That's why the people admire



them. And being pragmatic, what do the people want? To die of hunger with honor or to eat three times a day without honor because of what the narco is doing? The answer is clear.”<sup>91</sup>

When Matta was in jail for a few days in Tegucigalpa, after he’d escaped from a Colombian jail and had returned to Honduras, people went to visit him. “The lines were enormous,” an ex military officer told InSight Crime. “They brought him food and in return, he gave them love [money]. Later, they went to his house in the Los Angeles neighborhood [of Tegucigalpa], and that is why when they extradited him the people took to the streets to defend him and to protest. He had established social network that protected him.”<sup>92</sup>

It was this political and social capital that made him seem so dangerous to the United States, and accelerated his conversion from erstwhile anti-communist ally to drug trafficking enemy. His defiant public persona after he returned to Honduras, along with his involvement in the murder of a DEA agent, made him an easy scapegoat for a US political establishment that was searching for people to blame during a period of domestic turmoil. That murder, and his overt ambition to become a legitimate power broker, eventually caught up to him. It also impacted his family. His children could not get into the elite-run schools.<sup>93</sup> The country clubs were off limits. Even his attempt to bankroll a telethon was rejected because of his reputation as a drug trafficker.

This incident -- perhaps Matta Ballesteros’ first public attempt to gain legitimacy among the elites -- ended in humiliation. He offered a large donation to the Telethon Foundation, but was rejected by its main sponsor, media entrepreneur Rafael Ferrari, who publicly said that the money was not welcome. “I remember when Don Rafael Ferrari came amid the Telethon to reject this donation which I think was more than one million lempiras, a lot of money back then, with which the target was met and exceeded. But he was very brave to say no to that drug money; it was a blow to Matta,” a journalist who covered the event told InSight Crime.<sup>94</sup>

The event illustrated that Matta could never be an elite in the traditional sense because his criminal acts, most notably the murder of a DEA agent, were simply too public and the figure of a drug trafficker too low on the social scale.

Ambition was at the heart of the downfall of the Honduran military as well. Ironically, the military might well have achieved its vast political power without Matta Ballesteros. (Pictured below) It had emerged as a bureaucratic elite before Matta Ballesteros became its unofficial patron. The armed forces had gone from protector of the country’s wealth to active participant in and beneficiary of its creation. This was part of a path the military had forged by controlling critical government posts and state resources, as well

as developing a political acumen that reached across class lines. The military's power was such that it drew both traditional and eventually transnational elites into its fold, positioning itself to become a long-term power broker.

However, some members of this bureaucratic elite sought more power through a share in the vast illegal proceeds that were there for the taking. The temptation is understandable. The drug money was significant, and came with undeniable power. Operating with underworld figures gave some military officials the resources to branch into new businesses and extend their political reach and influence. And, as we shall see, some of the families who allegedly worked with Matta Ballesteros have become part of new elite that is running the country today.

Whether this was a top-down strategy is unknown and arguably irrelevant. The military's relationship with Matta Ballesteros reached its highest levels. Others in the institution ignored that relationship, benefitted from it or participated directly in it for at least a decade despite its clear repercussions for the military's internal dynamics.



There are some, for example, that say this relationship may have fostered the coup in the late 1970s that put General Paz García in power. While there is little evidence to back this assertion, the official identified as Matta's key contact in the military -- Torres Arias -- retained his powerful connections with high-level army officers for years after he'd been connected to Matta Ballesteros.

There was no visible revolt against the military's connection with Matta Ballesteros until it jeopardized the institution's relationship with the United States. Following Matta Ballesteros' capture in April 1988, The New York Times reported that there had been a "bitter factional struggle" within the Honduran military in the days leading up to his arrest between those who wanted to continue working with the trafficker and those who wanted to sever ties. The article cited the congressional hearings in which Blandón and others spoke about Honduran military complicity with drug trafficking as the tipping point.<sup>95</sup>

In the days that followed the capture and extraordinary rendition of Matta Ballesteros, Honduran authorities were also in a near total state of confusion as they sorted through who was to blame for Matta Ballesteros' situation and under what legal statute he'd been sent to face trial abroad. Although the minister of Foreign Relations claimed the arrest order had come from the courts, Salomón Jiménez Castro, the head of the Supreme Court -- the institution with the final say over the extradition of any Honduran citizen --

said the court had nothing to do with the capture and deportation of Matta Ballesteros. Jiménez added that the US had not made an extradition request.<sup>96</sup> Days later, Interior Minister Romualdo Bueso Peñalba said there was not even a functioning extradition treaty between the countries.<sup>97</sup>

But far from saving Honduras via a public shaming and an illegal arrest, the US government shares the blame for the Honduran military's unholy alliance with traffickers. The United States had been sending mixed signals to its ally because of its other political interests in the region. Specifically, the CIA's active relationship with Matta Ballesteros' airline SETCO, as well as with figures like Torres Arias in the early 1980s, were an unofficial green light that illegal proceeds from the drug world were acceptable, as long as they served the greater purpose of fighting communism. The message changed only after the Honduran military's criminal ally became involved in the murder of a US anti-drug agent. The killing, coupled with an increasing pressure to deal with drug violence at home, pushed the US government to give the Honduran military an ultimatum on Matta Ballesteros: Him or us?

The Matta Ballesteros arrest was the end of an era for the Honduran military. The decadence and arrogance that characterized it, especially in the 1980s, had come to an abrupt and public end. Its principal legitimate patron, the United States, had essentially shamed it into shifting its priorities and reining in its unofficial patron (Matta Ballesteros). The public uprising that followed the arrest illustrated just how much political and social capital Matta Ballesteros had built in Honduras. It also illustrated the frustration of the population that the country had been used as a US military base for nearly a decade.

Following the extraordinary rendition of Matta Ballesteros, the Honduran military began a backslide into political purgatory. While the arrest of Matta Ballesteros did not cause this shift, it contributed to it. The civilian government soon replaced military supervisors that had run various state institutions for years. This included national phone company Hondutel, the Agrarian Institute and immigration services. The business association APROH distanced itself from the military core that had created it. And the government formally reestablished a civilian police force, separate from the military.

Still, various ex-military officials used this period to launch business and political careers, setting the stage for the next generation of bureaucratic elites. To be sure, the bureaucratic elite that emerged in the half century prior to Matta Ballesteros' arrest did not disappear after it, but simply shifted gears, rebranded itself as the country's top crime fighting body, and embraced its long-time alliance with the National Party. The results are evident in today's ruling class.

## **Epilogue: The New Bureaucratic Elite and Organized Crime**

On July 31, 2014, Honduran authorities seized 17 properties belonging to Juan Ramón Matta Waldurraga, the son of Juan Ramón Matta Ballesteros.<sup>98</sup> There had long been rumors about Matta Waldurraga's involvement in the drug trade, and the family has had various run-ins with the law since Matta Ballesteros was jailed. In 1993, Colombian police arrested Jaime García García, Matta Ballesteros' brother-in-law, and charged him with trafficking cocaine to the United States via Costa Rica.<sup>99</sup>

In 2004, an airplane carrying illegal drugs landed in front of one of Matta Waldurraga's properties in the state of Olancho, having allegedly come from Colombia.<sup>100</sup> In the following years, Colombian authorities also confiscated properties and detected large sums of money from the family moving in and out of that country.<sup>101</sup> And in 2005, the director of immigration for Honduras was arrested for allowing 14 Colombians linked to Matta Waldurraga (pictured right) to enter the country without visas.<sup>102</sup>

In interviews for this report, current and former officials routinely referred to Matta Waldurraga as his father's successor in the drug trade, as well as a person who manages government contracts and serves as a kind of informal bank for the underworld. But the recent seizures were not accompanied by a public order for his arrest, and Matta Waldurraga has never been charged with a



crime in Honduras. In declarations to the press, Matta Waldurraga called the 2014 seizure operation a “*payasada*,” a joke, and said the property was inherited from his grandmother.<sup>103</sup> The family also protested the government's confiscation of its property, but there was little it could do. The properties, the Honduran government said, were purchased with illegal proceeds and were thus subject to confiscation under a new law the government had passed just two years earlier.<sup>104</sup>

The government's aggressive actions against the family would have been a surprise if it had not already made clear its intention of taking a hard line on crime. Since entering office in 2014, the administration of Juan Orlando Hernández, a National Party stalwart with a military education and bloodline, had illustrated its resolve against the drug trade. In addition to its actions against the Matta Ballesteros clan, the Hernández administration had captured and extradited a Honduran accused of drug trafficking to the United States -- the first national extradited in over 100 years;<sup>105</sup> and captured three top members of the Valle Valle clan,<sup>106</sup> a powerful drug trafficking family based in the

western department Copán, who one US official told InSight Crime had been moving up to 20 tons of cocaine per month through the country.<sup>107</sup> The Honduran government had also effectively declared the country a no-fly zone for traffickers when it passed a law authorizing the air force to shoot down suspected drug flights in its air space.<sup>108</sup> By late 2014, nearly half of the Honduran drug traffickers wanted in the US were in custody,<sup>109</sup> and drug flights were down considerably, according to interviews with Honduran and international drug agents.<sup>110</sup>

Hernández established his administration as firmly opposed to organized crime, and he did it with a coalition that was eerily reminiscent of the military-dominated government of the 1980s. While he has not served in the military himself, Hernández -- who is a long-time National Party strongman and a former president of Congress -- has surrounded himself with numerous current and former military personnel. This includes his brother, Amílcar Hernández, who is one of his most important security advisors; retired General Julián Pacheco, who has held several important posts including that of security minister; and Oscar Álvarez, a former Honduran Special Forces officer who trained and studied in the United States and has held ministerial and congressional posts.

For his part, Pacheco is arguably the most powerful member of the bureaucratic elite since Paz García left office in 1981. After winning the presidency, Hernández immediately tapped the former head of military intelligence to direct FUSINA, an inter-agency task force created to fight organized crime. Among other powers, FUSINA has control over the National Anti-Extortion Force (Fuerza Nacional Antiextorsión - FNA). The FNA controls the government's only phone-interception unit and reportedly maintains tight control of intelligence operations. Pacheco's powers increased in early 2015, when he became the country's first active military general to be appointed security minister. He had to officially retire from service to take the post, and, in an interview with InSight Crime, he claimed that rumors about his reach were greatly exaggerated.<sup>111</sup> "I don't have as much power as people credit me with because it's not true," he said. "Plus the only power I can have is the experience I've managed to accumulate over a 35-year career."

*Table II: Current/former military officials who have served under the Hernández Administration*

Name	Position	Relation to the Armed Forces
Juan Orlando Hernández	President	Reserve Sub-Lieutenant  Studied at the Northern Military School in San Pedro Sula
Amílcar Hernández	President's Advisor on Security and Defense	Colonel
José Lima Bueso	Vice-Minister of Security	Colonel
Nelson Willys Mejía Mejía	National Director of the Merchant Navy	General
Julián Pacheco Tinoco	Secretario de Seguridad  Previously national investigation and intelligence director	General
Manuel Enrique Cáceres Díaz	National Director of the Civil Aviation Authority (DGAC)	General
Mario Hung Pacheco	Coordinator of inter-agency team on prisons	General  Former Head of the Armed Forces
René Osorio Canales	Comisionado Presidencial para las Zonas Especiales de Desarrollo Económico (ZEDES) (Ciudades Modelo)  Security Advisor to the President	General  Former head of the Armed Forces
Girodano Bruno Fontana Hedman	Superintendent at the National Port Authority (ENP)	Rear Admiral  Former Head of the Navy
Carlos Girón Ayala	National Director of the Honduran Agriculture Marketing Institute (IHMA)	Colonel
José Francisco Bustillo Murcia	Social Fund for Housing (FOSOV)	Colonel

Another close advisor to the president is Álvarez. Álvarez is a descendant of the military-bureaucratic elite: his uncle was General Gustavo Álvarez Martínez, the founder of the military-founded business association APROH. He trained with US Special Forces before serving in the Honduran Special Forces. As a powerful member of the National



Party, Álvarez has been a close advisor to more than one president. He was security minister in 2002 and then again in 2010, under Porfirio Lobo, who he also helped get elected. He later did the same for Hernández, working on his campaign and helping design his security strategy. Álvarez was elected to congress in 2013, and is the head of the National Party's caucus in the legislative body.

One of Álvarez's close party confidants over the years is also from an important military family. Armando Calidonio Alvarado served as Álvarez's second at the Security Ministry from 2002-2005 and then again from 2010-2011. He also worked on the campaigns of Lobo and Hernández, and became a congressman. In 2013, he was elected mayor of San Pedro Sula. Calidonio's father, also named Armando Calidonio, was one of those accused of links to the Matta Ballesteros network following the assassination of the Ferraris.

Echoing the 1970s military governments, Hernández has stacked the government with military personnel in what are traditionally civilian-held positions. In addition to Pacheco, he has placed military personnel as the heads of Civilian Aeronautics, the prison system, the national ports, the special "development zones," the agricultural development institute and the housing authority.

The Hernández government is, in essence, a hybrid of bureaucratic and traditional land-owning elites. The president's own background illustrates this fusion. One of 17 children, Hernández studied at a military school, but his family was small coffee farmers. He seems to have ascended via his political connections and his marriage to Ana García Carias, a direct descendent of the military dictator Tiburcio Carías Andino, the same Carías Andino who had set in motion numerous changes in the military that led to its eventual emergence as a bureaucratic elite. These connections have helped Hernández secure lucrative business deals. He reportedly owns coffee farms, amongst other agricultural holdings, as well as hotels, and radio and television stations.<sup>112</sup> Hernández is also a National Party strongman. He has gained support for and received support from party heavyweights such as Porfirio Lobo and his brother, Ramón, and he reportedly tightly stage-manages the party. He has been linked to a mysterious lobbying group called Colibrí, which has reportedly engineered lucrative government contracts and kickback schemes for its members and supporters.<sup>113</sup>

However, the Hernández administration's power is most evident in the security forces. In addition to centralizing the control and flow of intelligence through the hands of Security Minister Pacheco, as president of congress he engineered a law that created a 5,000-member military police.<sup>114</sup> As president of the country, he has strengthened that force. Both Hernández and Pacheco insist that the military police is only a temporary measure, but in 2015 Hernández moved to enshrine the force in the country's

constitution. The measure failed. However, Hernández (pictured below) said he would try again at a later date.<sup>115</sup>

The reach and power of the military-bureaucratic elite frightens some observers, especially since the institution's relationship with organized crime is still in question. Álvarez's first tenure as security minister, for instance, coincided with a crackdown on gangs in Honduras carried out, in part, by a police-run death squad known as the Magnificos.<sup>116</sup> One alleged member of this group was a police commander named Juan Carlos "El Tigre" Bonilla. The police inspector at that time said she had initiated 13 internal investigations into Bonilla's activities, including the murder of several men who had kidnapped and killed a former minister, Reginald Panting, the same man who had publicly entertained Matta Ballesteros' offer to help pay down the country's debt.<sup>117</sup> The cases were archived, the inspector said, because of Álvarez.

Though President Hernández has not himself been implicated in criminal activities, his



presidential campaign had some questionable operatives, including Hugo Ardón, who headed up Hernández's presidential campaign in the western part of the country. Ardón ran the highway authority for years up until June 2015, during which time he approved numerous government contracts to companies run by criminal groups such as the Cachiros, a once powerful clan based in the Colón province and the subject of our other Honduras case study. Ardón's brother, Alexander, was the mayor of El Paraíso, Copán, an important drug trafficking

corridor. As mayor, Alexander became infamous for having reconstructed city hall in the image of the White House, complete with a heliport. Authorities told InSight Crime in 2015, they were investigating Alexander for drug trafficking.<sup>118</sup>

The National Party has had its share of high level figures connected to criminal activities. Ramón Lobo, a former congressman and brother of former President Porfirio "Pepe" Lobo has been under scrutiny for years. Ramón's daughter, Margarita, was injured in a 2003 attack by the Cachiroscriminal organization on a rival trafficker who was allegedly dating Margarita at the time. In 2012, Ramón himself attended the inauguration of a gasoline station and mall in the state of Colon; the mall was constructed by Javier Rivera Maradiaga, the leader of the Cachiros.<sup>119</sup>

Pepe Lobo has also been connected to criminal elements. During his term in office, the son of José Natividad "Chepe" Luna Pereira, posted a photo of the then-president on

Facebook with his father. Luna, a Salvadoran national wanted at the time by the United States for drug trafficking, owned and ran a fleet of buses and trucks from his headquarters in San Pedro Sula. When he was arrested in Honduras in 2011, during Lobo's time in power, Salvadoran and US authorities scrambled to get him deported to El Salvador where he was facing drug trafficking charges, but a judge mysteriously released him before they could mobilize their resources. Lobo did not return InSight Crime's efforts to seek comment.<sup>120</sup> Luna was assassinated in San Pedro Sula in 2014.<sup>121</sup>

The Lobo family has continued to face scrutiny since Lobo left office. In May 2015, Lobo's son, Fabio Lobo Lobo, was captured, reportedly in Haiti, and taken to New York to face drug trafficking charges.<sup>122</sup> Lobo did not defend his son and told the press that he would have to face the consequences of his actions. In a tweet, the US Ambassador to Honduras, James Nealon, declared: "No one is above the law."

*\*This report was written by Steven Dudley. Dudley, along with researchers from the Centro de Investigación y Promoción de los Derechos Humanos (CIPRODEH) and the Asociación para una Sociedad más Justa (ASJ), as well as an independent researcher who wishes to remain anonymous, assisted in the investigation and production of this report. Jorge Mejía Galindo developed the maps. Andrew J Higgins did all the graphics.*

## Endnotes

[1] James LeMoyne, "Military Officers in Honduras Are Linked to the Drug Trade," New York Times, 12 February 1988. Available at: <http://www.nytimes.com/1988/02/12/world/military-officers-in-honduras-are-linked-to-the-drug-trade.html>. See also: Steven Dudley and Michael Lohmuller, "Docs Reveal CIA-Guadalajara Link, Not Conspiracy," 13 November 2013. Available at: <http://www.insightcrime.org/news-analysis/the-death-of-camarena-and-the-real-cia-guadalajara-cartel-link>

[2] Larry Rohter, "Seized Honduran: Drug Baron or a Robin Hood?," The New York Times, 16 April 1988. Available at: <http://www.nytimes.com/1988/04/16/world/danli-journal-seized-honduran-drug-baron-or-a-robin-hood.html>

[3] Julie Marie Bunck and Michael Ross Fowler, *Bribes, Bullets, and Intimidation: Drug Trafficking and the Law in Central America* (University Park, PA, 2012), p. 276.

[4] US Senate, "Drugs, Law Enforcement and Foreign Policy: A Report Prepared by the Subcommittee on Terrorism, Narcotics and International Operations of the Committee on Foreign Relations" (a.k.a., the Kerry Committee Report), December 1988, p. 77.

[5] Affidavit quoted in US Department of State Cable to US Embassy in Honduras, "Update on USG Prosecutions of Matta," 15 July 1988.

[6] Ibid.

[7] Ibid.

[8] US 9th Circuit Court of Appeals, “USA v Matta Ballesteros,” No. 91-50336, 1995.

[9] US Department of State Cable to US Embassy in Colombia, “Information on the arrest of Matta Ballesteros,” 25 May 1988.

[10] Ibid.

[11] US Embassy in Honduras Cable to US Department of State, et al., “Honduran public reaction to Matta’s arrest,” 8 April 1988.

[12] Los Angeles Times, “1,000 Attack US Embassy in Honduras,” 8 April 1988. Available at: [http://articles.latimes.com/1988-04-08/news/mn-1123\\_1\\_u-s-embassy](http://articles.latimes.com/1988-04-08/news/mn-1123_1_u-s-embassy)

[13] Ibid.

[14] El Heraldo, “Las protestas más violentas contra EUA en Latinoamérica,” 14 April, 1988.

[15] Fuerzas Armadas de Honduras, “Historia de las Fuerzas Armadas de Honduras.” Available at: <http://www.ffaah.mil.hn/>

[16] The military was used to suppress striking workers on behalf of banana companies, for example. See: Thomas M. Leonard, *The History of Honduras* (Santa Barbara, CA, 2011), p. 88; and Robert Jackson Alexander, Eldon M. Parke, *A History of Organized Labor in Panama and Central America* (Westport, CT, 2008), p. 122.

[17] Instituto de Prevision Militar, “Historia y Creacion.” Available at: <http://grupoipm.hn/sobre-ipm/historia-y-creacion/>

[18] The National Party is the more conservative of the two dominant parties, founded by a general and allied with the military during the period of military rule. See: “Two Traditionally Dominant Parties,” in Tim Merrill (ed.), *Honduras: A Country Study* (Washington, DC 1995). Available at: <http://countrystudies.us/honduras/>

[19] US Agency for International Development (USAID), “US Overseas Loans and Grants: Obligations and Loan Authorizations, July 1, 1945–September 30, 2012.” Available at: <https://eads.usaid.gov/gbk/>

[20] US Senate, “Drugs, Law Enforcement and Foreign Policy: A Report Prepared by the Subcommittee on Terrorism, Narcotics and International Operations of the Committee on Foreign Relations” (a.k.a., the Kerry Committee Report), December 1988, p.73.

[21] Peter Meyer, “Honduras-US Relations,” Congressional Research Service, 24 July 2013, p.19. Available at: <http://www.fas.org/sgp/crs/row/RL34027.pdf>

[22] Leslie Bethel (ed.), *The Cambridge History of Latin America, Volume 7: 1930 to the Present* (New York, 1990), p. 311.

[23] Manuel Torres Calderón, “La élite, su orientación y fundamentos geográficos en Honduras,” to be published in a forthcoming FLACSO-Costa Rica book edited by Eric Hershberg entitled, *Elites y la configuración del poder en Centroamérica: Dinámicas de acumulación y sus consecuencias*, Vol. 2.

[24] Tanya M. Kerssen, *Grabbing Power: The New Struggles for Land, Food and Democracy in Northern Honduras* (Oakland, CA, 2013), p. 8.

[25] Manuel Torres Calderón, “La élite, su orientación y fundamentos geográficos en Honduras,” to be published in a forthcoming FLACSO-Costa Rica book edited by Eric Hershberg entitled, *Elites y la configuración del poder en Centroamérica: Dinámicas de acumulación y sus consecuencias*, Vol. 2.

[26] The Matta Ballesteros family established a website dedicated to the “grandfather, father, husband, brother and friend.” Available at: <http://www.juanRamónmata.com/origenes/>

[27] Julie Marie Bunck and Michael Ross Fowler, *Bribes, Bullets, and Intimidation: Drug Trafficking and the Law in Central America* (University Park, PA, 2012), p. 271.

[28] El País, “Del autobús a la avioneta,” 4 December 1990. Available at: [http://elpais.com/diario/1990/12/04/espana/660265220\\_850215.html](http://elpais.com/diario/1990/12/04/espana/660265220_850215.html)

[29] InSight Crime interview, political analyst who wished to remain anonymous, Tegucigalpa, 25 April 2014.

[30] Larry Rohter, “Seized Honduran: Drug Baron or a Robin Hood?,” The New York Times, 16 April 1988. Available at: <http://www.nytimes.com/1988/04/16/world/danli-journal-seized-honduran-drug-baron-or-a-robin-hood.html>

[31] Michael Kenney, “From Pablo to Osama: Trafficking and Terrorist Networks, Government Bureaucracies, and Competitive Adaptation” (University Park, PA, 2007), p. 240.

[32] Julie Marie Bunck and Michael Ross Fowler, *Bribes, Bullets, and Intimidation: Drug Trafficking and the Law in Central America* (University Park, PA, 2012), p. 271.

[33] Larry Rohter, “Seized Honduran: Drug Baron or a Robin Hood?,” The New York Times, 16 April 1988. Available at: <http://www.nytimes.com/1988/04/16/world/danli-journal-seized-honduran-drug-baron-or-a-robin-hood.html>

[34] Julie Marie Bunck and Michael Ross Fowler, *Bribes, Bullets, and Intimidation: Drug Trafficking and the Law in Central America* (University Park, PA, 2012), p. 272.

[35] The core of this group would spawn some of the most famous criminal groups in Mexico: the Sinaloa, Juarez and Tijuana Cartels.

[36] US 9th Circuit Court of Appeals, “USA v Matta Ballesteros,” No. 91-50336, 1995.



[37] Thelma Mejia, “Unfinished Business: The Military and Drugs in Honduras,” Transnational Institute, 1 December 1997. Available at: <http://www.tni.org/article/unfinished-business-military-and-drugs-honduras>

[38] Julie Marie Bunck and Michael Ross Fowler, *Bribes, Bullets, and Intimidation: Drug Trafficking and the Law in Central America* (University Park, PA, 2012), p. 277.

[39] Ibid.

[40] Ibid.

[41] Thelma Mejia, “Unfinished Business: The Military and Drugs in Honduras,” Transnational Institute, 1 December 1997. Available at: <http://www.tni.org/article/unfinished-business-military-and-drugs-honduras>

[42] Ibid.

[43] See, among other accounts in La Prensa: “Pagó para hacer desaparecer fichas delictivas en la DNI,” 2 April 1986, p. 4; “Crimen de los esposos Ferrari deuda de Matta ante la justicia hondureña,” 1 April 1986, p. 5; “En libertad hermanos Reyes, responsables de la muerte de los esposos Ferrari,” 4 September 1996, p. 6; “El caso Ferrari: Una historia de mafias, venganzas, terror, y romance,” 1 April 1986, p. 2. Various of these reports are also referenced in Julie Marie Bunck and Michael Ross Fowler, *Bribes, Bullets, and Intimidation: Drug Trafficking and the Law in Central America* (University Park, PA, 2012).

[44] US Senate, “Drugs, Law Enforcement and Foreign Policy: A Report Prepared by the Subcommittee on Terrorism, Narcotics and International Operations of the Committee on Foreign Relations” (a.k.a., the Kerry Committee Report), December 1988, pp. 74-75.

[45] James LeMoine, “Military Officers in Honduras Are Linked to the Drug Trade,” New York Times, 12 February 1988. Available at: <http://www.nytimes.com/1988/02/12/world/military-officers-in-honduras-are-linked-to-the-drug-trade.html>

[46] Thelma Mejia, “Unfinished Business: The Military and Drugs in Honduras,” Transnational Institute, 1 December 1997. Available at: <http://www.tni.org/article/unfinished-business-military-and-drugs-honduras>

[47] John Saunders, “Drug fighter is silenced,” The Globe and Mail, 27 July 1978.

[48] Thelma Mejia, “Unfinished Business: The Military and Drugs in Honduras,” Transnational Institute, 1 December 1997. Available at: <http://www.tni.org/article/unfinished-business-military-and-drugs-honduras>

[49] La Prensa, “Absuelto Ramón Matta,” 23 August 1986, pp. 4-5. Cited in Bunck and Michael Ross Fowler, *Bribes, Bullets, and Intimidation: Drug Trafficking and the Law in Central America* (University Park, PA, 2012).

[50] Thelma Mejia, “Unfinished Business: The Military and Drugs in Honduras,” Transnational Institute, 1 December 1997. Available at: <http://www.tni.org/article/unfinished-business-military-and-drugs-honduras>

[51] Peter Dale Scott and Jonathan Marshall, “Cocaine Politics: Drugs, Armies, and the CIA in Central America” (Berkeley, CA, 1998), p. 54.

[52] US Congress, House Committee on Foreign Affairs, “Narcotics review in Central America: Hearing before the Committee on Foreign Affairs, House of Representatives, One Hundredth Congress, second session, March 10, 1988” (Washington DC, 1988), p. 79.

[53] US Senate, “Drugs, Law Enforcement and Foreign Policy: A Report Prepared by the Subcommittee on Terrorism, Narcotics and International Operations of the Committee on Foreign Relations” (a.k.a., the Kerry Committee Report), December 1988, pp. 74-75.

[54] Ibid, p. 75.

[55] Ibid.

[56] “Drugs, Law Enforcement And Foreign Policy: Report By The Committee On Foreign Relations, US Senate” (Washington, DC, 1989), p. 74.

[57] US Senate, “Drugs, Law Enforcement and Foreign Policy: A Report Prepared by the Subcommittee on Terrorism, Narcotics and International Operations of the Committee on Foreign Relations” (a.k.a., the Kerry Committee Report), December 1988, p. 43.

[58] Ibid, p. 45.

[59] At least one report slightly contradicts this claim. It says Torres Arias was sent to Argentina in 1981, presumably to get him out of the way. He was discharged in 1982. See: Doyle McManus and Ronald J. Ostrow, “U.S. Aides Link Honduran Military Chief, Drug Trade,” 13 February 1988. Available at: [http://articles.latimes.com/1988-02-13/news/mn-10860\\_1\\_honduran-military](http://articles.latimes.com/1988-02-13/news/mn-10860_1_honduran-military)

[60] US Senate, “Drugs, Law Enforcement and Foreign Policy: A Report Prepared by the Subcommittee on Terrorism, Narcotics and International Operations of the Committee on Foreign Relations” (a.k.a., the Kerry Committee Report), December 1988, p. 75.

[61] Ibid, p. 78.

[62] Ibid, p. 76.

[63] Ibid, p. 79.

[64] InSight Crime interview with Foreign Ministry representative, Tegucigalpa, 11 October 2013.

[65] Ioan Grillo, “El Narco” (New York, NY, 2011), pp. 66-67.

[66] Philip Shenon, “US Said to have Tapes of a Drug Agent’s Torture,” The New York Times, 16 February 1986. Available at: <http://www.nytimes.com/1986/02/16/us/us-said-to-have-tapes-of-a-drug-agent-s-torture.html>

[67] Associated Press, “Tapes of Agent Slain by Captors: ‘Don’t Hit Me,’” 6 August 1988. Obtained via The New York Times. Available at: <http://www.nytimes.com/1988/08/06/us/tapes-of-agent-slain-by-captors-don-t-hit-me.html>

[68] Christopher Lehmann-Haupt, “Books of The Times; Behind the Torture-Death of a US Drug Agent,” The New York Times, 13 October 1988. Available at: <http://www.nytimes.com/1988/10/13/books/books-of-the-times-behind-the-torture-death-of-a-us-drug-agent.html>

[69] This escape involved an alleged bribe, said to be \$1 million to \$2 million. See: US Congress, House Committee on Foreign Affairs, op. cit., p. 77. See also: US Senate, “Drugs, Law Enforcement and Foreign Policy: A Report Prepared by the Subcommittee on Terrorism, Narcotics and International Operations of the Committee on Foreign Relations” (a.k.a., the Kerry Committee Report), December 1988, p. 77.

[70] Julie Marie Bunck and Michael Ross Fowler, *Bribes, Bullets, and Intimidation: Drug Trafficking and the Law in Central America* (University Park, PA, 2012), p. 276.

[71] Collier, Robert. “Honduras Drug Traffic Quietly Overlooked.” Pacific News Service, 20 May 20 1988. See also: Larry Rohter, “Seized Honduran: Drug Baron or a Robin Hood?,” The New York Times, 16 April 1988. Available at: <http://www.nytimes.com/1988/04/16/world/danli-journal-seized-honduran-drug-baron-or-a-robin-hood.html>

[72] Larry Rohter, “Seized Honduran: Drug Baron or a Robin Hood?,” The New York Times, 16 April 1988. Available at: <http://www.nytimes.com/1988/04/16/world/danli-journal-seized-honduran-drug-baron-or-a-robin-hood.html>

[73] Ibid.

[74] Loren Jenkins, “US Reported to Blame Colonel for Honduran Delay During Riot,” Washington Post, 12 April, 1988. Available at: <http://www.washingtonpost.com/archive/politics/1988/04/12/us-reported-to-blame-colonel-for-honduran-delay-during-riot/4b7a01e8-6992-411f-b4eb-68a6ed91d3fe/>

[75] Julie Marie Bunck and Michael Ross Fowler, *Bribes, Bullets, and Intimidation: Drug Trafficking and the Law in Central America* (University Park, PA, 2012), p. 276.

[76] US Congress, House Committee on Foreign Affairs, “Narcotics review in Central America...,” op. cit., p. 79.

[77] Ibid.

[78] Larry Rohter, “Military Infighting Seen Behind Honduran’s Arrest,” The New York Times, 15 April 1988. Available at: <http://www.nytimes.com/1988/04/15/world/military-infighting-seen-behind-honduran-s-arrest.html>

[79] Ibid.

[80] US Congress, House Committee on Foreign Affairs, “Narcotics review in Central America...,” op. cit., p. 79.

[81] In May 1988, US authorities arrested Gen. Regalado’s half-brother, Colonel Rigoberto Regalado, in Miami, when they found close to 26 pounds of cocaine in his luggage. Col. Regalado was the Honduran ambassador to Panama at the time. (See: Stephen Kinzer, “Hondurans’ Trust of Military Leaders Plummets With Drug Arrest,” 25 May 1988. Available at: <http://www.nytimes.com/1988/05/25/world/hondurans-trust-of-military-leaders-plummets-with-drug-arrest.html>)

[82] US Congress, House Committee on Foreign Affairs, “Narcotics review in Central America...,” op. cit., p. 3.

[83] Ibid.

[84] Ibid, p. 37.

[85] Elaine Sciolino, “Drugs and Honduras: US Concerned,” The New York Times, 17 February 1988. Available at: <http://www.nytimes.com/1988/02/18/world/drugs-and-honduras-us-concerned.html>

[86] US 9th Circuit Court of Appeals, “USA v Matta Ballesteros,” No. 91-50336, 1995.

[87] Larry Rohter, “Military Infighting Seen Behind Honduran’s Arrest,” The New York Times, 15 April 1988. Available at: <http://www.nytimes.com/1988/04/15/world/military-infighting-seen-behind-honduran-s-arrest.html>

[88] Associated Press, “Honduran leader acts to put down anti-U.S. protests”, 9 April 1988. Available at: <http://www.nytimes.com/1988/04/09/world/honduran-leader-acts-to-put-down-anti-us-protests.html>

[89] John H. Lee, “Camarena Figure Gets 3 Life Terms,” 9 May 1991. Available at: [http://articles.latimes.com/1991-05-09/local/me-1914\\_1\\_honduran-juan-matta-ballesteros](http://articles.latimes.com/1991-05-09/local/me-1914_1_honduran-juan-matta-ballesteros)

[90] James LeMoyné, “Military Officers in Honduras Are Linked to the Drug Trade,” New York Times, 12 February 1988. Available at: <http://www.nytimes.com/1988/02/12/world/military-officers-in-honduras-are-linked-to-the-drug-trade.html>

[91] InSight Crime interview, retired army colonel who wished to remain anonymous, Tegucigalpa, 10 September 2013.

[92] Ibid.

[93] InSight Crime interview, political analyst who wished to remain anonymous, Tegucigalpa, 25 April 2014.

[94] InSight Crime interview, with a journalist who wished to remain anonymous, Tegucigalpa.

[95] Larry Rohter, “Military Infighting Seen Behind Honduran’s Arrest,” *The New York Times*, 15 April 1988. Available at: <http://www.nytimes.com/1988/04/15/world/military-infighting-seen-behind-honduran-s-arrest.html>

[96] *El Herald*, “Poder Ejecutivo es el responsable exclusivo de la extradición de Matta”. 7 April, 1988.

[97] *El Herald*, “Bueso Peñalba: no se podía deportar”. 6 April, 1988.

[98] Kyra Gurney, “Property Seizures of CIA Linked Narco Latest Blow Against Honduras Impunity,” *InSight Crime*, 4 August 2014. Available at: <http://www.insightcrime.org/news-briefs/property-seizures-cia-linked-narco-latest-blow-honduras-impunity>

[99] Hilda Caldera and Gustavo Alfredo Landaverde, “Comportamiento reciente del narcotráfico, el crimen organizado y maras en Honduras,” United Nations Development Programme (UNDP), p. 284.

See also: *El Tiempo*, “Tras el rastro de Matta Ballesteros,” 10 September 1993. Available at: <http://www.eltiempo.com/archivo/documento/MAM-218609>

[100] *Ibid*, p. 285. See also: *El Tiempo*, “Así vive la esposa de un capo de la mafia, fugitiva en Bogotá,” 3 April 2005. Available at: <http://www.eltiempo.com/archivo/documento/MAM-1626554>

[101] *El Tiempo*, “Así vive la esposa de un capo de la mafia, fugitiva en Bogotá,” 3 April 2005. Available at: <http://www.eltiempo.com/archivo/documento/MAM-1626554>.

[102] Caldera and Landaverde, *op. cit.*, p. 285.

[103] *La Prensa*, “Como ‘payasada’ califica el hijo de Matta Ballesteros la incautación de bienes,” 1 August 2014. Available at: <http://www.laprensa.hn/honduras/tegucigalpa/734126-98/como-payasada-califica-el-hijo-de-matta-ballesteros-la-incautaci%C3%B3n-de-bienes>

[104] Kyra Gurney, “Property Seizures of CIA Linked Narco Latest Blow Against Honduras Impunity,” *InSight Crime*, 4 August 2014. Available at: <http://www.insightcrime.org/news-briefs/property-seizures-cia-linked-narco-latest-blow-honduras-impunity>

[105] *El Herald*, “Así fue la extradición del hondureño Carlos el ‘Negro’ Lobo,” 9 May 2014. Available at: <http://www.elheraldo.hn/pais/707599-364/as%C3%AD-fue-la-extradici%C3%B3n-del-hondure%C3%B1o-carlos-el-negro-lobo>

[106] Marguerite Cawley, “What’s Next in Honduras’ Suddenly Vibrant Counter-Drug Fight?” *InSight Crime*, 8 September 2014. Available at: <http://www.insightcrime.org/component/content/article?id=6093:what-next-honduras-drug-fight>

[107] *InSight Crime* interview with counternarcotics official who wished to remain anonymous, United States, by telephone, August 2, 2014.



- [108] Marguerite Cawley, “Honduras Approves Drug Plane Shoot-Down Law, Bolivia Set to Follow,” InSight Crime, 20 January 2014. Available at:<http://www.insightcrime.org/news-briefs/honduras-approves-drug-plane-shoot-down-law-bolivia-set-to-follow>
- [109] Marguerite Cawley, “Nearly Half of the Honduras Traffickers Wanted by US Now in Custody,” InSight Crime, 7 October 2014. Available at:<http://www.insightcrime.org/news-briefs/nearly-half-of-the-honduran-traffickers-wanted-by-us-now-in-custody>
- [110] InSight Crime multiple interviews with Honduran and foreign counternarcotics agents in 2015.
- [111] Steven Dudley, “What an Ex-General Wants to Teach Honduras Police: Interview,” InSight Crime, 2 March 2015. Available at:<http://www.insightcrime.org/news-analysis/honduras-security-minister-talks-police-reform-crime>
- [112] Hector Calix, “Juan Orlando, empresario y político que sueña con gobernar Honduras,” El Herald, 16 November 2012. Available at:<http://www.elheraldo.hn/alfrente/565512-209/juan-orlando-empresario-y-politico-que-suenan-con-gobernar-honduras>
- [113] See, for example: El Herald, “Exministro Héctor Guillén firmó un contrato “a precio de gallo muerto,” 2 August 2012. Available at:<http://www.elheraldo.hn/alfrente/565303-214/exministro-h%C3%A9ctor-guill%C3%A9n-firm%C3%B3-un-contrato-a-precio-de-gallo-muerto>
- [114] Charles Parkinson, “Honduras Congress Votes for Military Police Force,” InSight Crime, 17 August 2013. Available at:<http://www.insightcrime.org/news-briefs/honduras-congress-votes-for-military-police-force>
- [115] Arron Daugherty, “Honduras President Sidesteps Congress on Military Police,” InSight Crime, 27 January 2015. Available at:<http://www.insightcrime.org/news-briefs/honduras-president-sidesteps-congress-on-military-police>
- [116] Daniel Valencia Caravantes, “Un western llamado Honduras,” El Faro, 20 May 2013. Available at:<http://www.salanegra.elfaro.net/es/201305/cronicas/12118/Un-western-llamado-Honduras.htm>
- [117] El Herald, “Borjas: Juan Carlos Bonilla implicó a Óscar Álvarez,” 6 April 2013. Available at: <http://www.elheraldo.hn/pais/332175-364/borjas-juan-carlos-bonilla-implic%C3%B3-a-%C3%B3scar-%C3%A1lvarez>
- [118] For more on Alexander Ardon, see: Douglas Farah and Carl Meacham, “Alternative Governance in the Northern Triangle: Finding Logic within Chaos,” Center for Strategic and International Studies, September 2015. Available at:[http://csis.org/files/publication/150911\\_Farah\\_AlternativeGovernance\\_Web.pdf](http://csis.org/files/publication/150911_Farah_AlternativeGovernance_Web.pdf)
- [119] La Tribuna, “Inauguran en Tocoa una moderna estacion de servicio,” 3 January 2012.
- [120] Steven Dudley, “Ex-Honduras President Lobo Confronts Rumors about Him, Family,” 30 March 2016. Available at:<http://www.insightcrime.org/news-analysis/ex-honduras-president-lobo-confronts-rumors-about-him-family>

***Honduras Elites and Organized Crime***

[121] Mimi Yagoub, “Was the Assassination of El Salvador’s ‘Chepe Luna’ a Criminal Hit or Just Business?,” InSight Crime, 27 June 2014. Available at:<http://www.insightcrime.org/news-briefs/was-assassination-el-salvador-s-chepe-luna-criminal-hit-or-just-business>

[122] Loren Riesenfeld, “Son of Honduras Ex-President Arrested for Drug Trafficking,” InSight Crime, 22 May 2015. Available at:<http://www.insightcrime.org/news-briefs/son-of-honduras-ex-president-arrested-for-drug-trafficking>

## The Cachiros

By Steven Dudley\*



As it tends to happen in Honduras, the news began as a well-heeled rumor: Javier Rivera Maradiaga, the oldest of the three Rivera Maradiaga brothers still alive and leader of the feared and powerful Honduran drug trafficking group known as the Cachiros, had handed himself in to United States authorities to face drug trafficking charges.

A few days later the news leaked on to social media, then it was on the radio,<sup>1</sup> and then in several newspapers.<sup>2</sup> Soon, it was clear that Javier was in US custody. What's more, Javier's brother Devis Leonel and possibly his other brother, Santos Isidro, had also surrendered to face the charges.

The details of their surrender were sketchy. One of the more popular versions said they had handed themselves in to the US Embassy in Tegucigalpa.<sup>3</sup> But others said it happened on an island in the Caribbean, most likely the Bahamas.<sup>4</sup> Still others told InSight Crime that it occurred at sea, in international waters.<sup>5</sup> In all three scenarios, the results were the same: the core of a group that few in Honduras even talked about just a few years ago was in US custody.

The timing was not a coincidence. The Cachiros had been virtual fugitives in their own country for years. Even though they did not face criminal charges in Honduras, the US government had made them the poster boys for international drug trafficking in the country when the US Treasury announced in 2013 that it was targeting the group's assets. This was for good reason. The organization, which began as a family of cattle rustlers, had risen to create a multi-million dollar empire that included legal and illegal

businesses across Honduras' northern seaboard. They were financing political campaigns and even had a stake in a popular soccer team.

More importantly, the Cachiros' businesses had intersected with important Honduran elites. These elites included some of the most well-established names in Honduras' business and political circles. The records show that the business partnerships were clear, but the business and political relationships these elites had with Rivera Maradiagas were hazy. Did the elites know who they were dealing with? Was the source of the Cachiros' wealth known? Did it matter since the Cachiros were not facing criminal charges in Honduras? These are questions that few people ask in places like Honduras. Money can smooth over most transgressions, especially with impunity rates that reach into the 90<sup>th</sup> percentile.

But there is always the off chance that word could leak out beyond the inner circles of power to those in United States law enforcement who are somewhat less forgiving. This seemed to be the danger with the Cachiros who, more than seeking to account for their past, seemed to be fleeing to the only safe place left for them. In the days following their surrender, Óscar Álvarez, a powerful congressman and two-time former security minister, said those who had "worked with [the Cachiros], done business with them, should be worried."<sup>6</sup> Later, press reports said the brothers were cooperating with US law enforcement in exchange for the safety of their immediate family and other relatives.<sup>7</sup>

Just what the Cachiros feared had become clear in the days prior to the reports of their dramatic handover. Their network included a wide ring of third party owners and political brokers who held an equal or greater amount of damning information about their contacts with Honduras' elites of the type Álvarez cited. Among those brokers was a man named Juan Gómez Meléndez. Gómez was a former governor and congressman who at some point began managing Cachiros' businesses.<sup>8</sup> Like the Cachiros, there were rumors about Gómez handing himself in to US authorities, but Gómez did not make it as far as the Rivera Maradiaga brothers. He was murdered as he exited a bank in the city of Tocoa,<sup>9</sup> the Cachiros' de facto headquarters for close to a decade before their flight the US penal system.

According to at least one press account, Gómez's murder solidified the Cachiros' decision to flee into US arms.<sup>10</sup> For years, they had provided a huge injection of resources into the banking system, the agricultural and tourist industries, and various political parties' coffers. In return, they had enjoyed a run as one of the most powerful drug trafficking organizations on the isthmus. But, as Gómez's murder clearly showed, that run had ended, and they were in danger of being assassinated themselves. In other words, the Cachiros understood that their utility to the Honduran elites had run its course. It was time to leave while they still could.

## **Background – Northeastern Honduras and Development in Isolation**

The northeastern coastal area where the Cachiros operated covers the states of Colón, parts of Gracias a Dios and Olancho, and stretches as far west as the city of San Pedro Sula. The region has been in the strange position of being the site of huge agro-development projects, but little infrastructure. The Truxillo Railroad Company, a subsidiary of the United Fruit Company, operated from Colón state in the early 20<sup>th</sup> century. Large areas of land were distributed to peasant groups during an aggressive agrarian reform project in the 1970s and 1980s, but agribusinesses like the Standard Fruit Company, a subsidiary of Dole Food Company remain operational in the zone.

In the 1990s, with a law that allowed this land to be sold to private owners, some of the land passed into the hands of large agro-interests, most notably Miguel Facussé, one of Honduras' wealthiest men. The process remains in dispute to this day and is discussed in more detail below. Suffice to say that Facussé and numerous others have since developed large African palm plantations that stretch the length and width of what is known as the Bajo Aguan Valley, a fertile region with numerous rivers that makes the area an attractive zone for farming. Other large industries -- most notably cattle and mining -- are also present and growing in size and importance in the area.

Despite the presence of these large economic interests, the area remains to this day relatively isolated from the central governing structures of Honduras in Tegucigalpa. Only one major road leads to the country's industrial capital, San Pedro Sula. In fact, the first paved road to any city in the region -- from La Ceiba to Trujillo -- was not finished until the 1980s.

The only major development of this area can be attributed mostly to its tremendous access to the sea, which has helped it attract some tourism as well. That reality helps explain why Trujillo was Honduras' first capital and major port, and the first place where Spanish ships docked on the Central American mainland. Efforts to fend off near-constant incursions by pirates led many to flee inland, accounting for the larger settlements, such as Tocoa, which today are the centers of economic and political activity in the zone, even though Trujillo remains the political capital of the department of Colón.

Given the relative isolation of the area, it is to be expected that its economic activity centered more on trade along the coast and with other Caribbean nations than with the central part of the country. In the 19<sup>th</sup> century, elite families such as the Castillos and the



Julias, who formed the “Julia & Castillo” corporation, exported cattle to Cuba.<sup>11</sup> Another family, the Crespos, imported liquor from Cuba.<sup>12</sup> The Crespo family later intermarried with another elite family, the Melhados, to form the nucleus of a political-economic elite that would dominate the area’s political and economic activities through the end of the 20<sup>th</sup> Century.

Whether for political or economic reasons, these elites worked hard to keep the area for themselves. To cite but one example, José Castillo Melhado, a congressman from Colón in the 1930s, helped the Truxillo Railroad Company get out of a contractual obligation to the government that would have led to the building of a railroad between Trujillo and Tegucigalpa. In the meantime, the elites continued to develop the coast and inland areas to receive and process imports from as far away as England.<sup>13</sup> This relative isolation may also have facilitated the illicit activities of these elites. At least one researcher suggests the elites benefitted from contraband trade, much of it from England.<sup>14</sup> But while it seems a very probable scenario, InSight Crime could not find any documentation to substantiate these claims.

As in the rest of Honduras, many of the elites in the northeast were of foreign origin. The Glynn family, descendants of English immigrants, operated the lucrative Truxillo Railroad Company. The Glynnns eventually became one of the foremost import-export families in the area, as well as large land and cattle owners.<sup>15</sup> These families came to dominate the political arena in the northeast and occupied many diplomatic posts, especially those in England, the United States and Spain.

In the 1970s and 1980s, the northeast became a center of experimentation and alternative development, a process that facilitated the arrival of other elites to the area. Under the rule of a two-time military dictator, General Oswaldo López Arellano, the country embarked on an agrarian reform that called for the expropriation of upwards of 600,000 hectares, a good portion of which would come from the Standard Fruit Company.<sup>16</sup> That ambitious proposal was truncated for political reasons, but some of the company’s land did pass into the hands of farming cooperatives, which, with the help of the government, formed the Empresa Asociativa Campesina de Isletas (EACI).

For a few years, the EACI was the envy of cooperatives throughout Central America. It exported bananas, and its operators became important political and social leaders in the region. The EACI, however, was short-lived. It suffered from corruption, and the military government systematically persecuted its leaders during the 1980s. Its sales fell off, and in a highly controversial deal in the early 1990s, as much as 8,000 hectares of its lands were sold to various suitors including Standard Fruit and entrepreneurs like Miguel Facussé.<sup>17</sup> The land deal with Facussé has been at the center of a contentious and near-constant battle between the remnants of the cooperatives that formed the core of

the EACI, on one side, and Facussé, among others, on the other. As we will see with the Cachiros, criminal actors have taken advantage of this tumult to advance their own interests.

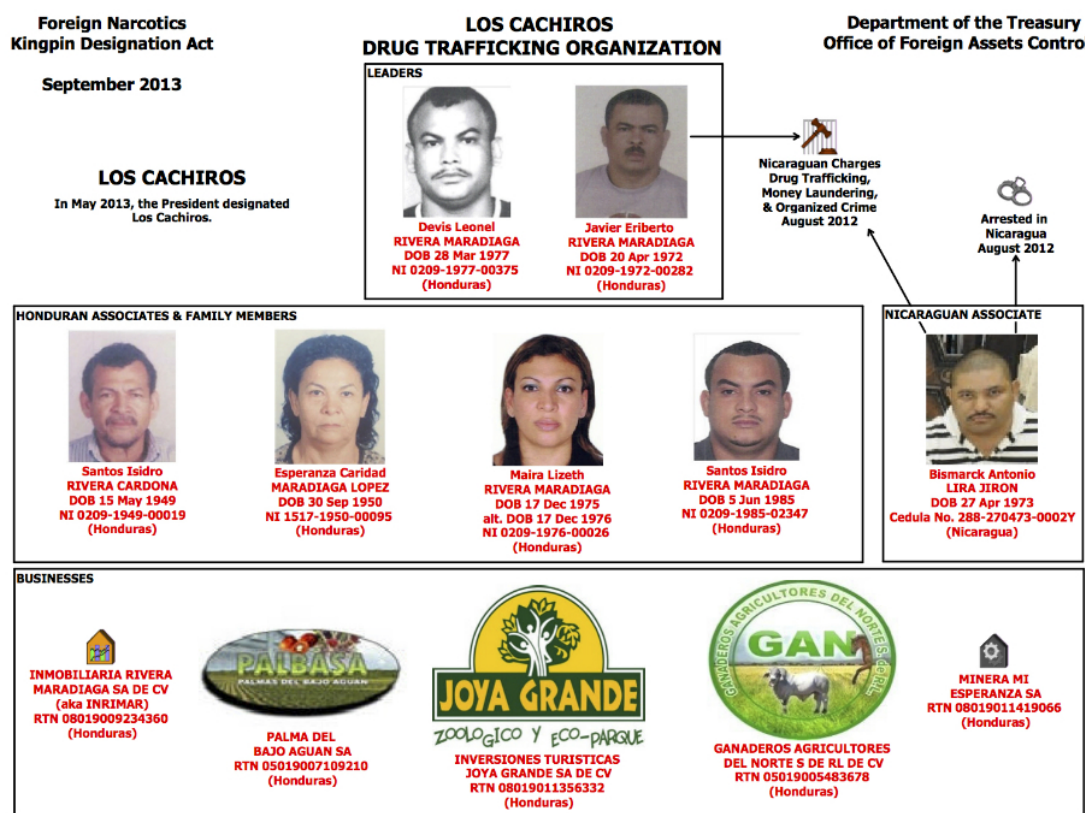
The land sale was the beginning of a wholesale change of elites in the northeast. The power of the traditional import-export and land-based elites of the area waned to some extent, while the transnational elites, particularly Facussé, entered the area in force. What remains is a combination of the various elites described in the introduction to the Honduras section. Traditional elites are major players in the region. Ramón Lobo, a former congressman and brother to ex-president Porfirio Lobo, is chief among them. Others, including congressman Oscar Nájera are large landowners in the Bajo Aguan as well.

The combination of agrarian reform, government incentive programs and the emergence of the African palm industry has bolstered the region's population. Census data shows that the population of Tocoa grew four-fold in the last quarter of the 20<sup>th</sup> century.<sup>18</sup> It's not clear that the economy has sustained enough growth to support this burgeoning population. African palm, for instance, is labor intensive at the outset but not over the long term.

This is the gap that the new criminal economy fills in the region. It is difficult to say how much organized crime has played a role in the development of the zone. Numerous regional experts told InSight Crime researchers<sup>19</sup> that, at the very least, increased economic activity gives criminals an opportunity to launder their earnings. But others declared that criminal proceeds are a major motor of economic activity and certainly a generator of employment. Although the extent and length of the criminals' reach is impossible to measure -- as is clear from the case of the Cachiros -- it is significant. And this influence has stretched into the political, economic and social spheres of life in the region.

## The Cachiros

Figure 1: Cachiros' Organizational Chart



Source: Taken from US Treasury

One of the most important criminal groups in Honduras in the last two decades was the Cachiros. At the core of the Cachiros was the Rivera Maradiaga family, who come from Cayo Sierra, a small town outside Tocoa. By numerous accounts, the family's underworld activities began with cattle rustling.<sup>20</sup> A Honduran intelligence official said the family was also involved in car theft.<sup>21</sup> The family's activities in the underworld increased when it came into contact and began working directly with Jorge Aníbal Echeverría Ramos, alias "El Coque." Less is known about El Coque, but he appears to have been a leader of another trafficking, theft and contraband organization whose fortunes -- along with the Cachiros' -- were rising in the early 2000s.

At the time, Honduras was becoming a more important corridor for cocaine moving north. The reasons are many but center mainly on the Mexican criminal groups' seizing control of the distribution chain from their Colombian counterparts. The natural cocaine transport corridor for these Mexican groups is Central America. Upticks in Central American drug seizures during this period speak to this trend.<sup>22</sup> The increased volume of drugs meant increased returns for organizations like those of El Coque and the Cachiros.

El Coque had powerful allies that helped him grow into a formidable force. News reports linked him with Margarita Lobo, the daughter of aforementioned political heavyweight Ramón Lobo.<sup>23</sup> Lobo was a congressman at the time. His brother, Porfirio, was the president of the Congress and would become president of Honduras a few years later. Ramón Lobo has ever been charged with trafficking illegal drugs or anything related to organized crime activities.

El Coque also made powerful enemies, including the Cachiros. It's not clear why the rift occurred. One report said El Coque killed one member of the Rivera Maradiaga family,<sup>24</sup> but there is no definitive account. What is clear is that at some point there was a violent split, and the Cachiros went on the offensive. Assassins first tried to kill El Coque in San Pedro Sula, putting 25 bullet holes in one of his vehicles and injuring Margarita Lobo in the process.<sup>25</sup> El Coque survived and fled to Cuba, then to Costa Rica where another team of assassins tried a second time. After that failed as well, El Coque went to Panama, where he was arrested and returned to Honduras. On his fourth day in jail, assassins shot El Coque three times, killing him.<sup>26</sup>

Led by the eldest brother Javier, the Cachiros took control of some of the most important cocaine routes on the isthmus. Colón is strategically located along the northeastern coastline: to the east is Gracias a Dios state, and to the south Olancho. These three states have become some of the best landing areas for small aircraft carrying drugs from South America, in part because of the infrastructure left by the agro-export economy that once thrived in the area. There is little state presence, and vast stretches of land that are used to create makeshift, clandestine airstrips. There are also large tracts of African palm plantations and other agro-industrial businesses that can help camouflage the storage and movement of illicit products. In addition, the coastline receives drugs by sea, ferried via go-fast boats and fishing vessels.

There is reason to believe that large landowners facilitate at least some movement of illicit goods through the area. A March 19, 2004, US diplomatic cable released by WikiLeaks says an unauthorized aircraft carrying about a ton of cocaine landed on Miguel Facussé's ranch a few days earlier.<sup>27</sup> The cable says Facussé himself told the police the airplane had landed on March 16, and that guards on his property had fired

on the aircraft, which had burst into flames. However, the diplomatic cable cast doubt on Facussé's version of events. The cable, citing police and other "sources," says the plane landed March 14; about 30 armed men offloaded the cocaine, then burned the aircraft.



"Facussé's property is heavily guarded and the prospect that individuals were able to access the property and, without authorization, use the airstrip is questionable," the cable says. "In addition, Facussé's report obviously contradicts other information received from the law enforcement source about the actual date of the event and TAT's [Tactical Analysis Team] intelligence about the March 14 air track."

There is no evidence to suggest that this cocaine was part of the Cachiros' illicit business dealings in the area. In fact, as detailed below, the Cachiros may have worked against Facussé's interests, fomenting armed incursions onto his lands.

The Cachiros themselves also have sufficient land to move, store and dispatch illegal goods. As noted in more detail below, they own vast amounts of African palm and cattle, and have other infrastructure and companies to facilitate these activities without having to rely on others. The event on Facussé's land is more noteworthy as a means of



illustrating the opportunity -- or risk, depending on your interpretation of the event -- for the largest of landowners in the area.

The area also offers a large pool of labor. Under- and unemployed fishermen and boat operators are available to receive and store illicit goods. They can also help refuel boats and work as lookouts. A large, isolated and marginalized indigenous population that stretches into Nicaragua offers further services for illicit activities. An alleged Cachiro associate, Bismarck Antonio Lira Jirón, was arrested in Nicaragua, where authorities charged him with money laundering, among other crimes, after discovering his multimillion-dollar offers to buy land in various parts of the country.<sup>28</sup>

By numerous accounts, the Cachiros were a tight-knit organization. They kept most of their dealings within the family and close friends. While Javier was the leader, his brothers, Dévis Leonel and Santos Isidro, reportedly developed other military and business ends of the group. His father, mother, sister and at least one cousin were involved in the business side. Still, in order to run their main business of trafficking cocaine, the organization had to contract out much of its operations to other, small groups. These included a pool of seafaring and land-based transporters, mechanics, lawyers and other infrastructure necessary to keep the operation running smoothly.

Throughout its existence, the organization had to develop contacts within the security forces. The most important was the police. The Honduran police are known as one of the most corrupt in the hemisphere. Police have been linked to drug trafficking, car theft rings, extortion schemes, and death squads. Attempts to purge the police have largely failed and led to the resignation of at least one security minister.<sup>29</sup> The police are, in essence, at the service of the highest bidder.

In Colón, the Cachiros allegedly kept the police chief on their payroll, and officers often had to pay a price to get that post.<sup>30</sup> These police formed the first ring of protection. They ensured the group and its associates were aware of any law enforcement presence or activity. The Cachiros' reach went to the highest level of the institution. The list of suspected collaborators compiled by InSight Crime investigators includes a former Honduran national police chief. None of these police have been investigated or prosecuted by authorities making it difficult to declare with any degree of certainty exactly what this relationship entailed.

The Cachiros also worked to infiltrate other parts of the security forces. The military officer in charge of Colón told InSight Crime that his driver worked with the criminal group until he transferred him. He said he had lost trust in the other soldiers as well. In apparent confirmation of that suspicion, the officer whispered answers to questions when his troops stood nearby. The criminal group had also tried to insert its people into

top-level security ministry posts. One emissary, Colón congressman Juan Ramón Salgado Cuevas, was assassinated in 2006 after he failed to push the Cachiros' candidate into the ministry, intelligence sources told InSight Crime.<sup>31</sup>

The Cachiros maintained contacts at the highest levels of the judicial and security forces, InSight Crime researchers found. Prior to their flight to the US, members of the Rivera Maradiaga family had been arrested on at least two occasions, but were not prosecuted. According to various Honduran officials interviewed by InSight Crime researchers, Dévis Leonel still faces charges for attempted murder stemming from the 2003 attack that injured Margarita Lobo; and Santos Isidro has an outstanding warrant related to illegal weapons possession. But even after the US Treasury designated them as “kingpins” in 2013, and the Honduran authorities began to target and seize numerous assets, the family members did not face formal criminal charges for drug trafficking in Honduras. What’s more, by the time authorities reached their bank accounts to seize their money, the accounts had been emptied.<sup>32</sup>

The Cachiros’ business model worked. They accumulated considerable wealth from their illicit project. Authorities give wide-ranging estimates for how much cocaine moves through the Cachiros’ area of influence, but they agree that it is significant, or at least was significant at the group’s height. At the low end, authorities said the group was moving between one and two tons per month; at the high end, they put it at between four and five tons a month. The range of monthly earnings was therefore between \$2 million and \$12.5 million.<sup>33</sup> Authorities say the group also controlled local distribution of cocaine, human smuggling and possibly other underworld activities in their area of influence.

The Cachiros steadily funneled their earnings into the licit economy and positioned themselves as important political and economic players on a national scale. In September 2013, when Honduran and US authorities began seizing the organization’s properties, US and Honduran officials estimated the group’s assets at \$500 million and \$800 million respectively.<sup>34</sup> In an interview, a top official at the country’s asset seizure group, which goes by the acronym OABI, said the value of the assets was closer to \$300 million.<sup>35</sup>

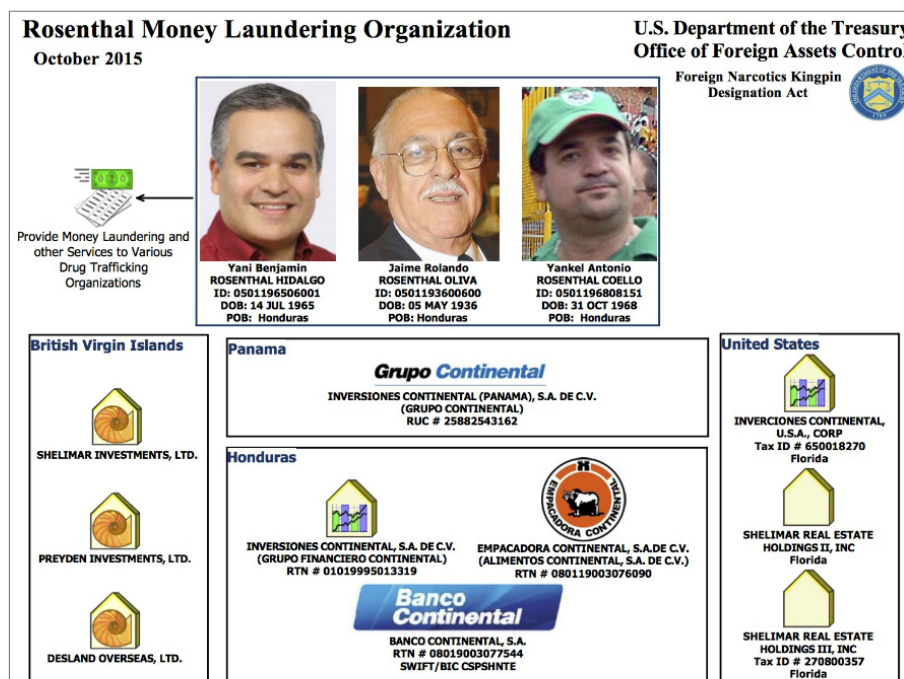
The businesses played an important role in the regional and possibly the national economy. The group’s cattle ranching business, Ganaderos Agricultores del Norte, was one of the largest purveyors of meat in the northeast, and, according to one buyer of this meat, the country.<sup>36</sup> They had bought and developed at least two hotels and a zoo and eco-park called Joya Grande. They allegedly had a strong hand in the operations of the Tocoa soccer club, Real Sociedad, although those ties may have been severed after the high profile actions against the family by the US. More recently, they had branched into

mining. In all, Honduran authorities said they had seized 128 different Cachiros' assets,<sup>37</sup> including a transport company, a security company, various large plots of land, a clothing store, a gasoline station, and tens of millions in cash.<sup>38</sup>

The Cachiros also had vast African palm plantations in the Bajo Aguan region near their de facto headquarters, Tocoa, as well as to the west in the state of Cortés. They owned one of the few African palm-processing plants in the country, which one US official said was not operational.<sup>39</sup> The African palm industry is ripe for organized crime infiltration on many levels: it involves large extensions of land where it's easy to establish clandestine airstrips and keep them hidden; regular transactions in cash; use of many vehicles, including trucks that help transport all types of goods; influx of chemicals and outflows of products, which facilitates the movement of illicit products and money laundering activities; and connections with other large, agro-industrial projects and the political power that comes with them. Traditional agri-business ventures such as cattle are mainstays for illicit interests for many of the same reasons.

## The Cachiros and Transnational Elites

**Figure 2: Rosenthal Organizational Chart**



Source: Taken from US Treasury

The Cachiros used their licit businesses and their participation in the political process to place them in the closest proximity to the elites. This contact seems to have led to some business arrangements and possibly some campaign contributions, though, as noted at the outset, the evidence is scarce. The Cachiros, like most criminal enterprises, used proxies to front their businesses and appear to have given contributions in cash, although they may have videotaped some of their encounters.<sup>40</sup> They also used intermediaries to deal with their partners. Because the group's members often are not the listed principals of the companies, and because they do not directly handle the businesses or political relations, it is impossible to know whether their partners were aware that they were working with suspected criminals unless they have at some point been prosecuted. The evidence presented here is therefore largely circumstantial and is not to be considered a formal accusation of any wrongdoing.

Arguably the most important business interaction between the Cachiros and the transnational elites was through the banking sector. The banking sector, as noted earlier, is one of Honduras' most important and is largely controlled by the transnational elites. It has thrived in recent decades as Honduras has become integrated into the global economy, and remittances and investment in businesses such as fast food franchises have soared. The Cachiros were, in effect, some of the country's largest providers of remittances and local investment in agro-industrial and tourism projects.

The Cachiros banked at various places including one of the largest, family-owned operations in Honduras, Continental Bank. Of the 64 accounts, seized by the government, "the vast majority," were with Continental, according to one government official who investigated the group.<sup>41</sup> The Cachiros, the investigator said, "had all their lines of credit with the Continental Bank." This included the cattle, African Palm, and the zoo, he said. The bank's connections to the Cachiros did not go unnoticed by authorities. In 2014 the government's Banking and Insurance Commission fined the bank some 12 million lempiras (just over \$500,000) for failure to check the source of some of their clients' income, the government investigator said.

There is nothing official to tie the Cachiros to the bank's owners, the powerful Rosenthal clan, but the bank has come under some scrutiny from officials in other circumstances as well. In 2012, for example, the government sought to create a privately held escrow fund to manage collections and distribution from a special security tax. The fund manager would have to handle sensitive information, including how the resources would be spent on the security forces as well as other security-related equipment, infrastructure and projects. Continental offered the most attractive bid, according to two sources close to the process. However, members of the government's Banking and Insurance Commission, as well as outside consultants, recommended the government steer clear of this bank because it had not followed proper protocol in vetting some of its

customers, among them the Rivera Maradiaga family.<sup>42</sup> The government eventually decided to manage the funds itself through the Central Bank, offering a public excuse for its sudden change in direction.<sup>43</sup>

The most damning accusation against the bank came from the United States Justice Department. In October 2015, the US arrested Yankel Rosenthal, the nephew of Jaime Rosenthal Oliva. The Rosenthal family owns Continental Bank, as well as numerous other companies. Following the arrest, the US unsealed an indictment against Yankel, Jaime, Jaime's son, Yani, and a company lawyer named Andrés Acosta García for money laundering.<sup>44</sup> On the same day, the US Treasury added the family to its "kingpin" list,<sup>45</sup> prohibiting businesses from engaging with the Rosenthal family businesses and effectively destroying its powerful conglomerate, which had operated for nearly half a century.

The Rosenthals are a Romanian-Jewish family that settled in Honduras in 1929.<sup>46</sup> Its patriarch, Jaime Rosenthal Oliva, is a perennial political and economic juggernaut in Honduras. He ran for president in 1985, was Vice President in the late 1980s and remains a high-ranking official in the Liberal Party. His son, Yani Benjamin Rosenthal Hidalgo, is following in his father's footsteps and ran for president in the last elections. Yani Rosenthal is still a member of Congress and an important party official. The rest of the Rosenthals are spread throughout the family businesses.

The family's holdings make them one of country's top five conglomerates, according to various unofficial tabulations done by media, academics and economists in Honduras. In addition to the bank, the Continental Group, as the conglomerate is known, owns a percentage of another Honduran top tier bank, Banco de Occidente,<sup>47</sup> a cement company, an insurance company, a coffee export business, a television station, a meat-packing plant, a newspaper, and a leather goods operation, and many other businesses. Some of the group's economic assets veer into non-traditional exports such as African palm oil and alligator farms.

Notwithstanding the issue with the special security tax, Continental and the Rosenthals also do major business with the government, especially as it relates to public-private partnership initiatives.<sup>48</sup> In 2013, for instance, the bank was selected to manage funds for a project that sought to recuperate "lost" energy costs.<sup>49</sup> During the same year, the bank was selected to manage scholarships for the Education Ministry in five states.<sup>50</sup> For its part, Banco de Occidente, also regularly receives government contracts, such as those relating to the purchase of medicines for the public health care system.<sup>51</sup>

The Continental Group also did business with the Cachiros. Jamie Rosenthal and his daughter Patricia Rosenthal, in an interview with InSight Crime, say this relationship



began in the late 1970s or early 1980s, when Javier Rivera Maradiaga began bringing cattle from Colón to sell to the Rosenthal's meat packing plant, Empacadora Continental, in San Pedro Sula. Javier, the Rosenthals said, was poor, selling about a dozen cattle a time, then sleeping in his car on the street before driving home the next day. Over time, his situation changed.

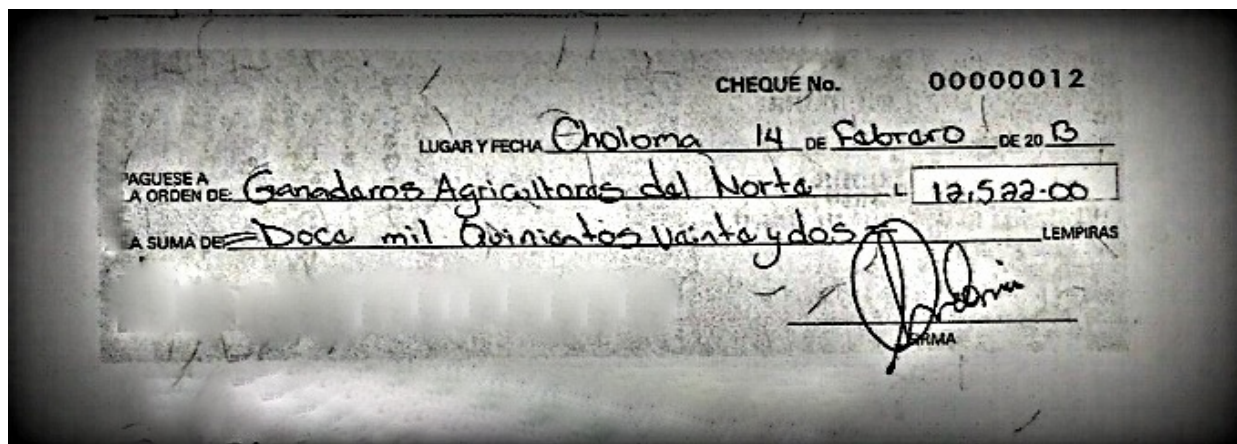
“And he just got steadily bigger. You look and see a person who starts small and then afterwards gets a little truck, and then another and another,” he explained. “He was doing good business; he was growing.”

The Rosenthals admit the Rivera Maradiaga clan eventually set up accounts in Continental Bank, but they say Cachiros were not managing exorbitant amounts of money in these accounts. “The accounts that they managed were in line with the businesses they had,” Patricia Rosenthal, who is listed as the Vice President of Continental Bank, said.

As noted by the government prosecutor, the big business between the Continental Group and the Cachiros was in loans. The Rosenthals said they first loaned the Rivera Maradiaga family money for their cattle and milk production businesses in 2006.

“That was when we started to have a relationship with them, of loans, and that was when the relations began with the bank,” Patricia Rosenthal explained. “The meat packing plant knew him. They brought more cattle and we said, ‘Look, this could be a good client,’ and we lent to them for the cattle and the dairy farm. The dairy products they sold in [La] Ceiba to a large cattle ranch and the cattle to us and other meat packing plants. For the bank, this was not a bad business, I mean they had good [cattle], they could pay us, the buyers, directly, all of whom were big.”

The Rosenthals said that like any client, they ran the Rivera Maradiaga family through their due diligence process but got no red flags. They added that the Cachiros paid back their loans in checks and showed InSight Crime a copy of a signed check provided to the bank by Javier Rivera Maradiaga, which they said was a payment for a loan. (See photograph below)



Other loans came after the cattle and milk production business loans, including some for the Cachiros' African palm plantations. The Rosenthals said it was a natural fit: the bank's strong suit was lending to agriculture businesses, and the Rivera Maradiagas were good clients.

"They were good clients for us," Patricia Rosenthal said. "Another important thing is that the bank's strength is in the north, which includes the northern coast, and we are the strongest bank in agriculture and housing. [This is] because the board of directors that presides over the bank has always believed that it is our duty to give back to these areas in Honduras."

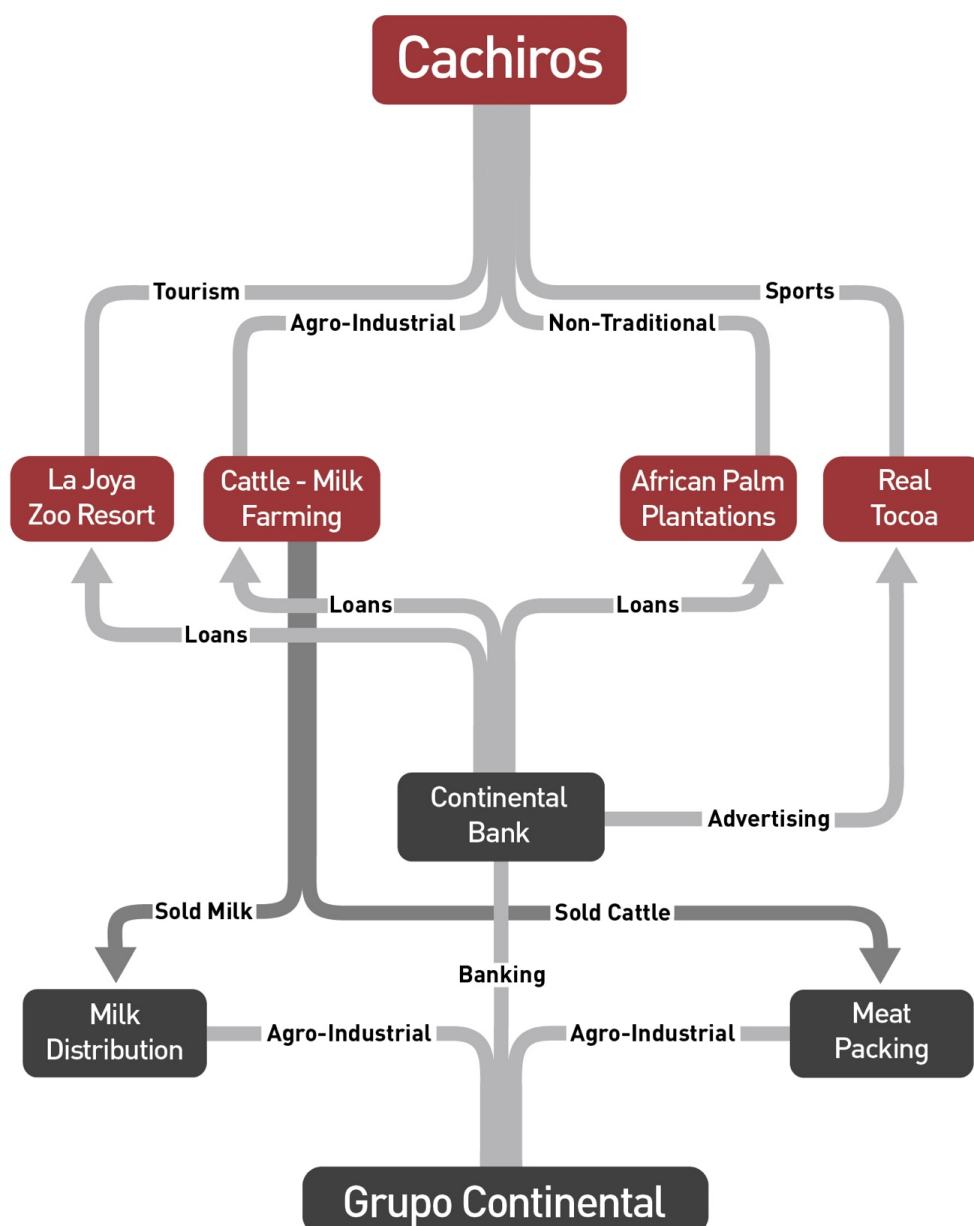
Perhaps the most obvious connection between business group and the Cachiros is that Continental Bank was a major investor in the Joya Grande Zoo and Eco-park, evidenced by the plaque commemorating this support at the zoo's entrance and an outstanding loan the bank gave for the construction of the zoo.<sup>52</sup> Government sources told InSight Crime they believe the bank had not reclaimed the remainder of the loan because of the questions it would face regarding its due diligence practices.<sup>53</sup>

The Rosenthals said they had not reclaimed it because the loan was tied up in the legal process against the Cachiros. While it has been arguably the most embarrassing, public connection between Continental Group and the Rivera Maradiaga family, the Rosenthals insisted that it was a good business that did not involve drug money. "It's not a project that they were going to pay with drugs, it was a project that paid itself," Rosenthal said.

To be sure, the park still gets rave reviews from tourists.<sup>54</sup> And the Rosenthals say it was an investment decision that has benefitted Honduras.

“When we analyzed this loan, it was a very good loan, not just for us but for the country. The loan paid itself off and promoted tourism in an area of the country where people normally never went. They did a great job because they started to attract people from all of Central America,” Jaime Rosenthal said.

**Figure 3: Cachiros' Interactions with Rosenthals**



Continental Bank also supported the Tocoa soccer team, which the Rivera Maradiaga family allegedly supported financially. The logo of the bank appeared on Real Sociedad's shirt, and as of 2012, the bank was listed on the team's website as an official sponsor. But that type of support is not unusual, Jaime Rosenthal said. The bank sponsors other teams, such as the perennial powerhouse Marathón, which the Rosenthals own. Tocoa's team is also sponsored by the likes of Coca-Cola. In a written response to an InSight Crime article that talked about the Tocoa team's alleged connections to the Cachiros, Jaime Rosenthal said advertising on soccer jerseys is just good business; he also defended the bank's record of transparency.<sup>55</sup>

"Certainly your article damages our image, and it is causing problems to us," Rosenthal wrote to InSight Crime. "We have been in business in Honduras for more than 100 years... We have audited statements for more than 35 years, and we can prove the origin of every penny we have."

## **The Cachiros, and Traditional and Bureaucratic Elites**

Throughout this period of incredible economic growth for the trafficking group, the Cachiros became more involved in politics, fostering candidates from various parties, supporting local festivals and social programs, and developing the type of business contacts that allowed them to work with the government and to influence its operations. These connections were facilitated by the financial contributions from the criminal organization to the politicians themselves and began a process whereby the criminal group could penetrate all portions of the state and society.

The extent of the Cachiros' campaign contributions is unknown, but numerous Honduran and international investigators, as well as local sources in Colón, told InSight Crime that they were significant and regular. The group also appears to have been an equal opportunity giver. The country's two main parties, the National Party and Liberal Party, were both beneficiaries, Honduran and foreign authorities told InSight Crime. Other parties also benefitted from the Cachiros' campaign investments, various sources said.

The contributions shine a light on a fundamental weakness in the Honduran political system: Honduras and other developing nations' political parties depend heavily on wealthy donors. What's more, there is little, if any regulation of these campaign contributions. Honduran law does not put limits on the amount individuals can donate, nor does it require publication of the names of donors. It is also unclear which, if any, government institution is directly responsible for supervising campaign finance issues.<sup>56</sup> There is no rigorous oversight committee investigating campaign contributions in Honduras, and evidence of illicit contributions is anecdotal and often circumstantial.

InSight Crime investigators, for example, heard stories about a politician's campaign at a "narco-owned" hotel and the exchange of "suitcases full of cash." But there are no judicial cases on the record on which to base these assertions.

Nevertheless, numerous sources told InSight Crime that these political contributions are helping to rebuild the traditional elites' power, which is centered on controlling the political process as much as it is the accumulation of new sources of capital. In this regard, Honduran government sources told InSight Crime that the Cachiros' political connections were centered on various current and former congressmen, and a former governor of the state.

Among these, former governor of Colón Juan Gómez Melendez was the most important political operative the Cachiros had, intelligence sources told InSight Crime. Before his murder in January 2015, he was the Cachiros' proxy of choice and their most active intermediary with other business and political allies, according to government intelligence officials and documents obtained by InSight Crime. He operated at least part of their cattle and palm oil operations, intelligence officials said. One company he ran secured public works contracts and maintained relations with other important figures that operate in this opaque narco-political world.

This mix of illicit capital, corruption and narco-influence creates a lucrative merry-go-round that is most clearly illustrated by the various companies that obtain public works projects and licenses to develop, for example, mineral extraction or tourism projects. Both the illicit actors and the politicians benefit from these contracts. The politicians receive kickbacks or an economic share in the projects. And the illicit actors are able to strengthen their legitimate business interests, extend their social capital and hide their illicit proceeds.

In the case of the Cachiros, InSight Crime investigators found numerous contracts between Rivera Maradiaga-controlled companies and the Fondo Vial, or Highway Fund, the government agency responsible for administering the building and maintenance of the country's national roadways, bridges, and tunnels. The contracts between the Cachiros' companies and the Fondo Vial, which occurred between 2010 and 2013, totaled a little over \$4 million (84,751,000 Lempiras). They included stretches of roads between three departments: Colón, Olancho and Yoro. The contracts covered "emergency" fixes, building roads and constructing one bridge.

The man executing these contracts was Hugo Ardón, the head of the Fondo Vial up until June 2015. Ardón is the brother of the infamous former mayor of El Paraíso, Copán, Alexander Ardón. Alexander Ardón made himself famous for refurbishing the mayor's office to make it look like the White House, which included adding a heliport on the city

hall roof, and has long faced down accusations of drug trafficking. Not surprisingly, the brothers also executed public works contracts.<sup>57</sup>

In 2014, the Honduras Security minister told InSight Crime that Alexander Ardón was under investigation for drug trafficking, but no charges have been filed and Alexander Ardón has denied any connections to illicit activities in the past.<sup>58</sup> Sources suggested to InSight Crime that this lack of action against Alexander Ardón was related to Hugo Ardón's connections to the presidency. In addition to running the Fondo Vial, Hugo Ardón ran Juan Orlando Hernández's presidential campaign in the western part of the country.<sup>59</sup>

These alliances have developed, in part, because internal and external economic factors have changed the composition of Honduran society and power dynamics amongst the elites. The country's economy remains dependent on money from foreign sources. But it has expanded the channels through which this money passes and the number of beneficiaries it has. What this means in practice is that control over the government posts that are the filter for this capital is more important than ever. And it is in these spaces where a new brand of what we are calling bureaucratic elites<sup>60</sup> are merging with traditional elites and challenging the transnational elites who have run Honduras for decades.

As outlined in our first case study, on Juan Ramón Matta Ballesteros, these bureaucratic elites are often a hybrid between those who depend on government posts for their power and those who come from traditional, landed backgrounds and have since secured political power. President Juan Orlando Hernández is a good example of this new, hybrid elite. As the first case study shows, the president has used both his personal wealth and his government posts to become the preeminent power in the country. Understanding that the base of his power is reliant on bureaucratic posts, he has also placed his allies in important positions throughout the government.

Among these allies is retired General Julián Pacheco, who represents an example of how these bureaucratic elites have intersected with the Cachiros. Pacheco was the head of the military's battalion in Colón in the early 2000s, while the Cachiros were gaining prominence. The governor at the time was the aforementioned Juan Gómez Meléndez. Pacheco had a close relationship with Gómez, who was the government's interlocutor in the region on security matters. The two met on an almost weekly basis, Pacheco said in an interview.<sup>61</sup> They remained in touch after Pacheco moved to another post, although Pacheco said he distanced himself from the politician before his murder in January 2015.



Bureaucratic elites are in a unique position. As noted in the first case study, they are both the direct beneficiaries of their connections to illicit actors, and, ironically, beneficiaries of the resources to fight it. Both of these relationships to organized crime come from their control of these government posts. Their understanding and ability to control these filters is what has helped catapult them into the positions they currently hold, and they will do most anything to keep these positions. In other words, they need political power and the resources that come with it. To get there, they rely on illicit campaign contributions as much as any other elite.

Bureaucratic elites also have a vested interest in maintaining this system where the government is the all-important gatekeeper to these and other public resources, and the guardian of law and order. The system works for them in numerous ways, including giving them the pretext to strengthen the security forces, broaden its powers of vigilance, guard its finances under a veil of secrecy and “national security,” and undermine the balance of powers. All of these actions help them keep the status quo, win more allies and weaken rivals.

## **The Cachiros and Social Elites**

In addition to their connections with the transnational, traditional and bureaucratic elites, the Cachiros depend on an elaborate arrangement of other actors to do their illicit and licit businesses. To begin with, they have thousands of employees, among them lawyers, engineers, as well as construction, agricultural and transport workers. They reportedly pay a large number of taxi drivers, indigents and persons with disabilities who spend large amounts of time in public places to work as informants. Sources in Tocoa say the Cachiros regularly interact with religious authorities as well as community leaders, and help pay for local festivals. Their social standing has reportedly risen with their management of the soccer team, which competed for the championship of the Honduran soccer league several years in a row when the Rivera Maradiaga family took an interest.

At least part of the Cachiros’ social cache comes from the fact that at some point they kept gang violence and extortion in check, local authorities and other sources told InSight Crime. The group’s strongest gang connection is with the feared 18<sup>th</sup> Street gang, or Barrio 18. The Dieciocho, as it is most commonly known, is one of the two most prominent street gangs in the western hemisphere. The Cachiros used the gang’s branches to receive, store and move drugs in small quantities, local and foreign investigators say. These groups moved the drugs using motorcycles and cars that intermittently go off road to avoid police and military checkpoints. The Cachiros exerted some control over the groups’ activities, which include the local sale of drugs that the Cachiros themselves provide, often as an in-kind payment for the gang’s services.

The irony is that the arrival of larger quantities of illicit drugs is in and of itself one cause of increased violence in Honduras in recent years. The Violence Observatory reported that Colón had 277 homicides in 2014, giving it a murder rate of more than 88 per 100,000 inhabitants.<sup>62</sup> The violence is, according to a local prosecutor, in part due to competition for what they call “lines” (*lineas*) of territory, where gangs can sell their product. Local sources reported that the Cachiros had said they would push to lower the violence, but the high number of homicides indicates that it may have been out of their control.

Some local sources reported that the Cachiros may have extended their network to include farmers’ cooperatives. There are at least seven peasant farmer cooperatives in the region, many of which have thousands of members and control large tracts of land. These groups campaign and carry out land invasions in an attempt to recover land that they claim was transferred into private hands in the 1990s through fraud or by force. The leaders of these groups can in some senses be considered as a form of social elite in the region, given their power to influence their large membership, and their international links to non-governmental organizations in Europe and the United States. The United Peasant Farmer Movement of the Aguan (Movimiento Unificado Campesino del Aguan - MUCA), for example, has been present in the region since its formation in 2001, and now reportedly controls some 4,000 hectares of land, more than any cooperative in the area.

As documented above, there is evidence that other actors in the land conflict, including local military units and large landowners, have been compromised by criminal groups. Some farmers’ cooperatives may have been as well. The stakes are high -- the conflict has cost more than 100 lives since 2010, including peasant farmers, members of the security forces, and agribusiness employees. Peasant farmers are particularly vulnerable to this violence, and activists reported that at least 88 farmers or their supporters were killed between 2010 and 2013, many in targeted attacks.<sup>63</sup>

One cooperative member told InSight Crime researchers that elements within the local cooperatives had formed links with drug traffickers in the region. The cooperative member said that elements within the cooperatives benefitted from these dealings. In exchange for weapons to fight the land conflict, members of the peasant farmer group offer drug storage facilities and allow drug shipments to move through their territory, and may even carry out contract killings for the traffickers.

There are numerous armed groups in the area, some of whom have been linked to the large farming interests, others to the cooperatives and still others to the drug trafficking groups. As noted above, some of them can camouflage their activities behind the pretense that they are private security. Land conflicts often involve conflict and

separating one armed group from another, as well as discerning alliances, is a near impossible task.

InSight Crime researchers were present during one such takeover during a field trip to the area in August 2013. The cooperative, an offshoot of MUCA that called itself MOCRA (Movimiento Campesino Recuperacion del Aguan), included about 200 peasant farmers. Private security on the land -- which news sources said belonged to Miguel Facussé<sup>64</sup>-- fired at the cooperative members, who were also armed. Three squatters were injured.<sup>65</sup> Reinforcements for MOCRA arrived in high-end 4 x 4 pickups and well armed, but by then the police and the army had arrived and kept the farmers from proceeding with their plan to continue the incursion.

The upshot of these connections to the social elites is that they are hard to separate from the Cachiros' general political and economic presence in the zone. The potential links to influential cooperatives, religious authorities and other important members of society come with actually being a family that has thousands of employees, numerous businesses and extensive stretches of land.

What is clear is that the Cachiros understood the importance of the social elite, and they appeared to be using these connections to their advantage. This was manifest after the government seized some of its properties and businesses. Hundreds of employees and their family members took to the streets and marched with placards in support of the criminal organization. They also issued direct warnings to then candidate Juan Orlando Hernández about the potential political repercussions should he attempt to extradite Rivera Maradiaga family members to the United States to face charges. (See video below)

We do not know if these manifestations had a direct impact on government policy. However, the government has made an effort to keep at least part of the Cachiros' businesses running.

## **Conclusions - A Dangerous Game**

The connections between Honduran elites and major criminal groups fit, in many ways, within the larger scheme of Honduran economic and political development. Honduras' economy has long depended on foreign capital to spur growth. First mining and then bananas became the heart of an economy that was mostly foreign owned. Later economic diversification, spurred by foreign assistance and remittances, became the center of a sputtering system that is more about facilitating the movement of foreign capital than improving the ability to generate capital locally.

Large scale drug trafficking fits into this economic system. It is part of the service economy. The biggest groups are essentially facilitators, moving illegal cocaine from one end of the country to the other. Its returns are giant remittances that are plowed back into various parts of the economy and political system. The size of the drug business makes it a formidable participant in Honduran society, so much so that it is playing a role in the development of the economy and in party politics.

This is evident in the case of the Cachiros, who have established strong ties to the three main categories of elites in this country: the transnational, the traditional and the bureaucratic. These intersections are common throughout the country. The traditional elites, whose wealth is concentrated in land-based projects such as coffee and cattle, mostly intersect with criminal groups in the political realm, where these elites have surged in recent years to challenge Honduras' long-time powerbrokers, the transnational elites. These transnational elites are more diversified and their needs are different, but some of them intersect and possibly interact with the criminal groups in the economic realm, most notably in the financial sector. The bureaucratic elites cross over with the Cachiros in state business and security matters.

This relationship between the Cachiros and the transnational elites is most clearly illustrated by the business dealings between the Cachiros and the Continental Group, the powerful conglomerate owned and run by the Rosenthal family. It is difficult to know what motivated the relationship between the Continental Group and the Cachiros, aside from business. On the surface, this may appear self-evident. The banking industry, for example, seeks capital; the criminal interests have vast amounts of capital. This capital, and the transactions it implies, gives banks a powerful incentive to shirk the due diligence and "know your customer" practices encouraged by international regulators.<sup>66</sup>

For their part, the Rosenthals denied they shirked any of their responsibilities. They said the bank's due diligence turned up nothing that would impede the bank from doing business with the Rivera Maradiaga family. What's more, they claimed they broke all relations with the group when the United States Treasury declared the Cachiros targets in 2013. "We had no reason to believe that they were as devious as they turned out to be," Jaime Rosenthal told InSight Crime.

"Because there was no document or anything that said they were involved in drug trafficking," Patricia Rosenthal added.

The same is true with the relationship between the Continental Group and the Cachiros outside of banking. InSight Crime has no evidence, for example, to suggest that the relations between the Cachiros' cattle ranching operations and any meat packing plant was nefarious in nature or went beyond the simple reason that one had a

product to sell and the other had a product they wanted to process. In fact, the overlap between the Cachiros and the Continental Group could be passed off as circumstantial: the two families could run in the same circles and simply have mutual business interests.

At the same time, though, it is clear the Cachiros and the Rosenthals are not from the same circles -- not even close. The two families do not come from the same region or from the same economic strata. The Cachiros' background of cattle rustlers and drug traffickers puts them in a completely different social class as the owners of one of the largest conglomerates in Honduras. What's more, there is nothing to suggest that the Cachiros were major political and business players prior to their surge in earnings from trafficking cocaine across Honduras in large quantities.

The incentives that bring the Cachiros in proximity with the Rosenthal family need not be obvious to be attractive. Criminal-owned businesses often have multiple purposes. In order to conceal illicit proceeds, for example, organized crime can offer significant financial incentives to legitimate businesses and clients. In the case of the financial industry, the trade-off could be in the large amount of money they put into their accounts or the amount they pay to move the money through those accounts.

Organized crime groups may also offer their clients or partners steep discounts on their products. Although the Rosenthals said they did not receive any discounts for buying cattle from the Rivera Maradiaga family, the Cachiros reportedly employed this practice in their hardware stores in Tocoa, which were known in the area for selling cheap but high-quality products. In these cases, both the criminals and their clients see the transaction as a win: the clients get cheap products or large amounts of capital, and the criminals launder their proceeds and achieve a competitive advantage in the market. This competitive advantage extends to all their businesses.

The Rivera Maradiaga family was also an important economic player. In essence, by dealing with the Rivera Maradiaga family, the Continental Group was allied with a significant economic conglomerate that provided it with capital and new business opportunities, as well as economic and political connections. The Rosenthals, for instance, said the Rivera Maradiaga family was the most important distributor of milk in Honduras and one of the most important purveyors of cattle. All of these factors make the Continental Group more competitive, allowing it to expand its hold on some of the most important industries in the country. The relationship with Continental Group, in turn, offered the Cachiros a means by which it could launder its proceeds via numerous, cash-heavy businesses. In all of this, the bank is the key. If the bank does not do its due diligence, then all the other activities can move as much of the illicit proceeds as necessary through its doors.

The connections also gave the Cachiros a higher social standing. This bid for legitimacy worked. The Cachiros, as the chief of the police in Tocoa told InSight Crime, were seen as “señores del pueblo,” i.e., legitimate businessmen and unofficial brokers of the public interest. When the Rivera Maradiaga family launched one of its latest ventures, a gasoline station and mall, the area’s elites were in attendance, including Ramón Lobo, the former congressman and brother to ex President Porfirio Lobo.<sup>67</sup> When their businesses were targeted for seizure by the government, there were large protests in Tocoa.

“If there was something the Rivera Maradiaga brothers had it was loyalty from the people. They always treated their workers well, and they didn’t try to scare everyone. They were cold-blooded killers with their enemies, but with the locals they were always acting in solidarity and were very generous,” one intelligence official told La Prensa.<sup>68</sup>

The number and range of shared business interests certainly raises questions about whether the Rosenthals were aware of the Cachiros’ illicit activities. However, Honduras offers little disincentive for developing these ties. Whispers about the Cachiros’ licit and illicit proceeds stretch back years, but neither the press nor the government spoke publicly against them. Even after the US Treasury put the Cachiros on its “kingpin” list, then-President Porfirio Lobo made only one limited, indirect public reference to the group.

“There are a lot of units that are investigating all these [criminal] groups, including this group. These should be the units that know about these different [criminal] groups,” the president said.<sup>69</sup>

When InSight Crime met with them, the Rosenthals also portrayed themselves as victims. They claimed they did not have the resources or the wherewithal to check all of their clients’ background and said that should be the government’s job.

“Our obligation should be, if there was a person who was responsible, that if we got information, we could give it to that person, and they could review it. They had the capacity to review it and say, ‘It’s not true. It’s an urban myth,’ or, ‘It’s true. Don’t do business with them,’” Jaime Rosenthal responded. “But what we have now is that they are waiting for us to determine who is a criminal and who is not a criminal. That is what the state is for, what the government is for. That is not the bank’s role, not the individual [citizen’s] role. That is why the state was created.”

At one point, the Rosenthals actually asked for assistance from the United States government to help it do due diligence. “In Banco Continental, S.A. we are and want to be very careful about our business and our customers, and since Grupo Continental is



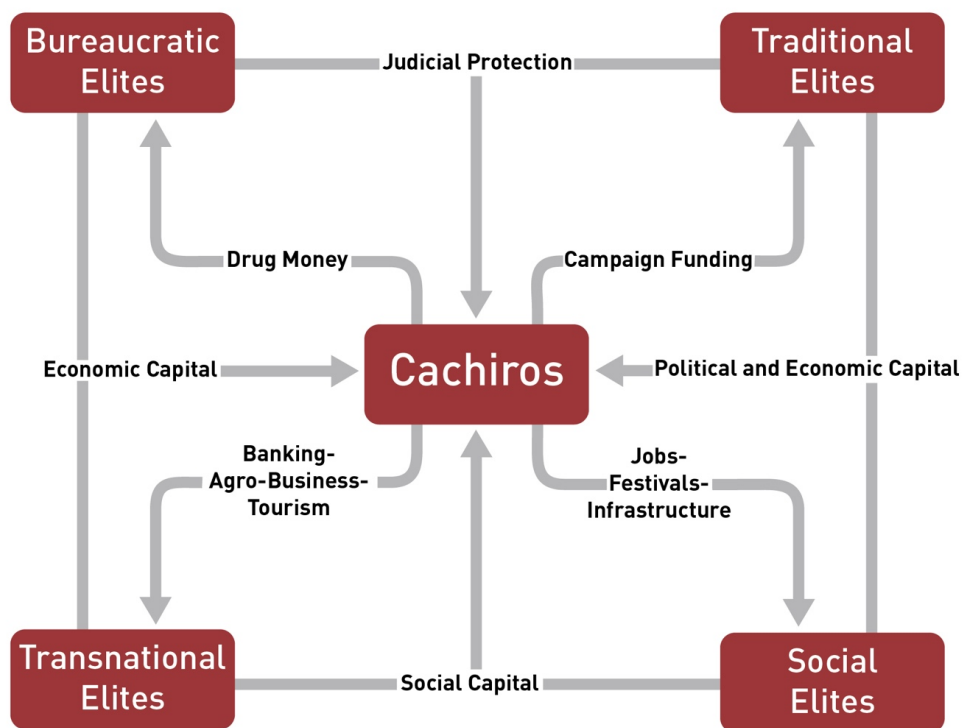
## ***Honduras Elites and Organized Crime***

involved in many businesses including agro-business, we have to be especially careful about the people with whom we do business,” a March 2012 letter written by Jaime Rosenthal to the US Embassy read. “To us a clean name is very important and since the DEA and the US Embassy are the best informed people in Honduras, we will very much appreciate it that we can confirm with DEA some of the names of our customers to make sure that we will not get involved in any business that can damage the name of our family.”<sup>70</sup>

Regardless of how much the Rosenthals knew about their partners’ illicit activities, they also had a legitimate and valid excuse for not withdrawing from these relationships: there are no criminal charges against any member of the Rivera Maradiaga family in Honduras that would directly prohibit the Continental Group from doing business with the Cachiros.

That grey area -- where the legality is in question but nothing is proven -- is large in Honduras and allows elite actors to continue to work with suspected illicit interests. Indeed, the judicial institutions, oversight committees and regulatory agencies are notoriously lax, incompetent and corruptible in Honduras. In most instances, this permits elites to shape and bend the rules so they can maintain the status quo. In this instance, it gives the transnational elites plausible deniability and the ability to adjust to a new economic and political reality -- the growing power of organized crime and rival elites -- that might otherwise put their interests at risk. As Jaime Rosenthal told InSight Crime, “We have not done anything illegal.”

*Figure 4: Cachiros - Elites Relationships*



**InSight Crime**  
Investigation and Analysis of Organized Crime

What motivated the relationship between the Cachiros and the traditional and bureaucratic elites is more difficult to establish empirically. Current and former politicians appeared to act as emissaries for the group: helping them legalize and legitimize their economic holdings; ensuring favorable legislation for their business interests; and protecting them, their families and their close allies from prosecution. Perhaps the clearest advantage for the criminal organization was its ability to affect how public funds were allocated in their area of influence. The prospect of building roads, for example, was very attractive for the Cachiros on many levels. With public works projects, they could obtain a lucrative contract, which also allowed them to provide local employment and build up their social capital. It was also a means by which they could launder illicit proceeds, provide kickbacks to political operatives and help with campaign contributions.

However, the relationship between the Cachiros and these elites was much more profound than simply trading favors. While there were the expected elements of political payoffs, the alliance between large organized crime groups and traditional and bureaucratic elites has had an impact that lasts much longer than the government contracts they can secure. These illicit actors are shaping a state in which the principal

source of capital accumulation is dependent on this mixture of illicit and government capital, and the political power financed by it. This is especially acute in countries like Honduras because, as noted, the earnings of these criminal organizations can be significant, and because their investments and spending in the local economy can rival local and national government expenditures.

The result is to contort the economic-political calculus and catapult a hybrid elite built around these licit and illicit operations. The basis of this nefarious alliance is not new. The political system in Honduras has always been financed by the wealthy. The political parties have long been beholden to these campaign financiers, doing their bidding by giving tax exonerations, granting no bid contracts, limiting regulation and undermining the justice system. The new system's beneficiaries and financiers, however, expect these and other favors, including the promise to limit criminal investigations pertaining to money laundering, drug trafficking and homicides, among others, and the ability to partake in the corruption and nepotism so prominent in government business dealings.

The new model reinforces itself in various ways. Criminal groups operate with impunity and assistance of local politicians. The groups use this economic might to exert influence on the political process by supporting these same politicians or by propping up political parties. The candidates and parties are beholden to these criminal groups, and support favorable legislation that opens business opportunities for the alliance, and lobby for measures that limit security force operations. The politicians -- and their bureaucratic allies -- also take advantage of these relationships to strengthen their own hand, extracting resources from government coffers or using their influence to further their own economic and political interests.

The implications of these alliances are broad. Various economic and political movements seem to be developing around the influx and movement of illicit capital. And while on one level this capital fits within the larger historical scheme of Honduran economic and political development, there are some important differences from what has gone before. What separates this period from others is the illicit nature of this capital and the dangers it poses to democratic governance. Illicit capital skews the economic and political playing field, and undermines the democratic process through the corrupting influence of money, and the threat of the use of force.

The situation has led to considerable tension. As noted above, some elite groups have chosen to align themselves with the generators of this illicit capital. There appear to be clear benefits to these connections and very few disincentives. The clearest incentive is the access to this huge influx of foreign capital. Since there is little risk of prosecution, there appear to be few downsides for the elites. As long as there are no formal charges against these illicit actors, the elites in question have plausible deniability.

But what about those who resist? Crossing the criminal actors carries with it multiple risks that go beyond the loss of financial backing. The Cachiros, for example, expect a lot from their political allies, and relations with congressional representatives have been contentious at times. As noted earlier, their support for one representative was contingent on many things, including his ability to install an ally in the Security Ministry. The congressman's subsequent assassination illustrates just how high the stakes are. As noted in the case of the assassination of Juan Gómez Meléndez, the stakes appear to be equally high for the criminal groups. By fleeing to the United States, the Cachiros may have escaped the wrath of the elites.

The process is playing out in real time, so it is difficult -- and might be premature -- to gauge the reach and power of these converging interests, the exact substance of their alliances or relations with criminal organizations, and the way in which these two interact on the various social, political and economic planes. What we can say, however, is that the calculation of whether or not to align one's interests with criminal groups has shifted. From the elites' perspective, saying no to these alliances may have worse implications than saying yes. This is, in part, due to the perception that in Honduras, politics is a zero-sum game. As evident from the rising debt, the amount of public resources and foreign capital coming into the country cannot feed the appetite of these elites.

Thus, the discussion is not about right or wrong in Honduras but survival. The situation appears to be reaching the point where all the elites are facing the same dilemma: align their interests with the narco-powers surging in the country, or stand by as these powers assume control of the country's most important economic and political levers. In the end, dirty money provided by illicit criminal groups and businesses may mean the difference between winning and losing a political campaign, securing or not securing an important contract or business venture, and maintaining or losing a privileged position in Honduran society.

*\*This report was written by Steven Dudley. Dudley, Javier Meléndez -- who acted as coordinator for research for this project -- along with researchers from the Centro de Investigación y Promoción de los Derechos Humanos (CIPRODEH) and the Asociación para una Sociedad más Justa (ASJ), assisted in the investigation and production of this report. Jorge Mejía Galindo developed the maps. Andrew J Higgins did all the graphics.*

## **Endnotes**

[1] Tiempo, "Honduras: ¿Se entregó jefe de Los Cachiros a EE.UU.?", 31 January 2015.

- [2] La Prensa, “Jefe de los ‘Cachiros’ se entregó al Gobierno de EUA,” 3 February 2015. Available at: <http://www.laprensa.hn/sucesos/791366-410/jefe-de-los-cachiros-se-entreg%C3%B3-al-gobierno-de-eua>
- [3] Tiempo, “Honduras: ¿Se entregó jefe de Los Cachiros a EE.UU.?,” 31 January 2015.
- [4] Tiempo, “FFAA: Manejamos que se entregó jefe de los Cachiros,” 4 February 2015.
- [5] InSight Crime interview with US officials who asked to remain anonymous because they were working on the case, Washington DC, February 2015.
- [6] Tiempo, “Oscar Álvarez: Personas que tienen vínculos con ‘Los Cachiros’ deben estar muy preocupados,” 5 February 2015.
- [7] Tiempo, “Cachiros se entregaron a autoridades estadounidenses a cambio de protección para sus familias,” 12 February 2015.
- [8] La Prensa, “DLCN: exdiputado asesinado era testaferro de ‘Cachiros,’” 9 February 2015. Available at: <http://www.laprensa.hn/sucesos/793289-410/dlcn-exdiputado-asesinado-era-testaferro-de-cachiros>
- [9] El Herald, “Honduras: Matan a exgobernador y exdiputado de Colón,” 22 January 2015. Available at: <http://www.elheraldo.hn/pais/787911-364/honduras-matan-a-exgobernador-y-exdiputado-de-col%C3%B3n>
- [10] La Prensa, “Los ‘Cachiros’ y la caída de su imperio,” 9 February 2015. Available at: <http://www.laprensa.hn/honduras/793305-410/los-cachiros-y-la-ca%C3%ADda-de-su-imperio>
- [11] Elizet Payne Iglesias, *El puerto de Truxillo: un viaje hacia su melancólico abandono* (Tegucigalpa, 2007), p. 307.
- [12] Ibid, p. 169.
- [13] Ibid, p. 172.
- [14] Ibid, pp. 329-336.
- [15] Jorge Alberto Amaya, *Los árabes y palestinos en Honduras: 1900-1950* (Tegucigalpa, 1997).
- [16] Charles D. Brockett, Public Policy, Peasants, and Rural Development in Honduras, *Journal of Latin American Studies*, Vol. 19, No. 1 (May, 1987), pp. 69-86, Cambridge University Press.
- [17] See more about Facussé family in introduction to the Honduras case studies.
- [18] Tocoa’s population was 14,815 in 1974; by 2001, it was 61,370. See: Secretaría de Gobernación y Justicia, “Municipalidad de Tocoa, Departamento de Colón: Diagnostico Institucional y Financiero” (Tegucigalpa, 2005), p. 7.



[19] Three InSight Crime researchers traveled to the area during the time period in which the investigation took place. For security reasons, they wish to remain anonymous.

[20] This report is based on numerous interviews with residents in the family's area of influence, as well as with Honduran and international law enforcement sources. These sources chose to remain anonymous out of fear, or so as not to inhibit ongoing investigations.

[21] InSight Crime interview, Honduran police intelligence official, Tegucigalpa, 24 February 2010.

[22] According to the United Nations Office on Drugs and Crime (UNODC), cocaine seizures in Central America went from 17 tons in 2000, to 97 in 2006. See: Claudio Damián Rodríguez Santorum, et al., "Transnational Organized Crime in Central America and the Caribbean: A Threat Assessment," UNODC, September 2012, p. 19.

[23] Otto Vargas, "Sicarios persiguieron a hondureño hasta matarlo," La Nación (Costa Rica), 8 July 2004. Available at: [http://www.nacion.com/ln\\_ee/2004/julio/08/pais19.html](http://www.nacion.com/ln_ee/2004/julio/08/pais19.html)

[24] Ibid.

[25] Ibid.

[26] From a list of deaths in the Honduras penitentiaries signed by Honduras' security secretary, obtained by the author.

[27] US State Department, "Drug plane burned on prominent Honduran's property," 19 March 2001. Released by WikiLeaks. Available at: <https://wikileaks.org/cable/2004/03/04TEGUCIGALPA672.html>

[28] Official accusation by the Nicaraguan government, obtained by InSight Crime.

[29] Geoffrey Ramsey, "Departure of Honduras Security Minister a Victory for Corrupt Cops," InSight Crime, 12 September 2011. Available at: <http://www.insightcrime.org/news-analysis/departure-of-honduras-security-minister-a-victory-for-corrupt-cops>

[30] Honduran intelligence sources said police aspiring for the Colón post had to pay their superiors in the police a one-time \$5,000 entry fee.

[31] InSight Crime interview, Honduran police intelligence official, Tegucigalpa, 24 February 2010.

[32] Charles Parkinson, "Cachiros Knew about Honduran Police Operation: Official," InSight Crime, 10 October 2013. Available at: <http://www.insightcrime.org/news-briefs/cachiros-knew-about-honduras-police-operation>

[33] InSight Crime calculates this number using a rough estimate of the difference in the value of a kilogram of cocaine when it enters Honduras and when it exits Honduras: \$2,000.

[34] Steven Dudley, "US Pushes Honduras to Crack Down on Cachiros," InSight Crime, 19 September 2013. The \$800 million figure comes from the country's police chief at the time. It also only refers to the

seized assets. It should be noted, however, that there were numerous and contradictory estimates of the value of the seizures from other sources. The US ambassador to Honduras, Lisa Kubiske, said on her Twitter account the seized assets were worth at least \$500 million. An official at the Honduran Attorney General's Office said the assets were worth considerably less than Kubiske's estimate. When questioned on the record about the seized assets, US Treasury officials declined to estimate.

[35] InSight Crime interview with OABI official who wished to remain anonymous, 25 April 2014.

[36] After the US Treasury put them on the Kingpin List in May 2013, the group's cattle business was disrupted, and meat prices in the region rose significantly, according to Tocoa residents interviewed for this study.

[37] La Prensa, "Gasolinera y apartamentos les incautan a los Cachiros," 30 November 2014. Available at: <http://www.laprensa.hn/sucesos/772656-410/gasolinera-y-apartamentos-les-incautan-a-los-cachiros>

[38] Security companies facilitate organized crime via the procurement of weapons and their ability to camouflage illicit activities, such as the reception and accompaniment of drug loads, as they are fully licensed security services.

[39] InSight Crime interview with US official who wished to remain anonymous, 4 April 2014.

[40] El Herald, "Los Cachiros grabaron videos espía para proteger sus vidas," 27 April 2015. Available at: <http://www.elheraldo.hn/pais/834710-331/los-cachiros-grabaron-videos-esp%C3%ADa-para-protger-sus-vidas>

[41] InSight Crime interview with government investigator who asked to remain anonymous as the case is still technically open against the bank, Tegucigalpa, 25 May 2015.

[42] A government consultant spoke to InSight Crime investigators on the condition of anonymity. The consultant's story was confirmed by foreign intelligence officials.

[43] Última Hora, "Banco Central maneja fideicomiso de tasa de seguridad," 27 July 2012. Available at: <http://ultimahora.hn/node/7130#sthash.XqGvblJg.dpuf>

[44] United States vs Jaime Rolando Rosenthal Oliva, et al., released 7 October 2015. Available at: <http://www.insightcrime.org/images/PDFs/2015/RosenthaletalIndictment.pdf>

[45] US Treasury, "Treasury Sanctions Rosenthal Money Laundering Organization," 7 October 2015. Available at: <http://www.treasury.gov/press-center/press-releases/Pages/jl0200.aspx>

[46] InSight Crime interview with Jaime Rosenthal and Patricia Rosenthal, San Pedro Sula, 2 June 2015.

[47] Banco de Occidente has also come under some scrutiny. The government investigator cited earlier said that Cachiros used the bank for some its banking. And the Valle Valle criminal organization, which operated from the state of Copán, used it for "about half" of its banking needs, he said. The investigator added that the Valle Valle group also did "about half" of its banking with Continental Bank.

[48] See list of initiatives here: [http://coalianza.gob.hn/v2/?page\\_id=143](http://coalianza.gob.hn/v2/?page_id=143)

[49] See: <http://coalianza.gob.hn/v2/wp-content/uploads/2013/06/CONTRATO-COALIANZA-ENEE-CONTINENTAL.pdf>

[50] See: <http://www.se.gob.hn/ultimoscomunicados/comunicado2pagobecas.pdf>

[51] See: <http://www.bancocci.hn/NewsLocal20140113-01.html>

[52] InSight Crime interview, Oficina Administradora de Bienes Incautados (OABI) official who wished to remain anonymous, Tegucigalpa, 25 April 2014.

[53] Ibid.

[54] See Trip Advisor for some recent examples: [http://www.tripadvisor.com/Attraction\\_Review-g2290671-d3737582-Reviews-Joya\\_Grande\\_Zoo\\_y\\_Eco\\_Parque-Santa\\_Cruz\\_de\\_Yojoa\\_Cortes\\_Department.html](http://www.tripadvisor.com/Attraction_Review-g2290671-d3737582-Reviews-Joya_Grande_Zoo_y_Eco_Parque-Santa_Cruz_de_Yojoa_Cortes_Department.html)

[55] Steven Dudley, “How a Good Soccer Team Gives Criminals Space to Operate,” InSight Crime, 11 June 2014. Available at: <http://www.insightcrime.org/news-analysis/how-a-good-soccer-team-gives-criminals-space-to-operate#response>

[56] See: <http://www.idea.int/political-finance/country.cfm?id=97>

[57] See, for example, this: <http://www.latribuna.hn/2013/10/10/avanzan-en-la-construccion-de-puente-en-cuyali-el-paraiso/>

[58] La Prensa, “Soy el rey del pueblo,” 25 July 2011. Available at: <http://www.laprensa.hn/especiales/381733-273/soy-el-rey-del-pueblo>

[59] For more on Alexander Ardón, see: Douglas Farah and Carl Meacham, “Alternative Governance in the Northern Triangle: Finding Logic within Chaos,” Center for Strategic and International Studies, September 2015. Available at: [http://csis.org/files/publication/150911\\_Farah\\_AlternativeGovernance\\_Web.pdf](http://csis.org/files/publication/150911_Farah_AlternativeGovernance_Web.pdf)

[60] As outlined in the introduction to the Honduras case studies, bureaucratic elites is a reference to elites that draw from their government posts or political seats to gain influence and power. As described in the introduction to the Honduras section, they are often a hybrid, drawing resources from their status as landholders or businessmen, but using their control of important government posts they gained either via election or designation to set the agenda on security matters, among other important issues.

[61] InSight Crime interview with Julián Pacheco, Tegucigalpa, 16 February 2015.

[62] Observatorio de la Violencia, “Boletín Enero-Diciembre 2014,” February 2015. Available at: <http://iudpas.org/pdf/Boletines/Nacional/NEd36EneDic2014.pdf>

[63] Rights Action, “Human Rights Violations Attributed to Military Forces in the Bajo Aguan Valley in Honduras,” February 2013. Available at: [http://rightsaction.org/sites/default/files/Rpt\\_130220\\_Agvan\\_Final.pdf](http://rightsaction.org/sites/default/files/Rpt_130220_Agvan_Final.pdf)

[64] Radio America, “Campesinos incendian finca de palma africana en el Bajo Aguan,” 1 May 2013. Available at: <http://radioamericahn.net/campesinos-incendian-finca-de-palma-africana-en-el-bajo-aguan/>

[65] See: <http://conexihon.hn/site/noticia/derechos-humanos/derechos-humanos-conflicto-agrario-y-minero/honduras-guardias-privados>

[66] This reality is all too evident in Honduras where, on the day authorities were seizing the Cachiros’ assets, the US ambassador to the country was lecturing members of financial sector about money laundering and illicit capital financing political parties. See: La Prensa, “Kubiske: Dinero ilícito de campañas arriesga proceso electoral,” 19 September 2013.

[67] La Tribuna, “Inauguran en Tocoa una moderna estación de servicio,” 3 January 2012.

[68] La Prensa, “Los ‘Cachiros’ y la caída de su imperio,” 9 February 2015. Available at: <http://www.laprensa.hn/honduras/793305-410/los-cachiros-y-la-ca%C3%ADda-de-su-imperio>

[69] El Heraldo, “Presidente de Honduras: Seguridad ‘debe conocer’ sobre Los Cachiros,” 2 June 2013. Available at: <http://www.elheraldo.hn/sucesos/622527-219/presidente-de-honduras-seguridad-debe-conocer-sobre-los-cachiros>

[70] A copy of the letter was provided to InSight Crime by the Rosenthals.

## **Project Description**

Elites and organized crime is a multiyear project financed by the International Development Research Centre that investigates the dynamics between organized crime and elites in four countries: Honduras, Guatemala, Nicaragua and Colombia.

For more of this series, go to: [www.insightcrime.org](http://www.insightcrime.org)

## **Disclaimer**

The research presented in this report is not necessarily a reflection of the positions of the IDRC. The ideas, thoughts and opinions contained in this document are those of the author or authors.

## **Team**

InSight Crime Co-director Steven Dudley was the director of the project. Javier Meléndez was the project coordinator. Dudley coordinated research in Honduras, along with the Centro de Investigación y Promoción de los Derechos Humanos (CIPRODEH) and the Asociación para una Sociedad más Justa (ASJ). Edgar Gutiérrez coordinated research in Guatemala, along with the Fundación DESC. Meléndez coordinated research in Nicaragua, along with Expediente Abierto and the Instituto de Estudios Estratégicos y Políticas Públicas (IEEPP). InSight Crime Co-director Jeremy McDermott coordinated research in Colombia. Several independent investigators, who wished to remain anonymous, also greatly assisted project work in Honduras, Guatemala, and Nicaragua. Jorge Mejía Galindo developed the maps. Andrew J Higgins did all the graphics. InSight Crime wishes to thank all the partners and collaborators.



## **The InSight Crime Foundation**

InSight Crime is a foundation dedicated to the study of the principal threat to national and citizen security in Latin America and the Caribbean: organized crime.

We seek to deepen and inform the debate about organized crime in the Americas by providing the general public with regular reporting, analysis and investigation on the subject and on state efforts to combat it.

We fulfill this mission by:

- providing high quality and timely analysis of news events linked to organized crime in the region;
- investigating and writing reports on organized crime and its multiple manifestations, including its impact on human rights, governance, drug policy and other social, economic and political issues;
- giving workshops to journalists, academics and non-governmental organizations on how to cover this important issue and keep themselves, their sources and their material safe;
- supporting local investigators through these workshops and by publishing, translating and promoting their work to reach the widest possible audience;
- developing a region-wide network of investigators looking at organized crime;
- presenting in public and closed-door sessions to governments, non-governmental organizations, academics and stakeholders on best practices, strategies and pitfalls in implementing citizen security policy on the ground.

For more information, visit: [www.insightcrime.org](http://www.insightcrime.org)

Or contact: [info@insightcrime.org](mailto:info@insightcrime.org)

## Copyright

InSight Crime content follows Creative Commons Attribution-Non Commercial 3.0 Unported License.

You are free to:

- **Share** — copy and redistribute the material in any medium or format
- **Adapt** — remix, transform, and build upon the material

The licensor cannot revoke these freedoms as long as you follow the license terms.

### Terms:

- **Attribution** — You must give appropriate credit, provide a link to the license, and indicate if changes were made. You may do so in any reasonable manner, but not in any way that suggests the licensor endorses you or your use.
- **NonCommercial** — You may not use the material for commercial purposes.
- **No additional restrictions** — You may not apply legal terms or technological measures that legally restrict others from doing anything the license permits.

### Notices:

You do not have to comply with the license for elements of the material in the public domain or where your use is permitted by an applicable exception or limitation.