

A STATE OF SIEGE

**Gangs, Drugs, and Violence
in Central and Latin America**



Between October 2013 and July 2014, [52,000 children fleeing gang violence in Central America and Latin America](#) were apprehended at the U.S. border. President Obama called it a “humanitarian crisis.” As Mexican gangs have fragmented and moved south, wrecking businesses and societies, [murder rates in the region have risen dramatically](#), and foreign direct investment (FDI) has been affected. Certain key industries — mining, construction and energy — are targeted by gangs for infiltration and subornment as part of their modus operandi, but gang impact also has been felt in finance, manufacturing, real estate, retail, telecommunications and transportation. Gangs use legitimate businesses and, through them, take advantage of corrupt governments and courts. However, while these gangs are ruthless, pervasive and well-funded, they seek the path of least resistance. In other words, if a business can set a few strategic traps, the rats will run. A company’s security plan doesn’t have to be air tight to discourage gangs; it simply needs to be better and smarter than competitors’ systems. This article relates the impact of current gang activity in Central America, Latin America and the Caribbean and describes some of the traps FTI Consulting helps its clients set.

Gang-related crime and violence are reaching a crescendo in Central America, Latin America and the Caribbean. Such activity is constraining foreign direct investment, devastating the region’s economies and societies, and leading to rising waves of forced emigration.

FDI in Central America and the Caribbean in 2013 [was 5 percent weaker than the global average increase \(11 percent\)](#), and were it not for InBev’s (a.k.a. AB InBev) \$13.5 billion acquisition of Mexico’s Grupo Modelo beer manufacturer, net FDI in the region would have declined last year.

When FDI is impaired, economic growth stagnates and society suffers, as evidenced by the tide of immigration witnessed this past summer in the United States, made more poignant by the

number of children fleeing to presumed safety. President Obama called it a “humanitarian crisis.”

According to U.S. Customs and Border Protection, the apprehension of unaccompanied children at the U.S. border this year was [up 92 percent over 2013](#). More than 70,000 children are expected to be apprehended by the end of 2014. Fleeing gang-related violence, these children — primarily from Mexico, Guatemala, Honduras and El Salvador — also are seeking asylum in other Central American countries, including Panama, Costa Rica and even Nicaragua, one of the poorest nations on earth.

The entire region is becoming destabilized.

According to a 2012 United Nations Development Programme report, Latin America and the Caribbean, with only

8.5 percent of the world’s population, account for more than 25 percent of the world’s homicides. And, not surprisingly, crime and violence [“very much” affect the cost of doing business in the region](#), according to data from the [Global Competitiveness Index 2012-2013](#), analyzed by the Economic Commission for Latin America and the Caribbean. In El Salvador, for example, the cost of extortion to smaller businesses exceeds \$1 million a month. In 2011, [the World Bank estimated the annual cost of crime and violence to the region at 8 percent of gross domestic product](#). In 2012, the cost of crime in the region was gauged by the National Institute of Statistics to have been \$8.8 billion.

Crime pays, but it also costs.



Gang Business: A Profile

In 2009, FTI Consulting identified 220 active gangs operating in Panama (population 3 million). The World Bank identified approximately 500 distinct active gangs in Central America encompassing around 70,000 members. Most of these gangs are involved in producing drugs and trafficking in them, and business is booming.

In 2013, [federal police drug seizures in Mexico nearly doubled over 2012](#). National police appropriated close to 100 tons of narcotics (marijuana, cocaine, heroin and methamphetamines) compared with about 50 tons in 2012. According to State Department reports from the respective countries, [drug seizures also increased in 2013 in Guatemala, El Salvador, Panama and Costa Rica](#), often dramatically. Officials in Guatemala reported that drugs commandeered in the first nine months of 2013 represented a 330 percent spike over 2012. In the first 10 months of 2013, the El Salvador government impounded twice the amount of cocaine it had confiscated in 2012. Panama authorities noted a 20 percent increase in cocaine appropriations from 2012 to 2013.

Along with this rise in drug production, the Mexican government's war on

the leadership of its drug cartels has ["contributed to a splintering of drug-trafficking networks \[and\] greater overall violence,"](#) according to a special report by the Trans-Border Institute.

Certain industries are ideal targets for gang infiltration. Mining and other manufacturing enterprises, for example, use chemicals in their businesses that also are used to process cocaine. These compounds can be obtained by gangs either through theft or bribery or more conveniently and less dangerously by infiltration into the business itself. Gangs gaining a foothold in a legitimate business then can use its operations to launder money through the business' bank and can obtain assets — vehicles, ports and other logistical resources — needed to move drugs. In 2012, for example, U.S. authorities seized \$31 million in assets belonging to a Peruvian mining operation on charges of money laundering and drug trafficking.

The long-standing and growing problem of drug manufacturing and trafficking in Central America, Latin America and the Caribbean — and the attendant social and economic deprivations — will not be solved easily. According to the World Bank, ["Given the high levels of drug-related corruption in the criminal justice systems and the vast resources of the traffickers, evidence suggests that directing more resources to drug enforcement efforts is not likely to reduce violence in Central America."](#)

This does not mean, however, that companies operating in that part of the

world cannot improve their security stance and, thereby, attract the FDI needed to grow and contribute to the economic profile of the area and the corresponding societies. Indeed, Central America, Latin America and the Caribbean remain appealing to foreign investors due to the region's abundant natural and cultural resources, a growing middle-class consumer base and proximity to the vast U.S. market. Businesses that improve the security of their operations — supporting activities that can make life difficult for gangs — can become attractive to foreign investors looking to take advantage of the area's undeniable potential.



Life during Wartime: How to Improve Security

In order to discourage gangs and cause them to look elsewhere for easier prey, a business' security plan should be strategically positioned according to country and industry risks and merely needs to be better than the systems employed by the competition. These security plans can and should be customized to the special needs of the business, with key assets identified and protected by strategic security rings.

However, with the proper intelligence, and a deep understanding of the risks a business' operations expose it to, companies can take preventive measures to mitigate them.

Enhancing a company's security does not have to be an overly expensive proposition. The process begins by conducting a threat/vulnerability assessment that focuses on the vicinity in which the business is located, as threats and risks differ by geography and jurisdiction.

HUMAN ASSETS

To conduct a proper threat assessment — as well as make an organization's security posture stronger — locally based human intelligence is critical. In part, that means closely vetting clients. This especially is true in the finance industry, as doing so can prevent an institution from running afoul of anti-corruption, anti-terrorist and anti-money laundering laws.

For instance, FTI Consulting helped a client's compliance function identify a customer with direct ties to and relationships within a shipping business in an area noted for high drug activity. After an FTI Consulting investigation, the client severed its relationship with the customer, avoiding a potential liability.

The information FTI Consulting provides clients regarding local stakeholders and customers can be used at the client's discretion. The business then can take what it considers appropriate measures to mitigate risks presented by employees or the people and firms with which it does business. This can provide a basis for proactive, preventive actions that can be taken before a problem presents itself, thereby helping to ensure a high level of security over the long term.

PROJECT MANAGEMENT

Nations with the highest murder rates in the world include [Honduras \(with 90.4 per 100,000 people\)](#), [Venezuela](#)

[\(53.7\)](#), [Belize \(44.7\)](#), [El Salvador \(41.2\)](#), [Guatemala \(39.9\)](#) and [Jamaica \(39.3\)](#). (The global average is 6.2 per 100,000, according to the United Nations Office on Drugs and Crime's 2013 "Global Study on Homicide.") Businesses operating in these areas and possessing assets (such as planes, boats, rails and trucks) that can be used by gangs are at high risk. However, with the proper intelligence and a deep understanding of the risks surrounding a business' operations, companies can take preventive measures to mitigate these perils.

When a company begins a project such as the construction of a new facility in a district known for corruption and gang activity, reputational due diligence and security controls must be established with vendors and suppliers and tested prior to launching the initiative. For example, right now, several natural gas pipeline projects are under way in the Andean and Amazon regions. These pipelines run through mountainous and rural terrains that would pose logistical and construction challenges even without the narcotrafficante activity that is rife there. In fact, FTI Consulting provided risk management advice for several companies involved in the energy industry and developed a security plan for each client's executives and families (including the training of on-site security personnel) to prevent kidnappings and extortion. By understanding the intricacies of the business and the company's processes and policies designed to confront these operational risks, as well as the local conditions, FTI Consulting was able to set up a tailored security infrastructure design, along with new protocols, creating rings of protection for the company's assets (including data), its employees and its operations.

FTI Consulting professionals have

participated in several internal investigations for financial institutions related to internal information technology (IT) employees. In some cases, the investigations revealed that employees were stealing sensitive data (credit card information) and selling the information to gangs that penetrate the Caribbean. After absorbing the results of FTI Consulting's investigation and follow-on recommendations, the clients changed their security information protocols and culture.

SMART SURVEILLANCE SYSTEMS

Smart surveillance systems combine information about regional risks and assets (human, physical and digital) and, by assigning each a defined risk level, can establish a customized system for individual businesses. These systems employ a range of technologies — with a single monitoring center, if required — capable of responding to a variety of events and emergencies, accidental or malicious.

Automated surveillance systems have clear benefits in countries with a high degree of gang activity. These systems cannot be suborned or threatened by the gangs and function around the clock without taking breaks or bribes. These effective products also lower operating costs, as, for example, they can allow a business to reduce the number of human guards it employs, and the system itself represents only a one-time capital expenditure.

CULTURAL CHANGE

The unremitting violence perpetrated by gangs on the run with seeming impunity throughout much of Central America, Latin America and the Caribbean has thrown the region's civil societies into

something resembling a “state of panic,” [as described in an essay published by the Latin American Faculty of Social Sciences](#). In this environment, it’s critical for a business to focus on its own internal culture, with an emphasis on hiring trustworthy employees and keeping gang-connected individuals out of the company. By empowering Human Resources, enabling it to implement strict background check processes on new employees and giving personnel the tools and technologies needed, as well as a seat at the executive table, it is possible to create a safer environment for the business’ own employees and to attract the best talent available.

As well as hiring for character along with skill, companies can make their physical

environment less conducive to gang activity — setting, as it were, a few simple traps.

For example, a client in Latin America was experiencing the depredations of a culture of theft. Inventory was going missing; revenues were being lost. FTI Consulting helped the client upgrade outdated (or, in some cases, nonexistent) surveillance systems, tailoring them to the unique geographical risks associated with the client’s operations. Security then was able to be integrated with internal audit, IT, finance and other operational areas, generating a single view of the company’s processes and resources. This enabled the organization to reduce inventory shrinkage and stem the loss of revenues.

The lesson here is that risk never is isolated. It does not exist within a single segment of the business. A risk in one area causes risks in one or more other areas, which is why an integrated, holistic approach is so critical both to improving a company’s security posture and to changing its security culture at all levels of the organization. Indeed, a robust security monitoring system, combined with a positive cultural change, can surface business opportunities — such as improving marketing by providing a window into consumer interests. Proper security also can assist Human Resources in its efforts to effect change by providing it with the internal intelligence to understand employee behavior and conflicts.

Situation: Critical

That Central America, Latin America and the Caribbean are in political, social and economic crisis due to gang-related activity is inarguable. The region’s unfathomably high murder rates, the exodus of its children and the recent decline in foreign direct investment all bear witness to deep-seated and perhaps intractable problems. When it comes to stopping or even limiting the activities of the area’s hundreds of gangs, there seems very little reason for optimism.

Business cannot solve the region’s problems, but individual companies can implement effective controls and can change the security culture to be better and smarter than the competitors’ systems. This will discourage gangs from infiltrating an organization’s operations and using assets for their own nefarious ends, disrupting a company’s ability to serve its customers and societies. And by taking charge of its own security, a company can make itself less attractive to gangs and more appealing to investors. This will help an organization grow and will assist it in improving the economic profile of the region, as well as the lives of the local citizens. ■

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