TOWARD A DIGITAL STRATEGY FOR COMPETITIVENESS AND INTEGRATION IN THE NORTHERN TRIANGLE

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The George W. Bush Institute’s Central America Prosperity Project (CAPP) brings together proven and emerging leaders from El Salvador, Guatemala, and Honduras to develop action-oriented strategies for advancing inclusive growth while strengthening regional economic integration. The group comprises both youthful creativity and experiential wisdom creating a diversity of vantage points that produced a wide-ranging dialogue about priority actions for the Northern Triangle. The participants from nonprofit organizations, the private sector, media, and academia were united in believing that a bright future for the region is within reach – and that concrete and tangible action are urgently needed to bring that future to fruition.

The crumbling Venezuelan economy with its devastating societal impact provides a window into the consequences if the region fails to act. The agenda proposed here is narrow in scope but designed to have a broad impact, to produce immediate “wins,” and to generate the momentum needed to convert bold aspirations into concrete benefits for the citizens of the region.
Toward a Digital Strategy:

Many experts have correctly diagnosed opportunities for policy reform across the economies of Central America: the scaffolding supporting democracy - rule of law, enforcement of contracts, and transparency – needs to be strengthened; trust by citizens in their government must be restored.

Improving the environment for private investment in “backbone industries” like information and communications technologies is critical to strengthen regional economic integration and supporting sustained growth. The George W. Bush Institute Central America Prosperity Project (CAPP) discussion revealed a broadly shared desire to lift up and engage the citizenry of the Northern Triangle by increasing participation in the formal economy, renewing civic engagement in activities such as voting, and improving access to public services in health and education.

Major political efforts including the Plan of the Alliance for Prosperity in the Northern Triangle and programming by key local and international institutions such as the Inter-American Development Bank are on the right track. Decades of U.S. Government programming by the U.S. Agency for International Development, the Millennium Challenge Account, U.S. Department of Agriculture, Homeland Security, and others have yielded significant results and there is a desire to see them continue in targeted and impactful ways.

The Bush Institute has identified one critical and emerging driver of the region’s economy – digital payments. Helping usher in an environment where public and private digital payments can take hold will promote private economic empowerment while having a stimulative effect on government reform efforts. A focus on digital payments matches the Bush Institute’s core criterion of targeted action designed to deliver broad impact.

The Imperative of the Digital Economy

Digital connectivity and financial technologies are essential ingredients for the region to compete in the global economy. Globally competitive industries are rapidly adopting digital technologies and data-driven innovation. Cloud computing and the Internet of Things can expand supply chain opportunities for companies that keep pace. 3D printing will transform the geography of manufacturing. E-commerce and digital trade opportunities are game changers for small- and medium-sized businesses, expanding access to customers.

Central America simply cannot afford to fall behind in transforming its regional economy to compete digitally. At the same time, digital technologies can enable fundamental improvements in the provision of, and access to, social services in employment opportunities and education and health.
A Big Step in the Digital Direction

Ideally, the region will develop and implement a Northern Triangle Digital Strategy, a conversation that many CAPP participants would like to advance.

Incrementally, initiatives to promote widespread access to broadband internet and mobile electronic payments would offer powerful “wins” on which to build a broader digital strategy while strengthening the connective tissue among governments, citizens, and businesses in the region.

Financial technologies enable access to credit and financial services for the unbanked and underbanked. They make it possible for small businesses to make online sales and are critical to modernizing integrated regional customs procedures. Digitizing more government processes and payments will promote efficiencies, serving to restore trust in government.

Unfortunately, the Northern Triangle significantly lags in the diffusion of high-quality mobile internet access. Regulatory and policy barriers continue to inhibit further investments and there appear to be few capacity building, development financing, or other assistance programs in the region supporting growth of the digital economy and mobile payment systems.

It is worth noting that the region’s energy policies will impact the Northern Triangle’s ability to secure both potential efficiency gains from digitization in the industrial sector and accommodate increased energy demands from data and mobile networks.

Due to its great potential to improve lives and productivity, reforms and promotion of investment in the information and communications technologies sector - particularly to make mobile payments more widespread – should be prioritized as a vehicle for deeper integration and sustained economic growth in the region.

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Formalizing and Encouraging Entrepreneurship

In 2015, MiEmpresaEnlinea.org was launched to facilitate business registrations by microenterprises and small businesses, helping them connect with and access credit to grow.

Since the company registry was created, close to 1,500 legal entities have registered in a variety of sectors. Business founders include former prison inmates and migrants returning from the United States, who are finding ways to earn income in Honduras in the formal economy.

- Guillermo Peña Panting, CAPP Participant from Honduras
First Steps Toward a Digital Strategy

For Central American Citizens:

In Central America today, just 35 percent of the population has 4G coverage, accounting for a mere five percent of connections in the region. For comparison, 98 percent of Americans had 4G coverage in 2015. A digital payments action plan for citizens should:

- Facilitate mobile internet infrastructure investments that will expand and increase the quality of broadband networks in rural and marginalized communities in the Northern Triangle. In turn, this enables investors in relevant sectors to achieve scale and reduce the cost of broadband access.
- Increase the percentage of the population who are able to receive electronic payments from employers and the government, as well as transfers from family and friends through mobile phones. Moving more individuals into the digital financial services system enables them to build assets and collateral that can be mobilized into productive, income-generating activities.
- Encourage use of data analytics and digital information as an alternative approach to gauge creditworthiness among the previously unbanked and under-banked. Better information about potential borrowers will improve credit access, reduce the cost of credit and strengthen loan performance.
- Enable “directed remittances,” for example direct payments into education tuition accounts.

“Tigo Money” and “Acceso” Partner to Advance Financial Inclusion in El Salvador

“Acceso” provides technical assistance to small producers, more than 83 percent of whom are women, who are heads of their family and work in rural areas distant from cities. Just to withdraw their salary from a bank can consume an entire day or more of lost wages, including the cost transportation, bank fees, and the risk of taking cash to their homes. Partnering with “Tigo Money” financial service provider, these women can receive their wages, pay bills, send, and withdraw money safely and quickly through an electronic wallet. Every fifteen days they get a text message notifying them about their electronic deposit. As part of the Tigo Money network, they now also have access to Tigo Money’s expanding network of financial centers throughout the country and increasingly in rural areas.

- Marjorie Chorro de Trigueros, CAPP Participant from El Salvador

For Private Sector Enterprises, Small, and Large:

For small businesses, operating in the online marketplace could facilitate higher sales volume at lower transaction costs. In a virtuous cycle, they can achieve scale, earn more revenue, and employ more workers. Access to high-speed internet also helps connect small businesses to appropriate legal, accounting, marketing or other services to grow their company. A digital payments action plan for the private sector should:

- Identify the policy and regulatory barriers currently inhibiting private investment in 4G and 5G in the Northern Triangle.
- Identify the incentives needed to attract both local and multinational technology entrepreneurs to introduce more B2B digital services and platforms.
• Support the presence of global businesses whose models are based on the “sharing economy,” such as Uber and Airbnb. These industries generate employment opportunities while helping diffuse a culture of trust and engagement with digitally-enabled services and platforms.

For the Northern Triangle Governments:

E-government services improve transparency and reduce corruption, helping to restore public confidence and access to government services. Governments must also ensure the regional regulatory environment is conducive to attract telecommunications, internet service, financial technology, and nontraditional banking services as players in the digital ecosystem. A digital payments action plan for the region’s governments should:

• Implement e-filing for businesses seeking to register themselves and their employees and pay employment taxes, perhaps deployed in conjunction with other incentives such as a rate cut, phase-in period or tax holiday.
• Encourage direct deposit salary payments to reduce labor informality practices. Registering employees enables them to access public health benefits they may qualify for while ensuring social security payments are made by employers.
• Implement e-procurement bidding processes and payments and reporting which would improve the ability of governments to clear arrears, engage in more efficient payment processing, and increase private sector participation and confidence in procurement processes.
• Facilitate common regional approaches to interoperability, data security and privacy, and cybersecurity policies and also review public policies that may be disincentivizing investments on a regional scale.

Digital Payments to Combat Trade-Based Money Laundering

The Northern Triangle customs union has already reduced border-crossing wait times from more than 11 hours to less than 10 minutes, increasing the volume of regional trade. Deploying electronic customs filing and payments and ensuring interoperability of those systems across governments must be part of customs modernization.

Increased transparency and the ability to follow the merchandise in real time would enable Northern Triangle customs authorities to enhance their risk profiling and intelligence gathering efforts to improve regional security and protect economic growth through legitimate trade.

- Karla Menocal, CAPP Participant from Guatemala
HOW THE U.S. GOVERNMENT CAN SUPPORT A DIGITAL STRATEGY IN THE NORTHERN TRIANGLE

Our principal objective for CAPP is to advocate for relevant policy changes in Central America. At the same time, we believe the U.S. government could support a digital evolution across the region in ways that constitute a logical extension to previous U.S. assistance programs.

Doing so would strengthen the ability of the region’s exporters to position themselves in global value chains. Small businesses and start-ups can be “born digital,” reaching more customers outside their community. Traditional flows of goods can be more cost effective moving across digitized borders.

Enabling internet access on mobile phones and encouraging the diffusion of mobile payments have demonstrated high rates of return for the investment in developing economies, making this initiative a worthy investment by U.S. foreign assistance agencies.

For these reasons, we recommend:

United States International Development Finance Corporation (USIDFC)/Overseas Private Investment Corporation (OPIC): The new development financing agency should increase its loan portfolio to promote investment in financial services. Central America lacks an ecosystem of technology accelerators, angel investors, and venture capitalists to stimulate innovation and market development. In the past, OPIC has put $1 billion in information and communications technology financing to support over 30 projects in 25 countries throughout Africa, India, and Burma. The agency should prioritize expanding these projects to investors in the Northern Triangle region.

Multiple agencies and private financial service companies: Support a study of Northern Triangle regulation for the purpose of developing public policy recommendations for faster and broader adoption and deployment of mobile broadband tailored to this region. The Northern Triangle governments have achieved important telecommunications reforms to date; this effort would support a next wave of reforms to adopt appropriate sector-specific regulations.

Millennium Challenge Corporation (MCC): Its compacts are implemented by Millennium Challenge Account (MCA) accountable entities, set up by partner countries and overseen by MCC. Monitoring of funds is rigorous and transparent, often through independent fiscal agents. In many countries, the MCAs have earned the respect of citizens as trustworthy and effective stewards of large grants for projects with many moving parts. Further, the capacity of local staff has improved and citizen trust in government has increased as a result of the country-led implementation of MCC grants through the MCAs.

Because of the integrity associated with and the level of trust that exists for the MCAs, they have the potential to play an important regional role as a convener and implementer of regional projects in the digital space. MCC should encourage and support the MCAs to play an independent role and work on a regional basis to implement regional digitization and financial inclusion projects funded
by either the U.S. or non-U.S. entities.

**U.S. Agency for International Development (USAID):** In July 2018, USAID awarded a $17.5 million 5-year grant to support the Northern Triangle customs union. The project represents an opportunity to implement paperless trading, e-filings and certifications, and automatic payments with direction and guidance to the implementers and involvement from the Northern Triangle private sector stakeholders. Because digitization helps combat corruption and reduce trade-related money laundering as part of U.S. security initiatives in the region, participation of the U.S. interagency is indispensable. U.S. Trade and Development Agency has worked previously to modernize port operations at Port of Cortes in Honduras and to digitize customs documentation and processing in El Salvador. USAID should leverage insights from these experiences while regionalizing trade facilitation assistance.

**Next Steps**

The Bush Institute intends to draw on the insights of CAPP participants to promote development of a digital strategy for the region as a means to empower citizens, promote efficiencies in government services, and enable sustained, private-sector-led economic growth in the Northern Triangle. Regional collaboration on a digital strategy is ambitious, forward-looking, optimistic, and represents a broadly shared vision for the future of the Northern Triangle region.

Positioning the region for sustained economic growth in the modern global economy can be achieved by working together on a focused set of initiatives designed for impact. We will demonstrate that it can be executed by leaders in the community working from the ground up in partnership with their respective governments by:

- Working with subject matter experts to identify and prioritize the removal of regulatory and legal barriers to digital payments in the Northern Triangle.
- Creating opportunities for global experts to share insights and data about what has worked elsewhere and why.
- Engaging potential implementation partners and champions in the region. We believe it would be fruitful for each country’s Millennium Challenge Account entities to serve as coordinators and work together on a regional basis to advance the goals outlined herein and to support leaders inside government.
- Developing metrics and indicators policymakers and other leaders can use to gauge progress and determine how to build on success to advance a broad digital economy strategy for the region as a whole.

The deployment and diffusion of digital financial services can have a transformative effect for individual citizens in Central America, enabling millions to open bank accounts, obtain credit, build assets, move money more easily into productive, incoming-earning activities, receive wages, and grow their businesses – both small and large.
Financial services not only facilitate existing business, they create immense business opportunities to invest in the region and accelerate the take-off of digitally-enabled services platforms in the region. E-government platforms, procurement, and payment systems will help combat corruption, increase transparency, and improve the delivery of government services.

What’s needed next is a Digital Strategy for the Northern Triangle with coordination among governments, dialogue with the private sector, and technical and financial support from U.S. and other development agencies invested in the region’s economic growth and quality of life for its citizens.