

Feasibility Analysis for Social Impact Bond to Alleviate Gang Violence in Central America

de la Fuentes, Carla Aguilar

MDP Student, UC Berkeley

Recent decades have seen a steep rise in gang activity in the Northern Triangle of Central America -- Guatemala, El Salvador, and Honduras -- where an estimated 85,000 gang members contribute to some of the highest homicide rates in the world. Such criminal activity significantly impairs Central American economies, decreasing Honduras' GDP by approximately 9% each year, for example. Furthermore, instability and rampant gang violence are the primary causes of northward migration from Central American countries. Most bilateral and multilateral aid currently funds heavy-handed security measures, though these initiatives have proven to exacerbate violence. Some community organizations have successfully piloted violence prevention initiatives, but do not have the funding to scale further. For this reason, a Social Impact Bond (SIB) represents a novel solution to this complex problem.

Also known as “pay for success financing”, SIBs utilize private capital to finance social projects with predetermined outcomes, resulting in public sector savings. SIBs significantly increase available capital and transfer risk from the public to private sector. Additionally, service providers are incentivized to create effective programming, and governments can allocate funding only to projects with positive results. Given the presence of underfunded, yet successful, violence-prevention projects in the Northern Triangle, we believe the climate is conducive to an SIB. Our research compares development finance theory with the social reality of the Northern Triangle to assess the feasibility of implementing what would be the first SIB in Central America.

Our feasibility analysis focuses on four categories of criteria: 1. Meaningful outcomes, 2. Measuring outcome success, 3. Time needed to achieve outcomes, and 4. Necessary legal and political preconditions and supports. Grounded in literature and interview data, preliminary results include a landscape analysis of the Northern Triangle identifying the social, political, cultural and economic factors that would facilitate or obstruct an SIB. Through interviews and focus groups, we will assess the interest of relevant stakeholders, including: Central-American NGOs, potential investors, gang members, government agencies, and diaspora communities. Using this data, we will begin designing and structuring an SIB that targets gang-violence in the Northern Triangle. This research ultimately offers a contextually-specific, financially sustainable solution to a long-intractable issue.