

Honduras

Status Index (Democracy: 6.80/ Market economy: 5.29)		6.04	Management Index		5.13
HDI	0.667		Population	6.9 mn	
GDP per capita (\$, PPP)	2.665		Population growth²	3.0 %	
Unemployment rate¹	N/A		Women in Parliament	5.5 %	
UN Education Index	0.74		Poverty³	20.7 %	
			Gini Index	55.0 (1999)	
<small>Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. ¹Urban unemployment 2004, source: CEPAL: Balance Preliminar de las economías de América Latina y el Caribe, 2003-2004 ²Annual growth between 1975 and 2003. ³Population living below \$ 1 (1990-2003)</small>					

A. Executive summary

Honduras was governed by the current President Ricardo Maduro (2002-2006) and his government in the period from early 2003 to early 2005. The country has been largely stable in both political and economic terms, and macroeconomic indicators improved considerably compared to previous years. Nevertheless, there was only little progress in democratic and economic transformation. The social, political and economic structures, which are largely characterized by inequality, clientele-ism, informality and corruption, continued to be dominated by a small oligarchic elite.

On the subject of democratization and the rule of law, positive developments on the polity level were counterbalanced by setbacks and stagnation in human and civic rights issues. Reforms like the abolition of parliamentary immunity or the introduction of plebiscites and referenda in the constitution have yet to prove their effectiveness in practice. Meanwhile, repressive public security policies have notably led to a (re-)militarization of the public space and to a further deterioration of the human rights situation, including high numbers of extra-judicial executions and protection of prisoners' lives. The country has not made substantial progress in overcoming the deep gap between its formally democratic system and the de facto dominance of oligarchic interest groups, clientele-istic networks and illegal violent actors, such as youth gangs and death squads. Despite a reformed procedure for the selection of Supreme Court judges, the judicial system continues to be one of the weakest elements in the democratic framework. Jurisdiction is still strongly influenced by the political and personal interests of oligarchic actors. The majority of Hondurans, in effect, are still denied access to effective and independent jurisdiction.

Macroeconomic stability, economic growth, the conclusion of a free trade agreement with the United States and the approval of fiscal policies by the IMF suggest that the government's economic policies are considered to be fairly

successful. However, in terms of transformation towards a more inclusive, freer and more sustainable economic system, there was hardly any perceptible progress. In spite of massive external development, cooperation and an increasing influx of emigrant remittances, two-thirds of the population continue to live in poverty and are thus largely excluded from the benefits of the market economy. Maduro has not managed to reduce substantially the bloated public sector or to limit environmental over-exploitation.

Political violence and extremism have been of marginal importance. Nevertheless, Honduras is perceived as one of the most violent countries in Latin America, above all due to the presence of well-organized and trans-nationally linked youth gangs (*maras*). Without a doubt, the long-term effects of both crime and the repressive policies implemented to fight crime may be considered just as noxious to the country's democratic and economic development as political extremism is in other regions of the world.

B. History and characteristics of transformation

The starting point in Honduras' recent history of political and economic transformation is the transition from (reformist) military authoritarianism to electoral democracy. The first elections were held in 1982. Since then and with varying results, several governments have addressed the substantial deficiencies in the quality of democracy and in the highly exclusive economic structure.

One major step towards the democratization of the political system was achieved during Carlos Roberto Reina's presidency (1994-1998; Liberal Party, PL). Until then, the military had enjoyed strong autonomy, above all in security, police and secret service issues and had acted *de facto* as a veto power without any democratic control or legitimacy. This led to a paradoxical situation, namely that when electoral democracy got its start in the 1980s, the number of human rights violations rose dramatically and the political rights of all opposition groups outside the traditional two-party-system were compromised. Reina and his successor Carlos Flores (1998-2002, PL) managed to gradually cut back the hegemonic powers of the armed forces. They did so by abolishing compulsory military service, by closing the military's secret service (DNI), by depriving it of autonomous financing sources (provided among others through the military's control of the telecommunications company HONDUTEL) and finally, by appointing a civilian defense minister. These changes were made possible in the 1990s, because of the reduced economic and political support for the Honduran Armed Forces from external actors (such as the U.S. government) after the end of the Cold War. In addition, they were able to cut back the armed forces because of the comparatively weak influence the military enjoys among PL leaders (compared with its strong ties to the National Party, PN).

The 1990s brought some important transformations in the economic sphere too, but with considerably less positive results for the majority of Hondurans. The transition from an economy based on the production of primary (agricultural) commodities to an economy based on the low cost manufacturing/processing of consumer goods (maquila) and increasingly integrated in the global market did not foster economic development in a sustainable and equitable way. Moreover, structural adjustment policies initiated by President Rafael Leonardo Callejas (1990-1994, PN) and continued by all of his successors deepened socioeconomic inequalities while failing to generate the economic growth necessary to compensate for cutbacks in the social spending and job opportunities in the public sector.

After the transition to a non-military government, the most important factors in transformation were the consequences of “Mitch”, a hurricane that devastated the country in October and November 1998. Motivated by the humanitarian and economic disaster caused by the hurricane, foreign governmental and non-governmental donors responded with both immediate humanitarian aid and contributions to the long-term reconstruction of the destroyed infrastructure, leading to an economic recovery that would benefit the surviving victims in the longer run. Aiming to secure maximum sustainability for the help they pledged, major donor countries and institutions gathered at a conference in Stockholm in May 1999. They demanded modernization and further democratization of Honduras’ political and economic system as a condition to their development cooperation. The government of Carlos Flores as well that of Ricardo Maduro (2002-2006, PN) committed themselves to that transformation.

On the polity level, there have been some considerable changes. In the 2001 elections, voters, for the first time, had separate votes for presidency, parliament and municipalities. This had the expected result that small parties (with no realistic chance for the presidency) were able to increase their share of parliamentary seats. Even though the increase was only marginal and could not prevent the overall domination of the Congreso Nacional by the two traditional parties (PL and PN), which together represent about 90 % of the total deputies, it did, nevertheless, create a new situation in Honduran history; for the first time, the governing party could not count on an absolute majority. This, however, has not had the dramatic consequences some foreign observers expected, neither negative, such as a reduction in governability, nor positive, such as an increase of power for (one of) the small parties and thus a weakening of the traditional two-party-system. A parliamentary "coalition" between Nationalists and Christian Democrats (DC), which existed until mid 2003, did not bring the appointment of cabinet members from the smaller partner and hardly increased the influence of DC in the legislature. It was an open secret that this cooperation in parliament was due to the business privileges one party oligarch of the DC expected in reward.

Since the small party broke up with its bigger partner, Maduro's party now secures approval of legislative acts among all four other parliamentary factions on a case-by-case basis.

Institutional reforms in the Judiciary were aimed at reducing political influence in the judicial process and thus at a reduction in corruption and clientele-ism. In 2002, members of the Supreme Court were chosen for the first time by a new procedure in which professionalism and ethics played an important role. The empirical impact of this reform has yet to be proven. The impact of a constitutional amendment approved by parliament in December 2004, which creates a framework for referenda and plebiscites, is also unknown until now.

The economic transformation process after Hurricane Mitch was less perceptible. Neither of the two governments (Flores and Maduro) developed a comprehensive economic policy that would enhance the economy's competitiveness, reduce vulnerability to price changes on the world market, restructure the public sector and make the country less dependent on the remittances of emigrants. The successful negotiations of a free trade agreement with the United States (Central America Free Trade Agreement, CAFTA), which is yet to be ratified by the U.S. Congress, underscores the government's intentions to continue on the path of further internationalization of the economy. It is more than questionable whether the economic transformations generated by an opening of Honduras to a highly competitive economy like that of the United States will foster a more inclusive economy, which a country like Honduras – with two-thirds of its population living in poverty – needs.

C. Assessment

1. Democracy

1.1. Stateness

During the period under review, violent youth gangs (maras) challenge the state's monopoly on the use of force. Tens of thousands of young people belong to these trans-nationally linked groups, which control most of the poorer neighborhoods of Tegucigalpa, San Pedro Sula, Choloma and other big cities. Despite the government's aggressive anti-mara policies, which mainly consist of repressive police and military operations, large parts of Honduras' poor urban population are still subject to youth gang violence rather than to the state's rule. Notwithstanding its fight against youth gangs, the state did not effectively exclude other actors from the use of force: unregulated public and private security forces or death squads extra-legally executed hundreds of youths. In the northeastern department of Olancho, paramilitary groups repeatedly defied the state's monopoly on the use

of force by defending landowners and timber-traders against a peaceful but increasingly active anti-deforestation movement.

All citizens have the same civic rights, but the equal treatment of all citizens, especially when it comes to social and cultural (e.g. linguistic) rights, is called into question by the treatment of different ethnic identities, in particular the African descendent Garifunas and indigenous Lenka, Miskito, Pech and Chortí. . Religious dogma has only limited influence on the law. The Catholic and Christian fundamentalist churches positions regarding sexual issues, such as abortion or the rights of sexual minorities, continue to dominate.

The state's administrative structure covers almost the entire territory; parts of the very lightly populated rain forest area (Mosquitia) and some Garífuna and indigenous enclaves are exceptions. There are, however, significant inefficiencies in the existing structures. These concern, among other features, tax collection and access to due process and the state's infrastructure by the poor in general.

1.2. Political participation

Universal active and passive suffrage is safeguarded, and regular free and fair elections have been held. The election of 2005 is widely expected to proceed in keeping with international standards. The elected government commands the effective power to govern despite the fact that important economic groups and drug trafficking interests hold de facto veto powers. The influence of these powers, however, seems rather limited. In any case, it is highly informal and, thus, difficult to perceive or to measure. No political parties are prohibited, and freedom of association is safeguarded. However, political and civic organizations place themselves at high risk when they brush up against the established interests of social and political power groups, as the killings of an Olancho ecologist leader (Carlos Reyes) in 2003 and of an indigenous leader (Elpidio Martínez) in 2004 proved. Moreover, the bureaucratically and politically difficult process of obtaining legal recognition (*personería jurídica*) limits the effectiveness of political or social organizations (e.g. the failure to grant *personería jurídica* to gay, lesbian and transgender movement organizations until the middle of 2004).

Unions are subject to repression, especially on the banana plantations. ILO conventions are often violated in this sector and in the maquila sector. Overall, the political system lacks sufficient potency to deal with the interests of various groups, particularly ethnic groups. Freedoms of opinion and the press, while enshrined in the law, are not fully reflected in practice. Because the exclusively private press, radio and television market is highly concentrated and dominated by some of the politically and economically most powerful individuals or families, there is little plurality of opinion. Censorship is not exercised by the state but it continues to be informally carried out by other political and economic powers,

particularly through the dismissal, intimidation and – in one case in 2003 - the killing of critical journalists.

1.3. Rule of law

The separation of powers is established in the constitution. Yet in practice, the judiciary is not fully independent. The new election procedure for Supreme Court judges, in effect since 2002, marked an important step toward judiciary independence, but clientele-istic networks of political and economic groups still dominate the judicial system. Although the government's lack of an absolute majority in parliament currently fosters the system of checks and balances between the executive and the legislative branches of government, the judiciary cannot yet be seen as an autonomous and effective counterweight to the other powers.

External actors reflect the weak position of the judiciary in the political system in its inefficiency and the manipulation of its jurisdiction. The position of judges is not sufficiently professionalized, and attempts to ensure accountability have so far been unsuccessful. Most Hondurans have only limited access to the courts, and this remains one of the most striking deficiencies in efforts to deepen the democratic system. Because they lack the economic and educational resources necessary to claim their rights in long and costly lawsuits, which are often carried out by judges susceptible to corruption and clientele-istic and political influences, poor citizens are still systematically excluded from due process.

Political and bureaucratic corruption is still endemic, and citizens consider corruption one of the most urgent problems impairing good governance. During the period in review, Honduras did not manage to improve its poor ratings in Transparency International's Corruption Perception Index. It still ranks 114th of 145 nations. Efforts by the government and the legislature to prosecute corrupt officials and end impunity, such as the abolition of parliamentary immunity in 2004, are largely seen by analysts as an image campaign by the political elite, which wants to regain credibility in the eyes of the electorate and foreign donors. Overall, anti-corruption measures have so far proven ineffective, primarily due to the judicial system's inefficiency and lack of independence. This applies not only to the courts, but also to state prosecution authorities.

Civil liberties are severely limited by the aforementioned limited access to due process. Cultural and religious rights, however, are generally respected. Many victims of human rights abuses in the 1980s and early 1990s have not yet seen the condemnation of their perpetrators by the courts, and human rights activists still face death threats and enjoy little government support. Moreover, the state seems to be unable, and in some cases, unwilling to protect the civil and human rights of certain groups; hundreds of street children and presumed mara members are killed

every year by death squads. In 2003, prison personnel killed 69 inmates because of an alleged revolt, and in 2004, over 100 prisoners – again all of them youth gang members – died in a prison fire.

1.4. Stability of democratic institutions

The institutions of electoral democracy in Honduras are largely stable. A military coup is considered unlikely and anti-system opposition has, at most, only marginal relevance. However, the limitations already mentioned regarding the rule of law and, to some extent, stateness, reduce the institutions' ability to operate effectively and without restriction. The low level of judicial and democratically elected government efficiency acts as an obstacle to the social and political changes needed for a further democratization of society.

The social and political elites have come to terms with the existing level of formal democracy, but certain institutions of the democratic state - primarily an independent judicial branch - have not yet been fully accepted by all of the key players. They have instead been circumvented or manipulated for individual political or economic interests. The state's efforts to cut back the powers of illegal actors (such as youth gangs, organized crime and death squads) who do not threaten the democratic system as a whole but place themselves outside this system, have so far failed to make substantial progress.

1.5. Political and social integration

Despite gains for the three smaller parties in the 2002 parliamentary elections, the PN and the PL still control 116 of the 128 seats (90,6 %). The ruling party's lack of an absolute majority has not led to substantial change in what is essentially a two-party system. The PN and the PL are deeply ingrained in society by a system of clientele-ism and patronage. There is no real ideological polarization between the Nationalists and the Liberals, and programmatic differences are largely unclear. Leaders of both parties are often linked to each other by shared economic interests and family ties. Therefore, the political culture is marked by an avoidance of direct confrontation and by an exaggerated inclination towards consensus building. Voter decisions thus depend often on clientele-istic networks and family voting traditions. Smaller parties are not free of clientele-istic structures either, but overall, they tend to a more modern and program-based strategy, as do some minor intra-party movements in the PL and the PN.

Due to the prevalence of traditional party-society relations, the two major parties dominate social and political life without articulating or aggregating social interests in a bottom-top direction. Instead, powerful party oligarchs with strong economic interests (the so-called "owners" or dueños of intra-party movements)

define a party's objectives and policies. The democratic system's responsiveness is thus rather low. Political elites tend to view electoral victories as blank checks with which to rule without outside intervention until the next election. State institutions, including the judiciary and public bureaucracy, are politicized and even partisan and viewed as the spoils of political victory. For example, PN deputies openly threatened President Maduro with a boycott of his policies because they considered too few party members to be integrated in the public administration.

The landscape of interest groups is clearly dominated by prevailing economic interests, including external ones. A stronger, more dynamic and pluralistic civil society is beginning to emerge but it is highly dependent on the financial and political support of foreign donors. With the important exceptions of the internally fragmented union movement, the churches and the Olancho ecological movement, civil society organizations commonly lack broad public support. Thus, the democratic legitimacy of their foreign-sponsored political strength is sometimes questionable. Given a lack of public security, fear of leaving the private sphere hinders many, especially the urban poor, from social and political participation and self-organization.

Despite the low level of efficiency of both the political system and the economy, a survey published by Latinobarómetro estimates that around 50% of the population embraces the idea of democracy, putting Honduras slightly under the Latin American average. The slight decline in consent to democracy in recent years is attributed by some analysts to the poor results of the state's public security policies and the draconian discourse about the necessity of "hard hand" measures. Nevertheless, the population still clearly rejects any experimentation with authoritarian rule.

2. Market economy

Although three different governments have stuck to neo-liberal policies since the mid 1990s, Honduras has made very little progress in the transformation of its economy. Reconstruction and recovery in the aftermath of Hurricane "Mitch" was completed with massive external help. Political institutions are in the beginnings of transformation, but so far, the economic system is not. Transformation deficits exist in the competition order, the nation's low competitiveness on world markets, the anachronistic structure of the banking and capital markets, the corrupt economic culture and the bloated public sector. The Heritage Foundation Institute's report on economic liberty classifies Honduras as "mostly unfree".

2.1. Level of socioeconomic development

Honduras' level of development as measured by the HDI and other indicators is low and does not provide citizens with sufficient development opportunities. Although there have been visible improvements since the 1960s, about two thirds of Hondurans still live under the poverty line, and just under half of the population is extremely poor. Income distribution is highly unequal, even in comparison with the Latin American average, which represents the most unequal region in the world. Inequality is accompanied by very low per capita income and structurally ingrained obstacles to upward social mobility. Fundamental social exclusion, lack of education and gender-related discrimination persist. Due to delays in the renewal of its IMF agreement, the country did not benefit from HIPC – debt relief until mid 2004 and has therefore only now started to fully implement PRSP programs. According to UNDP data, the substantial reduction of extreme poverty and malnutrition are among the five (of a total eleven) elements of the United Nation's Millennium Development Goals (MDG) that Honduras will not meet without increased efforts.

2.2. Organization of the market and competition

The foundations of free-market competition are safeguarded only to a limited degree. The government directly or indirectly controls the prices for a range of important products (e.g. gasoline, flour, milk, coffee, sugar, basic medicines). Yet the regulation of the economy does not always reflect the state's ability to enforce the rules. Family allegiances and coalitions of interest groups rule the economic stage in the different regions of Honduras, but they do not pool their resources when it comes to economic investments and decisions for the future.

Foreign trade liberalization is currently the most dynamic area of Honduras' economic transformation. Economic integration with its Central American neighbors is advancing slowly, but the signing of the CAFTA agreement will promote the liberalization of commerce with Honduras' most important trading partner, provided the U.S. Congress ratifies the treaty.

The banking sector and capital market have stabilized and regulations to prevent bank insolvency have been reinforced. However, it was the state's guarantees to private financial institutions that raised stakeholders' confidence in the banking sector. The financial sector does not offer adequate services for the country's specific needs. Microfinance, especially for small and medium sized entrepreneurs and the small-scale rural economy, is insufficient. Due to a lack of inter-bank cooperation, cashless money transfer between accounts in different banks is not possible, a serious problem in a country with striking numbers of street robberies.

2.3. Currency and price stability

During the years in review, the government managed to keep inflation and the foreign-exchange rate (to the U.S. dollar) at a fairly moderate level. Fiscal and debt policy was brought in line with the requirements of the IMF and the "Club of Paris," meaning that a substantial part of the country's \$5.5 billion debt will be cancelled in the next few years as part of the HIPC initiative. Despite this promising outlook, however, neither institutional nor constitutional arrangements effectively guarantee long-term macroeconomic stability. The central bank is not fully independent, and populist policy changes in future administrations – although unlikely in the medium term – cannot be ruled out.

2.4. Private property

Private property rights and the acquisition of property are, in principle, well defined. However, their safeguarding and enforceability are on precarious footing. Because of shortcomings in enforcing the rule of law and protecting legal claims beyond due process, which is usually provided, a lack of respect for private property rights is a major problem in Honduras. Trials often last years, and it is not uncommon for them to be influenced by corruption. Local power structures are still able to manipulate justice through the selective use of resistance.

The privatization of previously state-run services has made only marginal progress. In addition, some important state monopolies remain in place. Several attempts to privatize the telephone company HONDUTEL in the last few years have failed, mainly because of the company's giant investment needs. In the mobile phone sector, the admission of a second private service provider in late 2003 put an end to the monopoly of a privatized HONDUTEL subsidiary. In the land-line sector, HONDUTEL generates some revenues for the state treasury, but the services offered continue to be qualitatively and quantitatively low, thereby obstructing the human and economic development of the country: For example, the installation of a new line may take up to seven years if the client is unable or unwilling to bribe HONDUTEL employees.

2.5. Welfare regime

Social safety nets and public programs to reduce poverty exist but are insufficient. Private health care and old age insurance is only accessible to a very small segment of the population. All legal employees are covered by the social security system IHSS (Honduran Institute for Social Security), which does not cover workers in the informal sector or peasants in subsistence farming. Services, especially related to health care, for Hondurans included in that system are largely insufficient, with only two IHSS hospitals for the entire country. For those

without coverage, there is in theory free public health care in state-run hospitals and medical clinics, but given the low level of coverage and the very limited range of offered services, the majority of the population has no access to comprehensive health care.

The state, even with massive support from external donors, does not ensure equal opportunities for its citizens. The proportion of female, rural-dwelling and indigenous persons among the poor is considerably higher than that of other groups. The emergence of violent youth gangs is daily testimony to the lack of education and employment opportunities for young people.

2.6. Economic performance

Macroeconomic data from the period in review are positive, although not comparable to "booming" economies like that of Peru. While maquila and, to a much lesser degree, tourism are the most dynamic sectors of the nation's economy, the sustained increase in emigrant remittances also contributes substantially to Honduras' economic growth. GDP growth climbed steadily from 2.6% in 2002 to 3.5% in 2003 and to an estimated 4.3% in 2004. In contrast to previous years, the economy grew considerably faster than the population in 2004, and thus CEPAL data suggest a doubling of GDP per capita growth from 0.9% in 2003 to 1.8%. Overall, macroeconomic variables seem to be under control. Fluctuations in the balance of trade are a direct result of a development model that is focused on commodities exports. A drop in coffee, tobacco or banana prices – as well as changes in the global markets for maquila products – can immediately throw the current account out of balance. The inflow of remittances lessens the blow of a steady increase in the trade deficit, which is currently about \$1.4 billion (estimated for 2004).

2.7. Sustainability

Environmental awareness is severely underdeveloped both among state officials and in society as a whole. The emerging ecological movement in the Department of Olancho is a rare exception, and most of its participants' motivations are focused more on the social consequences of deforestation than on the environmental damage itself. In tobacco and banana production, natural resources are systematically overexploited, and the issue is seldom the subject of public debate. The state's energy policy does not seriously take ecological considerations into account. Environmental sustainability is only on the national agenda in a rhetorical sense or when seeking to fulfill foreign donors' expectations. A comprehensive educational infrastructure, the development of human capital, a

research and technology policy all constitute gaps in Honduras' development. As long as these gaps remain, the country will have only limited options for expanding its portion of the value-added chain.

3. Management

3.1. Level of difficulty

Structural constraints on the political leadership's governance capability are high. Traditional social and political power structures are deeply ingrained in society and they permanently call the elected authorities' real power into question. The democratic state only governs effectively in a small and shrinking urban middle class. The economic elites, particularly regional ones, largely escape democratic control and to some degree maintain political power systems parallel to the state, particularly through clientele-ism, patronage, corruption and private (though not paramilitary) security forces. The rural underclass is largely subjected to these structures while the urban poor are increasingly "governed" by criminal, often trans-nationally operating organizations, such as drug cartels or youth gangs. The elected leadership's possibilities to break up these structures are limited by the country's improving but still precarious economic situation and the consequent weak and debt-dependent fiscal situation. Additionally, the state is losing importance because of economic and political globalization. Honduras' dependency on external powers, regarding not only foreign cooperation and subjection to IMF standards, but also migration and trade issues, considerably reduces the democratically elected political leadership's influence on economic and political outcomes.

A network of grassroots civil society organizations, which could channel political communication and thus strengthen the state's governance opportunities, is only slowly emerging. Experiences from the recent authoritarian period still generate feelings of fear and distrust in many Hondurans concerning leaving the private sphere. Moreover, the lack of time and opportunity in the daily struggle to survive prevents large parts of the population from being active on collective issues.

While ethnic differences are important, they constitute a rather marginal issue, particularly in comparison to neighboring Guatemala. The country is deeply split, however, according to social class. Nevertheless, as a result of internalized power structures, a non-confrontational political culture and external pressures, there is no political polarization, nor are violent conflicts along social or ethnic cleavages likely.

Profile of the Political System

Regime type: <i>Democracy</i>	Constraints to executive authority:	2
System of government: <i>Presidential</i>	Electoral system disproportionality:	8.84
	Latest parliamentary election:	25.11.2001
	Effective number of parties:	2.4
1. Head of State: <i>Ricardo Maduro</i>	Cabinet duration:	01/02-present
Head of Government: <i>Ricardo Maduro</i>	Parties in government:	1
Type of government: <i>divided government</i>		
	Number of ministries:	16
	Number of ministers:	23
<p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Electoral disproportionality (Gallagher index) reflects the extent to which electoral rules are majoritarian (high values) or proportional: $\sqrt{\frac{1}{2} \sum (v_i - p_i)^2}$; v_i is the share of votes gained by party i; p_i is the share of parliamentary mandates controlled by party i. For presidential/ semi-presidential systems, the geometric mean of presidential election and parliamentary election disproportionality is calculated. Effective number of parties reflects the political weight of parties (Laakso/Taagepera index) = $1 / (\sum p_i^2)$; p_i is the share of parliamentary mandates controlled by party i. Number of ministries/ ministers denotes the situation on 1 January 2005.</p>		

3.2. Steering capability

The Maduro government set a number of political priorities when it came into office in 2002, and it has mostly maintained them. In correspondence with his emphasis on the issue in his election campaign, the president gave policies of public security the highest priority from the very first day of his mandate. During the following years of his presidency, efforts on other topics, such as foreign trade or education policy, temporarily gained importance, but rarely to the same degree as the issue of security. The strategic aim of the "zero-tolerance" policies is in principle concordant with this study's normative points of reference, namely constitutional democracy and a free market economy. The elimination of delinquent and violent groups, and thus the enforcement of the state's monopoly on the use of force, would certainly help to (re)integrate substantial parts of the population into an effective democratic system and free them from the control of illegal and exploitative economic structures. In terms of implementation, though, these policies have often been counterproductive, in particular concerning human rights issues in the context of the prosecution and punishment of delinquents.

The government has only been partially successful in implementing its reform policies. Some important institutional reforms were effectively carried out, such as the merger of three formerly independent controlling bodies into a single audit court (TSC, Tribunal Superior de Cuentas), the reduction of the campaigning period before elections and the abolition of parliamentary immunity. On the other hand, there were reform projects that could not be accomplished. A substantial wage reduction in the public sector failed, foremost because of fierce resistance from the public medical system's personnel and, particularly, from the teachers

unions. The latter also tend to obstruct the joint efforts of the Honduran government and international groups to modernize the education system, one of the most urgent issues for the country's long-term socio-economic development.

The executive branch's flexibility, learning capability and openness to innovations are also rather limited, although more developed than that of former governments. President Maduro followed Spain's Prime Minister Zapatero's example and withdrew the 340 Honduran troops from Iraq. In other issues, for example the government's repressive security policies or its hardly existent environmental policies, the Maduro administration seems reluctant to implement innovations and sometimes resistant to advice.

3.3. Resource efficiency

The government uses only some of its administrative, monetary and personnel resources efficiently. Public institutions have only very limited autonomy and are subject to strong political influences. A decentralization process has been initiated with the strong backing of Interior Minister Jorge Ramón Hernández Alcerro and is supported both by sub-national institutions (above all by the Honduran Municipalities' Association, AMHON – Asociación Hondureña de Municipalidades) and by external aid agencies. However, progress on this issue has been slow, foremost because of reluctance in other government branches regarding financial matters and the transfer of power to decentralized bodies.

The efficiency of public spending is often restricted by needs to fulfill short-term political obligations, as the government's failure to reduce spending on teacher and physician salaries shows. Additionally, the debt policy of previous governments limits the effective use of funds. Human resources are all but efficiently employed. There is no effective system to maintain a permanent, non-partisan staff in the public administration, and therefore, each legislative term begins with a nearly complete substitution of public. Staff selection is determined primarily according to political and clientele-istic affiliation rather than by professional qualification. The existence of so-called paracaídas ("parachutists," or professionally unqualified public servants who – with the help of an influential friend – "landed" on a given position by mere chance) and plazas fantasmas ("ghost employees," or persons listed in a public institutions pay roll without ever appearing at work) is still widespread.

As the example of the decentralization process shows, conflicting policy objectives cannot always be effectively coordinated and prioritized by the government. Often this is a result of the different internal and external pressures on the Honduran executive. The contrast between social policies on the one hand, especially the efforts to reduce poverty demanded by foreign donors as a condition of their help, and macroeconomic measures on the other, which in turn

are demanded by parts of the national economic elite and their international or multinational allies, create substantial inconsistencies and unpredictable factors in the government's overall strategy.

The biggest restraint to resource efficiency, though, continues to be corruption. The government claims that fighting corruption is one of its priorities and has reacted ostensibly without tolerance in the few cases that have been discovered and made public. One example is President Maduro's decision to remove nine high customs officials from office in response to a major corruption scandal that affected the country's custom offices in late 2004. Yet the government was not able (or willing) to implement structural changes that would prevent corruption. Controlling bodies like the newly constituted TSC are still not sufficiently autonomous and free of political influence. The same applies to the judicial system and the prosecution authorities, as an event in late 2004 showed. Attorney General Ovidio Navarro removed eight prosecutors from office who had been working on important cases of political relevance and ordered the definitive closure of some of those cases (including that of Former President Leonardo Callejas, who was thus cleared of all charges although he is considered by Hondurans as one of the most corrupt presidents of recent history). Rhetorically, the government reiterates its support for the National Anti-Corruption Council (CNA, Consejo Nacional Anti-Corrupción). The CNA is an independent body with mixed non-governmental and governmental membership and is presided over by the Archbishop of Tegucigalpa, Cardinal Oscar Andrés Rodríguez, who is renowned for his integrity as well as for his political and moral belligerence. The government approved the Council's "National Anti-Corruption Strategy", but it refuses to give the entity more than symbolic powers. According to FOSDEH

(Foro Social de Deuda Externa y Desarrollo de Honduras), a non-governmental think tank, Honduras lost more than \$340 m. due to corruption in 2004 alone, with a total public budget of some \$2 billion).

3.4. Consensus-building

The aim of a democracy based on a market economy has not been fully accepted by all social stakeholders. This is due less to a lack of consensus within Honduran political culture than to the existing system's lack of effectiveness, which has worn away public acceptance. The exclusion of certain social groups (indígenas, garífunas, young people and women), the continued predominance of traditional local power structures and the fact that recourse to violence often goes unpunished have created a political constellation that impedes effective transformation.

The public does not necessarily reject the aim of transformation; rather, it questions the existing structures that serve the established interests of the elite while doing little to meet the integration imperatives of an open and participatory

society. Especially in terms of establishing communication channels within society to ensure authentic representation, daunting hurdles continue to slow the modernization of a political system dominated by a so-called electoral democracy and an antiquated economic structure whose citizens lack opportunities for mobility. Despite a basic consensus in society with regard to democracy and the existence of the fundamental rules of democracy, Stakeholders have yet to tap this democratic potential.

The government can successfully neutralize or at least co-opt anti-democratic veto actors. Besides the military, there are some de facto veto powers held by important economic groups and drug trafficking interests. The influence of these powers seems rather limited, though.

The government was able to prevent an escalation of conflicts within Honduran society based primarily on extreme social disparities and ethnic differences. However, the political leadership does little to repair the deep cleavages in society that could potentially escalate into serious conflict.

Solidarity within the general population and between the different social groups has not been seriously promoted. The introduction of a presidential volunteer agency (Agencia Presidencial para el Voluntariado), which acts as the national counterpart to the UN's volunteer program (UNV), is a rare exception and has

hardly any impact on the overall atmosphere of inter-personal distrust and fear of public engagement. Particularly in the context of widespread (fear of) delinquency and insecurity, the government fails to promote any kind of community-based

solutions. It is mainly international cooperation and (mostly foreign funded) religious organizations that give incentives for collective action and social organization.

The Maduro government has actively sought dialogue with civil society organizations, at least on some occasions. However, many civic organizations have withdrawn from dialogue forums after realizing that policy decisions were in no way influenced by the talks. They had the impression that the government's principal aim was to create an image of openness to civil society, primarily in response to foreign donors' demands, but that it was not really interested in effective participation.

Dealing with injustices of the past, such as human rights abuses perpetrated by the military and the secret police in the 1980s and early 1990s, is currently not part of the political agenda. The government does not openly obstruct the struggle of human rights groups (above all of the Honduran Committee of the Families of the

Disappeared, COFADEH, Comité de Familiares de los Desaparecidos de Honduras), but neither has it developed any measures to actively promote providing victims with moral or judicial justice.

3.5. International cooperation

External stakeholders play a key role at various levels of the transformation process in Honduras. Given the low level of development combined with the damage caused by natural disasters, the most important role of the international community is with respect to the allocation of credit facilities and the implementation of programs. The main structure of political representation of donor interests vis-à-vis the national government is the "G-15", a coordinating body of the 15 most important donor countries and international cooperation agencies. The G-15 exerts significant influence on policy decisions. The recent democratic transformations on the polity level in particular would hardly have been possible without G-15 pressure. The government's responsiveness, however, is largely due to the foreign aid's direct conditionality on a case-by-case basis, and not really the result of a sustainable learning process and principled acceptance of the donor's transformation demands on the part of the government. In transnational relations, the economic and political models provided in the form of international companies (bananas, maquilas) or foreign military organizations have been very effective. This is particularly true when it comes to demanding specific conditions for investments (maquilas).

Honduras' socio-economic predicament does not leave its government much leeway with respect to cooperating with international finance and aid organizations. In particular, cooperation with the IMF and World Bank within the framework of the HIPC initiative and the Poverty Reduction Strategy Papers has taken a positive turn. However, it remains a difficult undertaking for the government to balance the macroeconomic, social and political management requirements. The government is nevertheless applying international aid in a targeted manner and focusing its reform policies to some extent on the guidelines provided by the international donor community. Thus, according to them, the current government is deemed predictable. But the international donor community and, as the low figures in foreign direct investment with exception of the maquila show, external economic actors are also aware of the problems and risks of economic and political development in Honduras.

At the regional level, Honduras continues to enjoy full membership in the Central American Integration System (Sistema de Integración Centroamericana, SICA) despite President Maduro's harsh criticism of regional institutions and his announcement in 2004 to withdraw Honduran participation in (and financing of) the Central American Court of Justice (Corte Centroamericana de Justicia, CCJ) and the Central American Parliament (Parlamento Centroamericano, PARLACEN). Maduro does not question the need for effective economic and

political integration in Central America. He does, however, complain about the costly and inefficient functioning of regional institutions, and rightly so. Nevertheless, Maduro plays an active role in terms of bilateral and multilateral coordination and consultation with Honduras' neighbors. However, cooperative efforts are sometimes disrupted by bilateral tensions. Border disputes with both with Nicaragua and El Salvador have been an important issue in political and diplomatic relations during the period in review. Honduras is currently facing a trial against El Salvador in the International Court of Justice at The Hague. Nicaragua had to suspend its 35% extraordinary tariff on all imported Honduran goods when the Honduran parliament threatened with applying the same measure to Nicaraguan imports. Although these disputes no longer bear the threat of military escalation, they do result in the misallocation of resources.

4. Trend of development

4.1. Democratic development

During the past years, there have been some positive changes at the polity level, particularly in terms of the electoral system. In the 2001 elections, voters had separate votes for the presidency, the parliament and municipal candidates for the first time. Until then, the traditional two-party system was even more dominant than today. Parliamentary and local elections were nothing more than proportional reflections of the electorate's preferences between the PL's and the PN's presidential candidates (the only ones with a realistic chance of winning). A vote for a small party would have thus been considered a wasted vote. The increase in the UD's, the PINU's and the DC's shares of seats in the current Congreso Nacional were seen by analysts as a direct consequence of the new possibility of "vote splitting". In the future, the recently approved introduction of referenda and plebiscites may contribute to a more responsive relationship between the government and the populace.

Yet overall, these changes in the constitutional framework have not generated substantial improvement in the quality of democracy in Honduras. The gap between the formally democratic system and the still hegemonic forms of informal power structures – which are based on clientele-ism, corruption and, in the case of the youth gangs, on overt violence – has not narrowed. Progress in democratic transformation on the polity level has largely been counterbalanced by a deteriorating human rights situation in the context of repressive security policies carried out by governmental and private actors, including death squads.

4.2. Market Economy Development

Quantitatively, Honduras has had favorable outcomes regarding its socio-economic development in the past four years. Yet in the face of the macroeconomic and social setbacks suffered in the aftermath of Hurricane “Mitch” (1998), the positive data of 2001-2004 should be interpreted as a mere recovery from the (deplorable) status quo ante and not so much as real progress. Indicators like the Human Development Index have improved considerably. However, in spite of massive external aid and an increasing influx of emigrants’ remittances, Honduras is still doing poorly compared with most other Latin American countries.

Regarding qualitative changes, the country was relatively successful in further integrating itself into global markets via the promotion of maquila industries and non-traditional agricultural and fishery exports (above all palm oil and shrimps). Consequently, the economy has become ever more dependent on export trade and the volatile world market prices, and thus does not seem capable of triggering internal development or generating its own momentum.

The institutional framework for market-based activity has changed very little. A dynamic force for reshaping this framework is not apparent, and the deficits with respect to the economic and competitive order persist.

Table: Development of macroeconomic fundamentals (2000-2004)

	2000	2001	2002	2003	2004
Growth of GDP in %	5.6	2.7	2.6	3.5	4.3
Export growth in %	17.7	0.4	-1.0	1.7	14.2
Import growth in %	6.4	3.7	1.5	8.9	20.3
Inflation in % (CPI)	10.1	8.8	8.1	6.8	9.1
Investment in % of GDP (*)	26.1	23.7	22.1	23.4	26.0
Tax Revenue in % of GDP (*)	16.4	16.2	15.9	16.3	17.3
(Urban) Unemployment in %	n.a.	5.9	6.1	7.7	8.0
Budget deficit in % of GDP	-4.6	-4.7	-3.3	-3.7	- 6.5
Current account balance in bn \$	n.a.	n.a.	-0.219	-0.258	-0.484

Sources: CEPAL: Balance preliminar de las economías de América Latina y el Caribe 2004. Santiago de Chile 2004; (*) IMF: Honduras: Poverty Reduction Strategy Paper Progress Report, Washington D.C., March 2005.

D. Strategic perspective

The outcome of the November 2005 national elections will be important for Honduras, even though it seems highly improbable that the next government would bring about structural changes in terms of democratic and economic transformation. One of the most promising potential candidates (intra-party elections will be held in February 2005) is Tegucigalpa's mayor, Miguel Pastor (PN). With his youthful, modern and dynamic image and his open criticism of the old clientele-istic party structures in the PN, he continues to have very high approval rates in the opinion polls, both inside and outside the capital. His economic policy would not differ much from that of President Maduro. None of the other potential candidates with a realistic chance of winning stands for a radically different economic or development model.

Assuming it is ratified by the U.S. Congress, the CAFTA free trade agreement may lead to substantial economic changes in the near future. The liberalization of trade will probably force the government and the legislature to further de-regulate and de-nationalize Honduras' economy. Nevertheless, CAFTA's socioeconomic effects, especially for small agricultural producers, may outweigh the macroeconomic benefits it generates. The full implementation of the country's Poverty Reduction Strategy Paper, facilitated by HIPC-debt relief, hopefully will foster social, economic and democratic development on the grassroots level.

Foreign donors should promote democratic and economic transformation primarily by supporting the country's formal and informal education sector and by strengthening emerging civil society structures. Deficits in human capital are considered one major obstacle to Honduras' economic development, and, considering the magnitude of the problem, it seems very unlikely that the state could solve it without substantial external help. The development of functioning civic structures would help to consolidate democracy.

Another issue to which the international aid community has not paid enough attention in the past is the potential for integrating the maquila sector into the rest of the economy, thus making the sector's benefits more equitable. The same applies to the country's other big source of financial influx; technical assistance should promote a less consumptive and more sustainable use of remittances from emigrants. Furthermore, the government needs massive support in the field of youth policies, particularly in education, social integration and the creation of employment for young people. In Honduras, youth policies are all but a "soft issue". The overcoming of "intergenerational apartheid" must be considered a key element in the solution of the country's huge public security problems, which, in turn, are currently seriously threatening Honduras' social, political and economic development.