

BTI 2016 | Honduras Country Report

	scale	score	rank	trend
Status Index	1-10	5.94	# 56 of 129	
Political Transformation	1-10	6.55	# 48 of 129	➔
Economic Transformation	1-10	5.32	# 76 of 129	➔
Management Index	1-10	5.56	# 46 of 129	

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	8.0	HDI	0.617	GDP p.c., PPP \$	4582.9
Pop. growth ¹	% p.a.	1.4	HDI rank of 187	129	Gini Index	53.7
Life expectancy	years	73.8	UN Education Index	0.505	Poverty ³	% 34.6
Urban population	%	54.1	Gender inequality ²	0.482	Aid per capita \$	80.0

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

Since January 2014, Honduras has been governed by Juan José Orlando Hernández of the conservative National Party of Honduras (PNH). He won the election held in November 2013 with 36.9% of the vote. These elections marked a milestone in the political history of the country because, for the first time, new political forces were able to mobilize enough votes to enter parliament, ending the traditional hegemony of the two main parties, the Liberal Party (PL) and the PNH. According to national and international observers, the elections were fair and transparent. The leftist Freedom and Refoundation Party (LIBRE) of former President Manuel Zelaya won 28.8% of the votes, and is now the second political force in parliament. The PL was relegated to third place with just 20.3% of the votes. The Anti-Corruption Party (PAC) managed to win 13.4% of the votes, mainly coming from the dissatisfied urban middle class.

These elections provide two very important lessons. The first is that the proposal to change the existing political system by means of a Constituent Assembly so as to establish a socialist republic (LIBRE) is not supported by the majority of the population. The second lesson is that there is a strong discontent among more than 40% of the population with regards to the policies of the two traditional parties. Together, both parties suffered a significant decrease in support from 94% in the previous elections in 2009 down to only 57% in the 2013 elections.

The election results represent a positive change in the parliamentary political spectrum, though democratic transformation is still very weak. The credibility of important institutions, such as the National Electoral Court or the Supreme Court, is still very low, given that both institutions are manipulated by partisan interests. The human rights situation has not improved with the new government, but does not show signs of deterioration either. Despite minor improvements, the number of homicides per 100,000 inhabitants is still very high. A large part of the population is in favor of a militarization of the security forces, but does not support an attempt to put the military police under direct control of the president. The peasant and human rights organizations, as well as journalists, continue to be victims of violence and repression by the private guards of

landowners and businessmen, government forces and organized crime groups. The corruption case of the Honduran Institute of Social Security provides an example that there is still much to be done in combating corruption. The prevalence of organized crime continues to pose a considerable challenge to the government.

Slight progress can be observed in economic transformation. With inflation between 5% (2013) and 6% (2014), Honduras still suffers some economic fragility. The government is taking first steps, in cooperation with the IMF, toward privatizing the National Electricity Company, which is the highest tax burden in the country. High rates of poverty remain, especially because economic growth is insufficient and social inequality continues to be very high. A coffee rust plague has devastated coffee bean crops, which has had a profound negative impact on incomes in rural areas, as coffee is the country's largest export item. The quality of education is still very poor. Access to water and sanitation, as well as to electricity, is very poor in rural areas. Structural weaknesses in the economy and high unemployment rates prevent economic transformation from advancing more smoothly.

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 elected president, Roberto Suazo Córdova (Liberal Party, PL) took office in 1982. Since that time, several governments have, with varying results, addressed the substantial deficiencies in the quality of democracy and in the highly exclusive economic structure. Major steps toward democratization were achieved during the presidencies of Carlos Roberto Reina (1994 – 1998) and Carlos Flores (1998 – 2002), both of the PL. Until that time, the military had enjoyed high levels of autonomy, above all in security policy, police and secret-service issues, and had acted as a de facto veto power without any democratic control or legitimacy. This led to a paradoxical situation: As electoral democracy was getting its start in the 1980s, the number of human rights violations rose dramatically, and the political rights of opposition groups were compromised. Reina and Flores managed to gradually cut back the hegemonic powers of the armed forces by abolishing compulsory military service, closing the military's secret service (DNI), depriving the military of autonomous financing sources, appointing a civilian defense minister, and removing the police from the direct control of the armed forces, among other measures. These changes were made possible in the 1990s by the post-Cold War reduction in the U.S. government's economic and political support for the Honduran armed forces.

The 1990s also brought some important transformations in the economic sphere, though the majority of Hondurans did not share in the positive trend. The country's expansion from the production of primary (agricultural) commodities into the manufacturing or processing (maquila) of low-cost consumer goods, and concomitantly increasing its integration into the global market, did not foster sustainable or equitable economic development. Moreover, structural adjustment

policies initiated by President Rafael Leonardo Callejas (1990 – 1994, PN) deepened socioeconomic inequalities. The economic growth fostered by those policies failed to compensate for cutbacks in social spending and job opportunities in the public sector.

Following the transition to a non-military government, the aftereffects of Hurricane Mitch, which devastated the country in 1998, proved to be among the most important factors in transformation. Aiming to secure maximum sustainability for the help they pledged for the recovery of the country after the hurricane, major donor countries and institutions demanded the modernization and further democratization of the country's political and economic systems. However, none of the post-hurricane governments has developed a comprehensive economic policy able to enhance the economy's competitiveness, reduce vulnerability to price changes on the world market, restructure the public sector or make the country less dependent on the remittances of emigrants. The successful negotiation of a free trade agreement with the United States (Central America Free Trade Agreement, CAFTA), which came into effect in 2006, underscored the political and economic elite's intentions to continue on the path of further internationalization of the economy. So far, the opening of Honduras to the highly competitive economy of the United States has not fostered a more inclusive economy, which a country like Honduras, with more than half of its population living in poverty, would need. This is in large part due to the lack of agricultural development, which prevents a very considerable portion of the Honduran population from participating in the formal economy.

The 2009 coup against then President Manuel Zelaya (2006-2009, PL), was a major setback in democratic development. An interim government took power and attempted to crush the anti-coup protest movement– the so-called Resistencia – resulting in serious human and civil rights abuses. A broad range of political and judicial institutions, including the parliament and the Supreme Court, backed the ousting of Zelaya, accusing him of violating the constitution and other laws. The presidential and parliamentary elections of November 2009, although conducted properly, proved insufficient in overcoming the crisis. Under President Lobo (2010-2014), a truth commission, consisting of prominent Honduran and foreign personalities, was formed as an effort toward national reconciliation. The final report of the commission condemned the ouster of Zelaya as a coup d'état and suggested a series of political reforms in order to avoid a similar political crisis in the future. The last elections in 2013 ended the two-party system that had dominated the country's politics since its beginnings as a nation-state. The PN, which holds the executive, cannot legislate without reaching agreements with one or more of the other political forces that form the parliament.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

Despite a reduction in the number of homicides in the years 2012-2014, criminal organizations have maintained a high level of activity in Honduras. Although they range from street gangs to drug-trafficking organizations, criminal groups in Honduras share some common characteristics. They take advantage of the weakness of government institutions to control physical territory; they seem to thrive where new criminal activities emerge, allowing them to widen their areas of operations; and they use violence and threats to achieve their goals, whether political, criminal or otherwise. In 2013, 9,453 deaths from external causes were reported nationwide. This represents a decrease by 9.2% compared to the previous year. The highest homicide rates occur in the north and in the department of Ocotepeque at the border with Guatemala and El Salvador in the west. Usually, the departmental capitals have higher rates of violence than rural areas do. However, the presence of the police in rural areas is almost nonexistent. In over 70% of the cases, the police admit that they do not know the motive for the homicide. In the major cities of San Pedro Sula, Tegucigalpa or La Ceiba, the police struggle to gain control over many of the slums and poor neighborhoods.

Monopoly on the
use of force

6

The existence of increasingly powerful criminal groups linked to international organized crime, including Mexican drug cartels, is widely acknowledged. Clandestine groups seem to have relations with individual members of the economic and political elite, and to have infiltrated state agencies such as the police. Violence attributed to conflicts within or between those groups, or between them and state representatives, is frequently reported in the local media. Especially in the northern part of the country, there are more and more areas where organized crime groups seem to control the course of events. In addition to organized crime, youth gangs, the so-called maras, challenge the state's monopoly on the use of force. Thousands of young people belong to these gangs, which control many of the poorer neighborhoods of Tegucigalpa, San Pedro Sula, El Progreso and other cities. Though some of these

locally organized gangs appear to have links to maras in other countries throughout Central and North America, as well as loose relations to organized crime, they cannot be defined as an integral part of transnational crime networks, despite many security experts' attempts to depict them as such. The maras should primarily be considered a phenomenon of violent youth subculture. Considerable parts of Honduras' poor urban population are subject to youth gang violence rather than to the state's rule. The gangs have introduced what they call the "war tax" (racketeering) in many poor neighborhoods. This type of violence stems from a combination of frustrated social aspirations and the absence of prospects for young people, while at the same time they see that there is no authority in the country which punishes violence acts. A truce between the two largest gangs, mediated by the Catholic Church in 2013, failed to bring about a substantial reduction in mara violence.

The state does not effectively exclude other actors from the use of force. In some local conflicts, such as the land dispute between campesino organizations and large-scale landowners in the Bajo Aguán region, clashes between private security forces and peasants have led to deaths. In general, the state's weakness in enforcing its monopoly on the use of force is reflected in one of the highest homicide rates worldwide.

The legitimacy of the nation-state is rarely if ever questioned, and all individuals and groups enjoy the right to acquire citizenship without discrimination. No social group denies the rights of others because of their ethnic or religious origin. However, indigenous peoples and Afro-descendants remain part of a disadvantaged sector of the population. During the last election, the Supreme Electoral Tribunal (TSE) did not conduct any kind of voter education program in these communities. Nor did it publish documents in their native languages. Homosexuality is not punished by law, but LGBTI people do not enjoy the same rights as heterosexuals. For example, same-sex unions are not recognized.

State identity
9

The state is secular according to the constitution. The constitution guarantees the free exercise of all religions and cults without prejudice, provided they do not violate the law or public order. However, the Catholic Church and, increasingly evangelical churches, have a huge influence on state policies. Hondurans are traditionally very religious and very susceptible to ethical-religious conservative values. Members of the power elites publicly display their religious adherence. Honduras is one of the few countries in Latin America that does not have standards and protocols that define how the victims of sexual violence have to be treated and cared for. According to women's organizations, this is due to the enormous influence of the Christian churches on government policies. In an official statement presented in 2014, the Episcopal Conference of Honduras (CEH) expressed its opposition to legislation that would allow the marketing and use of the emergency contraceptive pill.

No interference of
religious dogmas
9

The administrative structure of the state has become more consolidated and is installed throughout the national territory. However, there are regions, such as Mosquitia in the east, where state presence is still very weak. Public administration has institutional and personal shortcomings. The mountainous geography also prevents improved access to public service in some departments. Access to safe water and sanitation, as well as electricity, is still very poor in rural areas. Most municipalities are associated in Intermunicipal Associations (Mancomunidades), many of which have formed inter-municipal technical units (UTI) responsible for the management of investment projects.

Basic
administration
6

2 | Political Participation

Elections in Honduras are mostly free and fair, but also suffer from significant deficiencies. The right to vote as established under Honduran law complies with the principles of universal suffrage. However, the electoral roll is not accurate or reliable and is a weakness in the electoral process. The current president, Juan Orlando Hernández, was the winner of the 2013 elections, which enjoyed a high participation rate (60.4%). But his party won only 36% of the vote and two new parties, Anti-Corruption Party (PAC) with 13.4% and Freedom and Refoundation (LIBRE) with 28.8% of the vote, respectively, together won more than 42% of the vote, thus breaking a two-party system formerly dominated by the National Party (PN) and the Liberal Party (PL). The PN, which holds the executive, cannot legislate without reaching agreements with one or more of the other political forces that form the parliament. Never before has a ruling party had such a small caucus in parliament. The president's PN nominated just 48 out of 128 congressmen and had therefore to seek alliances with the PL to achieve the 65 seats needed to pass legislation.

Free and fair
elections
8

The Supreme Electoral Tribunal (TSE) accredited 27 Honduran election observation missions, incorporating a total of 7,553 observers and accompanying persons representing much of the political, social and religious spectrum of the country. The presence of national and international observers reached levels unprecedented in the country. International observers agree that the elections were fair and transparent. The electoral framework of Honduras has evolved since the drafting of the Electoral Act in 2004 and the introduction of the Integrated Vote Counting and Disclosure System (SIEDE). Honduras' legislation provides, in general, a sufficient basis for holding democratic elections. However, the Electoral and Political Organizations Act is very detailed in terms of procedures and does not address in depth such important aspects as the financial regime of political parties.

Election campaigns are too long and costly. They also show an imbalance through the abuse of state resources by the parties in power, in this case the PN, and to a lesser extent the PL. The TSE has had low credibility in the past. For this reason, the TSE sought to increase its legitimacy in the last elections by strengthening the role of the

Advisory Council, composed of representatives of all parties, for discussion and making key decisions for the electoral process. However, the TSE did not adequately respond to the obvious violations of campaign rules, both at the level of funding and in electoral propaganda. There is a clear imbalance in election coverage by the mass media, with an increased presence of stories about the National Party, the Liberal Party and LIBRE.

The European Union and other observers therefore recommend reform of the electoral law, the true independence of the electoral tribunal, the adoption of stricter regulations on campaign financing, in addition to providing effective control methods, the modernization of the National Registry of Persons and the development of a comprehensive complaints system.

In principle, the elected government commands the effective power to govern, but major economic groups and drug-trafficking interests exert substantial influence on some parts of the state apparatus, both at national and local levels. There are strong economic groups that exert enormous influence through patronage, interest trafficking and bribery. According to InsightCrime, there is a series of powerful local groups of organized crime, connected to political and economic elites, who manage most of the underworld activities in the country. They have deeply penetrated the Honduran police, which is known to be one of the most corrupt and mistrusted police forces in Latin America. Compared to the former government, the current government shows greater control over the police apparatus. In view of the enormous influence of organized crime groups on the police, the government took the decision to further militarize security policies by creating, in August 2013, the Military Police for Public Order (PMOP), as part of the Honduran Armed Forces.

Effective power to govern

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The right to freedom of association and formation of political parties, as well as assembly rights, are guaranteed by the constitution. There is a high degree of organization in interest groups by workers, peasants, teachers, doctors, etc. (see section 5.2) making use of their rights to demand improvements in their situation. However, these rights are restricted when such groups' interests clash with the interests of powerful groups, such as peasants in Bajo Aguan attacked by the private security forces of landowners or indigenous peoples who protest against the activities of mining companies. Human rights associations have also been victims of repression in the recent past. Notwithstanding, Honduran civil society has shown its dynamism, pluralism and commitment to the electoral process.

Association / assembly rights

8

Freedom of expression and opinion are formally guaranteed by law. But press freedom is severely limited as the markets of newspapers, television and digital press are concentrated in a few hands. Usually, media are owned by the wealthiest families. Some independent press emerged after the 2009 coup, but the imbalance is still very large. In Honduras, there is no formal censorship by the state. But journalists have been victims of illegal violent actors, such as those perpetrated by organized crime groups. The murder of journalists by unknown gunmen is very common. Most crimes against journalists remain unpunished because the state states that it is not be able to identify the murderers. According to Reporter Without Borders' 2015 World Press Freedom Index, Honduras' press freedom is labeled as a "difficult situation" and ranked 132nd out of 180 countries, with a less than mediocre rank significantly influenced by a rather bad score for abuses. According to Reporters Without Borders, seven journalists were killed in 2014, and there were "47 murders of journalists in Honduras since 2003, of which 91% have gone unpunished," making Honduras "one of the western hemisphere's most dangerous countries for journalists since the June 2009 coup."

Freedom of
expression

6

3 | Rule of Law

The separation of powers is established in the 1982 constitution, but partial or temporary restrictions of checks and balances occur. Since its transition to democracy in the early 1980s, the Honduran executive has had considerable influence over the other two branches of government, and the functions of checks and balances are also inhibited by informal powers. According to the Special Rapporteur of the U.N., the National Congress of Honduras wields considerable power over the judiciary. This practice was maintained during the election processes of Supreme Court justices in 2008 and 2014, as well as for members of the Judicial Council in 2011, but is mainly reflected in what happened after the coup of June 2009. The weakening of the institutions of justice has increased and continues to undermine judicial independence.

Separation of
powers

7

Nonetheless, there have been attempts at a restoration of checks and balances, though doubts remain if these were based on a normative commitment to the rule of law. Reforms in 1997 provided the political system with more openness and resulted in greater legislative independence from the executive, as the two branches were now often controlled by different political parties or members of different factions within the government party. In addition, the fundamental change of the party landscape with the 2013 elections broke up the traditional party duopoly of the PN and PL and provided for new power constellations in Congress, as well as for incentives to enhance constraints on executive power. One telling example is that of the conflict between the government and Congress regarding the status of the new military police force (PMOP). In January 2014, during the last weeks of the Lobo government,

Congress – with a two-thirds vote of the chamber, composed mostly of members of the National Party and the Liberal Party – amended the constitution to have the PMOP form part of the armed forces, thus also giving constitutional status to the Military Police of Public Order. Upon approval, the new deputies had already been elected, but had not taken up their seats. Like any constitutional reform, this however reform requires ratification in the subsequent legislature. In a second session of the legislature in January 2015, the new Honduran Congress rejected the pledge promoted by President Hernández to give the reform constitutional status. In a tense legislative session, the president’s initiative did not get the necessary two-thirds (86 votes); only 61 representatives voted in favor of the project. Most members of parliament are in favor of the military police, but oppose it being managed and administered directly by the president, as demanded in the reform proposed by Hernández.

Honduras’ judicial system is differentiated. It includes the Supreme Court of Honduras, a court of appeal and several courts of specialized jurisdiction which handle matters such as labor, taxes and crime. The independence of the judiciary is limited in practice by political favoritism that permeates a large number of actors among public authorities. This negatively affects not only checks and balances, but also decisions concerning penal and civil law made by different organs in the judiciary. The latter is of great concern, as it leads to an increase in the lack of confidence in the system by the litigants and the citizens in general. In addition, most Hondurans have only limited access to the courts; this remains one of the country’s most striking deficiencies in terms of deepening the democratic system. Lacking the economic and educational resources necessary to claim their rights in long and costly lawsuits, which are often overseen by judges susceptible to corruption and clientelistic influences, poor citizens are de facto excluded from the protections of due process. A major reform of the civil procedure code came into effect in November 2010, introducing oral trials for civil cases. So far, the reform has not substantially improved poor citizens’ access to the judicial system or the transparency.

Independent
judiciary

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Threats and violent attacks against representatives of the judicial system are widespread. According to the Human Rights Ombudsman, in 2013 alone, 21 law professionals (judges, prosecutors and lawyers) were killed. This kind of violence is a serious threat to the independence of the judiciary.

There continues to be a high level of impunity. The government has taken steps to prosecute and punish officials who commit abuses. However, corruption and impunity are serious problems that hinder the effectiveness particularly of the National Police. In July 2011, the truth commission established by President Porfirio Lobo to investigate the incidents around the 2009 military coup published a report which documented 20 cases of excessive use of force and killings by members of the security forces. However, Honduras made very limited progress in prosecuting such abuses during 2013 and 2014. There was one particularly important corruption case,

Prosecution of
office abuse

5

though, in which the authorities were successful: In September 2014, the security forces captured Mario Zelaya, the former head of the Honduran Social Security Institute (IHSS). The prosecution authorities believe that Zelaya is responsible for a series of illegal transactions causing damages to the IHSS worth millions of U.S. dollars, from which he benefited. He faces charges that could result in a prison sentence of up to 125 years.

The National Anti-Corruption Council (CNA) reported countless acts of corruption in the National Institute of Retirement and Pensions for Employees and Officials of the Executive Branch (INJUPEMP). Corruption is also present in many municipalities in the use of funds for community infrastructure.

Government initiatives such as the Action Plan 2012-2014 and its new version for 2014-2016, as well as the Open Budget Initiative (OBI) and one linked to the incorporation of 60 municipalities into the System of Integrated Municipal Administration (SAMI), connecting the municipal financial management system with the central government's Integrated Financial Management System (IFMS), are seen as smokescreens for citizens because corruption is increasing and impunity continues. Given that the agencies set up by the government as part of the action plans do not function, it is up to civil society and the CNA to uncover corruption. The current government has announced open cooperation with the CNA to increase transparency and strengthen open government reforms (see section 15.3).

There are frequent, severe human rights violations by non-state and state actors. According to international human rights organizations, multiple violations of the right to personal integrity continue to occur, committed by public security forces and military bodies, as well as by the private security forces that guard the properties of local landowners. Cases of kidnapping and torture, multiple injuries and sexual abuse have been documented. These violations of personal integrity are not under judicial investigation. In 2013, "arbitrary" killings by security forces and continued killings of indigenous and farm workers in rural areas were recorded, including in the Bajo Aguán region. Attacks on judges, journalists and defenders of human rights continue, without rapid or effective investigation. In general, the lack of judicial independence has caused citizens to lose confidence in the institutions responsible for the administration of justice.

The homicide rate, which increased steadily over the last decade, remained the highest worldwide in 2013. Those responsible for murders and other violent crimes are rarely brought to justice. Institutions in charge of public security are largely ineffective and have been associated with numerous allegations of corruption and abuse, while initiatives that seek to reform these forces have not made significant progress. It is still common for journalists to suffer threats, violence and murder,

Civil rights

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crimes that are rarely investigated. According to the National Commission for Human Rights (CONADEH), 36 journalists were killed between 2003 and mid-2013.

More than 90 people have been killed in recent years in connection with land disputes in the Bajo Aguán region, most of them since 2009, according to a report published in March 2013 by CONADEH, and many more were victims of attacks and threats. None of the investigations into the murders surveyed in the report of CONADEH resulted in a conviction.

Violence and threats against human rights defenders persist. While in August 2013 the government introduced a bill in Congress to protect human rights defenders, journalists and lawyers, the law has not been enacted. The government has not fulfilled its commitment to create a national mechanism to protect human rights defenders and journalists at risk.

Discrimination against disadvantaged social groups is widespread, especially with regards to access to authority institutions and property. This is one of the causes for many conflicts in rural and mining areas. An amendment to the electoral act in relation to the establishment of quotas for the participation of women in elected functions was approved in April 2012 with wide support. Moreover, an act was approved to the effect that 10% of the annual public allocations for the political parties have to be dedicated to training and political empowerment of women. Meanwhile, the LGBTI community, one of the groups most affected by violence in Honduras, is not represented in politics. The four LGBTI candidates who ran for a seat in parliament as members of the LIBRE party were not elected. From 2009 to November 2013, a total of 115 members of the LGBTI community were killed (53 of them transgender).

In 1994, Honduras ratified Convention No. 169 of the International Labor Organization (ILO) concerning Indigenous and Tribal Peoples in Independent Countries, and in 2007, adopted the U.N. Declaration on the Rights of Indigenous Peoples. In addition, the constitution provides protection for the rights and interests of indigenous communities. Unlike in other Latin American countries, there is no open ethnic discrimination. Honduras ratified the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), adopted by the U.N. in 1979, but has not yet ratified the Optional Protocol to the Convention.

4 | Stability of Democratic Institutions

The performance of democratic institutions is seriously affected by the limitations on political participation and above all on the rule of law. The institutional weakness of political parties helps to accentuate the weakness of democratic institutions. Dominant economic groups finance parties to further their own advantages. The dominant parties manage the exploitation of state resources for electoral control, so there is no equity in standards and practices. The composition of the Supreme Electoral Tribunal (TSE) is one of the ways through which powerful groups manage to keep control over the electoral process.

Performance of democratic institutions

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Lack of resources reduces the efficiency of most institutions. Public procurement is the price that employers demand in exchange for previously granted support. The co-optation of political parties from the business sector – especially groups linked to mining, telecommunications, energy, banking and international trade – weakens state regulation.

In the period under review, some changes can be observed that could limit the influence of traditional power groups. The two new forces that are now part of the Congress – PAC with 37 representatives and LIBRE with 13 – significantly reduce the influence of the two traditional parties PN and PL. Currently, the PAC and LIBRE have formed an opposition coalition against the PN and PL.

None of the stakeholders calls into question the role and functions of democratic institutions. The leftist party LIBRE initially questioned the results of the elections that brought to power Hernández, but eventually accepted the results. The TSE and the Supreme Court are two of country's most controversial institutions because they are subject to the manipulation of the dominant political parties. Illegal groups and organized crime are currently the biggest challenges for democratic institutions, but they operate outside the law and can thus not be considered to be relevant actors in the democratic system.

Commitment to democratic institutions

7

5 | Political and Social Integration

In the period under review, the party system in Honduras underwent profound changes. The two traditional parties now control only 57% of the seats in Congress, far less than the 90% in the previous period. LIBRE is strongly rooted in agrarian and urban social movements. PAC, for its part, has a strong influence on urban youth, especially those who were unhappy with the two-party political system but not supportive of the idea of socialism in the 21st century, as proposed by LIBRE. The PAC thrives on social mobility and urban migration. The success of this new party shows that there is a growing group of independent voters in urban middle classes,

Party system

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which does not affiliate with any particular party. This could lead to an increase in the volatility of voters in the future. The PL is the party that has suffered most from the effects of recomposition of political forces.

The two traditional parties still control the most important aspects of the economy and the media. Inequality in resources available to political parties can be seen in advertising and media billboards. This inequality is accentuated by the use of public resources for campaign finances by the ruling parties. The use of financial resources or state property for electoral propaganda is clearly prohibited by Article 142 of the Electoral Act.

The emergence of new political groupings does not imply a severe fragmentation of the party system. However, this danger is latent in view of the enormous political polarization in the country and is manifested within all political forces. Inside the PN, divisions still exist, motivated less by ideological differences and more by personal interests. Within LIBRE, there is a struggle between former PL militants clustered mostly in the so-called June 28 Movement (Movimiento 28 de Junio) led by former President Zelaya and representatives of social movements grouped in the Bloque Popular, with evident Marxist tendencies. Past experience has shown that new groups and political parties have enormous difficulties in avoiding falling into the mechanisms of patronage and corruption that they criticize. Participation in Congress requires passing laws that are promoted or opposed by powerful economic groups that invest large sums of money to buy political will.

The influence of interest groups is still very unbalanced in Honduras. The worker and peasant movement that was traditionally well organized is still active in political life. There are three recognized and somewhat influential labor unions: CGT, CUTH and FUTH. The National Union of Campesinos (UNC) and the National Association of Farmers of Honduras (ANACH) are the largest farmers' and peasants' organizations. Among the most militant unions so far are groups of teachers (COLPROSUMAH, PRICMAH). At the same time, the private sector has groups (COHEP, ANDI, AHM), which exert enormous influence on government policies. In recent years, a number of NGOs have also emerged. They are single-issue organizations focused on topics such as environment or gender inequality. There are also organizations promoting human rights (COFADEH, CIPRODEH, CODEH) or the rights of historically underprivileged or discriminated against population groups, such as women (CDM, Las Chonas), sexual minorities (Rainbow Association) and indigenous and Afro-Honduran Communities (COPINH, OFRANEH). The Civic Council of Popular and Indigenous Organizations (COPINH) brings together indigenous communities in the west who reject mining investment and construction of hydroelectric projects. Its leaders are often victims of police harassment. Some of these groups have gained notoriety since the coup of 2009. But many of their members are subjected to

Interest groups
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repression and attacks on their lives. Usually harassment of members of popular organizations goes unpunished and uninvestigated.

Despite this wide array of interest groups, few have been able to influence policy-making effectively due to the historically low accessibility of the political system, thus discouraging participation. Exceptions include interest groups with considerable economic resources (e.g., business organizations) and those with the capacity to exert pressure through strikes and demonstrations (e.g., teachers', workers' and peasant unions). Other segments of the population, particularly citizens from the lowest strata of society, are underrepresented and have little access to political decision-makers.

Overall, citizens' approval of democratic norms and procedures is rather mediocre, showing one of the lowest levels of preference for democracy in Latin America. According to the last Latinobarómetro survey, support for democracy declined from 53% in 2010 to 43% in 2011 and was at 44% in 2013, only ahead of Guatemala (41%) and Mexico (37%), and significantly below the regional average of 56%. According to the last Latin American Public Opinion Project (LAPOP) report of 2014, there is "system support" at 52.5% in Honduras. The low level of support for democracy is presumably linked to many Hondurans' perception of major governmental institutions. Clearly, there is a perception that the government has done little to address the public's most pressing concerns: deteriorating security conditions and high levels of unemployment and poverty. According to Latinobarómetro 2013, there is a significant correlation between the degree of poverty and levels of support for democracy, with Hondurans being among the most affected by poverty, measured by insufficient food supply. When asked about the performance of democracy in Honduras, 59% of Hondurans responded that it is a democracy with major problems (regional average: 46%). Only 18% claimed they were satisfied with how democracy functions in Honduras, placing the country last in the region on this item (average 39%). An abysmal 6% perceived Honduras as progressing (the second to last was Costa Rica with 15%; the leader was Ecuador with 77%; regional average 39%). Honduras also has the highest percentage of respondents (71%) assessing the economic situation of the country as bad or very bad, which is much higher than Guatemala (51%), Mexico (46%) and the regional average (29%). Finally, only 35% believe that the state will be able to resolve the most urgent problems (poverty, corruption, drug-trafficking and crime), a percentage that is significantly below the regional average of 55% and places the county last in the region.

Approval of
democracy

5

The public security situation may dissuade citizens from social and political participation and self-organization. Interpersonal trust among Hondurans has been traditionally high – 33% in 2011 – but declined sharply to 19% in 2013, according to the most recent Latinobarómetro survey. At the same time, civic self-organization is considerable, though at times divisive.

Social capital
5

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

According to the World Bank, Honduras is a lower middle income country with a per capita GNI of \$2,180 (2013) and with serious difficulties in reaching the standards set by the Millennium Goals because it has a remarkably unequal distribution of wealth. The country's Human Development Index (HDI) value for 2013 is 0.617 – which is in the medium human development category – ranking it at 129th out of 187 countries and territories (together with Morocco). The percentage of households living in poverty, according to the UNDP, stands around 64.5%. This situation is exacerbated in the case of the rural population, which accounts for about 54% of the total population. In general, the western departments of the country have higher levels of poverty. According to UNDP's Multidimensional Poverty Index, 20.7% of the population are multidimensionally poor, with an additional 28.6% considered near multidimensional poverty.

Socioeconomic
barriers
3

In addition, when discounted for inequality, Honduras' HDI falls to 0.418, a loss of 32.2%. By comparison, Nicaragua and El Salvador show losses due to inequality of 26.4% and 26.7%, respectively. The average loss due to inequality for medium HDI countries is 25.6% and for Latin America and the Caribbean 24.5%. Income inequality as measured by the Gini Index was at 57.4 in 2011. The Gender Inequality Index rates Honduras at 0.482, regionally only ahead of the Dominican Republic, Panama, Guatemala and Haiti.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	9672.0	15839.3	18496.4	19385.3
GDP growth	%	6.1	3.7	2.6	3.5
Inflation (CPI)	%	8.8	4.7	5.2	6.1
Unemployment	%	4.2	4.8	4.2	-

Economic indicators		2005	2010	2013	2014
Foreign direct investment	% of GDP	6.2	3.1	5.8	-
Export growth	%	5.3	15.7	-1.3	1.6
Import growth	%	3.6	15.2	-4.1	1.5
Current account balance	\$ M	-304.3	-682.1	-1655.1	-
Public debt	% of GDP	57.2	30.7	45.3	45.7
External debt	\$ M	5170.2	3976.6	6830.9	-
Total debt service	\$ M	382.5	514.0	924.6	-
Cash surplus or deficit	% of GDP	-0.8	-3.0	-	-
Tax revenue	% of GDP	14.5	14.4	-	-
Government consumption	% of GDP	15.5	17.9	16.7	15.7
Public expnd. on education	% of GDP	-	-	5.9	-
Public expnd. on health	% of GDP	3.8	4.2	4.3	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.6	1.1	1.2	1.3

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

The essential elements of the market economy are generally respected, although with varying intensity according to the economic sector. The investment climate has seen slight improvements in the last five years. However, obstacles that affect competition due to a lack of efficiency in public institutions responsible for ensuring economic performance still exist. According to the World Bank's 2015 Doing Business Report, Honduras ranks 104th out of 189 countries for ease of doing business. This is a slight decline compared to the last report in 2014, which ranked Honduras at 100th. Concerning starting a business, however, it ranks only 138th. Globally, Honduras' performance, especially in protecting minority investors (174th), enforcing contracts (166th) or resolving insolvency (140th) needs to be improved.

Market-based
competition
5

According to WEF's Global Competitiveness Report 2014-2015, the most problematic factors for doing business are corruption, crime and theft and inefficient government bureaucracy. It ranks Honduras 100th out of 144 countries.

According to ILO statistics, informal employment comprises 74% of the total labor force (3.3 million workers). The overall employment rate is at 60%, which is slightly lower than the Latin American region's average at 64%. Consequently, major sectors of the labor market are not engaged in the formal competitive market system, which is one of the most open in Latin America without significant firm discrimination. From time to time, the government decrees price controls, such as in December 2014, for several basic consumer products like meat, maize flour, white bread, sugar, chorizo, chicken or unrefined sugar – measures which are strongly opposed by the private sector. There are no restrictions on investment-related transfers or payments. In general, the government encourages both domestic and foreign investments, but other circumstances, such as the lack of physical and legal security, as well as corruption, deter potential investors. The lempira is only partially convertible.

Anti-monopoly rules do exist and are in theory supervised by the Commission for the Defense and Promotion of Competition (Comisión para la Defensa y Promoción de la Competencia). Antitrust law is ruled by Legislative Decree 357-2005 published in 2006 and by internal resolutions of the Antitrust Commission. But the rules are not consistently enforced. Family allegiances and coalitions of interest groups rule the economy in Honduras' different regions. According to the Global Competitiveness Report 2014-2015, Honduras ranks 81st in effectiveness of anti-monopoly policy with a score of 3.9 out of a possible 7.0 and 83rd in the extent of market dominance (3.6 out of a possible 7.0). One example of Honduras' mixed picture is the country's telecommunications market. For fixed telephony, Hondutel continues to hold a monopoly, but has granted concessions to sub-operators for domestic telephony. Reforms in the legislation governing the telecoms have been postponed due to the political interests of key members in the government and ineffective legislators. Hondutel also preserves exclusive control over international telephony because the parliament has not yet approved the Telecommunications Act. In the energy sector, by contrast, a major step was taken in 2014: Congress approved a law which will lead to the re-organization and liberalization of energy production, transmission and distribution in 2015, thus initializing the end of the state monopoly of the National Electric Power Company (ENEE).

Anti-monopoly
policy

7

According to the WTO, the Honduran trade regime is relatively open, with an average tariff of 5.7% in 2014, moderate use of non-tariff barriers and an absence of contingency measures. Honduras participates in the Central American Common Market (Mercado Común Centroamericano, MCCA), whose main objective, a full customs union, is unlikely to occur in the near future. Honduras has free trade agreements with the United States and the Dominican Republic (CAFTA-DR), Mexico, Chile, Colombia, Panama and Taiwan. The implementation of these free trade agreements has led to modernization and liberalization of Honduran trade and investment regimes. The Canada-Honduras Free Trade Agreement and parallel agreements on labor and environmental cooperation entered into force on 1 October 2014. In June 2012, Honduras and other MCCA members signed a comprehensive association agreement, including a trade component, with the European Union.

In practice, foreign trade activities are hampered by cumbersome and time-consuming bureaucratic regulations, giving Honduras contradictory ranks in pertinent indices. The World Bank's Doing Business Report 2013 ranks Honduras 70th out of 189 countries on the ease of trading across borders, and thus behind neighboring and other Latin American countries – above all Panama (ranked 9th), but also Peru (55th), Mexico (44th) and Costa Rica (47th) – though ahead of Nicaragua (74th) and Uruguay (83rd). On the prevalence of trade barriers, the Global Competitiveness Report (2014-2015) ranks Honduras 118th out of 144 countries with a score of 4.0 (on a scale from 1 to 7). Concerning ease of customs procedures, Honduras ranks 103rd with a score of 3.5, and with regards to trade tariffs it ranks 62nd.

The Honduran banking system, whose stability was considered rather insecure in 2003 has undergone important reforms since then and is nowadays rather well developed and relatively stable. Among other measures, the Banking and Insurance Commission (Comisión Nacional de Bancos y Seguros, CNBS), which is responsible for the control and supervision of the financial sector, has increasingly strengthened its supervisory capacity. According to the Global Competitiveness Report (2014-2015), Honduras ranked 34th out of 144 countries concerning the soundness of banks (with a score of 5.7 out 7 possible points).

International banks are able to operate through branches or special purpose offices. The central bank is responsible for setting interest rates as guidance for the private banking system and enforcing exchange controls and similar regulations. In 2013, the credit portfolio of Honduran banks increased by 11% compared to the previous year. In November 2013, the balance of the loan portfolio of Honduran private banks totaled \$9,371 million, representing an increase of 11% compared to the same month in 2012. Both the capital asset ratios (11.1% in 2013) and the level of non-performing loans (8.7% in 2003 and 2.2% in 2013) improved considerably, suggesting that banks are rather well capitalized. However, about one-third of bank deposits and loans is in foreign currency. The IMF notes that mismatches are significant, with about 45% of foreign currency credit going to unhedged borrowers.

Liberalization of
foreign trade

8

Banking system

7

8 | Currency and Price Stability

Hernández's government tries to stay in line with the previous government's control of inflation. However, by the end of 2013, inflation reached 6.3% in October, up from 4.6% in 2012, in the view of the IMF, mainly due to one-off factors (the December 2013 fiscal measures and a spike in food prices due to the effect of a drought). If the current government begins to apply proposed tax measures, inflation could decrease and stabilize at around 5.5% in the medium term. After maintaining a fixed exchange rate of the lempira to the U.S. dollar since 2006, Honduras reintroduced an exchange-rate band in July 2011. Since then, the lempira has moderately depreciated against the U.S. dollar (e.g., 4.4 % in 2014). Exchange rate flexibility remains a challenge for the government. In agreement with the IMF, the government seeks to take steps toward a more flexible system in the medium term. According to experts, there is an overvaluation of the lempira of up to 10%, despite the depreciation that occurred after the central bank modified the exchange rate inner band in mid-2013. The central bank is largely independent.

Anti-inflation /
forex policy

8

Honduran governments have mostly failed to implement fiscal and debt policies aimed at stability in the recent past. The combined public sector deficit rose from 2.8% of GDP in 2011 to 4.2% in 2012 and 7.6% of GDP in 2013, slightly declining to 5.9% in 2014. In 2013, the public debt – mostly with foreign creditors – reached 45% of GDP. The current account balance has remained consistently negative, with a deficit of 8.5% of GDP in 2012, 9.5% in 2013 and 7.8% in 2014. After taking measures to address fiscal challenges, Honduras submitted a request for a standby agreement, approved by the IMF in December 2014. Measures to enhance macroeconomic stability include an increase in tax revenue, cuts in spending, and reforms in the electricity sector, tax administration and pension funds. However, according to the IMF, there are still bottlenecks and risks – such as unfavorable external conditions – that need to be addressed.

Macrostability

7

9 | Private Property

Private property rights and rules governing the acquisition of property are in principle well defined. But the ability to safeguard and enforce these rights is precarious. Although due process is usually available, shortcomings in the enforcement of the rule of law and in the protection of legal claims have led to violations of private property rights, a major problem in Honduras. Trials often last years, and corruption is common. Lawsuits concerning the enforcement of business contracts last, on average, 30 months. Large-scale landowners are able to manipulate the justice system through local power structures. These shortcomings are one causal factor for – sometimes violent – disputes over land rights, such as the conflict between large-scale landowners and peasants in the Bajo Aguán province. Laws and practices regarding real estate differ substantially from those in more developed countries. In the Heritage Foundation's and Wall Street Journal's index of property rights Honduras ranks 78th out of 97 countries, and together with Bolivia 16th out of the 20

Property rights

6

Latin American countries investigated, ahead only of Argentina, Paraguay and Venezuela. It fares a little better in the Global Competitiveness Report (2014-2015), where Honduras is ranked 98th out of 144 countries with regard to property rights, 79th in intellectual property protection, but only 114th in judicial independence. The latter is also reflected in the country's rank of 166th out of 189 in the World Bank's Doing Business report of 2015 concerning the enforcement of contracts (which on average lasts 920 days and requires 47 procedures).

Honduran governments have traditionally viewed private business as an important engine of development, and policies of business promotion – especially for small and medium-sized businesses (SMEs) – have been carried out often in cooperation with business associations or with external aid. Despite the generally positive business climate, some problems remain. The Heritage Foundation's Economic Freedom Index 2014 ranks Honduras 112th out of 186 countries, declining 13 positions since the last report (2013); its overall score of 57.1 is lower than the world (60.3) and regional (59.7) averages.

State enterprises were mostly privatized during the 1990s, mostly according to market principles. However, some important state monopolies still remain in place, including landline telephone services (Hondutel) and energy supply and distribution (ENEE). Yet even much of these companies' operations have been privatized (e.g., wireless communication, renewable energy production, etc.). While the Lobo administration did not take any further action in this regard, there has been one important change with the Hernández government. Under the new electricity law approved by Congress, the state-owned National Electric Power Company (ENEE) will be privatized in June 2015, allowing private investors to back the country's energy industry, a decision taken in an effort to halt the yearly losses made by ENEE and revitalize the struggling sector. According to the terms of the legislation, which has been supported by 95 of the country's 128 lawmakers, ENEE will be broken up into three separate companies that manage energy generation, transmission and distribution to end consumers. It is not known exactly what percentage of the new companies the Honduran government will open up for private investment, but it is known that they will retain a minority stake in each case. Distribution and transmission companies will be privatized, while energy generation through hydropower will remain in the hands of the state.

The government advocates the idea of creating Special Zones for Employment and Economic Development (ZEDE, Zona de Empleo y Desarrollo Economico), internationally known as charter cities, with the intention of promoting private business and foreign investment. A first attempt during the Lobo administration failed because the project was declared unconstitutional by the Supreme Court. Later, however, amended legislation was passed and the Hernández government continues to promote the ZEDE idea, consisting of establishing zones on Honduran territory with a very high degree of autonomy in terms of political, judicial, economic, and administrative organization.

Private enterprise

7

10 | Welfare Regime

Social safety nets and public programs aimed at reducing poverty exist, but are very limited and generally insufficient. Private health care and old age insurance are accessible only to a very small, comparatively well-off segment of the population. All formal employees in regions where the Honduran Institute for Social Security (IHSS) offers services (Tegucigalpa, San Pedro Sula and some other cities) are covered by the IHSS health care system. However, this does not apply to workers in the informal sector and their families, nor peasants engaged in subsistence farming. According to IHSS data, in December 2013 its coverage was about 19.2% of the total population of approximately 8.5 million. Even for those included in the IHSS system, services are insufficient. For the population lacking coverage, free public health care exists only in the form of state-run hospitals and medical clinics. But given the low level of geographical coverage, limited resources and the very limited range of services offered, the majority of the population has no access to comprehensive health care. Draft legislation concerning the reform of the pension and healthcare systems was submitted to Congress in September 2014.

Several social programs and institutions have been established, such as the Honduran Fund for Social Investment (Fondo Hondureño de Inversión Social, FHIS; created in 1999), the Poverty Reduction Strategy (approved in 2001), the Solidarity Network (Red Solidaria; created in 2008), and the Bonus Ten Thousand (Bono Diez Mil) initiative created by the Lobo government. The last-named stemmed from a PN election campaign promise and consists in the assignment of conditional cash transfers (“bonuses” of 10,000 lempiras, approx. \$500) to households living in extreme poverty, particularly in rural areas. The Hernández government created new programs to complement and integrate some existing measures, above all the Vida Mejor program, which aims to improve living conditions for the 800,000 poorest families. However, the various programs and initiatives are often underfunded and poorly administered; their effectiveness is impaired by corruption and clientelism in distribution processes. Notwithstanding, the government intends to keep spending in the key social programs at 1.6% of GDP in order to maintain or even expand their reach.

However, social policies and poverty reduction efforts run by the Honduran state, as well as those of non-governmental organizations and foreign donors, have not significantly reduced poverty or the exposure of large sections of the population to social risk. Without the periodic payments (remittances) from expatriate citizens, the social situation would be far worse. Remittances totaled \$2.9 billion in 2012, \$3.1 billion in 2013, and an estimated \$3.3 billion in 2014; this is equivalent to almost one-fifth of the country’s GDP.

Social safety nets

4

Despite massive support from external donors, the state does not ensure equal opportunity for its citizens. While there are no legal obstacles for women nor for ethnic or religious minorities in terms of school, work and public life, the proportion of female, rural-dwelling and indigenous persons who are poor is considerably higher than that of other groups. Women's access to economic or political power is obstructed – not de jure, but de facto – through cultural and ideological factors such as “machismo.” In the Global Gender Gap Index 2014, published by the World Economic Forum, Honduras ranks 73rd out of 142 countries and scores below the Latin American average. It has the region's lowest value in labor force participation, though faring better with regards to educational attainment. The ratio of female to male enrollment is almost equal at primary level (99.1%), while female enrollment in secondary (121.5%) and tertiary education (137.6%) is clearly in favor of girls and women.

Equal opportunity
4

Violent youth gangs offer daily testimony to the lack of education and employment opportunities for young people in marginalized neighborhoods. Just to survive (and assist relatives), many poor, young Hondurans either emigrate or turn to crime. The state's failure to provide opportunities is a key cause of juvenile delinquency. Despite the low cost of labor, labor-intensive industries are few and limited by the lack of agricultural development in Honduras, a structural problem that severely limits social mobility not only of youth but also of rural populations and indigenous groups.

The social and economic factors which split the population are embodied in the public-private divide in the school system (with public schools generally performing poorly), which hinders social mobility and so perpetuates inequality.

11 | Economic Performance

The Honduran economy showed mixed performance in 2013 and 2014, though macroeconomic conditions improved in 2014. GDP growth was at 2.6% in 2013 and an estimated 3.0% in 2014 (though per capita only 0.7% and 1.1%, respectively), mainly driven by more favorable external conditions and increased private investment. Inflation was at 5.4% in 2012, 4.9% in 2013 and 6.3% in 2014, typical levels for Honduras. The fiscal deficit, 6.0% in 2012, 7.9% in 2013 and 5.2% in 2014, clearly exceeded the government target. As in previous periods, Honduras had a negative trade balance, partly offset by remittances, which increased to around \$3.3 billion (equivalent to about 17% of GDP) in 2014. The current account deficit was \$1,764 million in 2013 and \$1,475 million in 2014.

Output strength
6

There was no substantial improvement in employment figures. Urban unemployment went down from 6.8% in 2011 to 5.6% in 2012, but rose again to 6.0% in 2013. The employment rate, (i.e., the employed population as a percentage of the working-age population) is among the lowest in the region with 48.9% in 2012 and 51.6% in 2013 (only ahead of the Dominican Republic).

12 | Sustainability

Compared to other countries in the region, such as Costa Rica, environmental awareness is greatly underdeveloped both among state officials and within society as a whole. Instead, environmental concerns receive only sporadic consideration and are often subordinated to growth efforts. The state's mining and energy policies rarely take ecological considerations into account. Deforestation is a major problem in Honduras. According to data from the U.N. Food and Agricultural Organization (FAO), the country has lost more than 36% of its forest since 1990. Legal and illegal forms of timber extraction are two primary causes of ongoing deforestation. In the 2014 Environmental Performance Index (EPI), Honduras is a "modest performer," ranking 97th out of 178 countries.

Since 2009, there are seven special regulations that are part of the environment obligations adopted by the DR-CAFTA agreement. The most important improvement is the adoption of the environmental impact assessment, Reglamento del Sistema Nacional de Evaluación de Impacto Ambiental (SINEIA), supported by the World Bank. The environmental impact assessment, obtained through the Ministry of Natural Resources and the Environment (SERNA), is an important requirement for any project, industrial facility, or other public or private activity that could generate potential harm to the environment, natural resources, or national cultural and historical sites. In 2014, Congress adopted the Law on Climate Change, which aims to establish the guidelines and regulations necessary to deal with the impacts of climate change in the country. In fact, however, pro-environment activities are not very effective in Honduras. According to Global Witness, an environmental INGO, 101 activists were murdered between 2010 and 2014, the highest per capita rate throughout the world.

The absence of a comprehensive educational infrastructure, of substantial attention to human capital development, and of a research and technology policy all constitute gaps in Honduras' development. As long as these gaps remain, the country will have only limited options in terms of expanding its portion of the value-added chain. Despite comparatively high education expenditure in quantitative terms (mainly due to higher teacher salaries), the output of the education system has only slightly improved. According to World Development Indicators, the national literacy rate was 85.4% in 2013, in the region only ahead of Guatemala, Nicaragua and Haiti. Enrollment in primary school education was 109.4%, in secondary education 73.1% and 20.4% in tertiary education.

In 2013 and 2014, the government was largely successful in avoiding teacher strikes, common in previous periods. For the first time since 2008, it reached its goal in providing at least 200 school days per year. In terms of higher education, the situation has stagnated at a low level. Compared to other countries in Latin America, even in Central America, the higher education and research sector remains small and has not shown any substantial progress nor major setbacks during 2013 and 2014. This includes both publicly and privately funded institutions.

Environmental
policy
4

Education policy /
R&D
3

Transformation Management

I. Level of Difficulty

The state and the media are controlled by a small group of families. Clientelism, particularism and nepotism permeate nearly all formal institutions. The result is an almost automatic exclusion of large parts of the population and geographical regions. Hegemonic groups expand their economic power through rent-seeking behavior, stimulated by corrupt and incapable officials. The institutional weakness and scarce state presence in much of the countryside is heavily exploited by organized crime and drug trafficking, for which Honduras now provides a base of operations. According to data from the National Violence Observatory, the average homicide rate over the last five years (2010 to 2014) was 79 homicides per 100,000 inhabitants; the WHO considers a rate of more than 10 per 100,000 as an epidemic.

Structural
constraints

7

The clientelism manifest in buying votes and voting under pressure is an integral part of the political culture that continually arises in the elections of all political parties and movements. In general, inequality on territorial, social, political and ethnic levels, as well as with regard to access to justice, constitutes the main obstacle for human development in Honduras. Thirteen and a half percent of the national population identify themselves as belonging to an indigenous group or Afro-descendants. With regard to the main socioeconomic indicators, these groups rank below the national average.

The mountainous nature of the country has traditionally been a hindrance to the integration of the poorest regions into the central development corridor that links the political capital Tegucigalpa with the most important city of manufacturing, San Pedro Sula, in the north. Due to the limited development of the highway system in the country, several of the 18 departments (most of Olancho, Gracias a Dios and Colón) are very isolated from the rest of the country's territory and have become zones of activity for major drug trafficking organizations.

Sexual and gender-based violence is also an important issue, considering the fact that the rate of violent deaths of women increased from 2.7 per 100,000 inhabitants in 2005 to 14.6 in 2013. In 2013 alone, 636 women were killed. The number of reports of missing women in 2013 was 347, an increase of 256 compared to 2008.

A network of grassroots civil society organizations capable of channeling political communication and thus strengthening the state's governance opportunities does exist, and has even consolidated in recent years. The Resistencia movement has had a strong cohesive effect on the previously dispersed civil society landscape. However, compared to other Latin American countries, civic engagement in Honduras remains comparatively weak. Experiences from the authoritarian period, as well as the current security and human rights situation, generate feelings of fear.

Civil society traditions

6

There are no serious ethnic conflicts, but certain minorities complain that their rights are violated. Teacher protests, previously held regularly, have declined in the last two. A number of different social groups are threatened and suffer violence in Honduras. Of all reported cases, 98% go unpunished, although they are linked to torture, illegal detentions, political assassination and death threats. The lack of separation of powers, militarization, violations of the rights to information and freedom of expression, as well as impunity and the rise of organized crime, especially drug trafficking and gangs, are some of the key factors which make the country fragile and dangerous. In 2014, the National Violence Observatory registered an average of 16 homicides per day. Social relations among Hondurans are thus heavily affected by violence. Among the people killed, many were LGBTI, lawyers, journalists, and activists of civic organizations, showing that Honduras is experiencing a situation of extralegal repression.

Conflict intensity

5

II. Management Performance

14 | Steering Capability

Question Score

The government sets strategic priorities, but shows deficits in prioritizing and organizing its policy measures accordingly. Overall, its commitment to improving the country's market economic framework seems stronger than its commitment to promoting democratic consolidation, which suffers from a difficult political landscape and a delicate domestic security situation. President Juan Orlando Hernández assumed office on 27 January 2014 amid a complex economic, social and political situation. In his campaign, Hernández had promised greater security, an increase in employment and an improvement of living standards. The Government Plan 2014-2018 includes ten points of action and, in some cases, quantitative targets. The plan, however, lacks a budget and a management strategy. The most important point of the plan is to combat crime and violence. Economically, the plan foresees the creation of 800,000 new jobs.

Prioritization

7

Many of the proposed measures, particularly with regard to social security and increased state revenue through tax reforms (Measures 7, 8 and 9), will not have the support of traditional economic power groups that see their economic interests in peril. Another major fiscal challenge for the Hernández administration is the fate of public enterprises, since the state power company ENEE causes losses of nearly 5,000 million lempiras (1.5% of GDP), especially for payments to generators of thermal power in the hands of oligarchic groups. Likewise, the telecommunications company was no longer profitable and caused a deficit of about HNL 500 million (0.15% of GDP). The privatization of these companies has opposition from many sectors of civil society and trade unions, which fear high fees and the loss of jobs.

The attempt of the executive to implement the law to militarize the police passed by Congress during the previous legislative period has been considered unconstitutional by broad sectors of civil society. The Military Police Public Order (POMP) began operating in October 2014 with 900 members. The national police are notoriously corrupt and it is believed that a large percentage has links to organized crime. This latest change does not address the need to reform the existing police. While the creation of a militarized police force may be a better alternative to deploying the military in the streets, the line between the two is unclear. The reform also raises human rights problems with regard to the possible use of military tactics to improve public safety. While some union leaders have supported the proposal that the POMP reaches constitutional status, it has been opposed by civil society and most political parties represented in Congress. In the end, it was rejected by the majority of deputies.

The current government, like its predecessors, is only partly able to implement its stated priorities. Informal power groups and in some cases illegal actors as well as fiscal constraints hinder effective policy implementation. Corruption and the infiltration of state institutions, such as the police, by organized crime groups often impede the implementation of official guidelines at the individual case level.

Implementation

5

The ambiguous electoral results have left the Hernández government with little room to maneuver in order to implement its priorities as defined in the government plan. With only 37% of the vote and no possibility to form a formal governing coalition with the most proximate political force – the PL – the informal power groups can very easily block the implementation of proposed reforms.

For example, reforms to the income tax and the elimination, regulation and control of tax exemptions are not supported by societal groups, nor by the economic powers as they affect real wages and jeopardize the profitability of investments.

Another reform difficult to implement for the Hernández administration is the privatization of public enterprises. The lack of competition in the electricity sector has resulted in high concentration of and benefits for very few producers of thermal energy. Using their rather good contacts to political and economic circles, they

benefit from sales of expensive energy, which is sold to customers at rates which do not cover the purchase cost. This conduct has provoked losses of about 5,000 million lempiras (about \$250 million, or 1.5% of GDP). In this vein, it will be rather difficult to implement the privatization of Hondutel, the state-owned telecommunications company, which suffers from a severe technology backlog. Hondutel ceased to be profitable and self-sustaining, its deficit reaching 750 million lempiras (about \$30 million) in 2013. However, public officials and military personnel settled in the institution are opposed to implementing privatization. Furthermore, the implementation of changes in the model of public management toward market-oriented institutions – resulting in privatized entities, concessions, or institutions transformed into Public-Private Associations (Asociaciones Público Privadas, APP) finds opposition in certain civil society sectors and the unions, which feel jeopardized by risks of higher rates and the loss of employment.

As with its predecessors, the Hernández government demonstrates a general ability learn with respect to policy-making, but despite some efforts to re-organize the administration (such as monitoring and consultancy), its flexibility is still somewhat limited. Overall, the Hernández administration has not offered solutions capable of promoting a new form of policy-making. Instead, the governing PN often employs traditional patterns and procedures in public administration and when developing its political strategies. Though the president belongs to the same party as his predecessor, he has appointed his most loyal allies to key positions and dismissed personnel with experience in public administration, which has led to less effective and efficient governance.

At the same time, the government took several steps to introduce evidence-based policy-making by reorganizing certain governance structures and creating the Secretary for General Coordination (see “policy coordination”), which permits the government to better supervise the progress of governmental programs and the execution of budgets.

Overall, while the Hernández government has in part learned from the failures of previous governments, it remains to be seen if this will also apply to its own policy-making and implementation.

Policy learning

6

15 | Resource Efficiency

The government uses only some of its administrative, monetary and personnel resources efficiently, but at least it engages in improvements. Public institutions have very limited autonomy and are subject to strong political influence. The efficiency of public spending is often restricted by short-term political horizons. Human resources are not at all efficiently used. There is no effective system for creating a permanent, nonpartisan staff in the public administration. Staff selection is determined primarily according to political and clientelistic affiliation rather than professional qualification. The administration does not always act professionally and rationally. There are laws to enforce merit-based personnel management but they are often bypassed by informal practices. There are many gray areas in the administration regarding procurements, for example, institutions such as the Hospital Escuela, which spends up to 35% of its budget on direct purchases, as well as the armed forces or the Ministry of Security. Usually the staffs recruited for state institutions have a low level of qualifications. Efforts to reform the Executive Directorate of Revenue (DEI) with support from the World Bank failed. The two traditional political parties opposed the reform because the DEI is used as source of substantial financial resources by customs officers. A positive measure introduced by Hernández to increase efficiency is the reduction of officials with ministerial rank from 38 to 15 officials.

Inefficient resource management is also linked to the rent-seeking behavior of the dominant economic groups in the country. These groups compete to obtain the biggest possible share of public resources, making use of their connections and political influence. The most obvious example currently is the privatization of the ENEE, the National Electricity Company (ENEE). Since February 2013, the National Electricity Company was forced to import clean energy from Guatemala and Nicaragua at high costs, as there was not enough power in the country to cover the output of the thermal plants. ENEE is paying between 21.50 and 22 cents in cash per kilowatt-hour of energy generated in Guatemala using water and biomass, which is imported in the so-called peak hours, when there is increased power demand throughout the country.

Nevertheless, the governments have sought to increase the administration's efficiency, strengthen public finances and advance structural reforms. In the last days of the Lobo government, Congress approved reform measures aiming at rising revenues and cutting expenditures and subsidies. The Hernández government made further efforts to strengthen tax administration and reduce evasion, and also to reform the highly deficient electricity sector. However, procedures to make budget planning more transparent, such as participatory budgeting, have not been introduced in Honduras.

Efficient use of
assets

5

Conflicting policy objectives are not always effectively coordinated and prioritized by the government. However, compared to previous administrations, the current government is able to maintain a higher level of policy coordination by avoiding contradictions and conflict.

Policy
coordination
7

In February 2014, President Hernández created the Secretariat for the General Coordination of the Government (Secretaría de Coordinación General de Gobierno, SCGG). The secretariat's goal is the general coordination of the public administration in order to contribute to the nation's welfare via the reform and modernization of the state, by making it more effective, efficient, equitable and transparent. For that purpose, the secretariat is tasked with strategic planning, the coordination of policy formulation, the alignment of institutional plans, resource assignation, and the supervision of implementation. The new coordinator works as an aide of the president of the republic in the coordination of public administration, strategic planning within the framework of *Visión de País* and *Plan de Nación*, as well as the supervision of general government objectives and the goals established by the presidency. All this allows Hernández to better manage cases of conflict in order to achieve his goals. Hernández promised, among other things, to eliminate the duplication of tasks inside state institutions, to redesign public services and to reduce the discretionary practices of public officials.

The Hernández government also reduced the size of the cabinet from 38 to 15 officials with ministerial rank, having under their responsibility 24 state institutions grouped into sectoral cabinets. Moreover, the president himself is responsible for the coordination of the defense and security sectors. Initially, Hernández intended to reduce the number of ministries to seven, but the constitution impedes a reduction to fewer than eight ministries. Of the 15 top officials with ministerial rank, eight command super-ministries with great influence and coordination capability. The former ministries of Turismo, Cultura, Artes y Deportes, Pueblos Indígenas y Afrohondureños, Planificación y Cooperación Externa, and Justicia y Derechos Humanos were eliminated. Apart from this realignment, Hernández also ordered the merging of several state entities such as the Patronato Nacional de la Infancia (PANI), Instituto Hondureño de la Niñez y la Familia (IHNFA), Programa de Asignación Familiar (PRAF) e Instituto Nacional de la Mujer (INAM), Fondo Hondureño de Inversión Social (FHIS), Servicio Autónomo Nacional de Acueductos y Alcantarillados (SANAA) y Programa Nacional de Desarrollo Rural Sostenible (PRONADERS). Despite this apparent reduction in the number of government bodies, the budget (Presupuesto General de la República) for 2015 amounts to 185 billion lempira (about \$9 billion), a figure justified by the government to implement its proposed social investments during its four-year term.

The corruption of public officials combined with the lack of adequate control agencies and risk management is another mechanism that has a negative influence on resource efficiency. An example is the legacy of corruption within the Honduran Institute of Social Security (IHSS) that was inherited from the previous administration. All the shortcomings of public administration that have a negative effect on cost came to light – the misuse of public resources, corruption, abuse of power, nepotism and cronyism. At all levels, access to public office is not based on the capacity or merits of the candidate but on that person’s political affiliation with the ruling party. This leads to a high turnover of staff and its replacement by people who have neither the capacity nor the ability to assume managerial functions. Some measures against corruption have been undertaken, as in the case of the IHSS, however, there still remain too many questions and too many loopholes to say that this is indeed a frontal fight against corruption. Other state institutions such as the IMPREMA or INFOP, handling huge amounts of resources, are continually faced with similar corruption scandals.

Anti-corruption
policy

4

The current administration began with the discovery of some cases of corruption, the IHSS being the most significant. Prosecution and punishment of those involved seemed to take place. This is a positive sign, but it is still too early to foretell an improvement in fighting corruption. As was the case with the previous government, a number of laws and measures to combat and prevent corruption exist but are broken by informal power structures.

Hernández promised, among other things, to eliminate duplication in the activities of state institutions, redesign service processes under the guise of administrative facilitation and reduce the discretion of public officials. He sought input from Transparency International’s national chapter in Honduras, Association for a More Just Society (ASJ) and other civil society organizations to support the implementation and monitoring of his anti-corruption plan. The plan focuses on five areas: health, education, security and justice, infrastructure projects and tax administration, as well as a crosscutting approach to improving public procurement and human resources hiring and management. However, after more than one year of government, tangible results of the plan remain to be seen.

The 2009 Law on Elections and Political Organizations (Ley electoral y de las organizaciones políticas, Decreto 44-2004) stipulates the regulations for party financing. These, however, are mostly ineffective due to corruption and clientelism. The Tribunal Superior de Cuentas (TSC), an agency tasked with the auditing of state spending, is hindered by a widely inefficient judicial system and corruption.

16 | Consensus-Building

The goal of democracy has been accepted by almost all relevant political actors, publicly at least. The undemocratic influence of groups that benefit from the revenues of the current system is linked to organized crime and drug trafficking. The enormous inequality in political and economic participation keeps the formation of consensus around minimum objectives. An example of this is the disunity of the parliamentary opposition that has led to an informal alliance between the two traditional parties, the PL and the PN, favoring the government part, even though both PAC and LIBRE may have a greater community of interest with the PL, given that many of their voters come from this party. LIBRE is still in a dilemma, caught between various internal currents, one led by Manuel Zelaya (Movement 28 June) that mobilizes the majority of the votes coming from the disappointed PL voters, and another that includes a number of socialist-oriented political groups (XXI Century) that act as a voice of opposition in part to preclude agreements with other opposition parties.

Consensus on goals
6

The goal of the development of a market-based economy has been accepted by almost all relevant political actors. A notable exception is LIBRE, the second largest group in parliament, which advocates a form of “21st century socialism” and is thus somewhat ambiguous in terms of the BTI’s goals of economic transformation.

The challenge of building consensus in Honduras has to do with the real problems of the population: poverty, unequal access to opportunities, public security and corruption. There is huge consensus across all parties and political groups concerning the existence of and need to overcome these problems. Although the present government has initiated steps toward this end, mistrust by the population is based on previous experiences. At the same time, impunity and selective repression encourage a conflictive attitude among broad sectors of society that are seen as victims of state arbitrariness.

Within the formal political system, there are no openly anti-democratic actors. All political parties and other powerful players (the military, business associations, churches, civil society organizations) endorse democratic transformation, at least publicly. On the one hand, there are parties which are critical of the current political and above all the economic model and whose political program shows clear affinities to the model of “Socialism of the 21st century,” as pursued by some countries in South America. On the other hand, informal power groups, such as clientelistic networks within and between political parties and the judiciary continue to exert an anti-democratic influence. As the high level of corruption shows, the government has not been more successful in co-opting or excluding these groups’ power than in previous periods. The influence of drug-trafficking and other organized crime has not diminished from 2013 to 2015, and – apart from a further militarization of security policies – there is no effective government strategy in sight to cope with this problem.

Anti-democratic
actors
6

The main cleavage in Honduras is the split between social classes. During the period under review, political leaders mostly succeeded in preventing a worsening of this cleavage-based conflict. The predominant type of conflict according to the classification of the Sub-Secretaría de Derechos Humanos y Justicia are socioeconomic and sociopolitical conflicts, sometimes also involving ethnic groups such as the Misquitos in La Mosquitia. Conflicts, especially those in the countryside, sometimes turn violent. The land disputes in the Bajo Aguán region were somewhat defused after the Lobo government purchased disputed territory from large landowners and distributed parcels to landless peasants on a loan basis. However, land tensions – in the Bajo Aguan, as well as in other regions – continued and seem to be almost inevitable. As the National Agrarian Institute itself acknowledged, some 300,000 families across the country are seeking smallholdings. As a speaker of the Unified Campesino Movement of Aguán (MUCA) declared in 2013, the solutions of the Lobo government have only been partial and not all groups have benefited from them, leading to an increase in latent conflicts in departments near Bajo Aguán. These add to further unresolved conflicts, such as those around mining activities, opposed by groups such as the indígena organization COPINH. The Hernández government promoted the further regularization of land titles, benefiting – according to official data – about 60,000 persons. The government also engaged in conflict management to restore social peace through a dialogue with campesino organizations, women’s organizations and indigenous and Afro-Honduran communities.

Cleavage /
conflict
management
6

In some important policy fields, institutionalized procedures integrate civil society actors into the decision-making process. There are several bodies – generally with only advisory or sometimes oversight competencies – in which civil society and government representatives participate. These include the National Convergence Forum (Foro Nacional de Convergencia, FONAC), the National Council on Domestic Security (Consejo Nacional de Seguridad Interior, CONASIN) and the National Anti-Corruption Council (Consejo Nacional Anticorrupción, CNA). Yet in many cases, the government does not implement the recommendations of these bodies or does so only halfheartedly (e.g., by assigning limited budget resources). Innovative processes enabling civil society members to be integrated effectively into policy-making or performance monitoring, such as participatory budgeting, have not been introduced in Honduras. Under the slogan “Gran Pacto por Honduras” (Great Pact for Honduras), the Hernández government has initiated a process of sectoral dialogues (Mesas Sectoriales related to policy fields such as security or health) in an attempt to strengthen civil society participation. Representatives from civic organizations are still skeptical about the seriousness of the project and accuse the government of using the Mesas only to present the administration’s planning, without taking into account the other members’ objections and ideas. Also, after having extended the deadline three times, the government ultimately cancelled the operation licenses of some 4,000 NGOs which failed to present legally required financial statements and other documents. Most of these organizations were private, nonprofit

Civil society
participation
6

agencies that had once carried out development projects funded by the government or external donors and that had already ceased operating in previous years. Others, though, are said to be small organizations, many from rural areas, such as “patronatos” - groups of citizens who engage in improving their villages’ basic infrastructure (e.g., sanitation or electricity supply), whose members, many illiterate, lack knowledge of how to draft and process the required documents.

Dealing with injustices of the past, particularly human rights abuses perpetrated by the military and the secret police in the 1980s and early 1990s (186 Hondurans were “disappeared” by the Honduran security forces, mostly during the 1980s), became part of the political agenda in late 2008, shortly before Zelaya’s ouster. Neither Micheletti, nor Lobo or Hernández revived the initiative, and the topic has effectively disappeared from the political agenda during the period under review. The wrongdoings of state representatives and other actors in the more recent past, particularly the 2009 coup and the subsequent de facto government, were the subject of two truth commissions, one official and one initiated by the Resistencia movement, which published their reports in 2011 and 2012, respectively. Judicial investigations were launched to investigate human rights violations committed in the immediate aftermath of the coup. However, few perpetrators have been convicted, and those who bear political responsibility, particularly high-ranking military and police officials as well as the Micheletti government, enjoy complete impunity. The current government has not made any efforts to investigate human rights abuses during the 2009 incidents.

Reconciliation

5

17 | International Cooperation

The political leadership uses international assistance for its own development agenda, but falters in devising a consistent long-term strategy capable of integrating this support effectively. The government is primarily oriented toward preserving macroeconomic stability, while improving conditions for sustainable inclusive growth. External stakeholders play a key role at various levels of the transformation process in Honduras. Given the country’s low level of development, the international community is most prominent in the allocation of credit facilities and the implementation of aid programs. The Ministry of Foreign Affairs through the Department of Management and International Cooperation is responsible for promoting the strengthening of cooperation mechanisms with donor governments, international organizations and regional integration institutions. Through the Foreign Service – in coordination with the Ministry of Planning and External Cooperation – it defines the priority areas for development cooperation, in order to facilitate resources and implement new strategies to expand international cooperation. Honduras currently profits from the cooperation of 34 partners, operating through aid agencies, embassies and country offices. Of these, 24 are donors of bilateral

Effective use of support

7

cooperation and ten represent multilateral institutions, including the United Nations System, which offers aid through 15 agencies. They are currently running 326 projects – co-refundable as well as nonrefundable – with an amount of about \$3.38 billion committed and \$1.49 billion to be executed by the third quarter of 2014. Most donors have made contributions in sectors like education, governance, environment, risk management, food security and health. Among the projects with the greatest contribution are the Program for Economic Growth from the USAID; the program for Prevention and Control of Chagas and the European Union program for Food Security, together with the FAO, among others.

The Hernández government mostly acts as a credible and reliable partner, but external donors, as well as private and international institutions, remain skeptical as to the current administration's credibility and reliability. By 2013, Honduras had regained trust among international actors for its commitment to democracy, with full reintegration into the OAS (from which it had been suspended after the 2009 coup) and the reestablishment of diplomatic relations with most Latin American countries. Ecuador, Cuba and Venezuela followed suit in 2014 and early 2015. Relations between the United States and Honduras, which had deteriorated as a result of the 2009 political crisis, have regained their traditional degree of closeness. Nevertheless, foreign actors continue to be concerned about the human rights situation, which has not improved. Moreover, corruption and the infiltration of state institutions by organized crime seriously damage the government's international reputation. At the same time, in December 2014 the IMF Executive Board approved a \$113.2 million Stand-By Arrangement and a \$75.4 million Stand-By Credit Facility for Honduras. Along with fiscal reform measures, this helped to boost investor confidence despite the many doubts existing due to institutional weaknesses and the high rates of crime and violence. In July 2015, Standard & Poor's raised Honduras' rating from B to B+.

Honduras' international relations, and above all the patterns of regional cooperation, are today much better than after the 2009 coup. The Lobo administration succeeded in reintegrating the country into the regional cooperation structures; the Hernández government continues with these policies and puts special emphasis on relations with neighboring countries.

Honduras participates actively in the OAS and is a signatory state and member of the Inter-American Court of Human Rights. Honduras is also a full member of the Community of Latin American and Caribbean States (CELAC). The further normalization of international relations is a priority of the Hernández government. One example has been the resumption of diplomatic relations with Ecuador, as well as the official visit of President Hernández to this country in March 2014. The government has also reactivated relations with Venezuela and Cuba.

Credibility
7

Regional
cooperation
8

At the subregional level, Honduras enjoys full membership in the Central American Integration System (Sistema de Integración Centroamericana, SICA) and maintains close bilateral relations with all countries on the isthmus (including Panama and Belize). The successful negotiation of an association agreement between Central America and the EU in 2012 (implemented in Honduras since 2013 – although only on a provisional basis because of pending ratification procedures in some participating countries) indicates that the SICA countries, including Honduras, have achieved the necessary level of coordination to speak as one with extra-regional counterparts. Nevertheless, political leaders in Honduras and throughout Central America show little interest in substantial sovereignty transfers to the subregional (let alone the regional) level, and SICA institutions, such as the Central American Parliament (Parlamento Centroamericano, PARLACEN), have no real power. Nonetheless, Honduras actively cooperates with its Central American neighbors, Mexico and the United States on security issues, particularly the fight against international drug trafficking. With neighboring Guatemala, Honduras in late 2014 began to negotiate a customs union; the two governments' aim is its implementation in 2016.

Strategic Outlook

The future of democratic and economic transformation in Honduras remains uncertain. National stakeholders do not demonstrate enough willingness to strengthen formal institutions and to reduce the influence of informal institutions such as patronage, neopatrimonial powers and organized crime. The international community pays less attention to the country, which has taken the wind out of the sails of many transformation-oriented projects in the country. All state and non-state political actors recognize the need to prevent and combat criminal violence. Discussions focus excessively on the militarization of the police. There is still no national consensus to link all the actors in a joint national approach to prevent and combat violence.

The results of the elections were relatively clear with the election of a conservative president. The new political configuration of parliament with four political parties could lay the foundations for a democratic transition toward a more pluralistic political system. The arrival of two new political parties in the Honduran parliament – Freedom and Refoundation (LIBRE) and the Anti-Corruption Party (PAC) – is reconfiguring the traditional two-party political system and has the potential to reduce the negative influence of bipartisanship. The danger of high levels of political polarization in the next two years is not imminent. The informal coalition between PN and PL to pass important legislation is not very strong and the two parties have shown differences on the adoption of reforms such as the tax reform or the militarization of the police, proposed by the ruling PN. At the same time, divisions inside new groups, particularly LIBRE, are quite evident and could hinder its consolidation as a political force. LIBRE's internal divisions could lead to its weakening and thereby to a relative strengthening of PL or PAC. The PAC voters are motivated to fight corruption at all levels of government, without seeking a socialist solution. The PN's political influence could suffer if no substantial progress with regard to the security situation and poverty reduction takes place. In a regional environment where U.S. relations with Cuba are improved and Venezuela suffers from a deep socioeconomic crisis, the danger of political destabilization and polarization in Honduras is less likely than in the recent past. The human rights situation has not substantially improved, so it is important that the international community continues to exert pressure to implement improvements.

Major challenges to sustainability exist in education and environment. The adoption of the Law on Climate Change in 2014 created the legal framework to stop the logging of forests and promote community forestry. But again, progress will depend on international support and on the implementation of the law in practice. As in the past, the education policy of the current government does not relate to the plans and programs developed and implemented by previous governments. Honduras will not reach the Millennium Development Goals (MDGs) of the United Nations in the field of education (universal primary education) in 2015. However, achievements have been made toward the increase of the total number of students who graduate from school. The current minister of education is taking steps against problems, such as the employment of unqualified teachers, payments made to fictitious teachers and cases of corruption. At the national

level, there are still serious problems with regard to access to good education, high dropout rates and low efficiency in the administration and financial management in the education system.

In search of an agreement with the IMF, the government has shown a willingness to restore macroeconomic stability by reducing the fiscal deficit to 5.5% of GDP and promoting structural reforms. Thanks to institutional reforms in tax administration and a reduction in the deficit through the privatization of the electricity company (ENEE), economic growth will likely be more dynamic. In addition, inflation might fall below 5%. The projected 3% growth rate for the next two years, though realistic, will nonetheless be insufficient. A higher growth rate could permit social spending levels that would improve housing conditions and access to education. This would benefit programs such as the Vida Mejor Program, which seeks to consolidate existing social programs like Bono 10,000.

Future risks for economic transformation are high. In the fiscal area, there is strong opposition to the privatization of ENEE, which can be capitalized upon by the opposition (especially by LIBRE) because the process can be linked to increased tariffs. External shocks like low growth in the U.S. and the EU, rising oil prices and delays in budget support may also hinder the pace of reforms. Not least, the lack of a solid majority in parliament might also jeopardize the adoption of structural reforms.

Regarding security, it is highly questionable whether the government's militarization strategy will have lasting success. Under former President Ricardo Maduro (2002-2006), who was one of the first heads of government in Central America to introduce repressive and militarized anti-crime measures, homicide numbers also dropped in the short term (until 2004), but rose sharply again afterwards. The government and the society as a whole should try to find effective ways of combining law enforcement with massive efforts at violence prevention, rehabilitation, human rights protection and policies to combat the root causes of crime and violence.