

BTI 2008 | Honduras Country Report

Status Index	1-10	6.09	# 53 of 125	
Democracy	1-10	6.65	# 49 of 125	➔
Market Economy	1-10	5.54	# 61 of 125	➔
Management Index	1-10	4.99	# 65 of 125	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	7.2	HDI	0.68	GDP p.c.	\$	3,052
Pop. growth ¹	% p.a.	2.2	HDI rank of 177	117	Gini Index		53.8
Life expectancy	years	69	UN Education Index	0.77	Poverty ³	%	35.7
Urban population	%	46.5	Gender equality ²	0.53	Aid per capita	\$	94.2

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Honduras was governed by former President Ricardo Maduro (Partido Nacional, PN) from 2002 until January 2006. In the general elections of November 2005, the opposition candidate Manuel Zelaya (Partido Liberal, PL) was elected president. He took office on 27 January 2006 and his mandate will end in January 2010. The presidential, parliamentary and municipal elections of 2005 are considered to have been largely fair and free, though electoral observers criticized the politicized management of the elections by the Supreme Electoral Tribunal (Tribunal Supremo Electoral, TSE). At only 58%, voter turnout was the lowest since the introduction of representative democracy in 1982. During the period under review, the country has been largely stable in both political and economic terms. Macroeconomic indicators have maintained a comparatively strong performance. Nevertheless, there was only little progress in democratic and economic transformation. The social, political and economic structures, which are largely characterized by inequality, clientelism, informality and corruption, continued to be dominated by a small oligarchic elite. Moreover, these structures seem to be increasingly infiltrated by organized crime. The country has not made substantial progress in overcoming the deep gap between its formally democratic system and the de facto dominance of oligarchic interest groups, clientelistic networks and illegal violent actors such as youth gangs, death squads and drug trafficking cartels. The judicial system continues to be one of the weakest elements in the democratic framework. The judicial system is still strongly influenced by the political and personal interests of oligarchic actors. The majority of Hondurans are, in effect, still denied access to an effective and independent judiciary. Along with neighboring El Salvador and Guatemala, Honduras is perceived as one of the most violent countries in Latin America, above all due to organized as well as “ordinary” crime and the widespread presence of youth gangs (maras). The long-term effects of both crime and the fairly repressive policies implemented to fight crime may be

considered just as noxious to the country's development as political extremism is in other regions of the world. Macroeconomic stability, economic growth, the coming into force of a free trade agreement with the United States and the approval of fiscal policies by the IMF all suggest that recent economic policies have been fairly successful. However, in terms of transformation toward a more inclusive, freer and more sustainable economic system, there was hardly any perceptible progress. In spite of massive external development aid, cooperation and an increasing influx of emigrant remittances, two-thirds of the population continue to live in poverty and are thus largely excluded from the benefits of the market economy. The Maduro administration failed to reduce substantially the bloated public sector or to limit environmental exploitation. The Zelaya government has so far not given any indication that it will make any major changes in this direction in the near future. To improve the conditions for faster progress in democratic and economic transformation, Honduran and external actors should increase investment in education, in the fight against corruption and in the improvement of economic competitiveness.

History and Characteristics of Transformation

The starting point in Honduras' recent history of political and economic transformation is the transition from (reformist) military authoritarianism to electoral democracy. The first elections were held in 1982. Since then and with varying results, several governments have addressed the substantial deficiencies in the quality of democracy and in the highly exclusive economic structure. One major step toward the democratization of the political system was achieved during the presidency of Carlos Roberto Reina of the Liberal Party (PL) from 1994 to 1998. Until then, the military had enjoyed strong autonomy, above all in security, police and secret service issues and had acted de facto as a veto power without any democratic control or legitimacy. This led to a paradoxical situation, namely that when electoral democracy got its start in the 1980s, the number of human rights violations rose dramatically and the political rights of all opposition groups outside the traditional two-party-system were compromised. Reina and his successor Carlos Flores, also of the Liberal Party, managed to gradually cut back the hegemonic powers of the armed forces. They did so by abolishing compulsory military service, by closing the military's secret service (DNI), by depriving it of autonomous financing sources (including through the military's control of the telecommunications company HONDUTEL) and finally, by appointing a civilian defense minister. These changes were made possible in the 1990s because of the reduced economic and political support for the Honduran armed forces by external actors such as the U.S. government after the end of the Cold War. In addition, they were able to cut back the armed forces because of the comparatively weak influence the military enjoys among PL leaders (compared with its strong ties to the National

Party, PN). The 1990s brought some important transformations in the economic sphere too, but with considerably less positive results for the majority of Hondurans. The transition from an economy based on the production of primary (agricultural) commodities to an economy based on low-cost consumer goods manufacturing or processing (maquila) and increasingly integrated in the global market did not foster sustainable and equitable economic development. Moreover, structural adjustment policies initiated by President Rafael Leonardo Callejas (1990 –1994, PN) and continued by all of his successors deepened socioeconomic inequalities while failing to generate the economic growth necessary to compensate for cutbacks in social spending and job opportunities in the public sector. After the transition to a non-military government, the most important factors in transformation were the consequences of Hurricane Mitch, which devastated the country in 1998. Motivated by the humanitarian and economic disaster caused by the hurricane, foreign governmental and non-governmental donors responded with both immediate humanitarian aid and contributions to the long-term reconstruction of the destroyed infrastructure, leading to an economic recovery that would benefit the surviving victims in the longer run. Aiming to secure maximum sustainability for the help they pledged, major donor countries and institutions demanded modernization and further democratization of Honduras' political and economic system as a condition of their development cooperation. The government of Carlos Flores as well that of Ricardo Maduro (2002 – 2006, PN) committed themselves to that transformation. On the polity level, there have been some considerable changes. In the 2001 elections, voters for the first time could cast separate votes for the presidency, parliament and municipalities. This had the expected result that small parties with no realistic chance for the presidency were able to increase their share of parliamentary seats. Even though the increase was only marginal and could not prevent the overall domination of the Congreso Nacional by the two traditional parties, the PL and the PN, which together represent about 90% of parliament, it did nevertheless create a new situation in Honduran history. For the first time, the then governing party (PN) could not count on an absolute majority. The current government of Manuel Zelaya (PL), which took office in January 2006, faces a similar situation. With 62 of 128 seats in parliament, it falls just short of an absolute majority. This, however, has not had dramatic consequences for either of the two governments. There has not been a reduction in governability nor has there been an increase of power for any of the small parties and thus a weakening of the traditional two party system. So far, parliamentary cooperation between the respective government party with other members of parliament has not brought about the formation of a coalition government with cabinet members from any of the smaller parties. Instead, government parties have managed to secure approval of legislative acts among the other parties on a case-by-case basis. The economic transformation process after Hurricane Mitch was less perceptible. None of the governments since the hurricane have developed a comprehensive economic policy that would enhance the economy's competitiveness, reduce vulnerability to price changes on the world market, restructure the public sector or make the country less dependent on the remittances of

emigrants. The successful negotiations of a free trade agreement with the United States (Central America Free Trade Agreement, CAFTA), which came into effect on 1 April 2006, underscores the political and economical elite's intentions to continue on the path of further internationalization of the economy. It is questionable, though, whether the economic transformations generated by an opening of Honduras to a highly competitive economy like that of the United States will foster a more inclusive economy, which a country like Honduras – with two-thirds of its population living in poverty – needs.

Transformation Status

I. Democracy

1 | Stateness

Violent youth gangs (maras) challenge the state's monopoly on the use of force. Thousands of young people belong to these groups, 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 and loose relations to organized crime, they should not be considered integral parts of transnational crime networks as many security experts try to depict them. Despite the Maduro and Zelaya governments' repressive anti-mara policies, considerable parts of Honduras' poor urban population are still subject to youth gang violence rather than to the state's rule. Moreover, the state does not effectively exclude other actors from the use of force. Unregulated public and private security forces or death squads have executed hundreds of youths. The existence of powerful criminal groups linked to international organized crime is widely acknowledged. Some development agencies, for instance, have ceased activities in parts of the Mosquitia province as a result of the controlling presence of drug mafias. The clandestine groups seem to have close relations with the economic and political elite and to have infiltrated state agencies such as the security forces. These informal actors pose a much more serious threat to the state's monopoly on the use of force than youth gangs, although the latter tend to be more violent.

Monopoly on the use of force

All citizens have the same civil rights, but the equal treatment of all citizens, especially when it comes to social and cultural (e.g., linguistic) rights, is called into question by the treatment of different ethnic identities, in particular the African descendent Garifunas and indigenous Lenca, Miskito, Pech, Chortí, Tolupan, Tawahka and others. No population group, however, tries to deny the citizenship of another group nor questions the state's legitimacy.

State identity

Religious dogma has only limited direct influence on the law. The Catholic and Christian fundamentalist churches' positions regarding sexual issues, such as abortion or the rights of sexual minorities, continue to dominate, as was shown in

No interference of religious dogmas

2005 when the country's constitution was changed to prohibit marriage of same sex couples.

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

Basic
administration

2 | Political Participation

Universal active and passive suffrage is safeguarded, and regular free and fair elections have been held. The elections of 2005 were widely accepted to have kept with international standards, even though observers criticized the supreme electoral authority as being highly politicized. The three electoral judges heading the tribunal are affiliated to the parties PL, PN and the minority party, Partido Demócrata Cristiano (DC), respectively.

Free and fair
elections

In general, the elected government commands the effective power to govern despite the fact that important economic groups and drug trafficking interests hold de facto veto powers. President Zelaya expressed in an informal meeting with civil society representatives his belief that about 70% of the police is infiltrated by organized crime. The influence of these powers is highly informal and, thus, difficult to prove or to measure. Nevertheless, some direct and obvious attacks threatening formal political and social actors have occurred in the period in review, most notably the killings of Tegucigalpa PL local politician René Arturo Madrid on 2 October 2005 and of PL congressman Juan Ramón Salgado on 2 May 2006. Both murders were perpetrated in the style of contract killings, presumably on behalf of criminal groups.

Effective power
to govern

No political parties are prohibited, and freedom of association is safeguarded. However, political and civic organizations place themselves at high risk when they brush up against the established interests of social and political power groups, as the killing of Francisco Cruz Galeano, a Confederación General de Trabajadores (CGT) union leader on 11 September 2005 proved.

Association /
assembly rights

Freedoms of opinion and the press, while enshrined in the law, are not fully reflected in practice. Because the exclusively private press, radio and television market is highly concentrated and dominated by some of the politically and economically most powerful individuals or families, there is little plurality of opinion. Censorship is not exercised openly by the state, but it continues to be informally carried out by other political and economic powers, particularly through bribery and through the dismissal or intimidation of critical journalists.

Freedom of
expression

While former President Maduro seemed to have negotiated with media owners, the Zelaya government is said to keep journalists docile by directly offering them legal or illegal advantages that may range from accompanying the president on journeys abroad to cash payments.

3 | Rule of Law

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

Separation of powers

External actors reflect the weak position of the judiciary within the political system, its inefficiency and the manipulation of its jurisdiction. The most notable example of this was the revocation of the U.S. visa of former President Rafael Callejas in 2006 due to alleged corruption despite the fact that Callejas had been cleared of all charges by Honduran courts, including the Supreme Court, in 2005. The position of judges is not sufficiently professionalized and attempts to ensure accountability have so far been unsuccessful. Most Hondurans have only limited access to the courts; this remains one of the most striking deficiencies in efforts to deepen the democratic system. Because they lack the economic and educational resources necessary to claim their rights in long and costly lawsuits, which are often carried out by judges susceptible to corruption and clientelistic and political influences, poor citizens are still systematically excluded from due process.

Independent judiciary

Political and bureaucratic corruption is still endemic and citizens consider corruption one of the most urgent problems impairing good governance. In 2006, the U.S. government withdrew its financial aid to Honduran counter-narcotic institutions, such as the Consejo Nacional Contra el Narcotráfico (CNCN), claiming that it had evidence that corrupt high-ranking officials were systematically sabotaging anti-drug trafficking efforts in the country. Initiatives by the government and the legislature to prosecute corrupt officials and end impunity (e.g., the approbation of the "Ley de transparencia y de acceso a la información pública" in 2006), are largely seen as a mere image campaign by the political elite. Overall, anti-corruption measures have so far proven ineffective, primarily due to the judicial system's inefficiency and lack of independence. This applies not only to the courts, but also to state prosecution authorities. In the

Prosecution of office abuse

period under review, convictions of corrupt officials have occurred - for example, that of Ramón Romero, former director of the migration agency, in 2005 - but only very few.

Civil liberties are severely limited by the aforementioned limited access to due process. Cultural and religious rights, however, are generally respected. Many victims of human rights abuses in the 1980s and early 1990s have not yet seen the condemnation of their perpetrators by the courts, and human rights activists still face death threats and enjoy little government support. Moreover, the state seems to be unable, and in some cases unwilling, to protect the civil and human rights of certain groups. Death squads, for example, have killed hundreds of street children and presumed mara members. All in all, a daily average of 8.5 homicides in 2006 (totaling 3,118 violent deaths, according to police data) is clear evidence that the state does not effectively protect the right to life of Honduran citizens.

Civil rights

4 | Stability of Democratic Institutions

The limitations already mentioned regarding the rule of law and, to some extent, stateness, reduce the ability of institutions to operate effectively and without restriction. The low level of judicial and democratically elected government efficiency acts as an obstacle to the social and political changes needed for a further democratization of society. The performing capability of the parliament has declined considerably since elections in 2005. Since then, except for the ratification of the free trade agreement with the U.S., no major reform has been passed. This seems to be due not only to the lack of an absolute majority and a stable coalition partner for the government party, but also to the fact that President Zelaya cannot even ensure the reliable support of his own bloc. The vast majority of PL deputies are known to be loyal to PL party oligarchs (the so-called “owners” of internal party factions) other than Zelaya.

Performance of democratic institutions

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

Commitment to democratic institutions

5 | Political and Social Integration

The PL and PN together still control 117 of the 128 seats (91.4 %) in the legislature and gained an even bigger share of votes in the presidential elections. Both parties are deeply ingrained in society by a system of clientelism and patronage. There is no real ideological polarization between the Nationalists and the Liberals, and programmatic differences are largely unclear. Leaders of PL and PN are often linked to each other by shared economic interests and family ties. Therefore, the political culture is marked by an avoidance of direct confrontation and by an exaggerated inclination toward consensus building. Voter decisions thus often depend on clientelistic networks and family voting traditions. Smaller parties are not free of clientelistic structures either, but overall, they tend toward a more modern and program-based strategy, as do some minor intra-party movements within the PL and the PN. Due to the prevalence of traditional party-society relations, the two major parties dominate social and political life without really articulating or aggregating social interests in a bottom-top direction. Instead, powerful party oligarchs with strong economic interests define a party's objectives and policies. The composition of the original Zelaya cabinet, for example, reflected quite accurately a "Who is Who" of PL intra-party power groups with names like Rosenthal, Reina and Pineda Ponce in key ministries – although in a cabinet change in January 2007, Pineda Ponce was replaced. The democratic system's responsiveness is rather low. Political elites tend to view electoral victories as blank checks with which to rule without outside intervention until the next election. State institutions, including the judiciary and public bureaucracy, are politicized and even partisan and are viewed as the spoils of political victory.

Party system

The landscape of interest groups is clearly dominated by prevailing economic interests, including external ones. A stronger, more dynamic and pluralistic civil society is emerging very slowly. While interests of certain middle and high class groups, especially business associations, are over-represented in public life and have strong network ties into the political sphere, other members of the population, mainly citizens from the lower strata of society, are clearly under-represented and have very difficult access – if any – to political decision-makers.

Interest groups

Despite the low level of efficiency of both the political system and the economy, a survey published by Latinobarómetro in 2006 estimates that a small majority of around 51% of the population embraces the idea of democracy. This number has increased significantly from only 33% in the 2005 electoral year, one of the lowest levels since the beginning of the annual Latinobarómetro survey. More worrying than the figures themselves is the high volatility they show over the years, from 46% in 2004 down to 33% in 2005 and up to 51% in 2006. Nevertheless, political protests hardly ever question the constitutional framework.

Consent to democratic norms

With the important exceptions of the internally fragmented union movement, the churches and the Olancho ecological movement, civil society organizations commonly lack broad public support and are highly dependent on the financial and political support of foreign donors. Thus, the democratic legitimacy of their political strength is sometimes questionable. Given the perceived lack of public security, fear of straying far from home hinders many, especially the urban poor, from social and political participation and self-organization.

Associational
activities

II. Market Economy

Honduras has made little progress in the transformation of its economy. It is yet to be seen whether the CAFTA agreement with the U.S., which came into force on 1 April 2006, can have a positive influence. Transformation deficits exist in the competition order, the nation's low competitiveness on world markets, the anachronistic structure of the banking and capital markets, the corrupt economic culture and the bloated public sector. The Heritage Foundation's report on economic liberty classifies Honduras as "mostly unfree."

6 | Level of Socioeconomic Development

According to UNDP definitions, Honduras' level of development as measured by the HDI is at a "medium level." The country's Gender-related Development Index (GDI) value (0.676 for 2004) is slightly lower than the general HDI value (0.683). Income distribution is highly unequal, even in comparison with the Latin American average, which represents the most unequal region in the world. Inequality is accompanied by very low per capita income and structurally ingrained obstacles to upward social mobility. Fundamental social exclusion, lack of education and gender-related discrimination persist. Positive macroeconomic data in recent years as well as the implementation of a debt relief-based poverty reduction strategy since 2004 have so far not had significant impact on poverty levels nor on inequality and social exclusion.

Socioeconomic
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	6,510	6,868	7,459	8,291
Growth of GDP	%	2.7	3.5	5.0	4.0
Inflation (CPI)	%	7.7	7.7	8.1	8.8

		2002	2003	2004	2005
Unemployment	%	3.8	5.1	5.9	-
Foreign direct investment	% of GDP	2.7	3.6	4.4	5.6
Export growth	%	4.9	5.3	9.7	6
Import growth	%	2.4	7.3	14	9.3
Current account balance	\$ mn.	-260.5	-281.7	-426.3	-85.6
Public debt	\$ mn.	4,061.4	4,426.0	4,832.3	4,151.7
External debt	\$ mn.	5,249.4	5,471.2	6,040.6	5,242.5
External debt service	% of GNI	6.2	6.2	4.5	4.8
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	13.8	13.5	13.2	13.7
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	3.8	4.1	4.0	-
R&D expenditure	% of GDP	0.1	0.1	-	-
Military expenditure	% of GDP	0.8	0.8	0.7	0.6

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

The foundations of free market competition are safeguarded only to a limited degree and not in all sectors of the economy. The government directly or indirectly controls the prices for a range of important products (e.g., gasoline, flour, milk, coffee, sugar, basic medicines). Among the lower strata of society, informal economic activities and subsistence farming play an important role. Consequently, major sectors of the labor market do not form part of the formal competitive market system.

Market-based
competition

Anti-monopoly rules do exist but are not consistently enforced in practice. Family allegiances and coalitions of interest groups rule the economic stage in the different regions of Honduras. Yet, with the Zelaya administration conducting the purchase of oil by means of an international tender procedure – for the first time

Anti-monopoly
policy

in Honduran history – one important sector was disrobed of its previously oligarchic structure. But a free market on combustibles still does not exist.

The coming into force of the CAFTA agreement between Honduras and the U.S. on 1 April 2006 was a major step toward foreign trade liberalization. Economic integration with the country's Central American neighbors is advancing slowly but steadily. Currently, the customs union comprises about 94% of all products; some of the most sensible products, though, are still excluded. In December 2006, the European Union officially invited Central America to negotiate an Association Agreement. Yet the chances of an economic rapprochement with Europe were spoiled with the dispute over whom to name as the single representative of Central America for the talks. The controversy resulted in a rotating arrangement and spotlighted the fragile state of integration on the isthmus.

Liberalization of
foreign trade

The capital market and the banking sector have been rather stable, the latter having received favorable evaluations by IMF and World Bank missions in 2006. It is no longer the state that guarantees savings but the banks themselves by means of a shared fund (FOSEDE), which appears to be efficiently regulated by the state. The influx of foreign investment in the banking sector has increased. However, the financial sector still does not offer adequate services for the country's specific needs. Interest rates for productive capital are too high. Microfinance, especially for small and medium-sized entrepreneurs and the small-scale rural economy, is strikingly insufficient.

Banking system

8 | Currency and Price Stability

During the years in review, the two consecutive governments managed to maintain inflation and the devaluation of the Lempira vis-à-vis the U.S. dollar at a moderate, single digit level. The central bank is not fully independent.

Anti-inflation /
forex policy

Fiscal and debt policy was kept in line with the requirements of the IMF, meaning that debt relief as part of the HIPC initiative will continue. Neither institutional nor constitutional arrangements effectively guarantee long-term macroeconomic stability, however. Populist policy changes by future administrations – or even in the remaining years of the Zelaya government – cannot be ruled out.

Macrostability

9 | Private Property

Private property rights and the acquisition of property are, in principle, well defined. But their safeguarding and enforceability are on precarious footing. Because of shortcomings in enforcing the rule of law and protecting legal claims beyond due process, which is usually provided, a lack of respect for private

Property rights

property rights is a major problem in Honduras. Trials often last years, and it is not uncommon for them to be influenced by corruption. Local power structures are still able to manipulate justice through the selective use of resistance.

The privatization of state-run services has made no progress in the period in review. Some important state monopolies remain in place. In the telecommunications sector, state-run HONDUTEL generates considerable revenues for the state treasury. While the Maduro administration had plans to privatize the company, President Zelaya wants to maintain the government's direct control of it but make it more competitive. In 2006, he announced HONDUTEL's entry in the mobile telephony market where it now has to compete against two private firms. With the deregulation of the land-line sector, started under Maduro, the telecommunications sector has undergone an important transformation, even though the former state monopoly was basically replaced by a new oligopolistic mix of a few private and one state-owned company.

Private
enterprise

10 | Welfare Regime

Social safety nets and public programs to reduce poverty exist but are insufficient. Private health care and old age insurance is only accessible to a very small segment of the population. All legal employees are covered by the social security system, IHSS (Honduran Institute for Social Security), which does not cover workers in the informal sector or peasants in subsistence farming. Services, especially related to health care, for those included in that system are largely insufficient, with only two IHSS hospitals for the entire country. For those without coverage (83% of the total population, according to WHO data), there is in theory free public health care in state-run hospitals and medical clinics. But given the low level of coverage and the very limited range of offered services, the majority of the population has no access to comprehensive health care.

Social safety nets

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

Equal opportunity

11 | Economic Performance

Macroeconomic data from the period in review are positive. While maquila and, to a much lesser degree, tourism are the most dynamic sectors of the nation's economy, the sustained increase in emigrant remittances also contributes

Output strength

substantially to Honduras' economic growth. GDP growth maintained a comparatively high level. CEPAL data also suggest an increasing growth in GDP per capita, up from a growth rate of 1.6% in 2005 to an estimated 3.2% in 2006. Overall, macroeconomic variables have proved stable. The picture is disturbed, though, by an accelerated increase in the trade deficit, which is currently about \$2.4 billion (estimated for 2006). This seems to be due to increased imports since the CAFTA treaty is in force. It is only the inflow of remittances that compensates for the negative trade balance.

12 | Sustainability

Environmental awareness is severely underdeveloped both among state officials and within society as a whole. The so-called ecological movement in the Department of Olancho is a rare exception, and most of its participants' motivations are focused more on the social consequences of deforestation than on the environmental damage itself. In mining as well as in palm oil, tobacco and banana production, natural resources are systematically overexploited, and the issue is seldom the subject of public debate. Only in coffee production, particularly in the small-scale cooperatives sector, a certain trend toward organic farming (partly initiated by foreign aid agencies) has developed as a long-term reaction to past price crises. The state's energy and mining policy does not seriously take ecological considerations into account. Environmental sustainability is only on the national agenda in a rhetorical sense or when seeking to fulfill foreign donors' expectations.

Environmental
policy

The absence of a comprehensive educational infrastructure, of human capital development, and a research and technology policy all constitute gaps in Honduras' development. As long as these gaps remain, the country will have only limited options for expanding its portion of the value-added chain. In quantitative terms, education expenditure may be comparatively high. There is no data available for recent years, but the figure of 7.2% in 2002 (public education expenditure as a percentage of GDP) – combined with the fact that the costs for teacher salaries are still very high and new programs, such as “Education for All,” have been introduced – suggests that the figure probably remains over 7%. Yet qualitatively the output of the education system has barely improved. With annual public teachers strikes, which implies a massive reduction in teaching, and with the most important university of the country (UNAH, Universidad Nacional Autónoma) in a permanent crisis, there was no considerable positive development during the period in review.

Education policy
/ R&D

Transformation Management

I. Level of Difficulty

The elected authorities' real power is limited by traditional social and political power structures, which are deeply ingrained in society. The democratic state governs effectively only within a small and urban middle class. The economic elites, particularly regional ones, largely escape democratic control and to some degree maintain political power systems parallel to the state, particularly through clientelism, patronage, corruption and private (though not paramilitary) security forces. The rural underclass is largely subjected to these structures while the urban poor are increasingly "governed" by criminal, often transnationally operating organizations, such as drug cartels or youth gangs. The elected leadership's opportunities to break up these structures are limited by the fact that criminal actors have extensively infiltrated state institutions. The country's improving but still precarious economic situation and the low level of human capital, with an illiteracy rate of 20%, can also count as structural constraints to the current leadership's performance. Additionally, the state is losing importance because of economic and political globalization. Honduras' dependency on external powers, regarding not only foreign cooperation and IMF standards, but also migration and trade issues, considerably reduces the democratically elected political leadership's influence on economic and political outcomes.

Structural
constraints

A network of grassroots civil society organizations that could channel political communication and thus strengthen the state's governance opportunities is slowly beginning to emerge. Experiences from the recent authoritarian period, as well as the current security situation, generate feelings of fear and distrust among many Hondurans. Moreover, the lack of time and opportunity in the daily struggle to survive prevents large parts of the population from being active on collective issues. Trade unionism, as the only social movement with some traditional trajectory in Honduras, is aggravating the situation of (un)governability, in particular teachers unions with their never-ending, hardly justified labor unrest.

Civil society
traditions

During the period under review there were a few incidents involving ethnic conflicts, most notably the occupation of the archeological site Copán Ruinas.

Conflict intensity

Peasants from the indigenous ethnic group Chortí occupied the Mayan ruins – one of the most important tourist attractions of the country – for five days in 2005 to press for land titles. Yet, in general, at least in terms of public discourse, ethnicity constitutes a rather marginal issue, particularly in comparison to neighboring Guatemala. Instead, the country is deeply split according to social class. Nevertheless, as a result of internalized power structures, a non-confrontational political culture and external pressures, there is no political polarization, nor are violent conflicts along social or ethnic cleavages likely.

II. Management Performance

14 | Steering Capability

While the Maduro government set some very clear priorities, primarily to improve the security situation and to foster the country's macroeconomic performance, and maintained them throughout its mandate, the Zelaya administration is less focused on individual issues, and coherent long-term objectives or strategies are difficult to perceive. Many decisions aim at progress toward a socially responsible market economy, for example the realization of the international tender to purchase oil, but they seem to be taken more because of short-term, sometimes populist, motivations than because of a straightforward policy design.

Prioritization

The absence of clear priorities or strategies by the current government translates into a shrunken capacity to implement reforms. During Maduro's mandate, some important, though not always effective, policy reforms were carried out, such as the creation of a single audit court (TSC, Tribunal Superior de Cuentas) or the reduction of the campaigning period before elections. Under the Zelaya administration, however, most of the relevant reform projects have not proceeded, such as the new forest law or the new mining law.

Implementation

After only one year in office, it is hard to appraise the current government's learning capability and its readiness to revise and correct past errors. Nevertheless, compared with the previous administration, there seems to be some more openness to innovative forms of self-assessment. In early 2007, Zelaya conducted a major rearrangement of his cabinet, dismissing, among others, the former education minister, Pineda Ponce, and the former head of the social investment fund FHIS (Fondo Hondureño de Inversión Social), Marlon Lara. According to official statements, the move was based on a formalized

Policy learning

evaluation procedure that every cabinet member had to undergo. However, critics question the true motivations of the cabinet change given that Pineda Ponce and Lara represent power groups within the PL that are competing with the Zelaya wing.

15 | Resource Efficiency

The government uses only some of its administrative, monetary and personnel resources efficiently. Public institutions have only very limited autonomy and are subject to strong political influences. The decentralization process has made considerable progress, particularly in terms of the administration and distribution of PRSP funds. For the first time in Honduran history, spending of these resources now undergoes a serious process of monitoring through civil society (“auditoria social”). In general, though, the efficiency of public spending is often restricted by the need to fulfill short-term political obligations, as the government’s failure to reduce spending on teacher and physician salaries shows. Human resources are not at all efficiently employed. There is no effective system to maintain a permanent, non-partisan staff in the public administration, and therefore each legislative term begins with a nearly complete replacement of public servants. Staff selection is determined primarily according to political and clientelistic affiliation rather than by professional qualification. The existence of so-called paracaidistas (“parachutists,” or professionally unqualified public servants who, with the help of an influential friend, “landed” on a given position by mere chance) and plazas fantasmas (“ghost employees,” or persons listed in a public institution’s pay roll without ever appearing at work) is still widespread.

Efficient use of assets

Conflicting policy objectives cannot always be effectively coordinated and prioritized by the government. Often this is a result of the different internal and external pressures on the Honduran executive and, since Zelaya took office, of the coexistence of conflicting PL intra-party factions in the cabinet. The contrast between social policies on the one hand, especially the efforts to reduce poverty demanded by foreign donors as a condition for their help, and macroeconomic measures on the other, which in turn are demanded by parts of the national economic elite and their international or multinational allies, create substantial inconsistencies in the government’s overall strategy. Moreover, President Zelaya’s ambivalent behavior in foreign policy issues is another factor of unpredictability. Whereas he tends to conduct a somewhat populist discourse of rapprochement to Bolivarian Venezuela, he nonetheless praises the benefits of neo-liberal economic integration within the CAFTA scheme and has made offers to establish a new military base for U.S. anti-drug purposes on Honduran soil.

Policy coordination

Even though anti-corruption and transparency legislation has been improved during the period in review – in particular with the approbation of the

Anti-corruption policy

Transparency Law in late 2006 – there has been no perceptible progress in terms of the government’s fight against corruption. On the contrary, some high-profile corruption scandals, like that of the aforementioned former president, Rafael Leonardo Callejas, underpinned the low efficiency and low implementation capacity that both government agencies and autonomous bodies, such as the National Anti-Corruption Council (CNA, Consejo Nacional Anti-Corrupción), have. According to FOSDEH (Foro Social de Deuda Externa y Desarrollo de Honduras), a non-governmental think tank, Honduras lost more than \$358 million due to corruption in 2005 alone, with a total public budget of some \$2 billion.

16 | Consensus-Building

The goal of a market-based democracy has not been fully accepted by all stakeholders in society. This is due less to a lack of consensus within Honduran political culture than to the existing system’s lack of effectiveness, which has eroded public acceptance. The exclusion of certain social groups (indígenas, garífunas, young people and women), the continued predominance of traditional local power structures, and the ties of parts of the political and economic elite to organized crime have created a political constellation that impedes effective transformation. The public does not necessarily reject the goal of transformation. Instead, it questions the existing structures that serve the established interests of the elite while doing little to meet the integration imperatives of an open and participatory society. Particularly in terms of establishing communication channels within society to ensure authentic representation, daunting hurdles continue to slow the modernization of a political system dominated by a so-called electoral democracy and an antiquated economic structure whose citizens lack opportunities for mobility. Despite a basic consensus in society with regard to democracy and the existence of the fundamental rules of democracy, stakeholders have yet to tap this democratic potential.

Consensus on goals

The government can successfully neutralize or at least co-opt “traditional” potential anti-democratic veto actors, such as the military or economic groups on the local and national level. The influence of drug trafficking and other organized crime interests, however, seems to be increasing and an efficient strategy by the government to cope with this problem is not in sight.

Anti-democratic veto actors

The government was able to prevent an escalation of conflicts within Honduran society based primarily on extreme social disparities and ethnic differences. However, the political leadership does little to repair the deep cleavages in society that could potentially escalate into serious conflict. Currently, there are no major efforts to introduce redistribution policies such as large-scale land reform.

Cleavage / conflict management

Both, the Maduro and the Zelaya governments have actively sought dialogue with civil society organizations. The trend appears to be positive because the current administration has multiplied channels of participation, particularly for local civil society groups as part of the process of decentralized PRSP implementation. More prominently, in terms of media coverage, though maybe less effective in terms of real influence on policy-making, Zelaya has introduced “cabildos abiertos” (“open meetings”), in which cabinet ministers discuss current problems in different provinces every Saturday. Yet, in some essential issues, such as macroeconomic policies, neither of the two governments in office during the period under review has enabled any real participation of civil society, except that of big business and entrepreneurial associations.

Civil society participation

Dealing with injustices of the past, such as human rights abuses perpetrated by the military and the secret police in the 1980s and early 1990s, is currently not part of the political agenda. The government does not openly obstruct the work of human rights groups (above all of the Honduran Committee of the Families of the Disappeared, COFADEH, Comité de Familiares de los Desaparecidos de Honduras), but neither has it developed any measures to actively provide victims with moral or judicial justice.

Reconciliation

17 | International Cooperation

External stakeholders play a key role at various levels of the transformation process in Honduras. Given the low level of development combined with the damage caused by natural disasters, the most important role of the international community involves the allocation of credit facilities and the implementation of programs. The main structure of political representation of donor interests vis-à-vis the national government is the “G-16,” a coordinating body of the 16 most important donor countries and international cooperation agencies. The G-16 exerts significant influence on policy decisions. The government’s responsiveness, however, is largely due to the foreign aid’s direct conditionality on a case-by-case basis, and not really the result of a sustainable learning process and principled acceptance of the donor’s transformation demands on the part of the government. In transnational relations, the economic and political models provided in the form of international companies (bananas, maquilas) or foreign military organizations have been very effective. This is particularly true when it comes to demanding economic integration with the U.S. (CAFTA) or specific conditions for investments (maquila).

Effective use of support

Honduras’ socioeconomic predicament does not leave its government much leeway with respect to cooperating with international finance and aid organizations. In particular, cooperation with the IMF and World Bank within the framework of the HIPC initiative and the Poverty Reduction Strategy Papers

Credibility

has remained positive. However, it is still a difficult undertaking for the government to balance macroeconomic, social and political management requirements. The government is nevertheless applying international aid in a targeted manner and focusing its reform policies to some extent on the guidelines provided by the international donor community. Thus, according to them, the current government is deemed predictable. But the international donor community and, as the low figures in foreign direct investment with the exception of the maquila show, external economic actors are also aware of the problems and risks of economic and political development in Honduras.

At the regional level, Honduras continues to enjoy full membership in the Central American Integration System (Sistema de Integración Centroamericana, SICA). President Zelayas' commitment to regional integration was highlighted by his decision to rejoin the Central American Court of Justice (Corte Centroamericana de Justicia, CCJ) and by the repeal of former President Maduro's decision to withdraw from the Central American Parliament (Parlamento Centroamericano, PARLACEN). Maduro had criticized the two institutions for their inefficiency. Zelaya's balancing act between populist leftist rhetoric and neo-liberal foreign economic policy may allow him in the near future to play an active role in mediating any political difficulties in the region that are likely to emerge given the ideological differences between Nicaragua's President Ortega and El Salvador's Saca. However, cooperative efforts by the Honduran government are sometimes disrupted by bilateral tensions. Border disputes with neighboring countries have still not been completely deleted from the foreign policy agenda, notwithstanding the fact that the demarcation procedure at the Salvadorian border was completed peacefully in April 2006. Old conflicts, such as the one regarding tiny Conejo Island (Isla del Conejo) in the Fonseca Bay, which drew some public attention in late 2006, are likely to continue to emerge regularly. Although this kind of dispute no longer bears the threat of military escalation, it does result in the misallocation of resources and it casts a doubtful light on the Honduran (and other Central American) government's real commitment to regional cooperation and integration.

Regional cooperation

Strategic Outlook

Overall, the current government fits into the scheme of traditional bipartisan politics in Honduras. Thus, for better or for worse, it is highly improbable that any major policy shifts are to occur during Zelaya's term in office. The recent positive macroeconomic data are another factor contributing to the stable political, social and economic situation. Social unrest as a result of the teachers' strikes and the subsequent stalemate in the public education system will continue to be one of the main problems facing the government. As the first year with the CAFTA free trade agreement in force has shown, the effects, both positive and negative, have not been abrupt. But in the medium term, it will certainly be the biggest challenge for the current as well as the upcoming government to adapt Honduras' economic framework to this new reality and to foster the competitiveness of the country's economy. Foreign donors should support the Honduran government as well as the private sector with technical and financial aid to manage these changes. In particular, they should facilitate aid for those rural small-scale producers and subsistence farmers negatively affected by the free trade agreement. In view of the European Union's announcement that it will initiate talks for a free trade arrangement with Central America, it will be important for Honduras to coordinate closely with its neighbors and set aside a nationalistic mindset. An Association Agreement with the EU could bring a historic chance for the Central American countries to counterweight or, at least, attenuate the overwhelming economic and political dependence on the United States. In the medium and long term, foreign donors should promote democratic and economic transformation primarily by supporting Honduras' formal and informal education sector and by strengthening emerging civil society structures. Deficits in human capital are considered one major obstacle to the country's economic development, and, considering the magnitude of the problem, it seems very unlikely that the state could solve this without substantial external help. The development of functioning civic structures would help to consolidate democracy. Another issue, to which the international aid community has not paid enough attention in the past, is the potential for integrating the maquila sector into the rest of the economy, thus making the sector's benefits more equitable. The same applies to the country's other big source of financial influx, remittances. Technical assistance should promote a less consumer-oriented and more sustainable use of remittances from emigrants. Furthermore, the government needs massive support in addressing the country's youth, particularly in education, social integration and the creation of employment for young people. In Honduras, policies addressing youth are considered "soft issues." Overcoming "intergenerational apartheid" must be considered a key element in solving the country's public security problems.