

BTI 2012 | Honduras Country Report

Status Index	1-10	5.97	# 53 of 128	
Political Transformation	1-10	6.40	# 49 of 128	➔
Economic Transformation	1-10	5.54	# 66 of 128	➔
Management Index	1-10	5.42	# 51 of 128	

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

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	7.6	HDI	0.625	GDP p.c.	\$	3923
Pop. growth ¹	% p.a.	2.0	HDI rank of 187	121	Gini Index		57.7
Life expectancy	years	73	UN Education Index	0.574	Poverty ³	%	35.4
Urban population	%	48.8	Gender inequality ²	0.511	Aid per capita	\$	61.2

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

Executive Summary

The most important incident affecting Honduras' democratic and economic transformation during the 2009 – 2011 period was without doubt the 2009 coup d'état. This event overshadowed other ongoing developments in the country, while leading to opposed interpretations and assessments of its significance. On the whole, the coup has to be viewed as a kind of “democratic bankruptcy” on the part of the entire political elite, which has shown a high level of intolerance and disregard for the rule of law and the separation of powers.

On 28 June 2009, the military forced then-President Manuel Zelaya into exile, and an interim government under former National Congress President Roberto Micheletti took power. A broad range of political and judicial institutions, including the parliament and the Supreme Court, backed the ousting of Zelaya, accusing him of several violations of the constitution and other laws. However, the international community in unison condemned the military's intervention into politics. No matter how justified they may seem to some observers in both political and legal terms, the June 2009 events are generally considered a coup d'état. They triggered the emergence of an unprecedented nationwide protest movement, the so-called Resistencia, as well as counter-protests by Zelaya detractors. In terms of democratic transformation, the mid-2009 events constitute a major setback. The legality (or illegality) of the armed forces' short-term intervention into politics is difficult to assess, because there are valid arguments for both sides. What is certain is that Honduras' transformation record in the period under review was deeply impaired by a human and civil rights situation that has deteriorated since the coup.

The crisis was settled, after an informal agreement between Micheletti and Zelaya, through elections that had been scheduled long before. Even though the background conditions for these elections were unsatisfying (constraints regarding press freedom and freedom of association, human rights abuses, etc.), the balloting as such, in general terms, can be considered to have been free and fair. The resulting government, led by current President Porfirio Lobo, thus earned

democratic legitimacy. Since Lobo took office in January 2010, he has demonstrated a willingness to engage in reconciliation throughout Honduran society and foster democratic transformation. For instance, Lobo has insisted that courts drop corruption charges against Zelaya, enabling him to return to Honduras without fear of prosecution. The new president has also supported a major constitutional reform enhancing participatory elements in the constitution (i.e., referenda and plebiscites), which was approved by a broad parliamentary majority in January 2011. However, government measures in the area of human rights, such as the establishment of the Ministry of Justice and Human Rights, have so far failed to improve the situation significantly.

In terms of economic transformation, the country has started to recuperate from the detrimental effects of both the global financial crisis and the domestic political turmoil. The Lobo government has taken steps to increase tax revenues and reduce public spending. These have included politically difficult measures such as decoupling teachers' salaries from the minimum wage. Recognizing Honduras' efforts to reach a point of macroeconomic stability, the IMF approved an 18-month agreement with the country, in a package that included loans worth \$202 million.

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 that time, several governments have, with varying results, addressed the substantial deficiencies in the quality of democracy and in the highly exclusive economic structure. Several major steps toward the democratization of the political system were achieved during the presidencies of Carlos Roberto Reina (1994 – 1998) and Carlos Flores (1998 – 2002), both of the Liberal Party (PL). Until that time, the military had enjoyed high levels of autonomy, above all in security policy, police and secret-service issues, and within financial and telecommunication institutions, and had acted as a de facto veto power without any democratic control or legitimacy. This led to a paradoxical situation: Even as electoral democracy was getting 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. However, Reina and Flores managed to cut back the hegemonic powers of the armed forces gradually. They did so 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 economic and political support for the Honduran armed forces from external actors such as the U.S. government.

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, National Party, 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 nonmilitary government, the aftereffects of Hurricane Mitch, which devastated the country in 1998, proved to be among the most important factors in transformation. 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 country's infrastructure, leading to an economic recovery that proved to benefit Hondurans in the longer run. Aiming to secure maximum sustainability for the help they pledged, major donor countries and institutions demanded the modernization and further democratization of Honduras' political and economic systems as a condition for their development cooperation.

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 and thus expanding economic activity.

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

Transformation Status

I. Political Transformation

1 | Stateness

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 in or between such groups, or between them and state representatives, is frequently reported in the local media. 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 but increasingly interwoven relations to organized crime, they should not be considered integral parts of transnational crime networks despite many security experts' attempts to depict them as such. Considerable parts of Honduras' poor urban population are subject to youth gang violence rather than to the state's rule. 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 – and still rising – homicide rates worldwide. The country reported 5,265 homicides for 2009, a rate of 67 per 100,000 inhabitants.

No population group seeks to deny the citizenship of another group or questions the state's legitimacy. All citizens have the same civil rights, but equality especially in terms of economic, social and cultural rights is undermined by the treatment of lower economic strata and ethnic minorities, in particular those of African descent and indigenous people. Although no language is forbidden, efforts to promote

Question
Score

Monopoly on the
use of force

6

State identity

9

linguistic diversity through means such as bilingual schooling are rare. Yet, the legitimacy of the nation-state is rarely if ever questioned, and all individuals and groups enjoy the right to acquire citizenship without discrimination.

De jure, religious dogma has no direct influence on the law. However, the Catholic and fundamentalist Christian churches' positions on sexual issues such as abortion or the rights of sexual minorities continue to influence the attitudes of Hondurans, most of whom are religious, and the broader political decision-making environment. In 2009, for example, a strongly church-supported law prohibiting the "morning-after pill" came into effect.

No interference of religious dogmas
9

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. However, the existing structures contain significant inefficiencies. Tax collection is comparatively weak, and poor residents have limited access to due process or to the state's infrastructure. The provision of potable water is limited and of low quality, and electric power is often unreliable.

Basic administration
6

2 | Political Participation

Universal active and passive suffrage is in place, and regular free and broadly fair elections have been held. However, after the armed forces removed President Manuel Zelaya from office in June 2009, executive power was temporarily held by officials without electoral legitimacy. Presidential, parliamentary and municipal elections were subsequently held in November 2009 as scheduled before the coup. Porfirio Lobo (PN) won the elections by a broad margin and took office in late January 2010. Although most international bodies refused to send observers, the electoral process as such (voting, counting, etc.) was widely considered free and fair. In the run-up to the polls, the de facto authorities led by interim President Roberto Micheletti were responsible for violating the human rights of the anti-coup movement (Resistencia). There were massive infringements of the freedoms of assembly and press freedom, including the closure of the pro-Resistencia "Radio Globo" radio station. The polls' background conditions thus cannot be considered to be sufficiently free. However, no political party or candidate was excluded. For the first time in Honduran history, an independent candidate, Carlos H. Reyes, was allowed participate as presidential candidate. Reyes, a member of the Resistencia, ultimately objected to the polls' legitimacy and withdrew his candidacy, but leftist party UD (Unificación Democrática), which also considers itself part of the Resistencia, took part and won four of the 128 seats in parliament.

Free and fair elections
7

The strongly contested legality of Zelaya's ousting notwithstanding, the armed forces certainly acted as a de facto veto power in carrying out the coup d'état. Apart from this incident, the elected government in principle commands the effective

Effective power to govern
6

power to govern, but important economic groups and drug trafficking interests are presumed to exert substantial power on some parts of the state apparatus, both on the national and local level. The influence of these powers is highly informal and thus difficult to prove or to measure. Nevertheless, some direct and obvious attacks threatening state institutions occurred during the period under review, such as the late 2010 murder of Juan de Jesús Deras, a legislator belonging to the governing PN.

No political parties are prohibited, and the freedoms of association and assembly are constitutionally guaranteed. However, political and civic organizations place themselves at high risk when they come into conflict with the established interests of powerful social and political groups. In the aftermath of the 2009 coup d'état, prominent members of the Resistencia movement suffered severe harassment, including arbitrary detentions by the police and anonymous death threats. Since President Lobo took office, government institutions have significantly reduced pressure on political activists. However, the state does not prevent other actors, such as organized crime groups or private security forces linked to members of the socioeconomic elite, from violently constraining the rights of opposition groups. For example, in 2010 alone, at least five members of peasant organizations in the conflict-torn Bajo Aguán region have been killed, presumably on behalf of large-scale landowners. That said, as of early 2011, the Lobo government's efforts to stop the violence and promote dialogue between the conflict's various parties seemed to have had some success.

The freedoms of opinion and the press, while enshrined in law, are not fully protected in practice. The situation was particularly difficult under the government of interim President Micheletti, when several media outlets opposing the ousting of Zelaya were temporarily shut down and many journalists suffered harassment by state authorities. President Lobo's policies vis-à-vis the media are significantly less restrictive, but structural constraints to press freedom, which existed even before the coup, remain in place.

Because the press, radio and television markets are highly concentrated, and are dominated by some of the politically and economically most powerful individuals or families, there is little plurality of opinion. Yet the emergence of the Resistencia movement has strengthened the independent media sector somewhat. Censorship is not exercised openly by the state, but continues to be carried out informally by political and economic powers, particularly by means of bribery, the discriminatory award of government advertising contracts, and the intimidation of critical journalists. Most alarmingly, 10 journalists were killed by unknown gunmen in 2010 alone, while numerous others received anonymous death threats.

Association /
assembly rights

7

Freedom of
expression

7

3 | Rule of Law

The separation of powers is established in the constitution, but partial or temporary restrictions of checks and balances occur. Since its transition to democracy in the early 1990s, the Honduran executive has had considerable influence over the other two branches of government. Such extraordinary influence had its roots in a political culture with a long history of caudillo rulers and, most importantly, electoral rules based on a single ballot with closed lists of candidates submitted by political parties. Under this system, the party's presidential candidate chose the party's candidates for Congress and for local governmental seats primarily based on their expected loyalty to his or her agenda. As a result, the winning party inevitably controlled both executive and legislature, as well as the Supreme Court, whose members were proposed by the president and ratified by Congress. Therefore, very little if any independence between the three branches of government existed. Reforms in 1997, however, provided the political system with more openness and resulted in greater legislative independence from the executive, as the two branches are now often controlled by different political parties. The reforms also introduced a new nomination procedure for candidates to the Supreme Court, replacing selection by the president with selection by a nominating committee that includes one representative each from the Honduran Law School, the Lawyers Association, the Business Association, labor unions, the Civil Society Forum, and the Human Rights Commission. Congress then elects 15 members (out of 45 proposed candidates), who serve for seven years and are eligible for reelection.

In practice, however, the judiciary is still not fully independent. Clientelistic networks of political and economic groups still dominate the judicial system, so that the judiciary cannot be seen as an autonomous and effective counterweight to the other powers. Informal politics often undermine the system of checks and balances between the three branches of government. In the context of the constitutional crisis of 2009, the judiciary (particularly the Supreme Court) and the parliament worked hand in hand to legitimize Zelaya's removal from office. Although the two powers are institutionally independent from each other (and the parliament is democratically elected), it became clear that both were strongly influenced by members of the political and economic elite who opposed Zelaya's reform agenda.

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. It is widely believed that the appointment of judges and public prosecutors remains subject to pressures exerted by political and economic

Separation of
powers

6

Independent
judiciary

6

power groups, ranging from the government to organized crime. The participation of civil society organizations in the nomination procedure for Supreme Court judges has not brought about significant change, as the Supreme Court's role in the constitutional crisis of 2009 demonstrated. A major reform of the civil code came into effect in November 2010, introducing oral trials for civil cases. The reform raises hopes that transparency could be improved and civil trials shortened in the near future.

Political and bureaucratic corruption is endemic, and citizens consider corruption to be one of the most urgent problems impairing good governance. Initiatives by the government and the legislature to prosecute corrupt officials and end a culture of impunity, including the establishment of the Institute for Access to Public Information (IAIP), are largely seen as mere image-burnishing campaigns by the political elite. Overall, anti-corruption measures have proven ineffective, primarily due to the judicial system's inefficiency and lack of complete independence.

Prosecution of
office abuse
5

The political crisis of 2009 was an important test for the ability of the judiciary to prosecute abuse of public office, with mixed results. On the one hand, the courts were able to prosecute abuses of authority allegedly perpetrated by Zelaya and other officials. As of the time of writing, Zelaya continued to face an arrest order and several charges for corruption, which is why he had not yet returned to Honduras. On the other hand, those public officials (i.e., military officials and perhaps also top politicians and judges) guilty of sending Zelaya into exile – a clear violation of the constitution – were acquitted by the courts. The government's explanation for such inconsistency is that political offenses that occurred during the crisis (i.e., violations of constitutional provisions) are covered under a political amnesty granted by Congress, but criminal offenses (i.e., Zelaya's corruption charges) are not. Thus, it seems that the Honduran judiciary is better able to prosecute office abuses by those who have lost political power (e.g., Zelaya) than by those who retain their political power.

The human rights situation in Honduras deteriorated in the aftermath of the 2009 coup. In particular, the human and civil rights of Resistencia members were often violated, mostly through excessive police violence during demonstrations, which led to various deaths. The new government under President Lobo and the decrease in protest activities by the Resistencia resulted in a decline in human and civil rights violations by state officials. But the government still fails to safeguard the rights of political activists, human rights defenders, journalists and members of the LGBT community, all of whom have increasingly become victims of murder, death threats and other forms of violence. President Lobo sought to strengthen human rights protections, by creating the Ministry for Human Rights and Justice, among other means. However, this type of measure has demonstrated limited efficacy in the Honduran context of impunity and widespread social and economic violence.

Civil rights
6

Civil liberties are constrained by the poor population's limited access to due process. Cultural and religious rights are generally respected. Nevertheless, the state seems to be unable, and in some cases unwilling to protect the civil and human rights of certain population groups. For example, prison inmates are exposed to uncontrolled physical, sexual and psychological violence, including killing, by other prisoners and guards. They suffer from a lack of health care, including HIV prevention; lack legal advice; and, in general, experience inhumane living conditions. In general, the extremely high rate of 67 homicides per 100,000 inhabitants in 2009 (the homicide rate was expected to increase further in 2010) is clear evidence that the state does not effectively protect Honduran citizens' right to life.

4 | Stability of Democratic Institutions

The previously mentioned limitations to the rule of law and to some extent stateness reduces institutions' ability to operate effectively and without restriction. A severe lack of funding and know-how (manifested through a lack of trained staff) also limits many state institutions' performance. The low level of government efficiency acts as an obstacle to the social and political changes needed for a further democratization of society. Under President Zelaya (that is, until 28 June 2009), the executive's capability was severely limited by the obstructive attitudes of the other two branches of government, who ultimately participated in Zelaya's ouster. The majority of liberal deputies were known to be loyal to Liberal Party (PL) party oligarchs other than Zelaya, with the majority owing some allegiance to Roberto Micheletti. When the latter took over as head of the executive, the political and constitutional crisis and its consequences (popular unrest, suspension of external aid, etc.) starkly reduced the capabilities of many state institutions, however "democratic" they could be considered at that time. Under President Lobo, the situation has normalized. Lobo's uncontested position inside the National Party (PN), the party's comfortable majority in parliament and the fact that PN mayors govern 191 of the country's 298 municipalities ensures that deadlocks between the various democratic institutions are less likely than during the pre-coup period.

As the armed forces' intervention in politics in 2009 demonstrated, not all relevant players fully accept the unconditional supremacy of democratically legitimized institutions. However, it must be noted that the military leaders involved acted in agreement with democratically legitimized bodies, namely the Supreme Court and the National Congress (the parliament). Moreover, they justified their actions by claiming that their aim was to safeguard democracy (by removing Zelaya, who allegedly had broken the constitution, from office). Thus, the armed forces do not openly and explicitly call the democratic bodies' powers into question. One emerging player in the political landscape, in contrast, vehemently questions the

Performance of
democratic
institutions

6

Commitment to
democratic
institutions

6

legitimacy of the government: The Resistencia movement continues to reject the elections of 2009 as undemocratic, and argues that voter turnout was too low to provide democratic legitimacy to the government. In fact, only 49% of registered voters participated in the polls, as compared to a voter turnout rate five percentage points higher when Zelaya was elected in 2005. Yet, because Zelaya won with a very narrow margin and Lobo with a much broader one, the absolute number of Hondurans who voted Lobo into office was significantly higher than that of Zelaya voters in the previous elections: more than 1.2 million vs. approximately 1 million voters.

Independently of this specific political conflict, certain institutions of the democratic state – primarily the independence of the judicial branch – have not yet been fully accepted by all key players. These institutions have instead been circumvented or manipulated in the service of individual political or economic interests. Illegal actors such as organized crime groups, which do not threaten the democratic system as a whole but place themselves outside this system, have become increasingly powerful and constitute an ever-bigger challenge to democratic institutions.

5 | Political and Social Integration

The PL and PN together control 116 of the 128 seats (90.6%) in the legislature, and gained an even bigger collective share of votes in the presidential elections. Historically, both parties have been deeply rooted in society, not in the form of socio-demographic cleavages but rather by a system of clientelism and patronage. State institutions, including the judiciary and public bureaucracy, have been politicized – not in an ideological sense, but in the sense of clientelistic politics – and viewed as the spoils of political victory. There are no real ideological differences between the Nationalists and the Liberals, and programmatic differences are largely unclear or even nonexistent. In their November 2009 campaigns, contenders almost exclusively highlighted their personal virtues and their affiliations in the intraparty political landscape, rather than proposing solutions to the country's problems. PL and PN leaders 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 among leaders, and by an exaggerated inclination toward consensus building. (Zelaya was perceived by a broad range of other political actors to have provocatively broken this unwritten rule, an underlying root cause of the coup.) Voter decisions often depended on clientelistic networks and family voting traditions. Smaller parties too contain clientelistic structures, but overall tend more toward modern and program-based strategies, as do some internal movements within the PL (particularly the Zelaya wing) and the PN. Due to the prevalence of traditional party-society relations, the two major parties continue to

Party system

6

dominate social and political life without really articulating or aggregating social interests in a bottom-to-top direction. Instead, powerful party oligarchs with strong economic interests define the parties' objectives and policies.

In the period under review, the stability of the party system was challenged by the deep conflict between the Zelaya-friendly and more traditional wings inside the PL, which, in addition to the political crisis of 2009 (i.e., Zelaya's ouster), led to a major shift of voter preferences, particularly among Zelaya supporters, who overwhelmingly abstained from voting in the general elections of November 2009. This very high rate of electoral abstention among pro-Zelaya Liberales not only exposed the considerable intraparty polarization (i.e., among Liberales) but also caused the defeat of the Liberal Party and the landslide victory of the National party.

To date, it is unclear whether the ideological polarization within the PL will result in the fragmentation of the Honduran party system, which prior to 2009 had been the least fragmented and among the most institutionalized systems in Latin America. The PL has sought to keep pro-Zelaya Liberales from leaving the party, so it can continue to be competitive as a whole vis-à-vis the PN. However, the rift caused by the political crisis of 2009 may be hard to bridge, and the pro-Zelaya Resistencia movement might decide to become a new political party. If that does turn out to be the case, the Honduran party system will become not only more fragmented but also more polarized. However, absolute levels of fragmentation and voter volatility would continue to be low.

According to opinion polls, political parties are the least trusted institutions within the political system; citizens express more trust, for example, in the government, the parliament and the armed forces.

Honduras' interest group landscape has historically encompassed a wide range of organizations, including prominent peasant organizations (UNC, ANACH), labor unions (e.g., FESITRANH, FUTH), teachers' unions (COLPROSUMAH, PRICMAH), business associations (COHEP), and dozens of environmental, development and community organizations. Yet, due to the historically low accessibility, independence, and effectiveness of the judiciary system, few interests have been able to influence policy-making effectively, thus discouraging participation. The exceptions seem to be those interest groups with considerable economic resources (e.g., business organizations) and those with the capacity to exert considerable pressure through strikes and demonstrations (e.g., teachers', workers' and peasant unions); however, these two sides tend to balance each other's voices (e.g., business/workers). Other members of the population, mainly citizens from the lowest strata of society, are clearly underrepresented and have difficulty winning access to political decision-makers. In many cases, the deficient rule of law hinders the efforts of civic organizations such as those within the environmental

movement. Yet a stronger, more dynamic and pluralistic civil society is emerging since the state crisis of 2009. The political mobilization associated with anti-coup protests and the subsequent cooperation of many very different organizations in the Resistencia movement (from trade unions to LGBT groups) has significantly strengthened civic engagement.

According to the Latin American Public Opinion Project (LAPOP) 2010 report, Honduras has the second-lowest level of preference for democracy in Latin America. Only 62.6% of the population agreed to the statement that democracy is better than any other form of government (Peru is the only Latin American country with a lower score, at 60.1%). In addition, surveys published by Latinobarómetro showed that the adherence to democratic norms among the population declined from 55% in 2009 to 53% in 2010. However, the LAPOP report also revealed that Hondurans showed Latin America's third-highest level of support for the current political system, behind only Uruguay and Costa Rica. It also reported the fourth-highest level of satisfaction with democracy, lower only than Uruguay, Costa Rica and Panama. Interestingly, the levels of preference and satisfaction with democracy, and the level of support for the system increased dramatically between 2008 (pre-crisis) and 2010 (post-crisis). These somewhat puzzling findings (considering the fact that there was a coup in 2009) may be explained by the general perception of much better economic performance by the new Lobo administration (as revealed in the LAPOP survey) and by the fact that the political crisis of 2009 was resolved through democratic means, namely the election of a new president.

Even though the pro-Zelaya Resistencia movement was opposed the general elections that elected Lobo, the political protests did not question the principles of representative democracy. During the constitutional crisis of 2009, supporters and opponents of Zelaya's ouster alike, whether organizers or participants in mass demonstrations, claimed to be defending democracy. And even though the LAPOP survey revealed that pro-Zelaya Hondurans exhibit a lower level of support for the system, the Resistencia is not an anti-system movement in the sense of rejecting the idea of representative and constitutional democracy as such. On the contrary, it advocates a more inclusive, social-justice-oriented and participative constitutional framework.

Given the difficult public security situation, fear of straying far from home may dissuade citizens from engaging in social and political participation or self-organization. Yet despite high crime rates, interpersonal trust among Hondurans has been traditionally high and even increased from 51.8% in 2008 to 63.8% in 2010, the fifth-highest level in the Americas (behind only Costa Rica, Canada, the United States and Uruguay). Nonetheless, interpersonal trust levels are higher in more rural settings, where there is a lower perception of insecurity, and among older and more educated Hondurans.

Approval of
democracy

6

Social capital

6

Notwithstanding the high levels of interpersonal trust, participation rates in civil society organizations are somewhat low – with the exception of religious service attendance – and have been declining over time for most types of organizations, perhaps as a result of increasing violence. The number of environmental and community development organizations, though high in the recent past, is today declining, most likely due to the concentration of decision-making power in the state. Still, the right to free association is widely respected in the country (except for gang members), and the practice is even encouraged, which has even caused some to denounce an excessive proliferation of NGOs.

Even in the aftermath of the 2009 coup, which triggered an unprecedented surge in political mobilization, LAPOP data suggest that only 6.6% of Hondurans participated in public protests, placing the country in the midrange of American countries. On the other hand, also according to LAPOP, a majority of Hondurans (52.9%) are involved in religious groups.

II. Economic Transformation

6 | Level of Socioeconomic Development

According to UNDP definitions, Honduras' level of development as measured by the Human Development Index (HDI) is at a “medium level,” yet comparatively low. The country ranks 106th out of 169 countries in the index; in Latin America, only Haiti, Nicaragua and Guatemala show lower levels of human development. The country's Gender Inequality Index value (0.680) is higher than its HDI value (0.604). According to data from the Honduran National Statistics Institute (INE), two-thirds of the population (66.2%) was living under the poverty line in 2010, with 45.3% falling into the definition of extreme poverty. Also for 2010, the INE found an illiteracy rate of 15.2% among all over-15-year-olds (rising to 22.3% in rural areas). Income distribution is highly unequal (the Gini coefficient average in the 2000 –2010 period was 55.3) even by comparison with the average for Latin America, the most unequal region in the world. Inequality is accompanied by very low per-capita income and structurally ingrained obstacles to upward social mobility (e.g., limited access to land, education, widespread unemployment and “informal” employment, infrastructure, and markets). Perhaps the most serious form of social exclusion is that experienced by people living in the countryside, where the lack of agricultural development and education has led inequalities between the rural and the urban populations not only to persist, but to widen.

Question
Score

Socioeconomic
barriers
3

Women in Honduras have higher average levels of education than males, indicating that the causes of inequality and even discrimination are structural. Neither positive macroeconomic data (in the years before the onset of the global financial crisis) nor the 2004 implementation of a debt-relief-based poverty reduction strategy has had any significant impact on poverty levels, inequality or social exclusion. Still, economic growth prior to the financial crisis was between 5% and 6% annually, which was higher than the annual population growth rate of 2%. Nonetheless, considering the effects of the financial crisis and of the 2009 political crisis, it is highly probable that Honduras will fail to meet some Millennium Development Goals.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	12361.3	13881.7	14175.4	15400.3
GDP growth	%	6.2	4.2	-2.1	2.8
Inflation (CPI)	%	6.9	11.4	5.5	4.7
Unemployment	%	2.9	-	-	-
Foreign direct investment	% of GDP	7.5	6.7	3.7	5.2
Export growth	%	2.5	0.9	-12.1	6.0
Import growth	%	10.9	2.4	-27.7	10.2
Current account balance	\$ mn.	-1116.1	-1781.6	-515.5	-954.8
Public debt	% of GDP	19.7	19.9	24.1	26.3
External debt	\$ mn.	3305.1	3505.5	3673.8	4168.0
Total debt service	\$ mn.	347.5	367.6	413.7	517.1

Economic indicators		2007	2008	2009	2010
Cash surplus or deficit	% of GDP	-1.1	-0.2	-4.5	-
Tax revenue	% of GDP	16.4	16.1	14.6	-
Government consumption	% of GDP	16.0	17.6	19.6	18.0
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	6.2	6.3	6.0	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.9	1.5	1.5	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

The foundations of free-market competition are generally secure, but not in all sectors of the economy. There are no significant entry or exit barriers in the product or factor markets. Nevertheless, the government directly or indirectly controls the prices for a range of important products (e.g., gasoline, flour, milk, beans, sugar, basic medicines). Within the lower economic strata of society, informal economic activities and subsistence farming play important roles. It is estimated that up to 60% of the country's work force is engaged in informal economic activities. 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. In general, the government encourages both domestic and foreign investments. There are no restrictions on investment-related transfers or payments.

Market-based
competition
5

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). But the rules are not consistently enforced in practice. Family allegiances and coalitions of interest groups rule the economic stage in the different regions of Honduras. Despite conducting oil purchases by means of an international tender system, no free market for combustibles exists. However, there have been advances in the liberalization of the telecommunications sector, which was once monopolized by state-owned Hondutel. Within the mobile telephony market, three private companies now compete with Hondutel. For fixed telephony, Hondutel continues to hold a monopoly, but has granted concessions to sub-operators for domestic telephony. The state-owned company maintains exclusive control over international telephony. Another state monopoly is maintained in the electricity sector by ENEE (Empresa Nacional de Energía Eléctrica). Allegedly, high levels of

Anti-monopoly
policy
7

corruption keep the supply of energy by private companies (oligopoly) from becoming more competitive, which would in turn increase energy output and lower prices thus helping the national economy.

According to the WTO, the Honduran trade regime is relatively open, with an average tariff of 6% in 2010, moderate use of non-tariff barriers and an absence of contingency measures. In addition to participating in the Central American Common Market (Mercado Común Centroamericano, MCCA), Honduras has free trade agreements with the United States and the Dominican Republic (DR-CAFTA), Mexico, Chile, Colombia, Panama and Taiwan. In May 2010, Honduras and the other MCCA members completed negotiations on an association agreement with the European Union.

Liberalization of
foreign trade
8

Honduras' banking and insurance sector experienced an 11% contraction in the first half of 2009 as a result of the global financial crisis. A 2010 IMF report, however, states that the Honduran financial sector has weathered the crisis "relatively well." Honduran authorities nevertheless took several related anti-crisis measures, loosening requirements for loans to production sectors, reducing the legal reserve requirement, creating a special fund to protect the financial system and recapitalizing the Deposit Insurance Fund. According to a 2010 U.S. Department of Commerce report, there are 17 commercial banks operating in Honduras, with 10 of these having majority foreign ownership. Honduras has few legal and regulatory barriers to entry in the banking sector, but most foreign banks' participation has been at a regional level rather than a national level. The National Commission of Banks and Insurance Companies (Comisión Nacional de Bancos y Seguros, CNBS) passed a new set of financial sector regulations in October 2010. This increased reserve requirements and included a new system for classifying the relative performance of individual loans. Capital markets are not fully developed, and the stock exchange (Bolsa Centroamericana de Valores) remains small.

Banking system
7

8 | Currency and Price Stability

During the global financial crisis, the government's exchange rate policy focused on maintaining a stable rate between the lempira and the U.S. dollar. As a result, internal demand for the local currency decreased. This in turn led to the low inflation rate (CPI) of 3.0% in 2009. The 2010 inflation rate of 6.5% is more commensurate with the country's typical showing on this indicator. The Lobo government has thus been successful in its explicit aim of ending the recent years' volatility.

Anti-inflation /
forex policy
8

The central bank has not been kept fully independent. But while previous governments, particularly the Zelaya administration, frequently used their powers to intervene in the working of the central bank, the Lobo government has been much

less intrusive and much more accommodating of IMF and World Bank prescriptions for sound monetary policy.

Honduras has undertaken a major turnaround regarding fiscal and debt policies. In 2009, the deficit reached 6.2% of GDP due to a decrease in tax revenues and high wage increases in the public sector awarded by the Zelaya government. Under President Lobo, a tax reform was introduced which among other things increments income taxes. Teacher salaries, a major expense factor in public spending, were decoupled from the minimum wage so that minimum wage increases will no longer result automatically in an inflation of state expenditures. Based on these and other – politically costly – decisions by the Lobo administration, the IMF approved an 18-month agreement for Honduras in October 2010, including loans of \$202 million.

Macrostability
8

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. Local power structures are able to manipulate the justice system by means of the selective use of resistance. 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. To mitigate the situation, the Lobo administration has pursued a strategy of buying the land from its rightful owner (at an agreed-upon price) and transferring it legally to the peasants involved in the conflict.

Property rights
6

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. The Lobo government has put a much higher priority on the interests of private companies than did the Zelaya administration, as shown by the comparatively moderate increase in minimum wages in 2010 (between 3% and 9%, compared to an average increase of 63% in 2009 under Zelaya).

Private enterprise
7

State enterprises were mostly privatized during the 1990s. 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) and further privatization has been discussed. However, the Lobo administration has not taken any further action in this regard,

nor has the government publicly announced any concrete plans. Given the prevailing ideological polarization resulting from the political crisis of 2009, further privatization of these enterprises seems unlikely in the near future, as it would be too politically costly.

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 cover workers in the informal sector or peasants in subsistence farming. According to IHSS data, in 2009 it offered services to less than 1.5 million Hondurans (of a population totaling approximately 7.5 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 practical access to comprehensive health care.

Social safety nets
4

To compensate for the social risks of the capitalist economic system, several 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 (created in 2005), the Solidarity Network (Red Solidaria; created in 2008), and the Bonus Ten Thousand (Bono Diez Mil) initiative. The last of this list stemmed from a PN election campaign promise and consists in distributing “bonuses” of 10,000 lempiras to a planned total of 600,000 families. The various programs and initiatives are often underfunded and poorly administered; their effectiveness is impaired by corruption and clientelism in the distributive processes. Social welfare policies and poverty reduction efforts run by the Honduran state, like those of non-governmental organizations and foreign donors, have not been successful in significantly reducing poverty or ending the exposure of major parts of the population to social risks.

Despite massive support from external donors, the state does not ensure equal opportunities for its citizens. There are neither legal nor cultural obstacles for ethnic or religious minorities in terms of attending school, working or participating in public life. However, the proportion of female, rural-dwelling and indigenous persons among the poor is considerably higher than that of other groups. Women’s

Equal opportunity
4

access to economic or political power is obstructed – not de jure, but de facto – through cultural and ideological patterns such as “machismo.”

The emergence of violent youth gangs offers daily testimony to the lack of education and of employment opportunities for young people in marginalized neighborhoods. This lack of opportunities drives many poor, young Honduras either to emigrate or become involved in crime, as a way for them (and often their poor relatives) to survive. The state can be blamed for violent gangs insofar as it does not provide more opportunities for youth. 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 the social mobility not only of youth but also of rural dwellers and indigenous groups.

The social and economic factors that split the population are embodied in the divided school system (public and private schools, with generally poorly performing public schools), which strongly hinders upward social mobility and thus perpetuates inequalities.

11 | Economic Performance

In 2009, the global financial crisis and the domestic political turmoil negatively affected the Honduran economy. The GDP shrank by 1.9% (compared to growth of 4.0% in 2008 and of more than 6% in previous years). Inflation was extraordinarily low due to decreased demand for the domestic currency. Foreign trade (both imports and exports) decreased sharply, and the fiscal deficit deteriorated to 6.1% of GDP. However, Honduran economy has recovered significantly in these and other indicators, and is now showing a positive trend. Estimated 2010 GDP showed growth of 2.5%, inflation is back to its usual level of around 6% and the fiscal deficit has narrowed to 4.0% of GDP. As in previous periods, Honduras has a negative trade balance, partly compensated for by emigrants' family remittances.

Output strength
7

12 | Sustainability

Compared to other regional countries such as Costa Rica, environmental awareness is severely underdeveloped both among state officials and within society as a whole. The state's mining and energy policies rarely take ecological considerations seriously into account. Deforestation is a major problem in Honduras. According to data from the U.N. Food and Agricultural Organization (FAO), the country's total forested area shrinks by 2.2% (average 2005 – 2010) every year. The country has lost more than 36% of its forest since 1990. In the 2010 Environmental Performance Index (EPI), Honduras ranked 118th out of 163 countries and held the third-lowest score (49.9) in Latin America (only Bolivia and Haiti performed worse).

Environmental
policy
4

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 relatively high teacher salaries), the output of the education system has not improved. According to the National Statistics Institute (Instituto Nacional de Estadística), the national illiteracy rate was 15.2% in 2010, rising to 22.3% in rural areas. Public teacher strikes, resulting in a massive reduction in the amount of teaching actually performed, were common during the period under review. Particularly in the crisis year of 2009, teachers' strikes were often not related directly to their working conditions (e.g., salary disputes), but rather to general political issues such as the coup against President Zelaya.

The country's most important public university (Universidad Nacional Autónoma de Honduras, UNAH) is in permanent crisis. Strikes and other protest activities by students, professors and lecturers, and the non-academic staff are frequent. The situation has only slightly improved since Julieta Castellanos, a renowned political scientist, was appointed as university director in 2009. The private Unitec university has taken the lead in education and research in Honduras, particularly in the natural sciences, business studies and engineering.

Education policy /
R&D

3

Transformation Management

I. Level of Difficulty

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 urban middle class. Economic elites, particularly regional ones, maintain political power systems that to some degree escape democratic control, particularly by means of clientelism, patronage, corruption and private (though not paramilitary) security forces. The rural underclass is largely subject to these structures, while the urban poor are "governed" by criminal, sometimes transnational organizations such as drug cartels or youth gangs. The elected leadership's ability to break up these structures is limited by the fact that criminal actors – which are believed to have increased their power in the period under review – have extensively infiltrated state institutions including the police. The country's low level of human capital and high poverty rates also count as structural constraints to the current leadership's performance. Additionally, the state is losing importance as the process of economic and political globalization progresses, especially in the CAFTA context. Honduras' dependency on external powers, particularly in form of U.S. trade and immigration policies, considerably reduces the democratically elected political leadership's influence on economic and political outcomes.

Structural
constraints
7

Its geographic location frequently exposes Honduras to natural disasters, such as hurricanes. According to the 2010 Germanwatch Global Climate Risk Index, Honduras (along with Bangladesh and Myanmar) has been one of the three countries most affected by extreme weather events since 1990.

A network of grassroots civil society organizations able to channel political communication and thus strengthen the state's governance opportunities does exist, and has 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 situation, generate feelings of fear. In addition, the lack of time and opportunity in the daily struggle to survive prevents large parts of the

Civil society
traditions
5

population from being active on collective issues. Nevertheless, according to data from the LAPOP survey series, interpersonal trust has increased from 51.8% in 2008 to 63.8% in 2010. Trade unionism, the only social movement with a considerable record of effect (strong labor and peasant union movements have had considerable leverage since their beginnings in the 1950s), is aggravating the situation of (un)governability; teachers unions, with their never-ending, only minimally justified labor unrest, are a particular concern.

While ethnicity constitutes a rather marginal issue, particularly in comparison to neighboring Guatemala, Honduras is deeply split along lines of social class. Yet, as a result of internalized power structures, a nonconfrontational political culture and external pressures, there was little political polarization before President Zelaya turned to left-wing populist rhetoric in 2007 – 2008. In response, almost the entire political establishment harshly rejected Zelaya’s polarizing discourse, leading ultimately to his ouster by means of the coup d’état in 2009. The coup in turn triggered a wave of political mobilization, particularly in form of the Resistencia movement, and thus contributed heavily to further aggravation of the trend of polarization initiated by Zelaya. Clashes between Resistencia members and the security forces were often violent. In general terms, politically motivated violence has increased since the coup, with killings of journalists and political activists (e.g., in the Bajo Aguán land conflict) a particular problem. Apart from political violence, the rising homicide rate (one of the highest worldwide) indicates that social relations among Hondurans are increasingly affected by violence.

Conflict intensity

5

II. Management Performance

14 | Steering Capability

In the first part of the period under review, during the Zelaya administration, coherent long-term objectives or strategies were difficult to perceive. Many decisions seemed to be made on the basis of short-term political motivations rather than being part of a straightforward policy design. Under Micheletti, the executive showed no ambitions for long- or even medium-term planning, as it defined itself as an interim government.

With President Lobo’s assumption of office, the development of long-range strategies has gained importance. Most prominently, in early 2010 the government presented a document entitled Country Vision 2010 – 2038 and Nation Plan 2010 – 2022 (Visión de País 2010 – 2038 y Plan de Nación 2010 – 2022). The priorities and goals set in the plan are highly abstract and the “translation” into concrete

Question
Score

Prioritization

7

policies will present a challenge. Nevertheless, the paper, which was discussed by a broad range of political and societal actors prior to publication, can serve as a rough guideline for the current and future governments. Its overall content is in accordance with the BTI's normative principles of enhancing democracy and a market economy.

The current government, like its predecessors, is only partly able to implement its declared priorities. Informal power groups and in some cases illegal actors hinder effective policy implementation. President Lobo's striving for an improvement in the human rights situation, for example, has been undermined by parts of the traditional socioeconomic elite, as well as by criminal groups and individuals who commission or carry out human right violations such as murders and death threats. Lobo's creation of a Ministry for Human Rights and Justice seems to reflect a high degree of helplessness in this regard.

However, the government's range of action in some policy fields increased during the course of the period under review. The comfortable PN majority in the National Congress (and the fact that Nationalist deputies were less divided than the PL parliamentary group) guaranteed the executive fairly favorable conditions in which to push through its objectives. One case in point was the legislative decision to decouple teacher salaries from the minimum wage – a decision with high political costs (considering the power of the teachers' unions), but an important achievement for Lobo's fiscal policy agenda.

The central government's willingness or ability to learn from past experiences is rather low. There is no civil service system. Thus, government staffers' experience and knowledge, including that facilitated by the donor community's capacity-building efforts, is largely lost with every new government or cabinet change, as new ministers and heads of other state institutions often use their power to remove lower-rank staff and give the jobs to their own clientele. In the field of security policy, the government's lack of policy learning capability is particularly obvious. Although it is common knowledge that the so-called *mano dura* (iron fist) policies of the last PN government (under Ricardo Maduro, 2002 – 2006) did not succeed in reducing crime and violence, Lobo appointed Óscar Álvarez as his security minister. Álvarez was one of the main architects of the Maduro government's repressive security approach, and has begun to implement the same (failed) strategy again.

15 | Resource Efficiency

The government uses only some of its administrative, monetary and personnel resources efficiently. Public institutions have very limited autonomy and are subject to strong political influences. The efficiency of public spending is often restricted

Implementation
6

Policy learning
5

Efficient use of
assets
5

by the need to fulfill short-term political obligations. Human resources are not at all efficiently employed. 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 by professional qualification. The administration thus often lacks professional rationality. Laws to enforce merit-based personnel management exist but are often bypassed by informal practices. The existence of so-called paracaídas (“parachutists,” or professionally unqualified public servants who, with the help of an influential friend, “landed” on a given position by mere chance) and plazas fantasmas (“ghost employees,” or persons listed on a public institution’s payroll without ever appearing at work) is still widespread. Procedures to make budget planning more transparent, such as participatory budgeting, have not been introduced in Honduras.

As to the use of budget resources, President Lobo’s administration has made significant efforts to use state funds more efficiently than did previous governments. It has taken steps to reduce spending on salaries in the public sector, and reduced the fiscal deficit from 6.1% of GDP in 2009 to 4.0% in 2010. Although the Lobo government initiated talks on decentralization with the Association of Honduran Municipalities (Asociación de Municipios de Honduras, AMHON), there have not been any important advances to date. Apart from these first decentralization efforts, there were no substantial steps aimed at reforming or modernizing the public administration during the period under review.

Conflicting policy objectives cannot always be effectively coordinated and prioritized by the government. Internal conflicts inside the current government seem to be less pronounced than during the Zelaya period. Nevertheless, some inconsistencies derive from President Lobo’s appointment of some (former) opposition party leaders as cabinet members (e.g., the Democratic Unification Party’s César Ham as Minister of the National Agrarian Institute (Instituto Nacional Agrario, INA) in charge in of land reform issues), seeking to effect a post-coup reconciliation. 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 activity.

The period under review saw very little progress in terms of the fight against corruption. In January 2011, the Millennium Challenge Account (MCA), a major U.S.-funded donor initiative, suspended further aid to Honduras due to a negative evaluation of the country’s recent performance in terms of transparency and corruption. The Lobo administration argues that the devastating criticism issued by the MCA and other observers is based on previous governments’ (Zelaya and Micheletti) misconduct rather than on the current situation. However, it is very far

Policy
coordination
6

Anti-corruption
policy
3

from clear that any positive change has taken place. In late 2010, Lobo had to fire Industry and Commerce Minister Óscar Escalante. Escalante had admitted received \$40,000 for the refurbishment of his ministerial offices from the Honduran National Council of Private Enterprises (Consejo Hondureño de la Empresa Privada, COHEP), a business association. President Lobo has also been in open confrontation with the judiciary in an attempt to persuade the courts to drop corruption charges against Zelaya.

16 | Consensus-Building

The linked goals of democracy and the development of the market-based economy have 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, which serve the established interests of the elite while doing little to meet the integration imperatives of an open and participatory society. 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. The task of establishing societal communication channels able to ensure authentic representation has proven particularly difficult. During the constitutional crisis of 2009, political and societal actors on both sides claimed to defend democracy. Despite this basic societal consensus with regard to democracy and democracy's fundamental rules, stakeholders have yet to tap this democratic potential.

Consensus on goals

7

As the military's 2009 ouster of President Zelaya graphically showed, democratically legitimized actors do not always fully control the situation, particularly in times of crisis. It is important to note, however, that the judiciary, congress and armed forces intervened with the self-declared intention of safeguarding rather than disrupting the constitutional order. It has been argued that the main reason for the ouster was Zelaya's plan to eliminate the constitutional prohibition on reelection. Moreover, the implementers of the coup acted in close collaboration with democratically legitimized civil institutions, such as the National Congress and the Supreme Court.

Anti-democratic actors

6

The influence of drug trafficking and other organized crime interests seems to have increased during the period under review, and no efficient government strategy to cope with this problem is in sight.

The three governments in office during the period under review (Zelaya, Micheletti, Lobo) were either unwilling or largely unsuccessful in preventing escalation of conflicts within Honduran society that are based on extreme social disparities. In his last months in office, Zelaya increasingly linked the political dispute over his plans to rewrite the constitution to social cleavages, characterizing it deliberately as a conflict between rich and the poor. Through the coup itself and the subsequent harshly repressive measures taken against the Resistencia movement – whose self-identification is explicitly grounded in ideological cleavage – the de facto regime under Micheletti further exacerbated the polarization by defining it as a left-right ideological conflict. Current President Lobo is ostensibly trying to reconcile the antagonistic players (in part to satisfy external, international demands) and has so far been able prevent the conflict from escalating. However, Lobo clearly represents one of the two sides; both personally as a large-scale landowner, and politically as a PN leader. This fact severely limits his credibility and thus his effectiveness in moderating the conflicting interests.

Cleavage /
conflict
management
6

In some important policy fields, there are institutionalized procedures to integrate civil society actors into the decision-making process. There are several bodies – generally with only advisory or sometimes with oversight competences – in which civil society and government representatives participate. These include the Advisory Board for the Poverty Reduction Strategy (Consejo Consultivo de la Estrategia para la Reducción de la Pobreza, CC-ERP), 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. 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. However, other innovative forms of civil society involvement have been designed, such as the Junta Nominadora process through which candidates for the Supreme Court are selected. In addition, the constitution guarantees citizens the right to some participatory democracy features (referenda, plebiscites). In January 2011, the National Congress approved a constitutional amendment making these instruments easier to access (easing the conditions under which the authorities are compelled to organize referenda and plebiscites), and broadening the range of eligible topics.

Civil society
participation
6

Dealing with injustices of the (longer-term) past, particularly the 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

Reconciliation
6

during the 1980s), became a part of the political agenda in late 2008 and early 2009, when the Zelaya government created the National Program for Reparation (Programa Nacional de Reparaciones, PNR). However, through the end of Zelaya's time in office, legal objections hindered him from effectively starting to pay compensation to victims or their families. Neither Micheletti nor Lobo revived the initiative, and the topic has practically disappeared from the political agenda.

Regarding the injustices of the recent past – the wrongdoings of state representatives and other actors during the 2009 coup and the subsequent de facto government – President Lobo has set up a Truth and Reconciliation Commission (Comisión de la Verdad y la Reconciliación) to investigate what happened. The commission consists of Honduran and foreign members, and is expected to present its final report in 2011. The Resistencia movement questions the impartiality of the body, and established its own commission (called the Real Commission (Comisión de Verdad)). Judicial investigations have been launched to look into many cases of human rights abuses committed in the post-coup context. However, the perpetrators have been convicted in only a few cases.

17 | International Cooperation

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's most important role involves the allocation of credit facilities and the implementation of aid programs. Donor interests are transmitted to the national government primarily by means of the "G-16," a coordinating body made up of the 16 most important donor countries and international cooperation agencies. This group, officially named Grupo de Seguimiento a la Declaración de Estocolmo (GSDE), exerts significant influence on policy decisions. However, the government's responsiveness is largely due to direct foreign aid conditionality requirements on a case-by-case basis, rather than the result of a sustainable learning process and principled acceptance of donors' transformation demands. Since 2010, the Ministry of Planning and External Cooperation (Secretaría Técnica de Planificación y Cooperación Externa, SEPLAN) is responsible both for coordinating foreign donor programs with the government's development efforts and supervising the implementation of Honduras' long-term development strategy (Plan de Nación/Visión de País).

Effective use of support

8

External donors, as well as private and intergovernmental international institutions, remain skeptical as to the current administration's credibility and reliability. While the IMF agreement approved in 2010 indicates increased confidence in the Honduran government in terms of economic transformation, the international community continues to have serious doubts – not without reason – over the political leaders' trustworthiness regarding democracy. The fact that Honduras'

Credibility

6

OAS membership remained suspended as of the time of writing was due to this fact. Foreign actors are particularly concerned about the human rights situation, which has not improved despite President Lobo's explicit commitment to this issue. Moreover, as the recent Millennium Challenge Account cutoff demonstrates, the continued presence of corruption and the presumed infiltration of state institutions by organized crime gravely damage the government's international reputation.

At the sub-regional level, Honduras enjoys full membership in the Central American Integration System (Sistema de Integración Centroamericana, SICA). Honduras is also actively involved in cooperation with its Central American neighbors, Mexico and the United States regarding security issues such as the fight against organized crime and youth gangs (Mérida Initiative). After the 2009 coup and the subsequent breakdown in the country's relations with its neighbors, the Lobo government has managed to restore good bilateral relations with all Central American states, with the notable exception of Honduras' direct neighbor, Nicaragua.

On a wider regional level, the Honduran government has shown itself willing to return to full OAS membership. However, as the chance of succeeding in this goal is currently seen as very low, the government is no longer defining the restoration of its former OAS status as a priority. The country has also deliberately ended its participation in the ALBA integration initiative led by Venezuela's Hugo Chávez. Membership in the Petrocaribe program, which is also Chávez-backed, is still in place (providing preferential oil prices for Venezuelan oil to Honduras).

Regional
cooperation

7

Strategic Outlook

The future of democratic and economic transformation in Honduras will depend on the willingness and ability of domestic and foreign stakeholders to strengthen the country's formal political and socioeconomic system and to reduce the influence of informal politics, neopatrimonial power relations and criminal actors.

The 2009 coup and its aftermath brought to light the precariousness of legal mechanisms able to handle political conflicts, particularly between the branches of government and the various state institutions, as well as the cultural legacy of political and military leaders' traditional disregard for the rule of law. The crisis also redefined ideological differences and caused a considerable degree of polarization between left- and right-leaning Hondurans. This has in turn resulted in a greater level of organization and civic/political engagement on the part of the previously "dormant" left.

In the long run, this latter fact might have a positive, transformation-stimulating effect within the Honduran political system. Some of the groups involved in the heterogeneous Resistencia movement are believed not to support democracy, as conceived by the BTI's normative framework, and might want to undermine it through violent means. However, it is also argued that most Resistencia members do advocate the continuance of constitutional and representative democracy, and seek to improve it by democratic means. Moreover, (leftist) members of the Resistencia legitimately seek respect for their human and social rights, which were often violated with impunity during the 1980s, as well as for a more just distribution of political power and economic resources through the population as a whole. All these goals would certainly require the strengthening of the rule of law, a historic weakness of the Honduran political system. Therefore, the democratizing potential of the democratic segment of the Resistencia movement should be recognized and supported by transformation-oriented Honduran and international actors. In particular, they should support the movement's integration into the political system if a new independent political party were to emerge from Resistencia's discussions.

The current government should be encouraged to continue and even enhance its efforts to improve the human rights situation. The international community must continue to observe closely, and should more actively help the Lobo administration implement its declared goals in this area. In particular, the international community should respond positively through the appropriate U.N. institutions to Lobo's request for the establishment of an International Commission Against Impunity in Honduras. This could actively support the administration's efforts to fight crime, since existing mechanisms and resources have to date proven not only insufficient but also inefficient in many instances.

In terms of economic transformation, the government's current stability-oriented policies can only be a first step. Both the political leadership and the business community are responsible for

modernizing the country's economy, which even compared to that of Honduras' direct neighbor El Salvador is strikingly outdated in many sectors. As one important objective in the modernizing process, the state, with the help of private business and foreign donors, must improve the population's average education level. Social and environmental responsibility should become integral parts of the state's economic policy as well as of private companies' business strategies. During the global financial crisis, the country's heavy dependence on the U.S. economy was once more shown to have devastating effects, following a dramatic decrease in U.S.-bound trade, and a concomitant increase in domestic unemployment. The U.S. recession also caused a considerable drop in the volume of emigrant remittances, which are crucial not only for Honduras' consumer markets but also to balance the current account. Therefore, the government and business actors should continue to seek new markets, such as those of the European Union and Asian countries, in order to diversify Honduras' trade relations. Last, the Honduran government must multiply its efforts to develop the agricultural sector, as this is the best available strategy to expand domestic economic activity and reduce inequalities.