

# BTI 2014 | Honduras Country Report

<b>Status Index</b>	1-10	<b>5.95</b>	# 55 of 129	
Political Transformation	1-10	6.65	# 44 of 129	➔
Economic Transformation	1-10	5.25	# 74 of 129	➔
<b>Management Index</b>	1-10	<b>5.50</b>	# 47 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2014 — Honduras Country Report. Gütersloh: Bertelsmann Stiftung, 2014.

This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

### Key Indicators

Population	M	7.9	HDI	0.632	GDP p.c.	\$	4243.2
Pop. growth <sup>1</sup>	% p.a.	2.0	HDI rank of 187	120	Gini Index		57.0
Life expectancy	years	73.2	UN Education Index	0.575	Poverty <sup>3</sup>	%	29.8
Urban population	%	52.7	Gender inequality <sup>2</sup>	0.483	Aid per capita	\$	26.5

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

Honduras has largely managed to recover from the democratic setback it experienced after the 2009 coup d'état against then President Manuel Zelaya. There has been no comparable incident since then and all major political actors generally respect the fundamental rules of democracy. In late 2012, primary elections were held to determine the parties' candidates for the November 2013 presidential, parliamentary, and municipal elections. Despite some criticism regarding the publication of preliminary election results, the polls were generally considered free and fair. Ousted president Zelaya's newly established party LIBRE participated in the primaries, signaling its willingness to take part in the formal processes of democratic competition. The ex-president's wife, Xiomara Castro de Zelaya, was elected LIBRE's presidential candidate.

However, in terms of democratic transformation, many substantial deficiencies persist. Human rights conditions have further deteriorated, and the state has been even less successful in defending its monopoly on the use of force than in previous periods. The government of President Porfirio Lobo has failed to effectively protect the rights of journalists, lawyers, human rights defenders, political activists, members of the LGBT community, and prison inmates. With 92 homicides per 100,000 inhabitants in 2011, Honduras has the highest homicide rate worldwide. With measures to reform the police force so far proving inadequate, corruption and the infiltration of the state apparatus by organized crime groups still constitute serious obstacles to public safety in particular and democratic transformation in general. Moreover, there are considerable doubts about some key actors' acceptance of the separation of powers and the independence of the judiciary. In late 2012, the parliament – in a highly controversial move of doubtful constitutional legality – dismissed four Supreme Court judges, escalating a conflict between the executive and legislative branches on one side, and the judiciary on the other.

There has been very limited economic transformation during the period under review. The Lobo government has, by and large, secured macroeconomic and fiscal stability, but without substantial reforms. Lobo's main economic policy project was the establishment of so-called Charter Cities:

areas designed to attract foreign investment through a high level of autonomy regarding customs, tax, security, and other legislation. This project failed after the Supreme Court deemed the plans unconstitutional. Large sections of the population remain effectively shut out of the market economy due to poverty, structural shortcomings in the education system, inadequate social policies and an abysmal lack of formal employment.

## History and Characteristics of Transformation

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

The 1990s also brought some important transformations in the economic sphere, though the majority of Hondurans did not share in the positive trend. The country's expansion from the production of primary (agricultural) commodities into the manufacturing or processing (maquila) of low-cost consumer goods, and concomitantly increasing its integration into the global market, did not foster sustainable or equitable economic development. Moreover, structural adjustment policies initiated by President Rafael Leonardo Callejas (1990 – 1994, 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. Aiming to secure maximum sustainability for the help they pledged for the recovery of the country after the hurricane, major donor countries and institutions demanded the modernization and further democratization of Honduras' political and economic systems. However, none of the post-hurricane governments has developed a comprehensive economic policy able to enhance the

economy's competitiveness, reduce vulnerability to price changes on the world market, restructure the public sector or make the country less dependent on the remittances of emigrants. The successful negotiation of a free trade agreement with the United States (Central America Free Trade Agreement, CAFTA), which came into effect in 2006, underscored the political and economic elite's intentions to continue on the path of further internationalization of the economy. So far, the opening of Honduras to the highly competitive economy of the United States has not fostered a more inclusive economy, which a country like Honduras, with more than half of its population living in poverty, would need. This is in large part due to the lack of agricultural development, which prevents a very considerable portion of the Honduran population from participating in the formal economy.

The 2009 coup against then President Manuel Zelaya (2006-2009, PL), who was forced into exile by the military, was a major setback in democratic development. An interim government took power and attempted to crush the anti-coup protest movement— the so-called Resistencia – resulting in serious human and civil rights abuses. A broad range of political and judicial institutions, including the parliament and the Supreme Court, backed the ousting of Zelaya, accusing him of violating the constitution and other laws. The unlawful removal of the president was condemned by the vast majority of Latin American governments and the United States. The presidential and parliamentary elections of November 2009, although conducted properly, proved insufficient in overcoming the crisis, and Honduras remained politically isolated in the Americas until well into President Lobo's term. A truth commission, consisting of prominent Honduran and foreign personalities, was formed as an effort toward national reconciliation. The final report of the commission condemned the ouster of Zelaya as a coup d'état and suggested a series of political reforms in order to avoid a similar political crisis in the future. Honduras' transformation record was deeply impaired by the 2009 crisis.

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

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

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. Especially in the northern part of the country, there are more and more areas where organized crime groups appear to control the course of events. In addition to organized crime, youth gangs, the so-called maras, challenge the state's monopoly on the use of force. Thousands of young people belong to these gangs, which control many of the poorer neighborhoods of Tegucigalpa, San Pedro Sula, El Progreso and other cities. Though some of these locally organized gangs appear to have links to maras in other countries throughout Central and North America, as well as loose relations to organized crime, they should not be defined integral parts of transnational crime networks, despite many security experts' attempts to depict them as such. The maras should primarily be considered a phenomenon of violent youth subculture. Considerable parts of Honduras' poor urban population are subject to youth gang violence rather than to the state's rule. The 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 the highest homicide rate worldwide. The country reported 7,104 homicides for 2011, a rate of 92 per 100,000 inhabitants.

No population group seeks to deny the citizenship of another group or questions the state's legitimacy. De jure, all citizens have the same civil rights (except same-sex couples, who are denied any form of legal recognition of their relationship). In

Question  
Score

Monopoly on the  
use of force

6

State identity

9

practice, equality especially in terms of economic, social and cultural rights is undermined by the discriminatory 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 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.

On paper, religious dogma has no direct influence on the law or on government policies. However, the Catholic and evangelical 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 the run-up to the 2012 primary elections, for example, prominent pastor Evelio Reyes of the neo-pentecostal church Vida Abundante called for the electorate to reject homosexual candidates, describing them as immoral, repugnant, and a threat to future generations. In February 2012 the Supreme Court upheld an absolute ban on emergency contraception, thereby criminalizing the sale, distribution and use of the morning-after pill. Under Honduran law, the provision of this medication is considered the equivalent of an abortion and the punishment is the same, ranging from three to ten years in prison. A ban on emergency contraception for rape victims was first passed by congress in April 2009, but then president Zelaya vetoed the ban a month later. The de facto government that replaced Zelaya after his removal in June 2009 reinstated the ban in October 2009.

No interference of religious dogmas

9

The state's administrative structure covers almost the entire territory, but in some remote and sparsely populated regions such as La Mosquitia in the eastern part of the country and areas inhabited by Garifuna indigenous peoples, the state is less visible. Existing structures contain significant inefficiencies. Tax collection is insufficient, and poor residents have no guarantee of due process or access to the state's infrastructure. The provision of potable water is limited and the water itself of poor quality, and the coverage of electric power supply in rural areas is low (69% compared to 99% in urban areas in 2011).

Basic administration

6

## 2 | Political Participation

The current government led by President Porfirio Lobo, along with the 128-seat unicameral parliament and the authorities of the country's 298 municipalities came into office by broadly free and fair elections in late 2009, with universal active and passive suffrage. The period under review also saw primary elections for general election scheduled for November 2013. An OAS (Organization of American States) observer mission praised the civic commitment of voters and recorded no substantial infringements in the preparation or execution of the voting process. They did, however, recommend a faster and more reliable system of preliminary data

Free and fair elections

7

transmission. In the first days after the primaries, preliminary election results based on a small set data from the polling stations, were published by the Supreme Electoral Court (Tribunal Supremo Electoral, TSE). As the numbers suggested a very narrow lead for the PN's candidate for nomination Juan Orlando Hernández, two groups within the PN claimed victory. After the final count, completed almost a month after the election, the TSE declared Hernández winner of the PN primaries with 45% against runner-up Ricardo Álvarez, with 38%. The OAS also called for more efficient voter registration and complained that the relevant body, the Residents' Registration Office (Registro Nacional de las Personas, RNP), lacked the necessary resources and infrastructure to hand out identity cards necessary for voting in due time. The new LIBRE party's participation in the primaries – and thus in the democratic process – is seen as an important step toward democratization. LIBRE was founded in 2011 by former President Manuel Zelaya, who was forcibly removed from office in the 2009 coup. The voters confirmed Zelaya's wife, Xiomara Castro, as LIBRE's presidential candidate for the 2013 elections.

In principle the elected government commands the effective power to govern, but major economic groups and drug trafficking interests exert substantial influence on some parts of the state apparatus, both at national and local levels. The Lobo government has been struggling –without substantial success – to regain control over the police forces, which have been heavily infiltrated by organized crime groups. The influence of these groups is highly informal and thus difficult to prove or measure. Nevertheless, direct attacks threatening state institutions occurred during the period under review, such as the 2012 murder of Manuel Díaz, a human rights prosecutor of the Choluteca department, and the 2011 killing of Alfredo Landaverde, former secretary of the Commission for the Fight Against Narcotrafficking. Given the high crime rate and the extreme inefficiency of the police, the government resorted to sending military units into the streets to demonstrate state presence and protect public order. The temporary public security emergency decree was first announced in November 2011 and subsequently extended several times by the executive. President Lobo proposed a constitutional reform to give the military permanent policing powers. This, and his initiative to form a special security response group unit has been criticized by human rights activists, academics and local security specialists alike, who fear that these measures will reverse the process of demilitarization which Honduras began almost 20 years ago.

The two-party system itself, controlled by powerful interest groups, restricts the range of policy alternatives and thus represents a kind of veto power.

No political parties are prohibited, and the freedoms of association and assembly are constitutionally guaranteed. However, political and civic organizations place themselves at risk when they threaten the established interests of powerful social, political or criminal groups. Members of human rights organizations, for example, are frequently subject to death threats and other forms of intimidation. The state does

Effective power to govern

7

Association / assembly rights

8

not effectively prevent drug cartels and private security forces of the socioeconomic elite from committing violence against opposition groups. A case in point is the land rights conflict in the Bajo Aguán region between peasant organizations and large-scale landowners protected by their private security forces. The conflict led to at least 30 violent deaths in 2011 alone, mainly among the campesino activists.

The freedoms of opinion and the press, while set in law, are not fully protected in practice. 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. The independent media sector, boosted by the protest movement opposing the 2009 coup, has still not developed into an effectual counterweight to the traditional media outlets. Censorship is not exercised openly by the state, but is instead carried out informally by political and economic powers, including organized crime groups, particularly by means of bribery, the biased awarding of government advertising contracts, and the dismissal and intimidation of critical journalists. Eleven journalists were killed, most by unknown gunmen, in 2011 and 2012; numerous others received anonymous death threats.

Freedom of  
expression

6

### 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 1980s, the Honduran executive has had considerable influence over the other two branches of government. 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 or members of different factions within the government party. 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 re-election.

Separation of  
powers

6

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. Moreover, in late 2012, a qualified majority of the Congress deposed four Supreme Court judges who had declared a police reform law unconstitutional. At best constitutionally doubtful, the decision was seen as a major violation of the separation of powers. However for over a year, and for its own



political reasons, the Supreme Court blocked government attempts to reduce domestic tensions caused by the overthrow of Zelaya.

The blockade of several legislative projects by the Supreme Court prompted the government and congress to consider the creation of a separate constitutional court.

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 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 controversial removal of Supreme Court judges by the parliament in 2012 showed. A major reform of the civil procedure code came into effect in November 2010, introducing oral trials for civil cases. So far, the reform has not substantially improved poor citizens' access to the judicial system or the transparency of judicial decisions.

Independent  
judiciary

6

Political and bureaucratic corruption is endemic, and citizens regard corruption as one of the most urgent problems impairing good governance. The police force is particularly affected by corruption. In June 2012 the Special Prosecutor Against Corruption, Henry Salgado, was suspended from office at the recommendation of the independent Commission on Public Security Reform (CRSP). Other state agencies, such as the National Port Company (ENP), the National Pension Institute for Teachers (INPREMA) and the National Electric Energy Company (ENEE) were also involved in corruption scandals during 2011 and 2012. According to a survey conducted by the National Anti-Corruption Commission (CNA) in 2011, 97.6% of respondents believe that there is either "too much" (64.1%) or "high" (33.5%) corruption in Honduras, and 98.9% think that corruption has either increased (86.5%) or remained constant (12.4%) in the last ten years.

Prosecution of  
office abuse

5

Initiatives by the government and the legislature to prosecute corrupt officials and end a culture of impunity are largely seen as window-dressing. Anti-corruption measures have proven ineffective, largely due to the judicial system's inefficiency and lack of independence. The Honduran judiciary appears unable to even effectively prosecute office abuses by those no longer in power. Two high-ranking officials of a previous administration, the former head of Hondutel, Marcelo Chimirri, and Zelaya's Prime Minister, Enrique Flores Lanza, were prosecuted for corruption and spent a short time in jail or under house arrest, but are now free.

In October 2011 the Supreme Court dismissed a case brought by the public prosecutor against former heads of the military for abuse of authority and violation of the constitution for their part in forcibly removing Manuel Zelaya from the country.

Attempting to exploit widespread frustration at endemic corruption for his own political ambitions, popular TV sports presenter Salvador Nasralla founded a political party in 2011 under the name “Partido Anticorrupción” (PAC).

There are frequent, severe human rights violations by non-state and state actors. The 2011 rate of 92 homicides per 100,000 inhabitants was the highest in the world, with no expectation of a significant decrease in 2012. This is clear evidence that the state does not effectively protect Honduran citizens’ right to live. Compared to the immediate aftermath of the 2009 coup d’état, fewer human and civil rights violations can be defined as unambiguously politically motivated. Nevertheless, the rights of political and social activists, journalists, and human rights defenders were still under threat and not successfully safeguarded by the government. In 2011-2012, 11 journalists were killed. In May 2012, LGBT activist and member of the Resistencia movement, Erick Martínez, was abducted and murdered. In December 2011, unidentified gunmen killed Gustavo Landaverde, former anti-drug policy adviser and politician from the small Christian Democratic Party. There were further victims in the Bajo Aguán region – several activists and lawyers of peasant organizations fighting for land rights. One case in particular serves to illustrate state involvement in violence: Rafael Vargas Castellanos, 22 year-old son of a university rector and member of the truth commission which was investigating the 2009 coup, Julieta Castellanos, was killed by policemen in October 2011. From the beginning of his mandate, President Lobo has sought to strengthen human rights protection, creating the Ministry for Human Rights and Justice and, in late 2011, introducing a major police reform. However, his efforts have had limited impact on the Honduran culture of impunity and widespread social and economic violence.

Civil rights

6

Cultural and religious rights are generally respected. Civil liberties are constrained by poorer citizens’ limited access to due process. The state seems unable, and in some cases unwilling to protect the civil and human rights of certain population groups, such as same sex couples constitutionally denied the right to marry or receive any other legal recognition of their relationships. Prison inmates are exposed to uncontrolled physical, sexual and psychological violence, including murder, from other prisoners and guards. Interned in inhumane living conditions, prisoners also have little health care (including HIV prevention) or lack legal advice. In February 2012, a fire in a prison near the city of Comayagua claimed the lives of 377 inmates, and was most likely due to a blatant neglect of fire safety measures.

#### 4 | Stability of Democratic Institutions

The previously mentioned limitations to the rule of law and, to some extent, stateness, reduce 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. In the period under review, frictions between the different branches of government, particularly between the judiciary and the legislature, sometimes led to deadlock of important policy initiatives, as seen in the Supreme Court's blocking of the government's Charter Cities project and police reform. The parliament's ability to legislate was reduced in September 2011, when President Lobo and his closest ally in the legislative, parliament president Juan Orlando Hernández (PN), lost the backing of 25 PN deputies. The party dissidents, loyal to PN presidential nominees Ricardo Álvarez and Miguel Pastor, formed their own parliamentary faction to demonstrate their opposition against Hernández' nomination – but returned to the official government faction once Hernández won the primaries in late 2012. The episode illustrated, once again, that primaries, held one year ahead of general elections, prolong the period of political campaigning and maneuvering to almost two years before the polls. Hence, a government's opportunity for developing and implementing policies, unhampered by political turmoil, is limited to just the first two years of its mandate.

The government and parliament drew lessons from the political turmoil caused by Zelaya's plan for a non-binding "citizen survey" simultaneous with the scheduled November 2009 general elections, intended to canvass public support for a constituent assembly. Under the Law of Citizen Participation Mechanisms, which took effect on 26 May 2011, referenda can be used to have the electorate approve or reject reforms of ordinary laws or constitutional norms that have already been approved by Congress. Plebiscites would canvass the electorate for its opinion on constitutional, legislative or administrative issues deemed to be in the national interest but not yet discussed by state powers. A petition for a referendum requires a simple majority of congress, while a plebiscite requires a two-thirds majority. Either mechanism can be initiated by the president, by a group of 10 deputies, or by 2% of the electorate. The reform could eventually allow for the reform of the five so-called *artículos pétreos* (immutable articles) of the 1982 constitution.

During the period under review, no relevant (legal) actor of the political system, including interest groups and the military, has openly questioned democratic institutions. The Resistencia movement, although advocating profound socioeconomic and polity changes ("21st century socialism" and a new constitution),

Performance of  
democratic  
institutions

7

Commitment to  
democratic  
institutions

7

has signaled its acceptance of democracy in its transformation into the LIBRE political party and participation in elections (November 2012 primaries).

In practice, however, some democratic institutions, particularly the judicial branch, are not fully accepted by all key players; a case in point is the removal of four Supreme Court judges in late 2012. These institutions have instead been circumvented or manipulated in the service of individual political or economic interests. Illegal actors such as organized crime groups represent a more serious challenge to democratic institutions. Although no threat to the democratic system as a whole, they operate outside the system and exert considerable influence on actors within, through corruption, intimidation and violence.

## 5 | Political and Social Integration

The PL and the PN together control 116 of the 128 seats (90.6%) in the legislature, and gained an even bigger collective share of votes in the last 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 campaigns for the November 2012 primaries, PL and PN 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 of the two parties, and by an exaggerated inclination toward consensus building. (In 2009, Zelaya was perceived to have provocatively broken this unwritten rule, an underlying root cause of the coup.) Voter decisions often depend on clientelistic networks and family voting traditions. Due to the prevalence of these traditional party-society relations, the two major parties continued, in 2011 and 2012, to 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. The three small parties represented in parliament – the UD, PINU-SD and DC – have been largely unsuccessful in breaking up or even mitigating the traditional two-party system.

There has however been a major change to this party system during the period under review. In 2011, former President Manuel Zelaya and members of the Resistencia movement, which backed him after he was forcefully removed from office in 2009, founded the new party LIBRE (Libertad y Refundación). Many of Zelaya's

Party system  
7

supporters from the PL joined the new party. For the first time since the restoration of electoral democracy in the early 1980s, there is now an explicitly leftist political party with a realistic chance of attracting a considerable portion of the electorate. In the 2012 primary elections, Zelaya's wife, Xiomara Castro, was LIBRE's only presidential nominee. She received around 600,000 votes, compared to the total of 1.1 million cast for the seven PN contenders. Two other new parties registered in 2011 for participation in the 2013 general elections: PAC (the anti-corruption party led by TV presenter Salvador Nasralla), and the Honduran Patriotic Alliance, founded by the former head of the armed forces, (retired) General Romeo Vásquez Velásquez. According to opinion polls, these two parties do not have enough backing among the population to challenge the predominance of PN, PL, and most likely in the future, LIBRE. LIBRE's entry into electoral politics will probably make the Honduran party system not only more fragmented but also more polarized. The rise of LIBRE is likely to make party competition, as a whole, more program-oriented and less dependent on clientelist links. However, absolute levels of fragmentation and voter volatility will remain comparatively low.

According to opinion polls by the Latin American Public Opinion Project (LAPOP), political parties are among the least trusted institutions within the political system; citizens express more trust, for example, in local governments, the parliament and the armed forces. Trust in political parties shrank from 49.4% in 2010 to 33.4% in 2012.

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, ANDI), and dozens of environmental, development and community organizations. There are also organizations promoting human rights (COFADEH, CIPRODEH, CODEH) the rights of historically underprivileged or discriminated population groups, such as women (CDM, Las Chonas), sexual minorities (Asociación Arcoiris) and indigenous and Afro-Honduran communities (COPINH, OFRANEH). Yet due to the historically low accessibility of the political system, few interests have been able to influence policy-making effectively, thus discouraging participation. Exceptions include interest groups with considerable economic resources (e.g., business organizations) and those with the capacity to exert pressure through strikes and demonstrations (e.g., teachers', workers' and peasant unions); however, these two sides tend to balance each other (e.g., business/workers). Other segments of the population, particularly citizens from the lowest strata of society, are underrepresented and have little access to political decision-makers. In many cases, deficiencies in the rule of law hinder civic organizations, such as those within the environmental movement. A stronger, more dynamic and more pluralistic civil society has emerged since the state crisis of 2009. The political mobilization associated with anti-coup protests and the subsequent

Interest groups  
6

cooperation of many different organizations within the Resistencia movement (from trade unions to LGBT groups) significantly strengthened civic engagement.

According to the Latin American Public Opinion Project (LAPOP) 2012 report, Honduras has the lowest level of preference for democracy in Latin America. Only a narrow majority of the population (52.6%) agreed with the statement that democracy is better than any other form of government. Surveys published by Latinobarómetro also show that support for democracy declined from 53% in 2010 to 43% in 2011. The low level of support for democracy is presumably linked to many Hondurans' unfavorable perception of major governmental institutions. According to 2012 LAPOP data, only 45.1% of those polled approved of the work of President Lobo, and only 28.7% trusted the police. Almost half (49%) of Hondurans disapprove of how Lobo is running the country, according to a 2012 poll by CID-Gallup. Clearly there is a perception that the government has done little to address the public's most pressing concerns: deteriorating security conditions and high levels of unemployment and poverty.

Approval of  
democracy  
5

Nearly 12% of Honduran adults report having worked for a political party or candidate in the last national electoral campaign. This rate puts Honduras at around the middle of the Latin American participation range.

The practical implementation of the 'Law of Citizen Participation Mechanisms', adopted in 2011, could help to improve the reputation of democratic institutions.

The public security situation may be dissuading citizens from social and political participation or self-organization. Yet despite high crime rates, interpersonal trust among Hondurans has been traditionally high and at 33% in 2011 was among the highest in the Americas (second only to the Dominican Republic), according to Latinobarómetro. Moreover, the 2012 LAPOP survey states that Honduras had the fifth-highest rate of citizens participating in community activities (at 33.4%, behind Haiti, Guatemala, Bolivia, and Nicaragua). In addition, 65.6% of Hondurans attend religious services on a regular basis (at least twice a month).

Social capital  
6

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

According to the UNDP, Honduras' level of development as measured by the Human Development Index (HDI) is "medium," yet comparatively low. The country ranks 121st out of 187 countries in the index; in Latin America, only Haiti, Guatemala and Nicaragua exhibit lower levels of human development. The country's Gender

Question  
Score

Socioeconomic  
barriers  
3

Inequality Index value (0.511) is lower than its HDI value (0.625). According to government data, two-thirds (67.6%) of Honduran households were under the poverty line in 2011, with 46.9% falling into the definition of extreme poverty. The National Statistics Institute, INE, reported an illiteracy rate of 14.9% among all over-15-year-olds (rising to 22% in rural areas) for the same year. Income distribution is highly unequal (the Gini coefficient average in the 2000-2011 period was 57.7) even compared to the average for Latin America, the most unequal region in the world. The top 10% of society received 43% of all income in 2010, which is more than the bottom 80% combined, a level virtually unchanged since 1999. Inequality is accompanied by very low per-capita income and structurally ingrained obstacles to social mobility (e.g., limited access to land, education, widespread unemployment and “informal” employment, infrastructure, and markets). The most serious form of social exclusion is that experienced by rural populations. Minifundistas, or subsistence farmers, make up about 70% of farming families. The highest concentration of rural poverty is found in the west of the country, which also has the greatest concentration of extreme poverty. Lack of access to land and basic services, low agricultural productivity and a vulnerable environment are the main root causes of poverty. Lack of employment opportunities in rural areas has been a major driving force behind the country’s high level of emigration.

Women in Honduras have higher average levels of education than males, indicating that the causes of inequality and discrimination are structural. Positive macroeconomic data (prior to the global financial crisis, and since President Lobo took office in 2010), the 2004 debt-relief-based poverty reduction strategy, the 2010 development “Country Vision / Nation Plan” strategy paper – none of it has made a significant impact on poverty levels, inequality or social exclusion. It is highly probable that Honduras will fail to meet some Millennium Development Goals.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	14583.7	15835.2	17707.6	<b>18528.4</b>
GDP growth	%	-2.4	3.7	3.8	<b>3.9</b>
Inflation (CPI)	%	5.5	4.7	6.8	<b>5.2</b>
Unemployment	%	3.3	4.8	-	-
Foreign direct investment	% of GDP	3.4	3.8	5.9	-
Export growth	%	-15.9	15.7	8.4	<b>5.8</b>
Import growth	%	-26.2	15.2	12.7	<b>3.8</b>
Current account balance	\$ M	-557.4	-835.6	-1498.1	<b>-1744.4</b>

Economic indicators		2009	2010	2011	2012
Public debt	% of GDP	24.6	29.7	32.1	<b>34.7</b>
External debt	\$ M	3805.4	4339.5	4642.4	-
Total debt service	\$ M	416.0	517.8	1007.5	-
Cash surplus or deficit	% of GDP	-4.5	-3.0	-2.6	-
Tax revenue	% of GDP	14.2	14.4	14.8	-
Government consumption	% of GDP	18.7	17.9	16.1	<b>16.1</b>
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	4.7	4.3	4.2	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.1	1.1	1.1	<b>1.1</b>

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

## 7 | Organization of the Market and Competition

The foundations of free-market competition are generally secure, but not equally so in all sectors of the economy. Despite an improvement in the overall investment climate in recent years, competition is often hampered by bureaucratic obstacles and a lack of professionalism in various departments of the state apparatus. According to the World Bank's 2012 Doing Business Report, Honduras ranks 128th out of 183 countries for ease of doing business. There are no significant entry or exit barriers in product or factor markets. Nevertheless, the government directly or indirectly controls prices for a range of important products (e.g., gasoline, flour, beans, sugar), for example by decreeing temporary or permanent price maxima. Within the lower economic strata of society, informal economic activities and subsistence farming play important roles. The ILO estimates that, in 2011, up to 70.7% of the country's urban work force was 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. There are no restrictions on investment-related transfers or payments. In general, the government encourages both domestic and foreign investments, but other circumstances, such as the lack of physical and legal security, as well as corruption, deter potential investors.

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. Family allegiances and

Market-based  
competition

5

Anti-monopoly  
policy

7



coalitions of interest groups rule the economy in the different regions of Honduras. Although the country purchases oil through an international tender system, there is no free market for combustibles. Within the mobile telephony market, two private companies compete with state-owned Hondutel. For fixed telephony, Hondutel continues to hold a monopoly, but has granted concessions to sub-operators for domestic telephony. The company maintains exclusive control over international telephony. The state-run ENEE (Empresa Nacional de Energía Eléctrica) has a monopoly in the electricity sector. It is allegedly corruption which keeps 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.

The Heritage Foundation's Economic Freedom Index ranks Honduras 96th out of 177 countries; its overall score is lower than world and regional averages.

According to the WTO, the Honduran trade regime is relatively open, with an average tariff of 5.6% in 2011, moderate use of non-tariff barriers and an absence of contingency measures. Honduras participates in the Central American Common Market (Mercado Común Centroamericano, MCCA), whose main objective, a full customs union, is unlikely to occur in the near future. Honduras has free trade agreements with the United States and the Dominican Republic (CAFTA-DR), Mexico, Chile, Colombia, Panama and Taiwan. The implementation of these free trade agreements has led to modernization and liberalization of Honduran trade and investment regimes. A bilateral free trade agreement with Canada was signed in August 2011, but is yet to be ratified by the two countries. In June 2012, Honduras and other MCCA members signed a comprehensive association agreement, including a trade component, with the European Union.

In practice, foreign trade activities are hampered by cumbersome and time-consuming bureaucratic regulations, giving Honduras contradictory ranks in pertinent indices. The World Bank's Doing Business Report 2013 ranks Honduras 90th out of 185 countries on the ease of trading across borders, and thus behind neighboring countries – above all Panama (rank 9), but also Peru (60), Mexico (61), El Salvador (80), Nicaragua (81), though ahead of Uruguay (104). On the prevalence of trade barriers, the Global Competitiveness Report ranks Honduras 90th among 144 countries with a score of 4.0 (on a scale from 1 to 7), putting it in the same league as South Korea or Turkey, and only slightly behind China (4.2) at 79th. According to Heritage Foundation's Index of Economic Freedom, Honduras is ranked 87th out of 177 countries for trade freedom with a score of 77.1 –behind Peru (44th with 85.0), Paraguay (53rd with 82.7) and Mexico (66th/80.6), but ahead of Panama (99th with 74.8), South Korea (111th/72.6) or China (116th/72.0).

The Honduran banking system was relatively stable during the period under review, with no mergers, bankruptcies or other major changes. For 2011, the regulatory body

Liberalization of  
foreign trade

8

Banking system

7

CNBS (National Commission of Banks and Insurance Companies, Comisión Nacional de Bancos y Seguros) reported a moderate improvement in key indicators, such as the total of assets and of deposits, credit volume, liquidity, solvency, etc. As well as two state-owned banks 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. Capital markets are not fully developed, and the stock exchange (Bolsa Centroamericana de Valores) remains small. In 2010 31.2% of Honduran firms reported having a line of credit or loan from financial institutions, compared to 47.6% for the region.

According to the 2012 FSI survey by the Bank for International Settlements no draft regulation has been issued concerning pillar 1 of the Basel Accord. However, current regulations have improved and there has been progress on pillars 2 and 3. According to the Honduran Council of Private Enterprise (Consejo Hondureño de la Empresa Privada, COHEP) Honduras has a solid financial market with a capital adequacy of 14% of risk assets (being 8% the Basel requirement).

## 8 | Currency and Price Stability

The Lobo government has successfully avoided inflation volatility. According to CEPAL data, the 2011 inflation rate of 5.9% (running at 5.7% year-on-year in October 2012) is commensurate with the central bank's aim of keeping inflation between 5.5 and 7.5%. After maintaining a fixed exchange rate of the country's currency, the Lempira, to the US Dollar since 2006, Honduras reintroduced an exchange-rate band in July 2011. Since then, the exchange rate has only increased slightly against the US Dollar (0.8% in 2011). The central bank is not fully independent. Compared to previous governments the Lobo administration has been less intrusive and more accommodating of IMF and World Bank prescriptions for sound monetary policy but not necessarily more successful in its efforts to address the underlying problems.

Anti-inflation /  
forex policy

8

The Honduran government has mostly failed to implement fiscal and debt policies aimed at stability. In spite of tax increases and the establishment of new taxes (such as a security tax introduced in June 2011), the fiscal deficit will amount to more than 5% of GDP in 2012. Honduras' stand-by agreement with the International Monetary Fund (IMF) expired in March 2012, and the government has been unable to secure a new deal as a result of its failure to meet the IMF's fiscal targets. The absence of an agreement with the IMF also prevents Honduras from accessing some types of credit from the World Bank and Inter-American Development Bank. As of October 2012, public debt reached an amount equivalent to 34% of GDP (33% at the end of 2011), of which an estimated 43% consisted of internal debts. In the three years of the Lobo government domestic public debt has more than doubled. Since the second half of

Macrostability

6

2012, the government is no longer able to regularly pay salaries for state employees. External debt was \$4.4 billion as of September 2012, or 26% of GDP.

## 9 | Private Property

Private property rights and rules governing the acquisition of property are in principle well defined. But the ability to safeguard and enforce these rights is precarious. Although due process is usually available, shortcomings in the enforcement of the rule of law and in the protection of legal claims have led to violations of private property rights, a major problem in Honduras. Trials often last years, and corruption is common. Lawsuits concerning the enforcement of business contracts last, on average, 30 months. 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. Laws and practices regarding real estate differ substantially from those in more developed countries. The Heritage Foundation and Wall Street Journal's index of property rights show that Honduras is below the Latin American average.

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. One major project of the Lobo administration aimed at creating better conditions for foreign and domestic private enterprises, the previously mentioned Charter Cities, failed because the plans were deemed unconstitutional. In May 2011, the Honduran congress approved a new investment protection and promotion law, aimed at improving conditions for investing in Honduras.

Private enterprise  
7

State enterprises were mostly privatized during the 1990s, mostly according to market principles. However, some important state monopolies still remain in place, including landline telephone services (Hondutel) and energy supply and distribution (ENEE). Yet even much of these companies' operations have been privatized (e.g., wireless communication, renewable energy production, etc). However, the Lobo administration has not taken any further action in this regard, nor has the government publicly announced any concrete plans for the future.

## 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.

Social safety nets  
4

All formal employees in regions where the Honduran Institute for Social Security (IHSS) offers services (Tegucigalpa, San Pedro Sula and some other cities) are covered by the IHSS health care system. However, this does not apply to workers in the informal sector and their families, nor peasants engaged in subsistence farming. According to IHSS data, in 2011 its coverage was less than 17% of the total population. 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.

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 (approved in 2001), the Solidarity Network (Red Solidaria; created in 2008), and the Bonus Ten Thousand (Bono Diez Mil) initiative. The last-named stemmed from a PN election campaign promise and consists in the assignment of conditional cash transfers (“bonuses” of 10,000 lempiras, approx. \$ 500) to households living in extreme poverty, particularly in rural areas. The various programs and initiatives are often underfunded and poorly administered; their effectiveness is impaired by corruption and clientelism in distribution processes. Social welfare policies and poverty reduction efforts run by the Honduran state, like those of non-governmental organizations and foreign donors, have not significantly reduced poverty or the exposure of large sections of the population to social risk. Without the periodic payments (remittances) from expatriate citizens the social situation would be far worse. Remittances totaled \$2.8 billion in 2011, up 10.7% from 2010 levels; this is equivalent to almost one-fifth of Honduras’ GDP. During the first half of 2012, remittance inflows from citizens living abroad, mostly in the United States, increased by 2.2% compared to the same period in 2011.

Despite massive support from external donors, the state does not ensure equal opportunity for its citizens. While there are no legal or cultural obstacles for ethnic or religious minorities in terms of school, work and public life, the proportion of female, rural-dwelling and indigenous persons who are poor is considerably higher than that of other groups. Women’s access to economic or political power is obstructed – not de jure, but de facto – through cultural and ideological factors such as “machismo.” In the Global Gender Gap Index 2012, published by the World Economic Forum, Honduras scores below the Latin American average and has the region’s lowest value in the labor force participation indicator.

Violent youth gangs offer daily testimony to the lack of education and employment opportunities for young people in marginalized neighborhoods. Just to survive (and assist relatives), many poor, young Hondurans either emigrate or turn to crime. The state’s failure to provide opportunities is a key cause of juvenile delinquency. Despite

the low cost of labor, labor-intensive industries are few and limited by the lack of agricultural development in Honduras, a structural problem that severely limits social mobility not only of youth but also of rural populations and indigenous groups.

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

## 11 | Economic Performance

The Honduran economy performed fairly well in 2011 and 2012. GDP growth was at 3.6% in 2011 and an estimated 3.5% in 2012. Inflation was at 5.9% in 2011 and 6% in 2012, typical levels for Honduras. The fiscal deficit, around 5.0% of GDP throughout the period under review, was manageable although it exceeded the government target. As in previous periods, Honduras had a negative trade balance, partly offset by emigrants' family remittances, which increased to around \$3 billion (equivalent to nearly 20% of GDP) in 2012. There was no substantial improvement in employment figures. For 2011, the National Statistics Institute (INE) reports an unemployment rate of 7.8%, an open underemployment rate of 18%, and a disguised underemployment rate of 63.2%. The tax rate is roughly 14.5%, low even by regional standards. Low tax receipts make it impossible for the government to invest more in improving economic and social conditions. Towards the end of the period under review, there was evidence of a rapidly unfolding fiscal crisis, with public employees and contractors unpaid and basic government services interrupted.

Output strength  
6

## 12 | Sustainability

Compared to other countries in the region, such as Costa Rica, environmental awareness is greatly underdeveloped both among state officials and within society as a whole. The state's mining and energy policies rarely take ecological considerations into account. Deforestation is a major problem in Honduras. According to data from the U.N. Food and Agricultural Organization (FAO), the country has lost more than 36% of its forest since 1990. Legal and illegal forms of timber extraction are two primary causes of ongoing deforestation. In the 2012 Environmental Performance Index (EPI), Honduras is a "modest performer", ranking 71st out of 132 countries and scoring slightly better than the average of all transformation countries. On paper, at least, an environmental impact assessment, obtained through the Ministry of Natural Resources and the Environment (SERNA), is an important requirement for any project, industrial facility, or other public or private activity that could generate potential harm to the environment, natural resources, or national cultural and historical sites.

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 higher 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 14.9% in 2011, rising to 22% in rural areas. Primary school enrollment was 88.1% in 2011, down from 89.6% in 2010. Public school teacher strikes, resulting in a huge reduction in the amount of actual teaching, were common during the period under review. In early 2012, a new Fundamental Law of Education (Ley Fundamental de Educación) came into effect. It aims at improving the quality of teaching (e.g., through obligatory university training for teachers) and safeguarding the completion of at least 200 school days per year. The effects of the law have yet to be seen.

In terms of higher education, the situation has slightly improved as the country's major public university (Universidad Nacional Autónoma de Honduras, UNAH) has been less affected by strikes of students and staff than in the previous period. Compared to other countries in the region, however, the higher education and research sector, including both publicly and privately funded institutions, remains small and has not shown any substantial progress during 2011 and 2012.

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 have extensively infiltrated state institutions including the police. In addition to the extensive human cost, the deteriorating security situation has taken its toll on the Honduran economy. The World Bank estimates that crime and violence cost the country the equivalent of 10% of GDP annually. The country's low level of human capital and high poverty rates also count as structural constraints to the current leadership's performance. Additionally, Honduras' dependency on external powers, particularly in the form of U.S. trade and immigration policies, considerably reduces the political leaders' influence on economic and political outcomes.

Structural  
constraints

7

The geographic location of the country frequently exposes Honduras to natural disasters, such as hurricanes. According to the 2013 Germanwatch Global Climate Risk Index, Honduras (along with Myanmar and Nicaragua) has been one of the three countries most affected by extreme weather events between 1990 and 2011. Natural disasters regularly cause major damage to the already fragile infrastructure (roads, bridges, railways etc.).

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 and human rights 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

6

population from being active on collective issues. Nevertheless, according to Latinobarómetro data, in 2011 Honduras had the second-highest rate of interpersonal trust in the Americas (behind only the Dominican Republic). 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 class lines. However as a result of internalized power structures, a non-confrontational political culture and external pressures, there was little political polarization before the presidency of Manuel Zelaya and his overthrow in 2009. As a legacy of the 2009 crisis, the Resistencia movement transformed into the political party LIBRE in 2011, thus perpetuating but, at the same time, attenuating political polarization (through the integration of the movement into the formal political system).

In general terms, politically motivated violence remained a major issue in Honduras, 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 (the highest worldwide in 2011) indicates that social relations among Hondurans are heavily affected by violence. Common crime is widespread. In 2012, nearly 25% of Hondurans reported they had been the victim of a crime in the past year.

Conflict intensity

4

## II. Management Performance

### 14 | Steering Capability

Compared to previous periods, the development and pursuit of long-range strategies has gained importance. In early 2010 the Lobo 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 paper serves as a rough guideline for the current administration and may continue to do so for future governments. Its overall content is in accordance with the BTI's normative principles of enhancing democracy and the market economy. The implementation of the strategy paper largely depends on the ability of the government to overcome its serious fiscal problems. In 2011 and 2012, the Lobo government published yearly progress reports showing that it is sticking to the strategy's goals (while forced to admit that there was little progress in some important targets of the plan, such as poverty reduction). However, there are strong structural constraints limiting the government's ability to

Question  
Score

Prioritization

7



set strategic priorities, including a lack of research or political counseling institutions (“think tanks”) to prepare or discuss government decisions.

Generally, the strategic priorities of the government will remain aligned with the interests of powerful economic groups as long as the political system is dominated by the two traditional (conservative) parties.

The current government, like its predecessors, is only partly able to implement its stated priorities. Informal power groups and in some cases illegal actors as well as fiscal constraints hinder effective policy implementation. President Lobo’s efforts to improve human rights conditions, for example, have been undermined by parts of the traditional socioeconomic elite, as well as by criminal groups and individuals who commission or carry out murders and death threats. Corruption and the infiltration of state institutions, such as the police, by organized crime groups often impede the implementation of official guidelines at the individual case level. Additionally, in the period under review conflicts between the different branches of government hindered implementation of some of the executive’s strategic plans, seen in Supreme Court rulings against the government’s Charter City project and police reform.

Implementation  
5

The public administration’s willingness or ability to learn from past experiences is relatively low. 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 engage in patronage by giving the jobs to their own associates. On the political level, the current government has made some efforts to learn from past experiences and to actively promote innovative policy solutions. It backs most of the recommendations of the truth commission that investigated the 2009 coup d’état; for example, the Lobo government is currently promoting the idea of introducing impeachment proceedings into the constitution (the lack of which, according to the truth commission, contributed to an escalation of the conflict in 2009). Worth mentioning in this context is the ‘Law of Citizen Participation Mechanisms’, which provides an opportunity for unblocking the political process in times of crisis. Likewise, the government has empowered an independent expert commission to offer advice regarding the deplorable situation of the police and has tried to implement some of its recommendations, though with only limited success so far.

Policy learning  
6

## 15 | Resource Efficiency

The government only uses some of its administrative, monetary and personnel resources efficiently. Public institutions have very limited autonomy and are subject to strong political influence. The efficiency of public spending is often restricted by short-term political obligations. Human resources are not at all efficiently used. There

Efficient use of  
assets  
4

is no effective system for creating a permanent, nonpartisan staff in the public administration. Staff selection is determined primarily according to political and clientelist affiliation rather than professional qualification. The administration does not always act professionally and rationally. There are laws to enforce merit-based personnel management but they are often bypassed by informal practices. Procedures to make budget planning more transparent, such as participatory budgeting, have not been introduced in Honduras.

President Lobo has not managed to substantially improve the administration's efficiency in using budget resources, increasing state revenues and/or reducing salary spending in the public sector. The fiscal deficit rose from 4.0% in 2010 to about 5% in both 2011 and 2012. In 2012 the cabinet approved a strategy paper called State-Decentralization Policy for Development (Política de Descentralización del Estado para el Desarrollo), which enhances citizen participation in the decentralization process. In practice, however, the government has not achieved any major progress in terms of decentralization policies during the period under review.

Conflicting policy objectives are not always effectively coordinated and prioritized by the government. Some inconsistencies derive from President Lobo's appointment of (former) opposition party leaders to cabinet positions (e.g., the Democratic Unification Party's César Ham appointed as Minister-Director of the National Agrarian Institute). There are substantial inconsistencies in the government's overall activity, with efforts to reduce poverty a condition demanded by foreign donors, and macroeconomic measures in turn demanded by elements of the national economic elite and their international or multinational allies. In some cases, however, President Lobo has successfully prioritized conflicting goals. One example is the introduction of a security tax on certain business activities in 2011; the government explicitly ranked the goal of expanding financial resources for security measures higher than that of maintaining low business costs.

Policy  
coordination

6

The World Bank is concerned that Honduras may not be able to sustain the "Bono 10,000" program once it reaches its full projected coverage (600,000 families; in 2012 about 230,000 families benefited from the scheme). With ongoing pressure to tighten fiscal policies, the Lobo government could cut spending on social protection programs.

The period under review saw very little progress in terms of the fight against corruption. In 2011, the Millennium Challenge Account (MCA), a major U.S.-funded donor initiative, suspended aid to Honduras primarily because of the country's poor performance in terms of transparency and corruption. The government has made serious efforts to reduce corruption within the police force (introduction of new control mechanisms, promoting the "police purification law" which was blocked by the Supreme Court), but effects have yet to be seen. Overall, a range of laws and

Anti-corruption  
policy

3

institutions designed to prevent, detect and punish corruption exist, but informal power structures inhibit their effective functioning.

## 16 | Consensus-Building

The linked goals of democracy and the development of the market-based economy have been accepted by almost all relevant political actors, publicly at least. A notable exception is the newly established political party LIBRE which advocates “21st century socialism” and is thus somewhat ambiguous in terms of the BTI’s goals of economic transformation. The behavior of some important players also suggests a lack of consensus on democracy. The dismissal of four Supreme Court judges in late 2012 is a good example. When Congress gathered to debate the controversial proposal, the armed forces surrounded the parliament building, giving a clear sign of their allegiances. The episode made clear, once again, that basic principles of democracy, such as a system of checks and balances and the separation of powers, are not fully accepted by all groups – despite their rhetoric.

Consensus on goals  
7

There are no openly anti-democratic actors within the formal political system. All political parties and other powerful players (the military, business associations, churches, civil society organizations) endorse democratic transformation, at least publicly. However, informal power groups, such as clientelist networks within and between political parties and the judiciary continue to exert an anti-democratic influence. As the high level of corruption shows, the government has not been more successful in co-opting or excluding these groups’ power than in previous periods. The influence of drug trafficking and other organized crime did not diminish during 2011 and 2012, and – apart from (half-hearted) police reform efforts – there is no efficient government strategy to cope with this problem in sight. Because of its close ties to oligarchic pressure groups the traditional two-party system is incapable of widening its political room of maneuver.

Anti-democratic  
actors  
6

The main cleavage in Honduras is the split between social classes. Political leaders, especially in the two traditional parties PN and PL, prevents worsening of this cleavage by binding members of the different social strata in clientelist networks. The Lobo government has actively promoted the integration of cleavage-based, smaller political parties, such as UD and LIBRE, into the political system – through participation in the government (e.g., INA Minister-Director César Ham from UD) and in electoral processes (LIBRE’s participation in the 2012 primaries). This has clearly contributed to a depolarization of politics and has prevented cleavage-based escalations like those which triggered the 2009 coup d’état.

Cleavage /  
conflict  
management  
7

The land disputes in the Bajo Aguán region may be defused after the government purchased disputed territory from large landowners and distributed parcels to landless peasants on a loan basis. However, future land tensions are almost inevitable: The

National Agrarian Institute itself acknowledges that some 300,000 families across the country are seeking smallholdings.

In some important policy fields, institutionalized procedures integrate civil society actors into the decision-making process. There are several bodies – generally with only advisory or sometimes oversight competencies – in which civil society and government representatives participate. These include the National Convergence Forum (Foro Nacional de Convergencia, FONAC), the National Council on Domestic Security (Consejo Nacional de Seguridad Interior, CONASIN) and the National Anti-Corruption Council (Consejo Nacional Anticorrupción, CNA). Yet in many cases, the government does not implement the recommendations of these bodies or does so only halfheartedly (e.g., by assigning limited budget resources). Innovative processes enabling civil society members to be integrated effectively into policy-making or performance monitoring, such as participatory budgeting, have not been introduced in Honduras. In February 2011, the National Congress approved a constitutional amendment (“Law of Citizen Participation Mechanisms”) making participatory elements of decision-making easier to access (relaxing the conditions under which authorities organize referenda and plebiscites), and broadening the range of eligible topics. Moreover, the Lobo government has taken into account the recommendations of the truth commission by investigating the 2009 crisis and instituting the police reform commission (in both commissions civil society representatives played a key role). Another case in point is the decentralization strategy, published in 2012; the government involved civil society groups in its elaboration and included citizen participation as an important principle for future decentralization processes.

Civil society  
participation  
6

Dealing with injustices of the past, particularly human rights abuses perpetrated by the military and the secret police in the 1980s and early 1990s (186 Hondurans were “disappeared” by the Honduran security forces, mostly during the 1980s), became part of the political agenda in late 2008, when the Zelaya government created the National Program for Reparation (Programa Nacional de Reparaciones, PNR). However, even before Zelaya was forced from office, legal objections hindered payment of compensation to victims and their families. Neither Micheletti nor Lobo revived the initiative, and the topic has effectively disappeared from the political agenda during the period under review.

Reconciliation  
6

The wrongdoings of state representatives and other actors in the more recent past, particularly the 2009 coup and the subsequent de facto government, were the subject of the Truth and Reconciliation Commission (Comisión de la Verdad y la Reconciliación) established by President Lobo. The commission consisted of Honduran and foreign members, and presented its final report in 2011. The Resistencia movement questioned the impartiality of the body, and established its own commission (called the Real Commission, or Comisión de Verdad), which presented its report in 2012. While the government has implemented some

recommendations of the official commission, it has largely ignored the findings of the alternative commission, which were primarily focused on human rights abuses during and after the coup. Judicial investigations have been launched to investigate human rights violations committed in the immediate aftermath of the coup. However, few perpetrators have been convicted, and those who bear political responsibility, particularly high-ranking military and police officials as well as the Micheletti government, enjoy complete impunity. The Supreme Court maintained, until mid-2012, that Zelaya's removal was legal.

## 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 is most prominent in the allocation of credit facilities and the implementation of aid programs. Recent bilateral U.S. assistance to Honduras, for instance, amounted to \$56 million in 2011, and an estimated \$57 million in 2012. 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 a sustainable learning process and principled acceptance of donors' transformation demands. In some cases during the period under review, the government did not manage to fulfill donor conditions; failure to reach a new stand-by agreement with the IMF in 2012 and the exclusion from the next phase of the Millennium Challenge Account are cases in point.

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 (Country Vision/Nation Plan). Honduras' dependence on foreign aid puts the country in a comparatively weak position when negotiating terms of assistance with donors, making a focused alignment of external funds according to the government's development strategy difficult to achieve.

External donors, as well as private and international institutions, remain skeptical as to the current administration's credibility and reliability. Failure to reach a new stand-by agreement with the IMF in 2012 indicates a lack of confidence in the Honduran government's economic transformation. By 2013, Honduras had regained trust among international actors for its commitment to democracy, with full reintegration into the OAS (from which it had been suspended after the 2009 coup) and

Effective use of support

8

Credibility

7

reestablishment of diplomatic relations with all but one Latin American country (Ecuador continues to contest the legitimacy of the Lobo government). Relations between the United States and Honduras have improved considerably since the inauguration of President Lobo, whose efforts to resolve the political crisis led the Obama administration to restore foreign assistance and resume cooperation on other issues. Nevertheless, foreign actors are increasingly concerned about the human rights situation, which has not improved despite President Lobo's explicit commitment to this issue. Moreover, as the Millennium Challenge Account cutoff demonstrates, corruption and the infiltration of state institutions by organized crime seriously 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) and maintains close bilateral relations with all countries on the isthmus (including Panama and Belize). The successful negotiation of an association agreement between Central America and the EU indicates that the SICA countries, including Honduras, have achieved the necessary level of coordination to speak as one with extra-regional counterparts. Nevertheless, political leaders in Honduras and throughout Central America have no appetite for substantial sovereignty transfers to the sub-regional (let alone the regional) level, and SICA institutions, such as the Central American Parliament (Parlamento Centroamericano, PARLACEN), have no real power. Nonetheless Honduras actively cooperates with its Central American neighbors, Mexico and the United States on security issues, particularly the fight against international drug trafficking.

On a wider regional level, Honduras actively pursued and, in 2011, achieved a return to full OAS membership (after its suspension in 2009). Honduras is also a full member of the Community of Latin American and Caribbean States (CELAC). Despite the Lobo government's ideological differences with Venezuelan President Hugo Chávez, the normalization of relations with Latin American states, has prompted Honduran interest in rejoining Venezuela's Petrocaribe program, with preferential payment terms for Venezuelan oil. The Venezuelan government has agreed to the renewal of Honduras' membership, suspended by Chávez after Zelaya was overthrown, but formal reintegration into the alliance has not yet materialized.

Regional  
cooperation  
8

## 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 while reducing the influence of informal politics, neopatrimonial power relations and crime. The current government should be encouraged in its efforts to protect the human rights of its citizens. The international community must continue to observe but also assist the Lobo administration in implementing its stated goals in this area. As devastating security conditions impair progress in many areas of democratic and economic transition, the government, external donors, and civil society organizations should direct more financial, personal, intellectual and other resources towards the prevention of criminal violence. The prioritization of law enforcement measures, including the involvement of the military in the fight against crime, has not only proven largely ineffective but it also has serious negative side-effects in respect to democratic transformation (militarization of society and politics, perpetuation of a culture of violence, etc.). Instead, innovative approaches to the security problem in the short, medium and long run need to be designed and implemented. In neighboring El Salvador, for example, there was a substantial reduction in homicides after negotiations between two major youth gangs and the state, mediated by the Catholic church. Political (and religious) leaders in Honduras should assess the possibility of a similar solution for their country.

Results for the new, left-leaning party LIBRE in the 2013 general elections, and the party's ongoing development, will be crucial for democratic and economic transformation. If LIBRE wins a significant share of votes (and parliament seats), it might become an important player in the agenda-setting process, and may even succeed in shifting attention towards transformation issues, such as strengthening transparency and citizens' participation through a new constitution, or reducing economic exclusion through social and education policies focused on the poor. However, the political class in Honduras, as a whole, must recognize its responsibility for preventing or at least containing the polarization effects which the rise of LIBRE will likely trigger.

The government's current economic transformation policies, focused largely on stability, can only be a first step. Both the political leadership and the business community are responsible for modernizing the country's economy, which is worryingly outdated in many sectors. One important objective in the modernizing process is for the state, with the help of private business and foreign donors, to improve the population's average education level. Social and environmental responsibility should become integral parts of the state's economic policy as well as the business strategies of private companies. A strengthening of the state's capacities to promote economic modernization and social progress cannot be achieved without tax reform and an increase in the tax rate. Government and business actors should continue to seek new markets, such as the European Union and Asia, in order to diversify Honduras' trade relations. In this regard, Honduras – in close cooperation with its Central American partner countries – should design and implement a comprehensive strategy to make the most of the EU association agreement. Finally, to expand

domestic economic activity and reduce inequality, the Honduran government and the donor community should greatly expand their efforts to develop the agricultural sector and improve the living conditions of the rural poor.